



TELSTRA ANNUAL REPORT 2014



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The sections of our Annual Report titled Our Business, Key Highlights, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review comprise our operating and financial review (OFR) and form part of the Directors' Report. Information about governance at Telstra is also provided in this Annual Report and a copy of our full corporate governance statement is available on our website at www.telstra.com/governance.

OUR BUSINESS

WHO WE ARE

Every Day We Help Millions of Customers Connect to the People and Things That Matter Most to Them

Telstra is Australia's leading telecommunications and information services company, offering a full range of communications services and competing in all telecommunications markets. We employ close to 32,000 people directly⁽ⁱ⁾, facilitate access to more than 1,900 points of presence across the globe and have one of Australia's largest shareholder bases, with 1.4 million shareholders.

We have a diverse range of customers, including consumers, small business, large enterprises and government organisations, and we strive to put them at the centre of everything we do. In Australia, our services are offered through 362 Telstra branded retail stores, 90 Telstra Business Centres, 127 Telstra business and enterprise partners and are distributed by over 15,000 retail points of presence managed by our partners.

In Australia, we provide 16 million mobile services, 7.5 million fixed voice services and 3.7 million fixed data services. Telstra's international businesses include Telstra's global networks and managed services business and Telstra's China-based search and advertising business, Autohome Inc.

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

INDUSTRY CONTEXT

Our Industry is Experiencing Rapid Change

The telecommunications industry is experiencing enormous growth in demand for services. In Australia, IP traffic grew by 38 per cent and mobile data traffic by 41 per cent in 2013.⁽ⁱⁱ⁾

Digital technology is changing our world. Telstra is at the heart of this change – our ambition is to help make it happen by connecting everything to everyone.

⁽ⁱ⁾ Full Time Equivalent employees.

⁽ⁱⁱ⁾ Source – Cisco Visual Networking Index – Australia – 2013 Year in Review – www.cisco.com.

OUR PURPOSE

To Create a Brilliant Connected Future for Everyone

To create is our responsibility. The brilliant connected future won't happen on its own, it has to be delivered and Telstra can bring together all the parts to create it.

A brilliant connected future is our aspiration. It's what we need to build for every one of our customers. It's our responsibility to the nation and to every market we work in.

For everyone is crucial. We serve everyone. Change doesn't happen if only a chosen few benefit. Transformation happens when the technologies that create social, economic and cultural change reach enough people.

This all adds up to why we do what we do.

OUR VALUES

Express What We Stand For and Guide the Way We Do Things

Here at Telstra, we have five core values:

1. Show you care
2. Better together
3. Trust each other to deliver
4. Make the complex simple
5. Find your courage



KEY HIGHLIGHTS FY14

46%



**ONLINE CUSTOMER
TRANSACTIONS**

up from 40 per cent
in FY13



4x



**FOUR TIMES THE
4G GEOGRAPHICAL
COVERAGE AREA**
of any other competitor



\$217M

**SOCIAL AND COMMUNITY
CONTRIBUTIONS**



\$26.3B

total income

up 6.1 per cent from FY13 ⁽ⁱⁱ⁾



29.5

CENT TOTAL DIVIDEND

which will distribute
\$3.7 billion to shareholders

\$1.1B

invested in our
wireless network



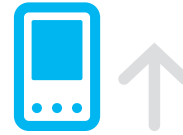
(i) Figures on a continuing and discontinued operations basis. For more detail, refer to page 15 of the Full Year Results and Operations Review.

(ii) Total income figures are on a continuing operations basis and exclude finance income. For more detail see the Full Year Results and Operations Review.

\$4.3B

net profit after tax

up 14.6 per cent from FY13 ⁽¹⁾



16M

DOMESTIC RETAIL
MOBILE SERVICES



30%

REDUCTION IN CARBON
EMISSIONS INTENSITY

82% ↑

EMPLOYEE
ENGAGEMENT SCORE
five percentage points
above the Australian
National Norm



3PT

increase in
NET PROMOTER
SYSTEM SCORE



1.9M

CUSTOMERS ON
A BUNDLED PLAN



CHAIRMAN AND CEO MESSAGE

Dear Shareholders,

We are pleased to present this review of Telstra's progress in the 2014 financial year where consistent earnings growth delivered increased shareholder returns.

This was a year of accelerating momentum for our company, one in which we saw continued growth in revenue, profit and customer numbers, and demonstrated the value being created by our focus on improving customer advocacy, while investing in our core and growth businesses.

Our customers remain our highest priority. Throughout the year, and right across the company, we worked to find ways to build advocacy, by improving how we interact with our customers every day, and to have a positive impact on their lives with our products and services.

Telstra operates in a dynamic and competitive environment; ongoing changes in mobile, broadband and other technologies are transforming the communications industry and the world we all live in. Competing in this environment requires a commitment to customer service excellence and innovation, areas where we continuously strive to improve.

We are pleased to have again delivered on our financial commitments and to have delivered a 29.5 cent fully franked dividend for the 2014 financial year, distributing \$3.7 billion to shareholders. After considering our capital management options, we have also announced an off-market share buy-back of up to approximately \$1 billion of Telstra shares. A buy-back was considered the most effective and appropriate way to deploy surplus capital from ongoing performance and key divestitures. Shareholders will receive detailed information about this offer shortly.

Our 2014 results reflect the fundamental financial strength of our business. Total income (excluding finance income) totalled \$26.3 billion, up 6.1 per cent; EBITDA (Earnings Before Interest Tax Depreciation and Amortisation) totalled \$11.1 billion, up

9.5 per cent; and our Net Profit after Tax was \$4.3 billion, up 14.6 per cent.⁽ⁱ⁾

Our Strategy

During the year we announced refinements to our long term strategy supported by business unit changes aligning senior leaders to growth opportunities in Australia and overseas. Our strategy focuses Telstra on the three pillars of improving customer advocacy, driving value from the core and building new growth businesses. It makes our ambitions clear and also shows where you can expect us to continue building value.

Improve customer advocacy

Throughout the year we remained committed to improving the services, products and experiences we provide to our customers. Much of this work is informed by our Net Promoter System (NPS) program where we actively seek feedback and measure our progress. Through the year we introduced many initiatives to improve the customer experience.

Our overall NPS score improved by three points over the 2014 financial year, building on the improvements we saw last year, but we still have a lot of work to do to consistently deliver our customers a great service experience.

Drive value from the core

Our products and services mix continues to change, illustrating how fundamentally our business has been redefined by mobility, connectivity and data demand. Fixed voice revenue now accounts for only 16 per cent of total sales revenue, whereas, mobiles now account for 38 per cent of sales revenue.

Much of Telstra's reputation and core strength is built on the foundation of providing customers with outstanding mobile service in cities and in regional and remote Australia. We are committed to maintaining our network leadership and this year we invested \$1.1 billion in our mobile network, including significant expansion of our 4G mobile

coverage, to now reach 87 per cent of the Australian population – with four times the geographical coverage area of any other 4G network. Our 3G service provides coverage to 99.3 per cent of the population.

During the year we added 937,000 new domestic retail mobile customer services. We now have 16 million domestic retail mobile customer services. As a part of our strategy to provide customers with flexibility and choice in connection, we recently started designing Australia's largest national public Wi-Fi access network, in a five year \$100 million project which will deliver 13 million Wi-Fi hot spots around the world within five years.

Throughout the year we continued to transform our internal business processes to streamline how we work and remove internal barriers that impede productivity, collaboration, innovation and better customer service. The total value of benefits from our FY14 productivity program, which includes \$550 million of expense benefits as well as revenue, capital expenditure and avoided costs, is \$1 billion. We have reinvested these benefits in the business to support our customer advocacy initiatives, growth in our customer base and building new growth businesses.

Build new growth businesses

We continue to execute our growth strategy in Network Applications and Services, extending our application service offerings into Asia, and launching Global Managed Network Services and Global Infrastructure as a Service.

Our strategy is supported by the establishment of a new business unit, Global Enterprise and Services. This is an industry-based services and solutions business operating at a global scale to deliver innovation, integration and service for our customers locally and around the globe.

Growth in Asia continues to be a key focus. Our international team offers customers connectivity solutions, including managed

(i) Total income and EBITDA figures are on a continuing operations basis and net profit figure is on a continuing and discontinued operations basis.



We are pleased to have met our full year guidance and to have delivered a 29.5 cent fully franked dividend for the 2014 financial year.



network services, international data, voice and satellite solutions and they also manage our submarine cable networks and assets. We continue to leverage these assets for growth. We also made further changes to our international business, creating Country Managers in each market.

In China, we have a 63.2 per cent stake in Autohome Inc., the country's leading online destination for car buyers, which was listed on the New York Stock Exchange on 11 December 2013.

Other emerging opportunities include Telstra Health, which continued to work towards its objective of establishing a connected health IT ecosystem capable of creating transformative change in the healthcare sector.

We also announced that we would increase our ownership in Ooyala to 98 per cent. Ooyala is a leader in video streaming and analytics, and is the first investment for our Global Applications & Platforms (GAP) group.

Portfolio Management

We continued to be active and disciplined in our approach to portfolio management this year, with announcements of the sale of our 76.4 per cent stake in the Hong Kong mobile business CSL New World Mobility Limited ("CSL"), and the sale of a 70 per cent interest in our Sensis directories business.

We understand the need to be innovative in our investments for the future as we explore new opportunities. This thinking was reflected in the investments we made during the year in new growth areas for the business, as well as our proposed joint venture with Telkom Indonesia, a proposed arrangement for the provision of network applications and services, primarily in Indonesia.

National Broadband Network (NBN)

We have provided a separate update on our renegotiation of the NBN Definitive Agreements on the next page (which forms part of this Chairman and CEO Message).

Part of the Community

Telstra is committed to helping build better communities and showing that we care in the way we respond to important economic, social and environmental challenges. Our sustainability strategy details how we believe we can create the most value. Part of this strategy lies in providing opportunities for our employees to be involved in the community and in issues that matter to them.

We believe that all Australians should enjoy the benefits of being connected to modern communications technologies, regardless of age, income, ability or location. We want everyone to have the confidence and skills to participate safely in the digital world and we partner with experts in the field to offer wide ranging training courses and information. As a company, we also remain committed to reducing our environmental impact and to helping our customers and suppliers to do the same. These initiatives are not just the right thing to do; they are part of who we are.

We continue to place the highest priority on the safety of our employees and the wider community. During the year, we implemented improvements to our asbestos management procedures after a number of incidents involving subcontractors carrying out pit remediation work in our network. This included requiring all contractors to complete new training before they can work on our network, the appointment of additional supervisors to monitor worksites and co-operating with Comcare in its investigation into the matter, which investigation is now closed.

Looking Ahead

We have a clear strategy and our focus for the year ahead will be on improving our customer service, investing to maintain our network advantage and investing in future capability to build a foundation for sustainable long term growth.

Our network advantage is significant. As more and more devices are connected

to networks our investment in spectrum, greater network intelligence and machine to machine technologies will help maintain this leadership position.

Just as importantly, as software solutions dramatically change how other industries operate, we will continue to build our capability in software solutions and platforms that run over our networks, building on the good progress made in the areas of eHealth, Global Enterprise and Services and GAP.

We will also continue to pursue opportunities to expand our business in Asia.

In 2015 Telstra expects continued low single-digit income and EBITDA growth to offset the absence of CSL 2014 operating revenue and EBITDA. As a result, and after excluding the \$561 million profit on sale of CSL in 2014, Telstra's income and EBITDA guidance for 2015 is broadly flat.

Telstra expects 2015 free cashflow of between \$4.6 billion and \$5.1 billion and capital expenditure to be around 14 per cent of sales.

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

We would like to thank the leadership team and all of our employees for their commitment, effort and initiative this year. We also thank you for your loyalty as a shareholder and we welcome your comments and feedback via investor.relations@team.telstra.com.

C B Livingstone

Catherine Livingstone AO
Chairman

David Thodey

David Thodey
Chief Executive Officer

NBN RENEGOTIATION UPDATE

Update on NBN Renegotiation

On 23 June 2011 Telstra entered into agreements with NBN Co and the Commonwealth (referred to as the “Definitive Agreements”) for Telstra’s participation in the rollout of the National Broadband Network (NBN). The Definitive Agreements became unconditional following Telstra shareholder approval gained at the Annual General Meeting in November 2011 and ACCC acceptance of Telstra’s structural separation undertaking in March 2012. The Definitive Agreements, together with the regulatory undertakings given to the ACCC and associated Government policy commitments, established the framework for Telstra’s participation in the rollout of the NBN.

Under the Definitive Agreements Telstra agreed to progressively disconnect services on its copper network and broadband services on its HFC network in NBN fibre areas as the new network was rolled out. Following the Federal Election in September 2013, the newly elected Government determined the design of the NBN would be modified to use a range of technologies, including a copper based fibre to the node network and HFC, instead of the previous Government’s predominantly fibre to the premises approach. As a result, the Government is currently engaged with Telstra and NBN Co in a renegotiation of some aspects of the Definitive Agreements to enable this multi-technology model.

The renegotiation of the Definitive Agreements is progressing well within an agreed, but non-binding, Commercial Framework, but the complexity of the arrangements and the need to consider all of the elements of the Definitive Agreements means the renegotiations are still incomplete. Telstra continues to work with the Government in the best interests

of Telstra shareholders, and shares the Government’s aim of finalising the revised arrangements as soon as possible.

In participating in the renegotiations, Telstra’s objective is that it must be “kept whole” – meaning that Telstra should not be materially worse off under any renegotiated arrangements than under the current Definitive Agreements. The Commercial Framework within which the parties are negotiating acknowledges this objective, but final agreement is yet to be reached so there is no guarantee that this objective will be realised.

This Commercial Framework anticipates a change in the approach taken in respect of the copper and HFC network assets, from staged decommissioning, to NBN Co owning some or all of such assets progressively as the NBN is rolled out. As the current arrangements already provide that Telstra is progressively restricted in its ability to use the copper and HFC network assets, the Commercial Framework does not contemplate any incremental value to be received by Telstra for the transfer of ownership.

Telstra’s continued ownership of these assets did provide Telstra with some protection in respect of future changes in the NBN project. As part of the current renegotiations, Telstra is seeking to agree other contractual mechanisms which are designed to protect Telstra against future changes in the project. These matters will be part of Telstra’s assessment as to whether it is kept whole. If ownership of the assets is transferred from Telstra to NBN Co, Telstra does not expect there will be any impact on its continued access to the HFC network to supply Foxtel services, consistent with the current Definitive Agreements.

Telstra and NBN Co are also negotiating in respect of the provision of design, construction and maintenance services by Telstra to NBN Co on commercial terms, which may potentially deliver additional revenues to Telstra.

It should be noted that any renegotiated arrangements between Telstra, NBN Co and the Government will need to be reviewed by relevant regulators (including the ACCC) who may seek to impose further regulatory measures. These would be taken into account in assessing the extent to which Telstra’s objective to be kept whole has been met.

We will keep shareholders informed of the renegotiation process.

Strategy and Performance

We refined our long term strategy to drive our growth towards 2020 and beyond.

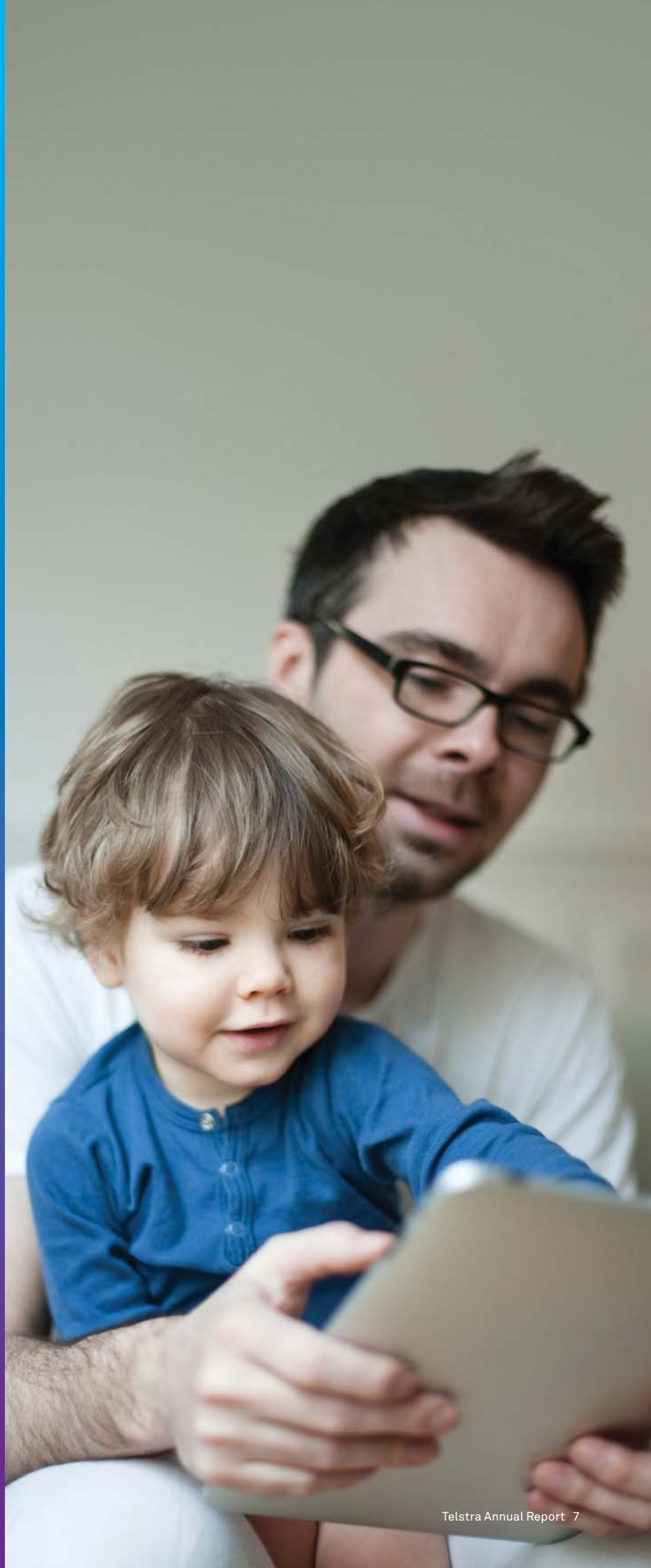
Our strategy makes our ambitions clear. It shows where you can expect us to focus our efforts towards building value. The strategy now has been consolidated into three pillars.

Our Strategic Priorities

Improve Customer Advocacy

Drive Value from the Core

Build New Growth Businesses



IMPROVE CUSTOMER ADVOCACY



Our NPS score improved by three points over FY14.

Improving customer advocacy is our number one priority. Over the past 12 months, Telstra has worked hard to transform the experience for our customers from one of service, to one with a higher level of customer care. We have also continued our cultural change program, which puts the customer at the centre of everything we do.

While we have made many changes, we still have more to do on our journey to move from satisfying and retaining customers to creating customer advocates. Advocates stay with us longer, spend more and recommend us more often.

Net Promoter System (NPS)

We have been listening closely to what our customers are telling us and track and monitor a number of different NPS metrics.

We measure NPS at two levels – our customers' overall perception of Telstra, measured through an external third party and our customers' experience in dealing with Telstra directly, measured through internal surveys.

Our overall NPS score has improved by three points over the last twelve months. We have also seen consistent improvement in our internal measures of our customers' experience in dealing with us across all areas. We remain committed to focusing on improving the customer experience in the coming year.

Product Differentiation

Customers have told us that while technology is an essential part of their lives keeping track of usage levels can be complicated. To address this and to give customers greater peace of mind over data usage, we introduced a number of improvements during the year including:

- reduced excess data charges with our current Mobile Accelerate mobile plans

from 10 cents per megabyte to just 3 cents per megabyte

- reduced our international roaming pay as you go data prices by 80 per cent, introduced SMS usage alerts for roaming data and increased the data allowance in our international roaming data packs fivefold at no extra cost
- implemented a \$130 excess voice safety net, which ensures that customers on Mobile Accelerate plans will pay no more than \$130 per month in domestic voice and MMS charges to standard Australian numbers
- introduced Telstra Broadband Assistant, a software application that provides customers with immediate online help with common connectivity, email and password issues
- launched the free Telstra Wi-Fi Maximiser™ App which enables customers to better understand the performance of the wireless network in their home and measure the signal strength on devices connected to their gateway.

Our commitment to caring for our customers is also focused on providing them with a better experience with our world class products on Australia's leading mobile network. During the year we launched New Phone Feeling, which gives participating customers the option, after the first 12 months of their plan, to purchase a new smartphone as an add on with selected handsets across our new 24 month consumer plans. Telstra was the first carrier in Australia to make this offer available to consumers across a range of plans.

We also launched Telstra Platinum, a premium service that offers customers end to end technical support across access, devices and applications.

To help customers get back online quickly if anything happens to their mobile device, we launched our “swap, replace and restore” service called Telstra StayConnected.

Since the launch, over 305,000 customers have taken up this service. StayConnected is a market leading service available only to Telstra customers.

Process Focus

One of our key commitments to improving customer advocacy is to provide our customers with a more personalised service. In our contact centres, we now give customers the name and contact details of the person they spoke to after each call. This means that if customers need to get back in touch with us they can contact the person they last spoke with.

In our stores, new post-paid mobile customers receive, within 48 hours of their purchase, a call from the consultant who served them to check that they are satisfied. We also give every store customer personalised business cards with direct staff phone numbers. When installing new services or fixing existing services, our communications technicians now provide customers with cards listing their name and contact number so customers can follow up directly with the technician.

Our Philippines based operations continue to demonstrate their growing capability at delivering positive experiences for our customers. During the year we opened, in conjunction with our partners, our second customer operations centre in the Philippines, providing our team with an environment designed from the ground up to foster customer advocacy. We also made significant improvements to the training, tools and processes provided to our people.

IMPROVE CUSTOMER ADVOCACY



46 per cent of our service transactions are now performed online.



movie, sports and music offers featuring One Direction, Michael Bublé, Jessica Mauboy and Katy Perry. We will continue to improve our loyalty program so we truly recognise our customers.

Our Thanks a Million program has also seen more than one million customers receive personal phone calls and a further 3.5 million receive emails simply thanking them for being a Telstra customer. These phone calls and emails are a simple way to recognise the loyalty of our customers.

Providing more personalised service is also about making sure customers can choose how they engage with Telstra. For a growing number of customers, this is about connecting with us online. Customers are choosing to do business with us online more than ever, as evidenced by the following statistics:

- 46 per cent of our service transactions, across all segments, are now performed online, up from 40 per cent in FY13
- each month over six million unique visitors to telstra.com and 200,000 Live Chat sessions
- 1.4 million customers regularly use our Telstra 24x7® App each month which enables customers to access accounts and services on the go at any time of day.

We are increasing our investment in our digital service for customers through our multi year Digital First program. This will give our customers even greater control

of their accounts and services, technical appointments and support options.

We are aligning our online and social media activities and opportunities under a single strategy that aims to consolidate and grow Telstra's social identity to a position of leadership where we are truly social in everything we do, inside and outside the business. Telstra's first Chief Social Officer, who was appointed in April 2014, is focused on ensuring all social media activity across the company is aligned to our business strategy of building customer advocacy.

Unique Customer Service Experience

Our commitment to personalised service is also about personally rewarding customers for their loyalty with Telstra. In March 2013 we launched our Telstra Thanks loyalty program to help customers enjoy a number of unique experiences. Since then, over one million customers have taken up our

DRIVE VALUE FROM THE CORE



➤ We recently started designing Australia's largest national public Wi-Fi access network as part of a five year \$100 million project.



GARY TANG
TELSTRA OPERATIONS

Driving value from the core concentrates on customer and revenue growth, network leadership and driving productivity by simplifying the business.

Customer and Revenue Growth

Our mobiles portfolio had another strong year, with continued growth in revenue and customer services.

Extended 4G coverage helped us increase the penetration of 4G devices. We now have more than 5.2 million 4G devices on our network, comprising 3.8 million handsets, 500,000 tablets, 400,000 dongles and 550,000 Wi-Fi hotspots.

While in our fixed business there was a decline in the number of households with a fixed voice service, this is consistent with global trends. Nevertheless the revenue decline for fixed voice services was the lowest in four years. Our fixed data business continued to grow, driven by customers choosing bundled plans, such as our popular Entertainer bundles, which include Foxtel through T-Box®. We now have 1.9 million retail customers on

a bundled plan. You can read more detail on this topic in the Full Year Results and Operations Review.

Network Leadership

Telstra has delivered world class mobile networks for Australia since 1987 and today we have Australia's leading mobile network based on a range of coverage, performance and reliability measures.

The Telstra mobile network is the nation's largest, covering more than 2.3 million square kilometres of the Australian landmass and 99.3 per cent of the population. This reflects our commitment to providing customers with outstanding mobile service in cities and in regional and remote Australia.

We have invested more than \$5.5 billion in our mobile network since the launch of our 3G service in 2006, including \$1.1 billion this past financial year.

Mobile data on our network continues to grow at a rapid rate. We will continue to meet this demand by exploring new capacity and broadcast technologies, including spectrum aggregation techniques, LTE-Broadcast and use of small network cells.

Additionally, in September 2014 we will pay the \$1.3 billion we committed in the 2013 financial year to secure an important holding of 700MHz and 2.5GHz spectrum in Australia. This spectrum will provide additional mobile coverage and capacity in the future. The 2.5GHz licence will commence on 1 October 2014 (except for parts of Western Australia which commence from 2016), while the 700MHz licence will commence 1 January 2015.

We recently started designing Australia's largest national public Wi-Fi access network as part of a five year \$100 million project. It is anticipated that this Wi-Fi network, as part of an Australian exclusive

agreement with global Wi-Fi provider Fon, will give Australians access to two million hotspots across Australia and a further 13 million hotspots around the world within five years.

Drive Productivity through Simplifying the Business

We rebalanced our portfolio to reflect the changing nature of Telstra's business as well as promoting innovation through investments in emerging businesses. We also realigned our structure to provide increased focus and resources to growth areas.

Simplifying the business remains a critical part of our strategy. The total value of benefits from our FY14 productivity program, which includes \$550 million of expense benefits as well as revenue, capital expenditure and avoided costs, is \$1 billion. These benefits were reinvested in the business to support growth in our customer base, customer service initiatives and the development of new growth businesses.

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

Our approach to process and service improvement is to:

- review the performance of each process using agreed metrics, then prioritise improvement areas
- analyse data to understand factors behind poor performance
- simplify the process to remove problem root causes, while providing customers with a more seamless experience
- use technology to automate processes, so employees can help customers more effectively.

BUILD NEW GROWTH BUSINESSES



> We signed a 15 year \$457 million managed services partnership to build and manage a new wireless network for the Queensland Government.

Build new growth businesses focuses on Network Applications and Services (NAS), Asian expansion and longer term growth opportunities such as Telstra Health, Telstra Media and Global Applications and Platforms (GAP).

We have a clear strategy in place designed to realise the opportunities that exist in these portfolios and pursue growth opportunities that focus on leveraging our current strengths.

Network Applications and Services

The NAS portfolio provides business and government customers of all sizes with an extensive range of network based information and communication technologies products and services.

Telstra made two acquisitions during the year – NSC Group and O2 Networks – to expand our capabilities in contact centre services and consulting domestically. A major contract win was a 15 year \$457 million managed services partnership to build and manage a new wireless network for the Queensland Government.

Asia

In Asia, we offer connectivity solutions, including managed network services, international data, voice and satellite solutions, and manage our submarine cable networks and assets.

During the year we continued to strengthen our business operations in the region. We are licensed to operate in 19 countries worldwide, including 12 in Asia and facilitate access to over 1,900 points of presence across the globe. Together with our offshore subsidiaries, we now have a total of seven data centres operated directly, plus partnership arrangements for a further 11 data centres operating outside Australia, as well as interests in over 20 cable systems.

We have extended our applications service offerings into Asia, including signing a non-binding Memorandum of Understanding with Telkom Indonesia to form a new joint venture for the proposed provision of network applications and services, primarily in Indonesia.

We also have a presence in China, where we have a 63.2 per cent stake in Autohome Inc., the country's leading online destination for car buyers, which was listed on the New York Stock Exchange on 11 December 2013. Another key event in Asia during the year was the sale of our 76.4 per cent interest in Hong Kong based mobile business CSL New World Mobility Limited to HKT Limited, which was completed on 14 May 2014. We made this decision as there were a number of dynamics in the Hong Kong mobiles market that meant this was the right opportunity for Telstra to maximise our return on this successful asset.

Emerging Opportunities

Telstra Health

Throughout the year Telstra Health continued to work towards its objective of establishing a connected health IT ecosystem capable of creating transformative change in the healthcare sector. Growth to date has been through strategic acquisition and investments, partnership and commercial relationships. Key events this year include the acquisition of DCA eHealth Solutions Pty Ltd, a 50 per cent interest in Fred IT Group Pty Ltd, further investment in HealthEngine Pty Ltd and licensing agreements for iScheduler, InstantPHR and Dr Foster Intelligence's Quality Investigator and Global Comparators products. These investments enable us to play a role in eHealth solutions via means such as connectivity of health services, electronic health records and electronic prescriptions.

Global Applications and Platforms (GAP)

Telstra's GAP strategy is to build new growth businesses and take advantage of the considerable growth in the software-driven business encompassing applications and integrated services.

Fostering local technology innovation is another key strategic pillar of this group, with the launch this year of muru-D®, Telstra's startup accelerator. The name muru-D combines "muru", an indigenous word meaning "road to" and "D" for "Digital". muru-D promotes local technology innovation and helps grow and retain entrepreneurial talent in Australia, by identifying and supporting startups to develop their products and services through a six-month acceleration program. muru-D also invests approximately \$40,000 in each startup for an equity stake of approximately six per cent. The inaugural round attracted more than 300 applications, with the selected top nine starting their six month program in February 2014.

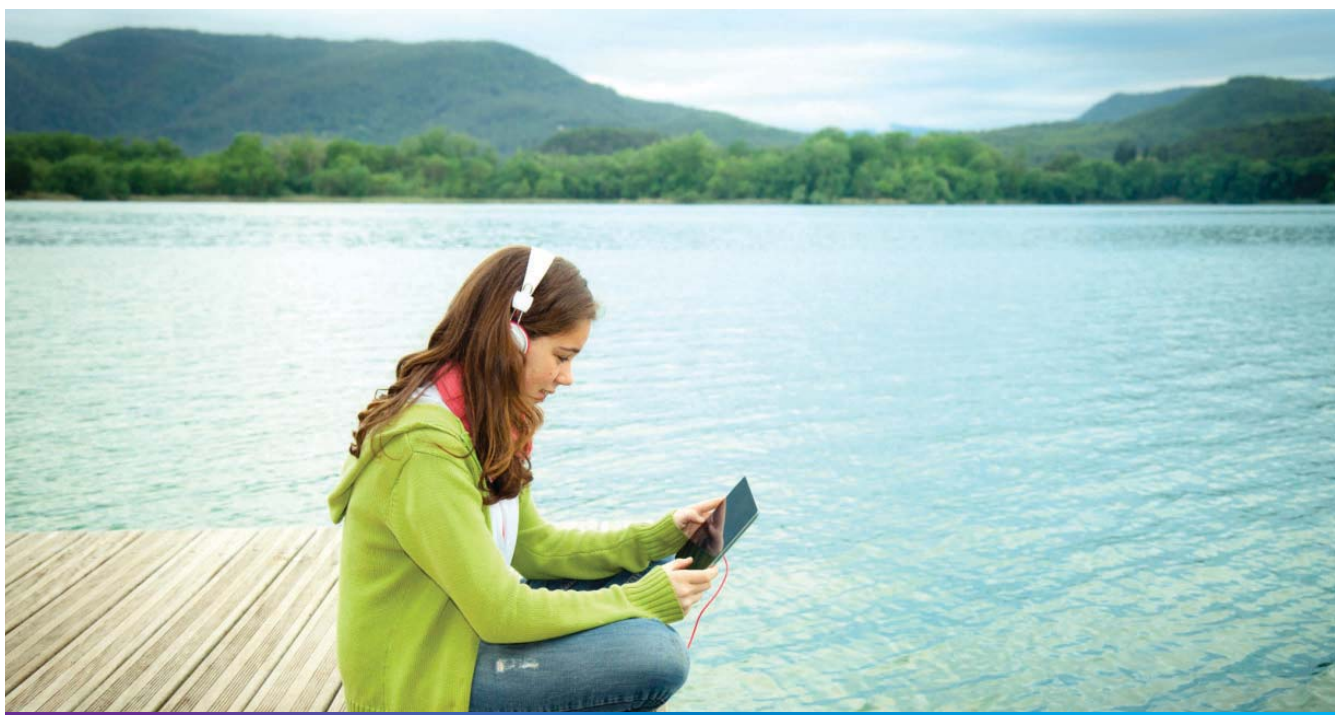
Telstra Media

Telstra Media is Australia's largest IPTV service provider and through the award winning Telstra T-Box, a close partnership with Foxtel and other premium content partners delivers premium movies, music, live sport and entertainment across a full range of devices.

This year, more than fifty new mobile and tablet apps were launched for the AFL and NRL Club Network and we also introduced the AFL Live Pass and NRL Digital Pass, which provide live AFL and NRL on smartphones and tablets.

During the year, we also completed the sale of a 70 per cent stake in our Sensis directories business to Platinum Equity on 28 February 2014. We believe our partnership with Platinum Equity will maximise the value of the Sensis asset for Telstra shareholders.

OUTLOOK



We have a clear and consistent strategy to improve customer advocacy, drive value from the core and build new growth businesses.

We will continue to focus on delivering a differentiated and quality customer service experience for all of our customers to build advocacy. While we are seeing promising results in this area there is more to do in the year ahead.

In our core businesses, we will continue to drive innovation and maintain our network leadership. Our fixed data network differentiation will be enhanced by the implementation of Australia's largest national public Wi-Fi access network.

As the NBN rolls out to more communities around Australia, we will be focused on bringing customers the benefits of Telstra

services on the NBN. We will continue our negotiations with NBN Co and the Federal Government on potential changes to the current agreements that may result from the government's intention to move to a multi-technology NBN roll out.

Our network leadership in mobiles will be enhanced in 2015 through the roll out of 4G services on 700MHz and 2.5GHz. This will enable our customers to have access to higher speeds and better capacity in more places when using mobile phones, tablets and mobile broadband devices.

We will also continue to drive for efficiency in our core business, simplifying both the way we operate and the way we interact with our customers, making it easier for our customers to do business with us.

Like other Australian companies, Telstra has aspirations to grow our business in Asia. For us, this means leveraging our core network capabilities in the region, building our Global Enterprise and Services business and looking for other growth opportunities.

Additional information on our outlook can be found in the Chairman and CEO Message on pages 4 to 6.

MANAGING OUR RISKS

Identifying and managing risks with the potential to affect our objectives is an essential part of our governance framework.

Our Risk Management Approach

Our risk management approach facilitates appropriate identification, assessment and control of risks to our operations and corporate strategy. It provides the framework for various activities to enhance our ability to achieve our financial, customer and people goals and meet our legal and compliance responsibilities so as to protect and enhance value for our shareholders.

Throughout the year we continued to mature and refine our risk management approach. Recent activities included the continued clarification and enhancement of our risk accountabilities. This was facilitated through our Three Lines of Defence model and the formation of the Management Risk Committee – management’s peak governance committee for risk management across the Telstra Group.

Risks are regularly reviewed and monitored, especially those internal and external risks that could have a material impact on our objectives. These Material Business Risks are also regularly reported to the Board, along with their controls and mitigation treatments. We conduct an Enterprise Risk Maturity Assessment on a regular basis to track and focus on the development of the Risk Management Framework. We report the results of this assessment to the Audit & Risk Committee. The Audit & Risk Committee has reviewed Telstra’s risk management framework and satisfied itself that the Framework continues to be sound.

Material Business Risks

There are a number of risks, both specific to Telstra and of a more general nature, that individually or together could have an adverse effect on achieving our objectives.

Three Lines of Defence



The following section summarises those material business risks that could adversely affect our financial performance and growth potential for future years, including any material exposure to economic, environmental or social sustainability risks and how we seek to mitigate or manage them.

Business disruption

A high dependency on technology and increased integration of customer services means outages can significantly impact the continuity of our business operations and delivery of services to our customers. We also have a vast geographical spread, which increases our exposure to natural disasters that can disrupt our operations. We have a response capability to address business disruption events, with incident management and emergency management capability. We continually review and improve this capability, via assessments that consider our business’ core activities while taking into account relevant external factors, such as supplier impacts and customer expectations.

Information security

Protecting the security and privacy of our customer data and company data is a critical focus for us and remains a key

driver of customer advocacy. In order to counter cyber security risks and improve the protection of our networks and information from external threats, we have developed numerous security controls for our networks that are based on our understanding of known threats and best practice industry knowledge. We continually reassess these controls to verify that they are appropriate given the evolving nature of such threats. We also have programs in place to raise awareness, and support employee and vendor compliance with our information security and privacy standards.

Third parties

Third party contractors, suppliers and strategic partners are critical to our capability to derive value from our core businesses and deliver on our growth strategy. Support and delivery of core business functions and customer service by these third parties mean that supply chain incidents, issues and single points of failure can also cause significant impacts to our customers. We manage this risk centrally through our Procurement and Enterprise Services Group by undertaking a due diligence process for new third parties, assessing their compliance with our business continuity requirements, and conducting training on key Telstra

MANAGING OUR RISKS

policies, while the day to day relationship is conducted and managed within the relevant business units. We have also introduced a Supplier Code of Conduct outlining our expectations of suppliers in terms of labour and human rights, environment, ethical practices and diversity, and have engaged with suppliers to help them understand how to meet our requirements.

Innovation and agility

Effective innovation is fundamental in securing revenue streams and withstanding challenges from a changing competitor and industry landscape. Our capacity and ability to respond to the innovation challenge are related to the agility of our internal process and the capability and flexibility of our people. To manage this risk we are focused on enhancing the skills of our people and engaging with strategic partners to identify innovative products and services that could deliver long term, predictable earnings growth. We are also actively simplifying our processes, IT and network infrastructure as we aim to deliver them profitably and can respond quickly to disruptive innovations on a global scale.

Regulatory environment

We operate in a highly regulated environment. The Australian Government and its regulatory agencies have broad powers to impose obligations on certain parts of our business. This regulation includes the Australian Competition and Consumer Commission's (ACCC's) powers to regulate the price and non-price terms on which we provide access to our infrastructure and core services on our network to our Australian competitors. As we consider investment opportunities in offshore markets we also face exposure to regulation and regulatory bodies in those jurisdictions.

We work actively with government, regulators, industry and the community

to minimise and mitigate the risk of inefficient or poorly targeted regulation, and to proactively seek to have removed unnecessary regulation that affects our cost of doing business. In terms of new and emerging risks domestically and internationally, we are monitoring proposed changes in relevant laws or regulations and responding to various policy and regulatory reviews where appropriate. In an Australian context these include a review of competition policy, the NBN, ACCC pricing reviews for core network services and a review of the regulatory framework for spectrum.

NBN execution

Our Chairman and CEO's message in this report includes an update on our negotiations on potential changes to our agreements with NBN Co and the Commonwealth to adapt to the current Australian Government's multi-technology policy for the NBN. In our day to day operations, the introduction of the NBN and the change to the industry structure is likely to expose us to increased fixed line competition, and also presents operational challenges as we migrate our customers off our copper and HFC networks. We are focused on developing efficient processes and systems within Telstra to support the transition of our customers to the NBN, while also improving customer advocacy. This also necessitates establishing an effective access seeker relationship with NBN Co to support delivery of a quality service experience for our customers. We closely monitor customer experience, operational performance, costs and competitor activity so we can identify improvement opportunities. We will also continue to evolve our offerings as the NBN roll out grows, including adapting to NBN Co's multi-technology approach to its network roll out.

People

The skills and experience of our people have an influence on our ability to deliver against our growth strategy. One factor that influences our exposure to this risk is our high demand for a limited number of technical, sales and leadership capability skills within key growth and international areas. Key mitigation strategies intended to further enhance our people capability and competitive advantage include: succession planning, recruitment processes and capability frameworks focused on building expertise in our growth areas, and targeted learning and development programs and retention strategies. We are building a strategic workforce planning practice that looks five to ten years out for critical skills. We are also looking at more flexible and diverse practices in reward and recognition.

Reputation and communication

We focus on protecting and promoting Telstra's reputation and being a good corporate citizen in the countries in which we operate. There are clear connections between how Telstra is perceived in the community and customer advocacy and, ultimately, the financial performance of the business. Every risk giving rise to an incident can harm our reputation and customer advocacy. While the short term negative impact from such events cannot be fully protected against, such incidents are managed through scenario analysis, planning and preparation, and stakeholder management. Reputational robustness and stakeholder support helps improve recovery times from any such impacts. Social media plays an ever increasing part in representing the organisation and engaging openly with issues that can impact our reputation. It also assists, as does our sustainability approach, with engaging customers, investors, key influencers, government, business, employees and the broader public.

FULL YEAR RESULTS AND OPERATIONS REVIEW

Summary Financial Results

| | FY14 \$m | Restated ⁽ⁱ⁾ FY13 \$m | Change % |
|--|-------------|-------------------------------------|-------------|
| Sales revenue | 25,119 | 24,298 | 3.4 |
| Total income (excluding finance income) | 26,296 | 24,776 | 6.1 |
| Operating expenses | 15,185 | 14,607 | 4.0 |
| EBITDA | 11,135 | 10,168 | 9.5 |
| Share of net profit/(loss) from joint ventures and associated entities | 24 | (1) | n/m |
| Depreciation and amortisation | 3,950 | 4,078 | (3.1) |
| EBIT | 7,185 | 6,090 | 18.0 |
| Net finance costs | 957 | 933 | 2.6 |
| Tax | 1,679 | 1,517 | 10.7 |
| Profit for the period from continuing operations | 4,549 | 3,640 | 25.0 |
| (Loss)/profit for the period from discontinued operation | (204) | 151 | (235.1) |
| Profit for the period from continuing and discontinued operations | 4,345 | 3,791 | 14.6 |
| Profit attributable to equity holders of Telstra | 4,275 | 3,739 | 14.3 |
| Capex ⁽ⁱⁱ⁾ | 3,661 | 3,689 | (0.8) |
| Free cashflow from continuing and discontinued operations | 7,483 | 5,024 | 48.9 |
| Earnings per share (cents) | 34.4 | 30.1 | 14.3 |

(i) Restatement due to the retrospective adoption of AASB 119: Employee Entitlements (refer note 2.1(e) of the Financial Report for details).

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

Guidance Versus Reported Results⁽ⁱⁱ⁾

| | FY14 Reported results \$m | FY14 Adjustments \$m | FY14 Guidance basis \$m | FY13 Guidance basis \$m |
|-------------------------------|------------------------------|-------------------------|----------------------------|----------------------------|
| Total income ⁽ⁱⁱⁱ⁾ | 26,296 | (662) | 25,634 | 24,776 |
| EBITDA | 11,135 | (491) | 10,644 | 10,168 |
| Free cashflow | 7,483 | (2,356) | 5,127 | 5,024 |

(ii) Adjusted for the sale proceeds from CSL and 70 per cent of our Sensis directories business, M&A activity, Octave foreign currency reserve loss, Sequel Media impairment and 30% equity share of Sensis directories business. Please refer to the guidance versus reported results reconciliation on page 199. This reconciliation forms part of the Full Year Results and Operations Review, and has been reviewed by our auditors.

(iii) Excludes finance income.

Reported Results

During financial year 2014 there were two significant divestments. In February we completed the sale of a 70 per cent stake in our Sensis directories business and in May we completed the sale of our 76.4 per cent shareholding in the Hong Kong-based mobiles business, CSL New World Mobility Limited ("CSL"). In accordance with accounting standards, the Sensis directories business is disclosed as a discontinued operation. CSL does not meet the criteria to be classified as a discontinued operation as we continue to operate a mobiles business in Australia.

The numbers and commentary in the product and expense performance sections have been prepared on a continuing operations basis and aligns with the statutory financial statements. The segment performance and financial position sections have been prepared on a continuing and discontinued operations basis (that is, includes the results of the Sensis directories business) unless otherwise noted.

Our results highlight consistent earnings growth and increased shareholder returns while investment in innovation, networks and improving the customer experience

Results on a Guidance Basis⁽ⁱⁱ⁾

| | FY14 | FY14 guidance |
|--------------------------------------|---------------|-------------------------|
| Total income growth ⁽ⁱⁱⁱ⁾ | 3.5% | Low single digit growth |
| EBITDA growth | 4.7% | Low single digit growth |
| Capex/sales ratio | 14.6% | ~ 15% of sales |
| Free cashflow | \$5.1 billion | \$4.6 - \$5.1 billion |

FULL YEAR RESULTS AND OPERATIONS REVIEW

Key Product Revenue

| | FY14 \$m | FY13 \$m | Change % |
|-------------|-------------|-------------|-------------|
| Fixed | 7,245 | 7,305 | (0.8) |
| Mobile | 9,668 | 9,200 | 5.1 |
| Data and IP | 2,968 | 3,041 | (2.4) |
| NAS | 1,896 | 1,484 | 27.8 |

Product Profitability EBITDA Margins⁽ⁱ⁾

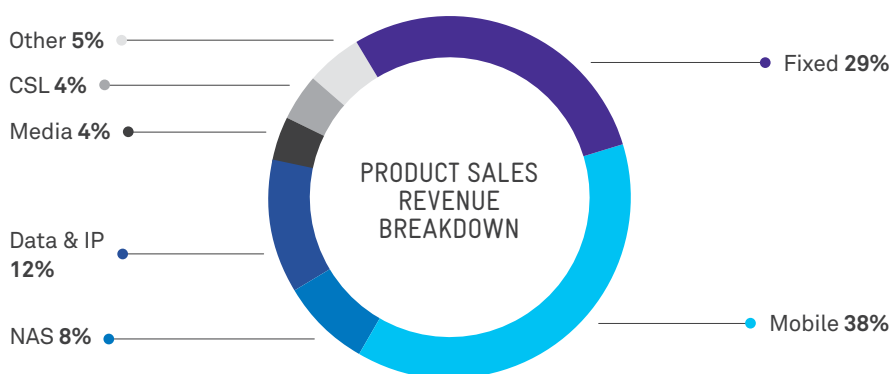
| | FY14 | FY13 | 2H14 | 1H14 | 2H13 |
|-----------------------------|----------------------|------|----------------------|------|------|
| Mobile | 40% | 38% | 41% | 39% | 39% |
| Fixed voice ⁽ⁱⁱ⁾ | 60% | 62% | 59% | 61% | 63% |
| Fixed data ⁽ⁱⁱ⁾ | 44% | 41% | 46% | 42% | 43% |
| Data and IP | 65% | 65% | 66% | 65% | 64% |
| Telstra Group | 42% ⁽ⁱⁱⁱ⁾ | 42% | 42% ⁽ⁱⁱⁱ⁾ | 42% | 43% |

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

(ii) Margins exclude NBN voice and data products.

(iii) Profit on the sale of CSL has been excluded from these figures.

Product Sales Revenue Breakdown



has set the foundation for future growth. Our strategy is to improve customer advocacy, drive value from the core and build new growth businesses.

On 14 August 2014, the Directors of Telstra resolved to pay a fully franked final dividend of 15 cents per share. Shares will trade excluding entitlement to the dividend on 27 August 2014 with payment on 26 September 2014. We have also announced an off-market share buy-back of up to approximately \$1 billion of Telstra shares. Detailed process information regarding the buy-back will be released to shareholders on 27 August 2014.

Product Performance

Fixed

Telstra's fixed portfolio comprises fixed voice, fixed data and other fixed revenue (which includes inter carrier services, customer premises equipment and infrastructure access revenue from the NBN agreements).

Revenue from our fixed business decreased by 0.8 per cent to \$7,245 million, although there was growth in fixed data and increased infrastructure access revenue from the NBN agreements. Customers moving onto bundled plans and retention strategies led to the lowest rate of decline in our fixed voice business for five years, with

a revenue decrease of 7.5 per cent to \$4,034 million and a loss of 232,000 customer services. Retail customer services declined by 278,000 and wholesale customer services increased by 46,000. There are now 7.5 million fixed voice services.

Fixed data revenue increased by 6.3 per cent to \$2,218 million. We again saw strong growth in retail fixed data, with revenue increasing by 7.5 per cent to \$1,889 million. This was driven by growth in bundled plans with 259,000 new bundled customers. The total number of customers on a bundled plan is 1.9 million, or 63 per cent of the retail fixed data customer base. Retail fixed data average revenue per user (ARPU) increased by 0.8 per cent to \$54.98.

Other fixed revenue increased by 15.6 per cent to \$993 million, driven by increased infrastructure access revenue from the NBN agreements.

Fixed voice EBITDA margins decreased to 60 per cent driven by revenue decline, while fixed data EBITDA margins increased to 44 per cent due to revenue growth and reduced service delivery costs.

Mobile

Our strong performance in mobiles continued with revenue growth of 5.1 per cent, or \$468 million to \$9,668 million.

FULL YEAR RESULTS AND OPERATIONS REVIEW

Retail mobile services revenue grew 6.7 per cent with growth across major product categories. Domestic retail customer services increased by 937,000, bringing the total number to 16.0 million. EBITDA margins increased to 40 per cent.

Post-paid handheld revenue grew 4.2 per cent to \$5,006 million. ARPU, excluding the impact of mobile repayment options (MRO), increased 0.7 per cent to \$65.80 as customers used more data. The annual post-paid handheld deactivation rate improved 0.5 percentage points to 10.3 per cent, and remains at world leading levels.

Pre-paid handheld revenue increased 20.9 per cent to \$879 million with an increase of 249,000 unique pre-paid handheld users. Growth was driven by a full year's contribution from the Boost retail partnership and the continuing popularity of our Cap Encore plans. ARPU grew by 11.4 per cent due to increased data usage.

We added 109,000 customer services in the mobile broadband category. Revenue grew by 7.6 per cent to \$1,287 million. ARPU declined slightly to \$29.59. Machine to machine (M2M) services experienced revenue growth of 12.2 per cent to \$101 million, adding 291,000 services.

We continue to invest in our 4G network, which is four times the geographical coverage area of any other 4G network in Australia. This has helped us grow penetration of 4G devices with 34 per cent of our handheld customers on 4G. We have more than 5.2 million 4G devices on our network, comprising 3.8 million handsets, 500,000 tablets, 400,000 dongles and 550,000 Wi-Fi hotspots.

Data and IP

Data and IP includes revenue from IP access, ISDN services and other data and calling products. There was growth in IP

Access revenue which grew by 3.3 per cent to \$1,166 million. IP MAN services growth continued, with a 6.8 per cent increase bringing the total number of services to 32,679. However, overall revenue in this portfolio declined by 2.4 per cent or \$73 million to \$2,968 million resulting from the continued decline in ISDN and other legacy products. Data and IP EBITDA margins remained steady at 65 per cent.

Network Applications and Services (NAS)

We continue to build momentum in the NAS domestic portfolio. NAS builds on the value which our IP network delivers to enterprise, government and business customers by providing unified communications, cloud, managed networks and security services. During the year we made acquisitions to complement our capability. NSC Group is a leading provider of unified communications solutions in Australia and has strengthened our contact centre technology services, while O2 Networks is a leader in network and security consultation and integration services.

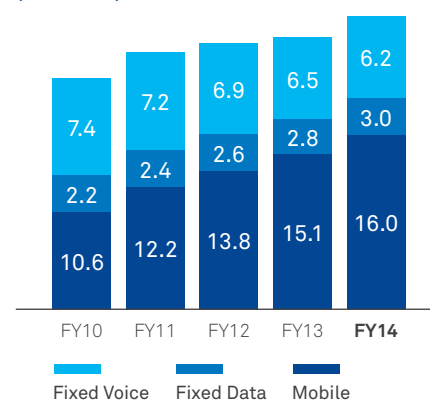
There was revenue growth in the domestic portfolio of 27.8 per cent to \$1,896 million. This growth was driven by revenue from contracts signed in previous years, such as the six year Department of Defence contract.

Major NAS categories had strong revenue growth, with managed network services increasing by 55.7 per cent with a significant portion of this increase attributable to the Department of Defence contract, unified communications increasing by 21.1 per cent and cloud services increasing by 32.2 per cent.

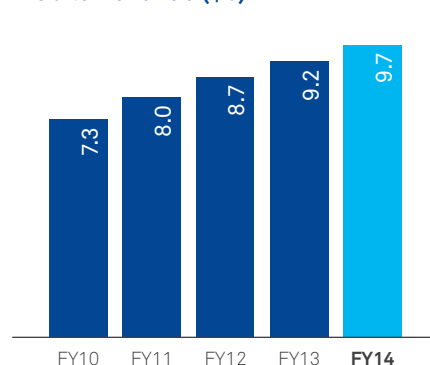
Media

Media product portfolio revenue declined by 0.5 per cent or \$5 million to \$982 million. This portfolio previously included our Sensis directories business, of which 70 per cent

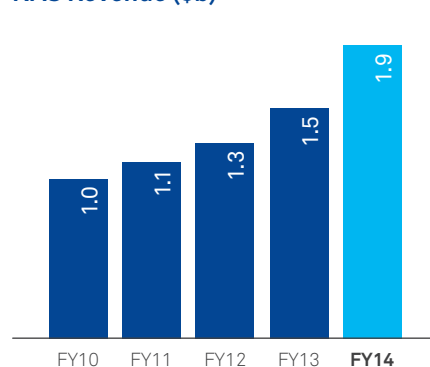
Domestic Retail Customer Services (millions)



Mobile Revenue (\$b)



NAS Revenue (\$b)



FULL YEAR RESULTS AND OPERATIONS REVIEW

was sold in February for \$454 million. TV revenue increased by 5.0 per cent to \$699 million with growth in both Premium Pay TV and Foxtel on T-Box® 'paylite' services. This was offset by a decline in Sensis voice and advertising services of 22.0 per cent.

CSL New World Mobility

In May 2014 we announced the sale of our 76.4 per cent stake in CSL to HKT Limited, and received US\$1.99 billion in proceeds (A\$2.11 billion gross cash proceeds which are subject to completion audit). Our results include ten months of CSL's results. In that period revenue grew by 3.4 per cent to \$1,045 million driven by strong post-paid handheld revenue and favourable foreign exchange movements.

Other

Global Connectivity and NAS offshore revenue grew by 19.8 per cent to \$678 million. In our China digital media portfolio, revenue increased by 71.6 per cent. This includes Autohome which holds a strong position in digital marketing in the rapidly growing Chinese auto market. On 11 December 2013, Autohome Inc. was listed on the New York Stock Exchange. Our ownership interest in Autohome Inc. is 63.2 per cent.

Expense Performance

Labour performance

Total labour expenses increased by 4.5 per cent or \$205 million to \$4,732 million. Full time staff and equivalents decreased by 107 to 31,931. This decrease was driven by the acceleration of restructuring programs across Telstra Operations and the divestment of CSL, offset in part by expenses supporting NAS and NBN-related activity. Salary and associated costs increased by 3.2 per cent or \$106 million to \$3,399 million. This included the impact of salary and wage increases

Operating Expenses

| | FY14 \$m | FY13 \$m | Change % |
|---------------------------------|---------------|---------------|------------|
| Labour | 4,732 | 4,527 | 4.5 |
| Goods and services purchased | 6,465 | 6,247 | 3.5 |
| Other expenses | 3,988 | 3,833 | 4.0 |
| Total operating expenses | 15,185 | 14,607 | 4.0 |

and unfavourable bond rate movements impacting long service leave and workers compensation provisions which contributed \$58 million. Redundancy expenses increased by 32.8 per cent or \$62 million to \$251 million due to continued restructuring to support a changing product and service mix, and simplification of our business.

Goods and services purchased

Goods and services purchased increased by 3.5 per cent or \$218 million to \$6,465 million. Cost of goods sold (COGS) increased marginally by 0.9 per cent or \$25 million to \$2,906 million. The main driver was an increase in NAS COGS supporting revenue growth and CSL mobile COGS impacted by higher smartphone unit rates and the translation of a weaker Australian Dollar, offset by lower domestic post-paid mobile COGS. Other goods and services purchased increased by 7.7 per cent or \$130 million to \$1,828 million to support growth in some large NAS contracts. Network outpayments increased by 3.8 per cent or \$63 million to \$1,731 million, driven by increased voice usage in line with revenue growth in CSL. A reduction in the mobile terminating access (MTA) rate resulted in continued savings. This was offset by increased SMS/MMS costs due to higher volumes, however this also had a favourable revenue impact.

Other expenses

Total other expenses increased by 4.0 per cent or \$155 million to \$3,988 million. Service contracts and agreements

increased 7.4 per cent or \$101 million to \$1,468 million, driven mainly in support of GES revenue growth. The remaining other expenses increased \$78 million to \$2,260 million, driven by an increase in light and power costs resulting from our 4G roll out, higher property rental costs across our network and data sites and a write off of \$98 million from the foreign currency translation reserve for our Octave investment in China. The prior year also included a loss recognised on the sale of TelstraClear of \$127 million.

Finance costs

Net finance costs increased year on year by 2.6 per cent or \$24 million, which comprised a reduction in net borrowing costs of \$54 million offset by a reduction in capitalised interest of \$38 million, and an increase in other finance costs of \$40 million.

The reduction in net borrowing costs was predominantly due to a reduction in the net average interest cost. The average net interest yield for the year was 6.2 per cent compared to 6.4 per cent in the prior year. The reduction in yield arose through a combination of a reduction in market base rates (resulting in lower costs on the floating rate debt component of our debt portfolio), and from refinancing at lower rates.

The primary driver for the increase of \$40 million in other finance costs was a decrease in other interest revenue of \$61 million relating to interest on tax refunds

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(prior year included \$64 million interest on tax refunds). This increase was partially offset by a reduction in the net interest charge relating to defined benefit plans and a reduction in valuation impacts.

Segment Performance

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

Telstra Retail

Telstra Retail brings together our key retail facing businesses including Telstra Consumer, Telstra Business, Telstra Media Group and Telstra Health. Telstra Retail provides the full range of telecommunications products, services and solutions to consumer customers and to Australia's small to medium sized enterprises, as well as the provision of Foxtel and digital content services. Income in this segment grew by 3.6 per cent to \$16,350 million and EBITDA increased by

3.8 per cent to \$9,307 million. Income in our Consumer business unit grew by 4.6 per cent with strong growth in mobiles of 10.6 per cent, driven by increased data usage, as well as a 7.2 per cent increase in fixed data revenue offset by an 8.2 per cent decline in fixed voice revenue. Telstra Business income grew by 0.8 per cent, with continued strong growth in the NAS portfolio, which increased 44.2 per cent. A 6.3 per cent growth in fixed data was offset by an 8.5 per cent decline in fixed voice revenue. Telstra Health contributed income of \$40 million in its first year. Commentary on the performance of Telstra Media Group is provided within the Media product performance section on page 17.

Global Enterprise and Services

Global Enterprise and Services (GES) is responsible for sales and contract management support for business and government customers in Australia and globally. It also provides product management for advanced technology solutions including Data and IP networks, and NAS products such as managed network, unified communications, cloud, industry solutions and integrated services. Technical delivery for NAS customers in

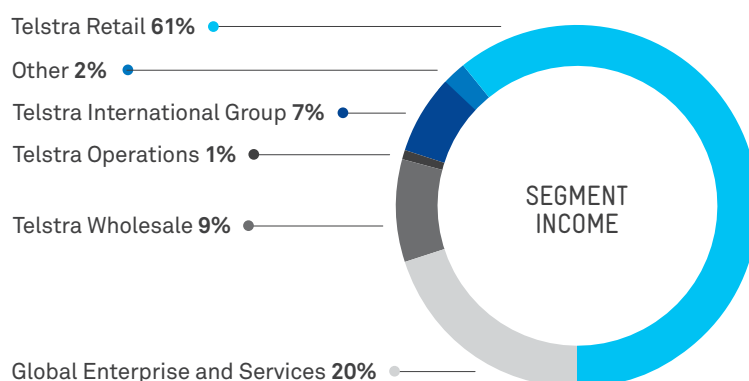
Australia and globally is also provided by GES. Income for GES increased by 4.1 per cent to \$5,284 million, driven by NAS domestic and global connectivity, offset by declines from Australian enterprise and government customers for fixed telephony, mobiles and data connectivity. Investment to support growth in NAS contracts and GES global customers resulted in an increase in operating expenses of 21.9 per cent, leading to an EBITDA decline of 9.1 per cent. This decline moderated in the second half.

Telstra Wholesale

Wholesale income grew by 10.1 per cent to \$2,328 million. This was largely driven by revenue growth from the NBN Infrastructure Service Agreement, partly offset by one off reductions to fixed and mobile roaming revenues from customer exits during FY13. We also saw an increase in unconditioned local loop (ULL) services of 160,000. External expenses increased by 16.8 per cent largely due to higher bad debts from customer insolvencies and increased network outpayments from Telstra International. EBITDA contribution increased by 9.5 per cent to \$2,127 million.

Segment Income

| | FY14 \$m | FY13 \$m | Change % |
|--------------------------------|---------------|---------------|-------------|
| Telstra Retail | 16,350 | 15,784 | 3.6 |
| Global Enterprise and Services | 5,284 | 5,074 | 4.1 |
| Telstra Wholesale | 2,328 | 2,115 | 10.1 |
| Telstra International Group | 1,887 | 1,163 | 62.3 |
| Telstra Operations | 161 | 156 | 3.2 |
| Other | 838 | 1,688 | (50.4) |
| Total Telstra segments | 26,848 | 25,980 | 3.3 |



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Telstra International Group

The Telstra International Group income grew by 62.3 per cent to \$1,887 million and EBITDA contribution grew by 156.9 per cent to \$817 million. This segment comprises our China digital media portfolio and CSL. During the year Telstra ceased operations in the Octave investment in China and commenced liquidation of the legal entities in the Octave Group. A write off of \$98 million from the foreign currency translation reserve associated with this investment was recorded during the year. CSL was also sold in May 2014 and we recognised \$561 million profit on sale. Refer to note 20 in the financial statements for further details.

Further commentary on the performance of these businesses is provided within the product performance section on page 17.

Telstra Operations Group

Telstra Operations is primarily a service delivery centre supporting the revenue generating activities of other segments. The underlying EBITDA contribution improved 1.6 per cent on the prior year with reductions in labour expenses, partially offset by higher network accommodation costs.

Other

Our Other category includes the costs of corporate centre functions, payments received under certain NBN agreements, impairments, adjustments to employee provisions for bond rate movements and short term incentives, and redundancy expenses for the parent entity. The results of our New Zealand subsidiary TelstraClear, sold in October 2012, and the 70 per cent stake of our Sensis directories business, sold in February 2014, are also included in this category. The declining revenues in the Sensis directories business and the associated impairment charges

represent the major movement for the year in this segment compared with the prior period.

Financial Position

Capital expenditure and cash flow

Capital expenditure decreased by 0.8 per cent to \$3,661 million (excluding expenditure in relation to the Sensis directories business) and is in line with our capex to sales guidance of around 15 per cent. This investment has enabled us to meet ongoing customer demand from the growth in our customer base, support the accelerated roll out of 4G and internet and content delivery infrastructure platforms, as well as meet ongoing NBN commitments.

Free cashflow generated from operating and investing activities was \$7,483 million, which increased 48.9 per cent. Included in free cashflow were gross cash proceeds from the sale of CSL of \$2,107 million (subject to completion audit) and \$454 million from the sale of our 70 per cent shareholding in the Sensis directories business. The prior year included cash proceeds from the sale of TelstraClear of \$669 million. Cash from operating

activities increased by \$254 million or 3.0 per cent due to the continued strong performance of our mobility products combined with a program to reduce inventory levels. This was partially offset by an increase in income taxes paid due to legislative changes requiring income tax instalments be remitted monthly rather than quarterly, resulting in additional instalments being paid in the current year. Cash outflows from investing activities decreased as a result of lower payments for spectrum licence purchases, offset partially by an increase in mergers and acquisitions activities.

Debt position

Our gross debt position increased by \$420 million to \$16,048 million. This increase included short term debt issuance of \$252 million, finance lease additions of \$121 million and revaluation impacts on our debt portfolio of \$204 million, partially offset by finance lease repayments of \$91 million and a net reduction in long term debt of \$67 million. The reduction in long term debt comprised debt maturities of \$565 million offset by a domestic bond issue with net proceeds of \$498 million.

Summary Statement of Cash Flows

| | FY14 \$m | FY13 \$m | Change % |
|--|----------------|----------|---------------|
| Net cash provided by operating activities | 8,613 | 8,359 | 3.0 |
| Total capital expenditure (including investments) | (4,018) | (4,545) | (11.6) |
| Sale of shares in controlled entities (net of cash disposed) | 2,397 | 693 | 245.9 |
| Other investing activities cash flows | 491 | 517 | (5.0) |
| Net cash used in investing activities | (1,130) | (3,335) | (66.1) |
| Free cashflow | 7,483 | 5,024 | 48.9 |
| Net cash used in financing activities | (4,430) | (6,526) | (32.1) |
| Net increase in cash and cash equivalents | 3,053 | (1,502) | 303.3 |

FULL YEAR RESULTS AND OPERATIONS REVIEW

Financial Settings

| | FY14 Actual | Target Zone |
|---------------------------------|-------------|-------------|
| Debt servicing ⁽ⁱ⁾ | 0.9x | 1.3 – 1.8x |
| Gearing ⁽ⁱⁱ⁾ | 43% | 50% to 70% |
| Interest cover ⁽ⁱⁱⁱ⁾ | 13.8x | >7x |

(i) Debt servicing ratio equals net debt to EBITDA.

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

(iii) Interest cover equals EBITDA to net interest.

The domestic bond issue was used to refinance maturing domestic debt.

Net debt decreased by \$2,628 million to \$10,521 million. This movement comprises the increase in gross debt of \$420 million offset by an increase in cash and cash equivalents of \$3,048 million. The higher liquidity reflects proceeds from divestments of shareholdings in the Sensis directories business and CSL. The impact of the higher liquidity is reflected in the reduction in our net debt gearing ratio (net debt to capitalisation) from 50.5 per cent at 30 June 2013 to 43.0 per cent at 30 June 2014 and also our debt servicing ratio. Liquidity will be reduced in the first quarter of financial year 2015 to fund planned cash outflows such as spectrum licence payments and dividend payments.

Statement of Financial Position

Our balance sheet remains in a strong position with net assets of \$13,960 million.

Current assets increased by 32.1 per cent to \$10,438 million. An increase in cash and cash equivalents and a decline in trade and other receivables was mainly due to divestments of CSL and 70 per cent of our Sensis directories business.

Tax receivables decreased due to the receipt of tax amendment refunds.

Non current assets decreased by 5.6 per cent to \$28,922 million. Property, plant and equipment declined as ongoing depreciation and retirements exceeded the level of additions. Intangible assets decreased largely due to the Sensis and CSL divestments and a portion of Sensis goodwill recognised as an impairment loss. This was partially offset by acquisitions made during the period. The increase in derivative assets is primarily attributable to net foreign currency and other valuation impacts arising from measuring to fair value.

Current liabilities increased by 15.4 per cent to \$8,684 million. There was an increase in current borrowings and derivative liabilities reflecting transactions that will mature within the next 12 months and higher refinancing demands during the financial year 2015. Trade and other payables decreased primarily as a result of lower capital and labour accruals due to the Sensis divestment. It also included a decline in

trade creditors driven by payments in June to a large volume of vendors with a July clearing date. Current tax payables decreased largely due to increased tax instalments paid on transition from a quarterly to monthly instalment regime.

Non current liabilities decreased by 7.8 per cent to \$16,716 million. The decrease in non current borrowings was due to a reclassification of debt into current borrowings, partially offset by a domestic bond issue during the year, foreign currency movements and other valuation impacts. The decrease in derivative liabilities was due to reclassification to current for maturities within the next 12 months, and also included foreign currency and other valuation impacts arising from measuring to fair value.

Return on average assets and return on average equity improved primarily due to the increase in profit. The return on average equity was partly offset by a favourable movement in the foreign currency translation reserve, with the translation differences transferred to the income statement.

Summary Statement of Financial Position

| | FY14 \$m | FY13 \$m | Change % |
|------------------------------|----------|----------|----------|
| Current assets | 10,438 | 7,903 | 32.1 |
| Non current assets | 28,922 | 30,624 | (5.6) |
| Total assets | 39,360 | 38,527 | 2.2 |
| Current liabilities | 8,684 | 7,522 | 15.4 |
| Non current liabilities | 16,716 | 18,130 | (7.8) |
| Total liabilities | 25,400 | 25,652 | (1.0) |
| Net assets | 13,960 | 12,875 | 8.4 |
| Total equity | 13,960 | 12,875 | 8.4 |
| Return on average assets (%) | 20.4 | 17.9 | 2.5pp |
| Return on average equity (%) | 32.3 | 31.0 | 1.3pp |

OUR APPROACH

> Our goal is to embed social and environmental considerations into the heart of our business in ways that create value.

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

Governance

Our CEO chairs the Telstra Sustainability Council, which governs Telstra's sustainability strategy and performance. Membership comprises Telstra's Executive Committee. Regular reports on sustainability progress and key developments are provided to the CEO and the Telstra Board. Telstra's Chief Sustainability Officer provides strategic leadership for sustainability and is responsible for the implementation of our approach and programs.

Key Issues

We seek to identify the ways in which we can use our core telecommunications capabilities, assets and expertise to make a genuine contribution to the communities in which we operate.

To support this ambition we identify and respond to the key sustainability issues and opportunities that are important to our business and our stakeholders. We consider issues, risks and opportunities from a wide variety of sources. These include regular stakeholder consultation, participation in industry and cross-sector initiatives, customer research, benchmarking and future trends analysis. We prioritise issues according to their impact on our business and on stakeholders. The key issues identified through this process during the 2014 financial year are outlined in the diagram to the right. Please refer to our Bigger Picture 2014 Sustainability Report for a more detailed overview of these issues and our performance.

Sustainability Priorities

Our sustainability priorities focus on the areas where we believe we can make the most difference, based on our assessment of key issues and opportunities. Our three strategic sustainability priorities are:

Employee involvement

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

Everyone Connected

We believe that the more connected people are, the more opportunities they have.

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

Environmental leadership

We are seeking to be more proactive and strategic in our approach to the environment. We're doing this by identifying and minimising the material environmental impacts of our operations, working with our suppliers to reduce the impacts of the products and services they provide to us, and considering the environment when developing our own products and services.

Key Sustainability Issues



CUSTOMER EXPERIENCE

> We want to ensure that everyone enjoys the benefits of being connected to modern communications technologies.

Customers Experiencing Disadvantage

Our Access for Everyone program is designed to help people on low incomes or facing hardship stay connected. Since 2002, this program has provided benefits to the value of more than \$2 billion. We work with over 2,000 community agencies across Australia to deliver the program that includes benefits such as discounts on fixed line home phone services for around 980,000 pensioners, home phone line rental relief for 76,000 households and distribution of around 113,000 calling cards.

Customers with Disability

For more than 25 years we have been committed to ensuring our products are accessible for customers with communication challenges. Telstra's sixth Disability Action Plan (2013–2016) recognises the benefits that modern communications technologies bring to people with disability and extends Telstra's commitment to improving the accessibility and affordability of our products and services.

Privacy and Data Protection

Millions of people trust us with their personal information and we continue to work diligently every day to honour this trust. We take customer privacy and data security very seriously. Our priority is making sure we keep personal information safe and secure at all times.

We continue to invest in controls to protect the privacy of our customers and to be transparent in the way we manage this information. In March 2014, we published our new Privacy Statement in response to the introduction of the new Australian Privacy Principles. This statement reaffirms our commitment to protecting the personal information of our customers.



In March 2014, the Privacy Commissioner and the Australian Communications and Media Authority found us in breach for an incident that was identified in May 2013, where some of our customer details were available online. As soon as possible after we learnt about the issue, we disabled all public access to the data and apologised to the people affected. We have since made significant investments into more stringent controls around our systems.

Cyber Safety

Cyber safety is an important social issue. We play an active role as a member of the Australian Government's Online Safety Consultative Working Group and as co-chair of the Technology and Wellbeing Roundtable with ReachOut.com by Inspire Foundation. Telstra is the only Australasian member of the Family Online Safety Institute (FOSI), an international, non-profit organisation that convenes industry, government and

the non-profit sectors to collaborate and innovate in the area of cyber safety.

This year, we partnered with the Queensland Department of Education, Training and Employment to develop "Meet the Creeps", a cyber safety quiz designed to help students make the most of their digital opportunities while remaining safe online. We also distributed around 65,000 cyber safety kits across Australia during the year, providing practical information on areas such as protecting personal information, cyberbullying and protecting against scams and phishing.

RESPONSIBLE BUSINESS

> We are committed to responsible business practice, wherever we operate.

United Nations Global Compact

We have been a signatory to the United Nations Global Compact since 2011 and are committed to supporting its principles – on human rights, labour rights, environment and anti-corruption – wherever we operate. We implement our commitment through a range of policies, strategies, management systems and initiatives that reflect the diverse range of conditions in which our businesses operate.

Supply Chain

This year, the Telstra Group purchased \$6.5 billion in goods and services from around 4,800 suppliers. Our spend can be leveraged to positively influence the behaviour and actions of our suppliers and, in turn, benefit the environment and communities. To help realise this we developed a three year sustainable procurement strategy, with a focus on identifying key social and environmental risks, embedding consideration of these risks into our processes and working to monitor compliance. We also refined our Supplier Code of Conduct to clarify the expectations we have of our suppliers. As part of the process, we held a forum for key suppliers, representing around \$3 billion in annual spend, on the proposed changes and to obtain consensus on our implementation approach.

A more thoughtful approach to supply chain management has resulted in initiatives such as our Supported Workforce program which contracts non-profit groups to conduct grounds maintenance at around 4,000 of our network sites. These groups currently employ 413 people with disability or who are experiencing disadvantage. This year, we established a similar pilot program for Indigenous people in remote locations.

Mobile Phones, Towers and Health

We acknowledge that some people are genuinely concerned about possible health effects from electromagnetic energy (EME), and we are committed to addressing these concerns responsibly. We are proactive, transparent and fact based in our communication regarding EME and comply with the standards set by regulators. We rely on the expert advice of national and international health authorities including the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) and the World Health Organisation (WHO) and actively contribute to scientific research in EME and health.

Helping our customers and the community keep abreast of the latest information is important to us. We provide information on EME on our website at www.telstra.com/eme and invite customers to go directly to the WHO, ARPANSA and EMF Explained websites for further information. We have a dedicated EME help desk and team that proactively reviews new site proposals, develops

community consultation plans and works with the community to determine acceptable sites for new base stations. This year, we continued our mobile safety SMS campaign, sending out more than eleven million messages referring customers to www.telstra.com/mobiletips, our information site for safe and responsible phone use. In addition, all new mobile customers receive information on EME in their welcome pack.

Transparency Report

This year we released our first Transparency Report to keep our customers informed of the requests we receive for access to information from national security and law enforcement agencies in Australia and overseas. The aim of the report is to raise awareness about the various reasons an agency may request assistance, such as enforcing criminal law, protecting public revenue and safeguarding national security. We also provide assistance to emergency services agencies in response to life threatening situations and Triple Zero emergency calls.



OUR PEOPLE



We are working to attract and retain employees with the skills and passion to best serve our markets.

EMPLOYEE ENGAGEMENT SCORE OF
82 PER CENT
5 POINTS
ABOVE THE AUSTRALIAN NATIONAL NORM

Employee Engagement

We are committed to making Telstra a great place to work and seeking employee feedback is an important part of the process. Over April and May 2014, we conducted a pulse employee engagement survey, with an 84 per cent response rate. We achieved an engagement score of 82 per cent, putting us five percentage points above the Australian National Norm and within two percentage points of the Global High Performing Norm.

The largest improvements were seen in the areas of ethics and integrity (four per cent improvement on 2013 survey), health and wellbeing (two per cent improvement) and diversity and inclusion (two per cent improvement).

Health and Safety

The health and safety of our people is paramount to us and is critical to the success of our business. We have governance structures at Board and executive levels to guide and monitor health and safety performance and have continued to focus on identifying and controlling workplace health and safety hazards and risks. This year, Telstra categorised its workforce into 12 main workgroups that cover our main work activities and the risks likely to face our employees. This approach allows us to implement risk management programs that address risks and reduce the

incidence and severity of workplace injuries and illness with a particular focus in FY14 on driver safety, contractor management, the management of asbestos, employee wellbeing and musculoskeletal injuries.

We have managed the risk of asbestos in our network for many years and place the highest priority on the health and safety of employees, contractors and members of the public. This financial year we introduced a number of stringent measures to improve asbestos handling practices within Telstra after several incidents in FY13 involving contractors failing to meet our minimum standards. We also implemented stronger community engagement guidelines to better inform the community about work in their neighbourhoods, including longer notification periods and improved signage at worksites alerting residents to asbestos-related works.

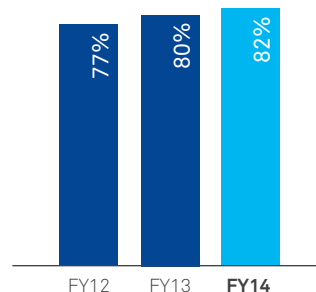
Diversity and Inclusion

Diversity and inclusion help us improve business results, enhance our reputation, and attract, engage and retain talented people. Our people value working in an organisation where differences are respected. In addition, having a diverse range of employees better enables us to provide the best service to our customers.

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

Employee diversity and inclusion is led by our Diversity Council, which is chaired by the CEO and comprises the entire CEO Leadership Team. Through this forum, as well as performance planning and development processes, we reinforce our

Employee Engagement ⁽ⁱ⁾



(i) Telstra Group. 2013 results adjusted to exclude CSL and Sensis Group (79% was previously reported).

Lost Time Injury Frequency Rate (LTIFR) ⁽ⁱⁱ⁾



(ii) LTIFR is the reported number of accepted workers' compensation claims for work-related injury or disease that incur lost time for each million hours worked. This data relates to Telstra Corporation Limited only and does not include subsidiaries or contractors.

expectations of all leaders to lead in an inclusive way and to value difference.

Our diversity policies provide the framework for the Board to set our measurable objectives for achieving diversity and to assess annually our progress in achieving them. The table on the following page summarises, as at the end of the 2014 financial year, our measurable objectives for achieving gender diversity set by the Board and our progress towards achieving them.

OUR PEOPLE

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

Gender Equality

Overall female representation across the Telstra Group remained flat this year at 30.2 per cent. While we made good progress in the first half, the result was adversely affected by the sale of our Sensis directories business which saw a reduction of 1,320 women. Last year, we reported an over representation of women among departures from Telstra. We took local action to retain women in our business with a focus on flexibility and career development. We have started to see a closing of the gap with female commencements now exceeding female departures.

Diversity Targets and Performance

| Measure | Objective and Progress/Result in respect of FY14 (or as otherwise stated) | Objective in respect of FY15 (or as otherwise stated) |
|--|---|---|
| Women on the Board | <p>Objective – There will be 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30%</p> <p>Progress – As at 30 June 2014, there were 3 female Directors on the Board (including the Chairman of the Board), representing a female gender representation among non-executive Directors of 33.3%.</p> | There will be at least 3 women on the Board, representing a female gender representation among non-executive Directors of at least 30%. |
| Female representation in graduate intake | <p>Objective – 45% female representation in graduate intake selected in 2015, with an aspiration of 50% female representation by 2020</p> <p>Progress – 41% female representation in graduate intake selected in 2014.</p> | 45% female representation in graduate intake selected in 2015, with an aspiration of 50% female representation by 2020. |
| Promotion rates for women | <p>Objective – To exceed their representation at Business Unit level</p> <p>Result – Achieved in Telstra overall and in 6 out of 9 Business Units.</p> | To exceed their representation at Business Unit level. |
| Engagement of identified groups⁽ⁱ⁾ | <p>Objective – Equal to or greater than Telstra-wide engagement score, with any negative differences not statistically significant</p> <p>Result – Engagement of all identified groups exceeded Telstra-wide engagement score, except for Indigenous employees and employees with a disability. The negative difference for employees with a disability was statistically significant, but the score for this group was stable compared to 2013. All other groups were more engaged than in 2013.</p> | Equal to or greater than Telstra-wide engagement score, with any negative differences not statistically significant. |
| Female representation⁽ⁱⁱ⁾ at 30 June | <p>Objective – FY15 – 32% (Telstra Total) and 30% (Executive Management)</p> <p>Progress – 30.1% (Telstra Total) and 25.9% (Executive Management).</p> | <p>FY15 – 32% (Telstra Total) and 30% (Executive Management)</p> <p>FY20 – 35% (Telstra Total) and 40% (Executive Management).</p> |

(i) Identified groups are female employees, Indigenous employees, culturally and linguistically diverse employees, employees with a disability, and, gay, lesbian, bisexual, transgender and intersex (GLBTI) employees. FY14 result does not include Chief Entertainment Pty Ltd, 02 Networks Pty Ltd and DCA Direct Health Pty Ltd, as they did not participate in the 2014 Employee Engagement Survey.

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

OUR PEOPLE

> At Telstra, flexibility is the starting point for all roles.

Telstra is required by the Workplace Gender Equality Act 2012 to report our workforce gender profile as at 31 March each year. Our 2014 report was lodged with the Workplace Gender Equality Agency on 27 May 2014 and is provided in the corporate governance section of our website at www.telstra.com/diversity.

Board Diversity

Information on the initiatives the Board has in place to meet its strategic imperative of ensuring the Company has a diverse Board and to achieve its Board diversity measurable objective can be found in the Board Composition and Director Appointment section of our Corporate Governance Statement, which is available on our website.

Employee Diversity and Inclusion

During the year our initiatives to enhance diversity and inclusion at Telstra included:

- **Gender equality** – our CEO continued his involvement in the Male Champions of Change group which models effective leadership by male executives in relation to gender equality. Key initiatives this year included the “panel pledge” to increase female representation in conference panels and speaking opportunities and the Plus One initiative, which encourages managers to add at least one woman to their teams as roles arise.
- **All Roles Flex** – this is a company-wide approach whereby flexibility is now considered the starting point for all roles. We are the first large company in Australia to implement such an initiative, and are committed to ensuring our employees are able to balance work with other responsibilities.

Representation of Women in Telstra as at 30 June 2014

| Role | Number | Percentage |
|---------------------------------------|---------------|--------------|
| Board ⁽ⁱ⁾ | 3 | 33.3% |
| Executive management ^{*(ii)} | 68 | 25.9% |
| CEO | 0 | 0% |
| CEO-1 (Band A) | 3 | 23.1% |
| CEO-2 (Band B) | 14 | 19.7% |
| CEO-3 (Band C) | 51 | 28.7% |
| Middle management ^{*(iii)} | 2,567 | 27.2% |
| Operational ^{*(iv)} | 6,970 | 31.4% |
| Telstra Total* | 9,605 | 30.1% |
| Telstra Group Total** | 10,302 | 30.2% |

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

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

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

Notes:

(i) Number and percentage relate to non-executive Directors.

(ii) Executive management comprises persons holding roles within Telstra designated as Band A, B or C, or equivalent.

(iii) Middle management comprises persons holding roles within Telstra designated as Band 1 or 2, or equivalent.

(iv) Operational comprises persons holding roles within Telstra designated as Bands 3 or 4, or equivalent.

- **Pay equity** – the Board reviewed Telstra’s remuneration philosophy and principles to ensure they remained aligned to our strategy and values. A new principle was added that specifically highlights diversity and acknowledges Telstra’s commitment to providing equitable and fair pay.
- **White Ribbon** – we received formal accreditation as a White Ribbon Workplace recognising our work, since 2009, in helping to stop violence against women.

Employee Volunteering and Giving

Our employees want the opportunity to contribute to the communities in which they live and work. This year Telstra people contributed more than 5,000 days volunteering their time and expertise to a range of community organisations across Australia and beyond. This year our dollar for dollar matched payroll giving resulted in a total contribution of more than \$1.4 million in donations to over 300 charities.

COMMUNITY IMPACT

> We use our technology, expertise, scale and presence to make a positive contribution to the community.



SEV AND SHIRL
AMBASSADORS FOR THE ILC NSW'S EVERYONE CONNECTS WORKSHOPS

WE REACHED

143000+
PEOPLE

THROUGH OUR EVERYONE
CONNECTED DIGITAL
LITERACY PROGRAMS

.....

This year our Executive Committee approved a new framework to guide our community investment approach in our international operations. Consistent with this, we established Telstra Foundation Philippines to deliver on Telstra's local community relations responsibilities. This is an important signal of our commitment to expand and maintain our market presence long term.

Digital Literacy

Being confident and literate with technology is an essential skill in the digital age. This year, our Everyone Connected digital literacy programs reached more than 143,000 people.

Our most significant digital literacy program this year, the Tech Savvy Seniors partnership with the New South Wales (NSW) Government, delivered training to around 17,000 seniors through 92 community colleges and local libraries, particularly in regional and remote areas of NSW. To extend the program's reach to as many seniors as possible, self-help DVDs were distributed to libraries and key community agencies. They cover subjects such as getting started with smartphones and tablets, social networking, and online banking and shopping.

Telstra Foundation

The Telstra Foundation's social innovation program works in partnership with community organisations. We invest in "tech for good" collaborations across Australia and look to the power of smart devices, social media, platforms and apps to champion social change and community connection.

This year we committed \$1.1 million to four new social innovation grants, including the Independent Living Centre NSW (pictured) where we explored how mobile and tablet technologies can be used to improve connectedness for people

with severe or profound communication disability. According to census data this affects 280,000 people in Australia. The project was delivered across metropolitan, regional and rural New South Wales in early 2014. It involved hands on workshops for people with communication challenges and the development of online resources to increase awareness of assistive technologies, including mainstream mobile and tablet technologies, accessories and accessibility options. Young people (aged 12 to 25) and adults who attended the workshops were able to trial a range of technologies including tablets, smart phones, software and apps – many for the first time.

COMMUNITY IMPACT

> We invested \$217 million in the community in FY14.

eSmart Libraries

In August 2012, we launched eSmart Libraries, a multi year, \$8 million partnership between the Telstra Foundation and The Alannah and Madeline Foundation. This world-leading cyber safety program is designed to better equip Australia's 1,500 public libraries to support library users with the skills they need for smart, safe and responsible use of technology. To date, more than a third of public libraries across Australia (approximately 500 libraries) have started the eSmart journey, exceeding our FY14 target of 260.

Indigenous Communities

This year, we announced a new \$5 million, multi year partnership with the National Centre of Indigenous Excellence (NCIE) to create an Indigenous Digital Excellence Initiative to develop platforms, apps, programs and events to improve community wellbeing. The partnership will support Aboriginal and Torres Strait Islander peoples to take their next digital step – whether it's enjoying the strength of connections

through purpose built online networks and apps or running an online business.

Disaster Relief and Recovery

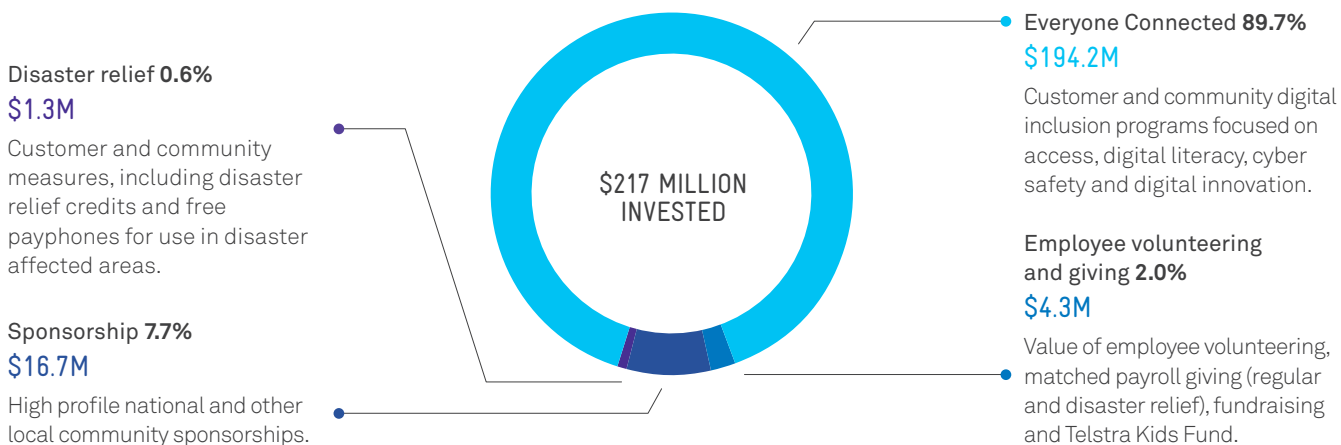
In times of natural disaster, our technicians are often among the first to enter affected areas. Our priorities include assisting emergency and essential services organisations with their telecommunications requirements and restoring services to our customers. Along with technical support, we provide telecommunications services such as temporary internet access and loan handsets to evacuation centres. We also support affected residential and small business customers through relief assistance packages.

In FY14, Telstra provided assistance following four natural disasters across Australia. We also improved the Emergency Alert System, the first of its kind in the world, to enable disaster warning messages to be sent to Telstra 4G handsets in areas covered by our 4G network. Since its introduction, location-based emergency alerts have been used almost 320 times,

and the system has successfully issued more than 1.3 million messages.

This year we also assisted almost 17,000 customers wishing to check on family and friends affected by Typhoon Haiyan in the Philippines. For two weeks, voice calls and SMS were provided free to the Philippines for Telstra fixed line and post-paid mobile customers and pre-paid customers were reimbursed. Telstra was the first telco worldwide to respond with an offer of this kind.

Breakdown of Social and Community Investment in FY14



ENVIRONMENTAL STEWARDSHIP

> Telstra's new Environment Strategy signals an important step change in our approach to environmental management.

WE ACHIEVED A REDUCTION OF **30 PER CENT** IN CARBON EMISSIONS INTENSITY

Environment Strategy

Telstra's new Environment Strategy signals an important step change in our approach to environmental management. It builds on and extends our existing programs to manage and minimise the environmental impacts across our value chain. It is focused on addressing the environmental issues that matter most to our stakeholders, and is aligned to Telstra's purpose and values. Specifically it focuses on:

- **Operational Excellence** – actively identifying and minimising material environmental impacts and operating costs.
- **Sustainable Supply Chain** – working with and influencing suppliers to manage and reduce the environmental and social impacts of their operations and of the products and services they provide to Telstra.
- **Environmental Customer Value Proposition (ECVP)** – embedding environmental considerations into the development of products and services.

The strategy was informed by a detailed identification and assessment of the material environmental risks and impacts of our operations, our products and services, and our supply chain.

Energy Efficiency and Carbon Emissions

Energy use in our networks is our most material environmental impact, accounting for around 86 per cent of our total carbon emissions (Scope 1, 2 and 3) in FY14. Large amounts of energy are required to power our network equipment and keep it at an optimum operating temperature. In FY14, Telstra used almost six million gigajoules of energy.

As data volumes continue to increase – 39 per cent in the 2014 financial year – we are improving the utilisation and efficiency of our network equipment. This year we achieved a 30 per cent decrease in carbon emissions intensity (tCO₂e per terabyte of data) from the previous year, surpassing our 15 per cent reduction target.

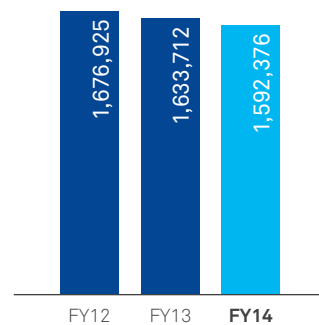
Consistent with our aspiration to become an Australian environmental leader, we have set a longer term target to reduce our carbon emissions intensity by 55 per cent over the three year period from FY15 to FY17, from a baseline year of FY14.

Total emissions (Scope 1, 2 and 3) have decreased 2.5 per cent over the reporting period as a result of a program of works to improve our carbon and energy efficiency as well as reduced emission factors published by the Federal Government. Emission factors were reduced due to changes in Australia's electricity generation mix, such as increased generation from renewable energy sources. The change in emission factors between FY13 and FY14 led to a decrease in our reported emissions of approximately 36,000 tCO₂e.

We are three years into a five year, \$41.3 million capital investment program aimed at improving energy efficiency and reducing the carbon intensity of our network and data centre facilities.

Total Carbon Emissions⁽ⁱ⁾ (Scope 1, 2 & 3)

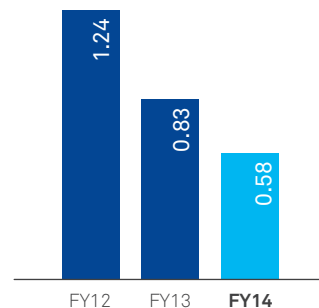
Tonnes of carbon dioxide equivalent (tCO₂e)



(i) Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships. Sensis Group has been included from 1 July 2013 until 28 February 2014.

Carbon Emissions Intensity⁽ⁱⁱ⁾

Tonnes of carbon dioxide equivalent per terabyte (tCO₂e/TB)



(ii) Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships. Sensis Group has been included from 1 July 2013 until 28 February 2014.

ENVIRONMENTAL STEWARDSHIP

> We are committed to minimising our environmental impacts and working with our customers to achieve better environmental outcomes.

We have spent \$29 million to date, including \$6 million in FY14, on initiatives that will deliver positive net present value outcomes. Projects are focused on delivering energy efficient air conditioning solutions, decommissioning old and redundant equipment and integrating energy efficiency measures into existing capital work projects. A further \$6 million is committed for next financial year. Collectively, the initiatives completed in FY14 have reduced carbon emissions by 36,824 tCO₂e and saved over 35,000MWh of electricity consumption in FY14.

Thought Leadership

We believe that the information and communications technology (ICT) sector is in an ideal position to support government, businesses and consumers to reduce their energy consumption, leading to considerable cost savings and reduced greenhouse gas emissions. To explore this potential, this year we released a report, *Connecting with a Low Carbon Future*, that examines the role of technology in unlocking the benefits of a low carbon economy.

Building on the findings from our 2007 Climate Risk report, *Connecting with a Low Carbon Future* found that if ICT opportunities such as remote appliance power management, decentralised working and real time fleet management are realised, they could help Australians to achieve cost savings of almost \$8.1 billion per year while cutting national carbon emissions by 4.7 per cent.

Paper Use – Directories

Yellow Pages* and White Pages* (print and online) have received carbon neutral certification through Low Carbon Australia since February 2010. We offset our FY13 emissions by purchasing, in December



GAVIN KNIGHT AND ANTHONY QUAYLE, TELSTRA OPERATIONS GREENSBOROUGH EXCHANGE, MELBOURNE

2013, 54,009 tonnes of offsets from three carbon reduction projects located in India and China.

In February 2014, we sold a 70 per cent stake in our Sensis directories business. Sensis will continue to produce and distribute the White Pages for Telstra.

Office, Billing and Printing Paper

We reduced our total paper usage by more than 15 per cent this year due to our focus on producing online and digital content. Paper used to print bills continues to reduce as more customers opt for online billing and a greater proportion of online advertising has reduced our need to print information flyers and brochures. Our “follow me” printing initiative continues to be rolled out across our largest corporate offices. This initiative enables employees to

print from almost any device, using their building access cards to activate printing and has led to a 12 per cent reduction in office paper use.

E-waste

E-waste is an important element of Telstra’s Environment Strategy. We collected 1,978 tonnes of e-waste this year, including 15 tonnes from a waste management initiative in our commercial offices and buildings. We also assist our customers to deal more effectively with e-waste. Throughout FY14 we collected 15.3 tonnes of mobile phones and accessories from Telstra retail stores, offices and repair centres through the MobileMuster program, a nine per cent increase in collections for the year.

BOARD OF DIRECTORS



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

Ms Livingstone has been a non-executive Director since November 2000, was appointed as Chairman in May 2009 and was last re-elected in 2011. She is Chairman of the Nomination Committee and a member of the Audit & Risk Committee and the Remuneration Committee. Ms Livingstone is a Chartered Accountant and has held several finance and general management roles primarily in the medical devices sector.

Ms Livingstone was the Chief Executive of Cochlear Limited from 1994 to 2000. She was Chairman of CSIRO from 2001 to 2006 and has also served on the boards of Goodman Fielder Limited and Rural Press Limited. In 2008, Ms Livingstone was appointed an Officer of the Order of Australia for service to the development of Australian science, technology and innovation policies

to the business sector. In 2014, Ms Livingstone was appointed President of the Business Council of Australia.

Other listed company directorships in the past three years:

Director, WorleyParsons Limited (from 2007), Macquarie Bank Limited (2003-2013) and Macquarie Group Limited (2007-2013).

Other directorships/appointments:

President, Business Council of Australia (from 2014) and President, Australian Museum Trust (from 2012); Member, Advisory Board for the John Grill Centre for Project Leadership at University of Sydney (from 2013); Director, The George Institute for Global Health (from 2012) and Saluda Medical Pty Ltd (from 2013).



David I Thodey
BA, FAICD

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

Mr Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobiles and in December 2002 was appointed as Group Managing Director Telstra Enterprise and Government where he was responsible for the Company's corporate, government and large business customers in Australia, TelstraClear in New Zealand and Telstra's International sales division. Before joining Telstra, Mr Thodey was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive positions in marketing and sales with

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

In January 2013, Mr Thodey joined the Board of the GSM Association, the global body made up of carriers and related companies that supports the standardisation and deployment of mobile technology around the world. He is also co-chair of the Infrastructure and Investment Taskforce of the Australian B20 leadership group – the business advisory forum of the G20.



Geoffrey A Cousins AM

Mr Cousins has been a non-executive Director since November 2006 and was last re-elected in 2012. He is a member of the Nomination Committee and the Remuneration Committee. Mr Cousins has more than 26 years' experience as a company director. Previously Chairman of George Patterson Australia, he is also 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.

In 2014, Mr Cousins was appointed a Member of the Order of Australia for significant services to the community and to the visual and performing arts.

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

Other directorships/appointments:

Chairman, St James Ethics Foundation (from 2010).



Russell A Higgins AO
BEC, FAICD

Mr Higgins has been a non-executive Director since September 2009 and was last re-elected in 2012. He is a member of the Audit & Risk Committee. Mr Higgins is an experienced company director who has worked at very senior levels of both government and private sectors. He has served on the boards of a wide range of listed companies, private companies, government business enterprises and international organisations, including as Chairman of the Snowy Mountains Hydro Electric Scheme and the Global Carbon Capture and Storage Institute. From 2003 to 2004, he was Chairman of the then Prime Minister's Energy Task Force and prior

to that he was Secretary of the Department of Industry, Science and Resources.

Other listed company directorships in the past three years:

Director, APA Group (from 2004), Argo Investments Limited (from 2011), Leighton Holdings Limited (2013-2014) and Ricegrowers Limited (SunRice) (2005-2012).

Other directorships/appointments:

Director, St. James Ethics Foundation (from 2010).



Chin Hu Lim
B Applied Science, Dip EEE

Mr Lim was appointed as a non-executive Director on 9 August 2013 and elected in October 2013.

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

Packard in the 1980s.

Other listed company directorships in the past three years:

Kulicke & Soffa Industries Inc (NASDAQ: KLIC) (from 2011).

Other directorships/appointments:

Director, Heliconia Capital Management Pte Ltd (from 2014), Citibank Singapore Ltd (from 2013), G-Able (Thailand) Ltd (from 2011) and Changi General Hospital & Integrated Health Information Systems (from 2009); Fellow and Council member of Singapore Institute of Directors (from 2012) and Infocomm Development Authority – Personal Data Protection Advisory Committee (from 2013).

BOARD OF DIRECTORS



John P Mullen

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

Mr Mullen is the Managing Director and Chief Executive Officer of Asciano Ltd and has served in that role since 2011. He has worked for over two decades in a multitude of senior positions with different multinationals including 10 years with the TNT Group, two years of those as its Chief Operating Officer. From 1991 to 1994, he held the position of Chief Executive Officer of TNT Express Worldwide. Mr Mullen joined Deutsche Post World Net (DPWN) as an Advisor in 1994, becoming Chief Executive Officer of DHL

Express Asia Pacific in 2002 and Joint Chief Executive Officer, DHL Express, in 2005. Mr Mullen was Global Chief Executive Officer, DHL Express, from 2006 to 2009.

Other listed company directorships in the past three years:

Director, Asciano Ltd (from 2011), Brambles Limited (2009-2011), Embarq Corporation USA (2006-2009) and MAp Airports Limited (2010-2011).

Other directorships/appointments:

Member, Australian Graduate School of Management (from 2005).



Nora L Scheinkestel
LLB(Hons), PhD, FAICD

Dr Scheinkestel has been a non-executive Director since August 2010 and was last re-elected in 2013. She is Chairman of the Audit & Risk Committee.

Dr Scheinkestel is an experienced company director with a background as a senior banking executive in international and project financing. She currently consults to government, corporate and institutional clients in areas such as corporate governance, strategy and finance. She is also an Associate Professor in the Melbourne Business School at Melbourne University and is a member of the Takeovers Panel. Dr Scheinkestel has held a number of roles in the utility sector, including Chairman and non-executive director of Victorian and national water and energy companies. She has also

served on a range of public and private sector boards including, more recently, AMP Limited and its funds management and banking subsidiaries, Mayne Group Limited and Mayne Pharma Limited, Medical Benefits Fund of Australia Ltd, Newcrest Mining Limited and North Limited. In 2003, Dr Scheinkestel was awarded a centenary medal for services to Australian society in business leadership.

Other listed company directorships in the past three years:

Director, Insurance Australia Group Limited (from 2013), Orica Limited (from 2006), Pacific Brands Limited (2009-2013) and AMP Limited (2003-2013).



Margaret L Seale
BA, FAICD

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

Ms Seale has over 20 years experience in senior executive roles in Australia and overseas, including in global publishing and the transition of traditional business models to adapt and thrive in a digital environment, as well as sales and marketing. Most recently she was Managing Director of Random House, Australia (with managerial responsibility for Random House New Zealand) and President, Asia Development for Random House Inc, the global company. Previously, she was Chief Executive Officer for The Macquarie

Dictionary and Lansdowne Publishing, from 1997 to 1999. Ms Seale was the Chief Executive Officer of the Juvenile Diabetes Research Foundation from 1994 to 1997. She also served on the boards of the Australian Publishers Association and the Powerhouse Museum, and on the Council of Chief Executive Women, chairing its Scholarship Committee from 2011 to 2012.

Other listed company directorships in the past three years:

Director, Bank of Queensland Limited (from 2014).

Other directorships/appointments:

Director, Random House Australia, New Zealand (from 2001).



Steven M Vamos
BEng (Hons)

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

Mr Vamos has over 30 years experience in the information technology, internet and online media industry. He led Microsoft Australia and New Zealand from 2003 to January 2007 before moving to the United States to become the company's online business head of worldwide sales and international operations. Previously, he was Chief Executive Officer of ninemsn. Mr Vamos also worked for Apple Computer in the 1990s after spending 14 years in senior management

roles at IBM Australia. He is the founding President of the Society for Knowledge Economics (SKE), a not-for-profit think tank that encourages new and better practices in leadership and management.

Other listed company directorships in the past three years:

Director, David Jones (2012-2014).

Other directorships/appointments:

President, Society for Knowledge Economics (from 2005); Director, Reading Room, Inc (from 2013), BDB Soti Pty Ltd (from 2012) and eGeneration Investments Pty Limited (from 1999). Former-Director, Medibank Private Limited (2011-2014).



John D Zeglis
BSc Finance, JD Law

Mr Zeglis has been a non-executive Director since May 2006 and was last re-elected in 2012.

Mr Zeglis has had a long and distinguished career in the US telecommunications sector. He joined AT&T in 1984, and was elected its President in 1998 and Chairman and Chief Executive Officer of the AT&T Wireless Group in 1999. He continued as CEO of AT&T Wireless until retiring in November 2004 following the company's sale to Cingular Wireless. He has also served on the boards of Georgia Pacific Corporation, Illinois Power Company and Sara Lee Corporation.

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

Other listed company directorships in the past three years:

Director, Helmerich & Payne Corporation (from 1989).

Other directorships/appointments:

Director, The Duchossois Group (from 2011) and State Farm Automobile Insurance (from 2004).

SENIOR MANAGEMENT TEAM



David I Thodey
Chief Executive Officer

Mr Thodey became Chief Executive Officer in May 2009.



Gordon Ballantyne
Group Executive,
Telstra Retail

Telstra Retail brings together Telstra's core domestic activities, covering consumer, business, sales and marketing, fixed and mobiles, our National Broadband Network and media products, and our eHealth function.



Timothy Chen
President,
Telstra International

Mr Chen's role is focused on key relationships and identifying significant growth opportunities throughout Asia, with a particular emphasis on Greater China.



Tracey Gavagan
Group Executive,
Human Resources

Human Resources is responsible for organisational effectiveness and capability; talent, leadership and succession management; people and culture initiatives; health, safety and environment, workplace relations and all employment and remuneration policies and practices that work towards making Telstra a great place to work and its people a source of competitive advantage.



Stuart Lee
Group Executive,
Telstra Wholesale

Telstra Wholesale is responsible for the provision of a wide range of products and services delivered over Telstra networks to non Telstra branded service providers and NBN Co. Telstra Wholesale also buys services from NBN Co and other carriers on behalf of the company.



Kate McKenzie
Chief Operations Officer,
Telstra Operations

Telstra Operations is responsible for the planning, design, engineering, construction, operation, maintenance and restoration of Telstra's networks. The group is also responsible for information technology and the company's innovation portfolio.



Carmel Mulhern
Group General Counsel,
Telstra Legal Services

Telstra Legal Services provides operational and strategic legal support and advice to the Board and across the company, including on corporate governance and compliance, contracts, consumer law, mergers and acquisitions, regulatory issues and dispute resolution.



Robert Nason
Group Executive,
Business Support and Improvement

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



Andrew Penn
Chief Financial Officer
and Group Executive, International

Finance and Strategy is responsible for corporate planning and strategy, accounting and administration, treasury, risk management and assurance, corporate security, investor relations, and mergers and acquisitions. International is responsible for development of Telstra operations and activities outside of Australia.



Brendon Riley
Group Executive,
Global Enterprise and Services

Global Enterprise and Services brings together a number of rapidly growing portfolio areas and operates as a global-scale, industry-based services and solutions business.



Tony Warren
Group Executive,
Corporate Affairs

Corporate Affairs is responsible for Telstra's communications, government relations, regulatory affairs, sustainability (including the Telstra Foundation) and negotiating changes to Telstra's agreements with NBN Co and the Commonwealth as a result of changes to government policy.

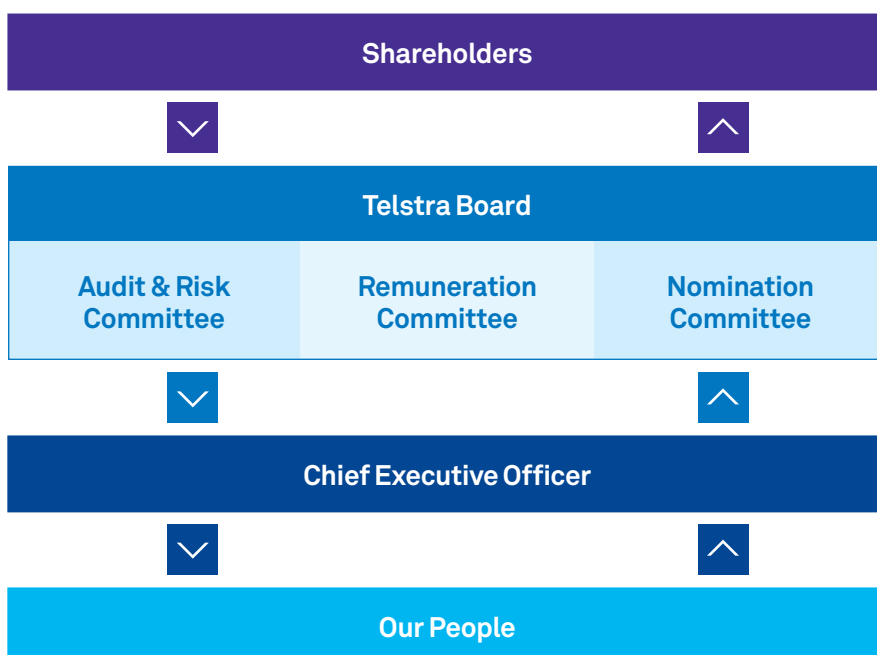
GOVERNANCE AT TELSTRA

We are committed to excellence in corporate governance, transparency and accountability. This is essential for the long term performance and sustainability of our Company, and to protect and enhance the interests of our shareholders and other stakeholders.

Our governance framework plays an integral role in supporting our business and helping us deliver on our strategy. It provides the structure through which our strategy and business objectives are set, our performance is monitored, and the risks we face are managed. It includes a clear framework for decision making and accountability across our business and provides guidance on the standards of behaviour we expect of our people.

We regularly review our governance arrangements as well as developments in market practice, expectations and regulation. We have decided to early-adopt the third edition of the ASX Corporate Governance Principles and Recommendations and have reviewed and updated our governance and reporting practices to reflect this.

This section outlines some of the more significant aspects of governance at Telstra. Our full corporate governance statement is available on our website at www.telstra.com/governance. We discuss our approach to risk management and assurance at Telstra in the Strategy and Performance (Managing our risks) section of this Annual Report, and diversity and inclusion in the Sustainability (Our people) section.



Our governance framework includes:

- Open, clear and timely communications with our shareholders
- A skilled, experienced, diverse and independent Board, with a Board Committee structure suited to our needs
- Clear delegation, decision making and accountability frameworks
- Robust systems of risk management and assurance
- Telstra Values, Code of Conduct and policy framework providing guidance on the standards of behaviour we expect of our people, to help us deliver on our purpose and achieve our strategy.

GOVERNANCE AT TELSTRA

Engaging with our Shareholders

We are committed to open, clear and timely communications with our shareholders and investors about matters affecting the value of their investment in Telstra. We also recognise the importance of meeting our continuous disclosure and other legal obligations to the market.

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

We have implemented a program to promote effective communication with our shareholders and investors, and to encourage participation at our shareholder meetings. We webcast important events such as our financial results briefings, our annual general meeting and other investor events discussing the performance and strategy for different parts of our business. We also host, around Australia, a series of retail shareholder information briefings with the CEO and/or CFO prior to our AGM.

The Board

The Board is responsible for managing Telstra's business, and is accountable to shareholders in performing that role. The Board's key responsibilities include approving our strategy and corporate plan and monitoring the implementation of our strategy and performance against the corporate plan. The Board also monitors and influences our culture, reputation, ethical standards and legal compliance.

Decision making authority on a number of significant matters is reserved to the Board. Outside of those areas, the CEO is responsible for the day-to-

day management of Telstra. The CEO, together with the senior management team, is responsible to the Board for the development and implementation of our strategy and the overall management and performance of our Company.

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

Our process for the selection, nomination and appointment of Directors involves a formal selection process undertaken by the Board, and an executive search firm is generally engaged to assist in the process. As part of this process, the Board establishes criteria about the general qualifications and experience, as well as the specific qualifications, that a candidate should possess. We also undertake appropriate checks on any potential candidates before a person is appointed by the Board or put forward to shareholders as a candidate for election as a Director.

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

The Board also recognises the important contribution that independent Directors make to good corporate governance. The Board intends that the CEO is the only executive Director and that all

non-executive Directors should also be independent Directors. All Directors, whether independent or not, are required to act in the best interests of Telstra and to exercise unfettered and independent judgement.

There are currently ten Directors on the Board, comprising nine non-executive Directors and the CEO. With the exception of the CEO, all Directors are non-executive Directors and have been determined by the Board to be independent. Details of the Directors can be found in the Board of Directors section of this report.

During FY14, one new non-executive Director, Mr Chin Hu Lim, was appointed to the Board. The Board determined that it would benefit from additional deep experience in Asia, and in network applications. Following an extensive formal search process, Mr Lim was identified as a candidate with the required skills and experience. He was appointed to the Board in August 2013 and was elected by shareholders at our 2013 AGM.

GOVERNANCE AT TELSTRA

Board Committees

There are three standing Committees that assist the Board in carrying out its responsibilities:

| Audit & Risk Committee | Remuneration Committee | Nomination Committee |
|---|--|---|
| <ul style="list-style-type: none"> Monitors and advises on matters relating to financial reporting, risk management, compliance, external audit, internal control, internal audit, corporate governance and matters that may significantly impact the financial condition or affairs of the business Oversees Telstra's compliance with its Structural Separation Undertaking (SSU) and the activities of the Director of Equivalence Oversees our relationship with our external auditor, Ernst & Young, including reviewing and assessing their performance, independence and objectivity Provides a forum for communication between the Board, management and both the internal and external auditors Provides a conduit to the Board for external advice on audit, risk management and compliance matters. | <p>Monitors and advises on matters relating to:</p> <ul style="list-style-type: none"> remuneration of the Board, CEO and Company Secretary performance and remuneration of senior management remuneration strategies, practices and disclosures generally (including non-routine remuneration arrangements) work health and safety diversity (excluding Board diversity) employee equity plans management succession, capability and talent development. <p>Exercises the administrative powers delegated to it by the Board under Telstra's equity plans.</p> | <p>Monitors and advises on matters relating to:</p> <ul style="list-style-type: none"> composition and performance of the Board, including Board diversity Director independence appointment of the CEO and succession planning for this role CEO and Company Secretary performance outside directorship requests from executives in relation to publicly listed companies or managers of listed managed investment schemes. |
| <ul style="list-style-type: none"> Only independent, non-executive Directors can serve on these Committees The Board appoints the members and the Chairman of each Committee Following each Committee meeting, the Board receives a report from that Committee on its deliberations, conclusions and recommendations. | | |
| Membership as at 30 June 2014 | | |
| <p>Nora Scheinkestel (Chairman) Catherine Livingstone Russell Higgins Margaret Seale</p> | <p>John Mullen (Chairman) Catherine Livingstone Geoffrey Cousins Steven Vamos</p> | <p>Catherine Livingstone (Chairman) Geoffrey Cousins John Mullen Steven Vamos</p> |

GOVERNANCE AT TELSTRA

> Our Purpose Why we exist

Acting Ethically and Responsibly

Our purpose is to create a brilliant connected future for everyone. Our Telstra Values, together with our Telstra Group Code of Conduct and policy framework, define the standards of behaviour we expect of our people and will help us deliver on our purpose and achieve our strategy.

Our Telstra Values

At Telstra, we have five core values.

1. Show you care
2. Better together
3. Trust each other to deliver
4. Make the complex simple
5. Find your courage

Our values express what we stand for and guide the way we do things. Our values are core to our business and we align everything we do with them.

Our Code of Conduct and Policy Framework

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

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

Our People and Our Community

Health and Safety – recognising our commitment to the health, safety and

> Our Values What we stand for How we do things

wellbeing of our staff, contractors and community. This highlights the importance of workplace health and safety and sets out the priority, accountability, measurement and our commitment to compliance for health and safety at Telstra.

Diversity – setting out our strategy and principles in relation to diversity. This provides the framework for the establishment of our diversity measurable objectives, and monitoring and reporting on diversity matters across Telstra.

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

Sustainability – seeking to manage our business to produce an overall positive impact on our customers, employees, shareholders, the wider community and other stakeholders, while minimising our environmental impacts.

Our Customers

Privacy – setting out our commitment to the protection of our customers' personal information. This outlines how we protect customer personal information, how and why we collect it, how we may use and disclose it, how we keep it secure and accurate, and how customers may access their personal information.

Good corporate governance and responsible business practice

Anti-Bribery and Anti-Corruption – aiming to ensure we comply with applicable anti-bribery and anti-corruption laws. We also seek to ensure that gifts, prizes and hospitality are not accepted in inappropriate circumstances, including where acceptance may (or may be perceived to) compromise independence or be construed as a bribe.

> Our Strategy Where we are going What we are going to do

Conflicts of Interest and Outside

Activities – assisting our employees and contractors to understand what we consider to be a conflict of interest and how to avoid actual, potential or apparent conflicts of interest.

Whistleblowing – providing an avenue for anyone to report suspected unethical, illegal or improper behaviour. Our whistleblowing process is supported by an independent service provider and all disclosures are treated confidentially and can be made anonymously.

Securities Trading – setting out the rules and restrictions relating to buying, selling and otherwise dealing in Telstra securities by our Directors, CEO, senior management, specified other employees and their closely related parties, through a trading windows approach.

Market Disclosure – outlining responsibilities and the process for the approval of our ASX announcements, including where Board approval is required, as well as the role of our CEO, CFO and Continuous Disclosure Committee in relation to disclosure matters. We aim to ensure that we provide our shareholders, investors and the financial community with appropriate and timely information while ensuring that we fulfil our statutory reporting obligations under the Corporations Act and the ASX Listing Rules.

Telstra's 3Rs of Social Media Engagement (Representation, Responsibility and Respect)

– providing guidance to employees and contractors who use social media, either as part of their job or in a personal capacity, about our expectations when they talk online about us, our products and services, our people, our competitors and/or other business related individuals or organisations.

DIRECTORS' REPORT

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited (Telstra) and the entities it controlled at the end of, or during the year ended, 30 June 2014. Financial comparisons used in this report are of results for the year ended 30 June 2014 compared with the year ended 30 June 2013.

The historical financial information included in this Directors' Report has been extracted from the audited Financial Report on pages 65 to 195 of the Annual Report accompanying this Directors' Report.

Principal activity

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

Review and results of operations

Information on the operations and financial position for the Telstra Group is set out in our Operating and Financial Review (OFR), consisting of Our Business, Key Highlights, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review from the inside cover to page 21 of this Annual Report.

Dividends

On 14 August 2014, the Directors resolved to pay a final fully franked dividend of 15.0 cents per ordinary share (\$1,866 million), bringing dividends per share for financial year 2014 to 29.5 cents per share. The record date for the final dividend will be 29 August 2014, with payment being made on 26 September 2014. Shares will trade excluding entitlement to the dividend on 27 August 2014.

Dividends paid during the year were as follows:

| Dividend | Date resolved | Date paid | Fully franked dividend per share | Total dividend (\$ million) |
|--|---------------|---------------|----------------------------------|-----------------------------|
| Final dividend for the year ended 30 June 2013 | 8 Aug 2013 | 20 Sep 2013 | 14 cents | 1,742 |
| Interim dividend for the year ended 30 June 2014 | 13 Feb 2014 | 28 March 2014 | 14.5 cents | 1,803 |

Capital management

On 14 August 2014, our Board resolved to undertake an off market share buy-back of up to approximately \$1 billion. The share buy-back will be available to eligible shareholders and implemented by way of a tender process and at a discount to market price. The shares bought back will be cancelled by the Company, reducing the number of shares the Company has on issue. The buy-back will be funded by accumulated cash surplus in the Company and will be made up of a capital and a dividend component. The dividend component will be fully franked and our estimate of the decrease in franking credits is \$243 million, based on the assumption of Telstra's ASX listed share price of \$5.30, buy-back discount of 10% and a non-resident shareholding of 21.8%.

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 2014.

DIRECTORS' REPORT

Business strategies, prospects and likely developments

The OFR sets out information on the business strategies and prospects for future financial years, and refers to likely developments in Telstra's operations and the expected results of those operations in future financial years (see Our Business, Key Highlights, Chairman and CEO Message, Strategy and Performance and Full Year Results and Operations Review from the inside cover to page 21 of this Annual Report). Information in the OFR is provided to enable shareholders to make informed assessment about the business strategies and prospects for future financial years of the Telstra Group. Detail that could give rise to likely material detriment to Telstra (for example, information that is commercially sensitive, is confidential or could give a third party a commercial advantage) has not been included. Other than the information set out in the OFR, information about other likely developments in Telstra's operations and the expected results of these operations in future financial years has not been included.

Events occurring after the end of the financial year

Apart from the final dividend for financial year 2014 and the share buy-back, the Directors are not aware of any matter or circumstance that has arisen since the end of the financial year, that, in their opinion, has significantly affected, or may significantly affect in future years, Telstra's operations, the results of those operations or the state of Telstra's affairs.

Details of Directors and executives

The only change to the Directors of Telstra Corporation Limited during the financial year and up to the date of this report was:

- Chin Hu Lim was appointed as a non-executive Director effective 9 August 2013.

With effect from 15 August 2014 Peter Hearl will be appointed as a non-executive Director. Mr Hearl will stand for election at Telstra's Annual General Meeting in Brisbane on 14 October 2014.

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

- names of our current Directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given in Board of Directors on pages 32 to 33 of this Annual Report
- details of Director and senior executive remuneration are set out in the Remuneration Report on pages 44 to 63 and forms part of this Directors' Report.

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

Directors' shareholdings in Telstra

As at 14 August 2014:

| Director | Number of shares held ⁽¹⁾ |
|-------------------------|--------------------------------------|
| Catherine B Livingstone | 160,000 |
| David I Thodey | 3,318,603 |
| Geoffrey A Cousins | 101,765 |
| Russell A Higgins | 88,404 |
| Chin Hu Lim | - |
| John P Mullen | 26,159 |
| Nora L Scheinkestel | 71,765 |
| Margaret L Seale | 30,000 |
| Steven M Vamos | 40,000 |
| John D Zeglis | 103,993 |

- (1) The number of shares held refers to shares held either directly or indirectly by Directors as at 14 August 2014. Shares in which the Director does not have a relevant interest, including shares held by the Directors' related parties (including relatives), are excluded. Refer to the Remuneration Report (Table 5.8) for total shares held by Directors, representing those shares held directly, indirectly and beneficially as at 30 June 2014.

DIRECTORS' REPORT

Board and Committee meeting attendance

Details of the number of meetings held by the Board and its Committees during financial year 2014, and attendance by Board members, are set out below:

| | Board | | Committees ⁽¹⁾ | | | | | |
|--|-------|----|---------------------------|-----|------------|-----|--------------|-----|
| | a | b | Audit and Risk | | Nomination | | Remuneration | |
| | | | a | b | a | b | a | b |
| C B Livingstone | 14 | 14 | 6 | 6 | 7 | 7 | 6 | 6 |
| D I Thodey | 14 | 14 | - | (6) | - | - | - | (6) |
| G A Cousins | 14 | 14 | - | - | 7 | 7 | 6 | 6 |
| R A Higgins | 14 | 14 | 6 | 6 | - | (6) | - | - |
| C H Lim ⁽²⁾ | 12 | 11 | - | - | - | (4) | - | - |
| J P Mullen | 14 | 14 | - | - | 7 | 7 | 6 | 6 |
| N L Scheinkestel | 14 | 14 | 6 | 6 | - | (6) | - | - |
| M L Seale | 14 | 14 | 6 | 6 | - | (6) | - | - |
| S M Vamos | 14 | 14 | - | (1) | 7 | 6 | 6 | 5 |
| J D Zeglis | 14 | 14 | - | (1) | - | (6) | - | - |
| Total number of meetings held during the year | 14 | | 6 | | 7 | | 6 | |

Column a: number of meetings held while a member.

Column b: number of meetings attended.

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

(2) Appointed as non-executive Director effective 9 August 2013.

Company Secretary

Damien Coleman B Ec, LLB (Hons), FCIS

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

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

Directors' and officers' indemnity

Constitution

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

DIRECTORS' REPORT

Deeds of indemnity in favour of directors, officers and employees

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

- Directors of Telstra (including past Directors)
- secretaries and senior managers of Telstra, secretaries and senior managers of Telstra's wholly owned subsidiaries (other than Telstra Super Pty Ltd)
- directors, secretaries and senior managers of a related body corporate of Telstra (other than a wholly owned subsidiary) while the director, secretary or senior manager was also an employee of Telstra or a director or employee of a wholly owned subsidiary of Telstra (other than Telstra Super Pty Ltd)
- the officers listed above (other than Telstra Directors) and certain employees of Telstra or a related body corporate of Telstra who are appointed as directors or secretaries of a company which is not a related body corporate of Telstra, at the request of Telstra
- certain employees of non-wholly owned subsidiaries of Telstra who are appointed as directors of such non-wholly owned subsidiaries at the request of Telstra.

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

Additionally, Telstra has executed an indemnity in favour of employees (including officers other than Directors) in respect of certain liabilities incurred in the formulation of, or entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cth)). This indemnity is provided as permitted under Telstra's constitution and the Corporations Act 2001. Although all Telstra Sale Schemes conducted by the Commonwealth Government have been completed, the indemnity will remain in place while it is possible for claims to arise under a Telstra Sale Scheme.

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

Directors' and officers' insurance

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

Environmental regulation and performance

Information on Telstra's environmental and sustainability performance is included in the Sustainability section on pages 22 to 31 of this Annual Report and on the Telstra website.

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

Telstra has not been prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year. During 2013, Telstra received several prohibition and improvement notices from Comcare in relation to issues arising from Telstra's management of asbestos after a number of incidents involving subcontractors failing to meet Telstra's minimum standards. In response, we implemented improvements to our asbestos management procedures, including requiring all contractors to complete new training before they can work on our network, the appointment of additional supervisors to monitor worksites, and co-operating with Comcare in its investigation into the matter, which investigation is now closed.

In Australia, Telstra is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The National Greenhouse and Energy Reporting Act 2007 requires Telstra to report its annual Australian greenhouse gas emissions, energy consumption and energy production. Telstra has implemented systems and processes for the collection and reporting of data and has, in accordance with our obligations, reported to the Clean Energy Regulator on an annual basis. The next report is due on 31 October 2014 and will again be supported with an independent assurance audit to a reasonable assurance standard.

The Energy Efficiency Opportunities Act 2006 requires Telstra to assess its energy usage in Australia, including the identification, investigation and evaluation of energy-saving opportunities, and to report publicly the outcomes of all implementation decisions. Telstra completed its first five year cycle in 2011, and has transitioned into the second five year cycle with the Assessment and Reporting Schedule approved in June 2013. Telstra's 2013 Energy Efficiency Opportunities Report was made available to the public in December 2013 and is available on our website.

DIRECTORS' REPORT

Non-audit services

During financial year 2014, Telstra's auditor, Ernst & Young (EY), has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to EY for audit and non-audit services provided during the year are detailed in note 8 to the financial statements.

The Directors are satisfied that the provision of non-audit services during financial year 2014 is consistent with the general standard of independence for auditors imposed by the Corporations Act 2001 (the Act) and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all recurring audit engagements are approved by the Audit and Risk Committee each year through the Audit and Risk Committee's approval of the annual audit plan
- additional audit and non-audit services up to \$100,000 require approval from the Chief Financial Officer
- additional audit and non-audit services between \$100,000 and \$250,000 require approval from the Chairman of the Audit and Risk Committee and services greater than \$250,000 require approval from the Audit and Risk Committee
- where the nature or scope of an external engagement changes such that the prior approval obtained is insufficient, subsequent approval from the Chief Financial Officer must be obtained for the revised engagement as shown in the table below. Where the change is not covered in the following table, approval of the revised engagement must be obtained in accordance with the approval levels described above.

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

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

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

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

A copy of the auditor's independence declaration is set out in the Auditor's Independence Declaration to the Directors of Telstra Corporation Limited on page 64 and forms part of this report.

REMUNERATION REPORT

This report sets out the remuneration arrangements for Directors and other Key Management Personnel (KMP) of the Telstra Group for the year ended 30 June 2014 (FY14), and is prepared in accordance with section 300A of the Corporations Act 2001 (Corporations Act). The information in this report has been audited as required by section 308(3C) of the Corporations Act.

The report is presented in five sections:

| Section | What it covers | Page |
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REMUNERATION REPORT

1. REMUNERATION SNAPSHOT

1.1 Key points

Telstra performed strongly again in FY14, delivering growth in financial results and achieving a Total Shareholder Return (TSR) of approximately 15.2 per cent, following two consecutive years with TSR growth of approximately 37%. These results were underpinned by progress against our key strategic priorities, including continued growth in customer numbers and improvements in customer service and productivity, and serve to reinforce Telstra's position as a leading telecommunications and technology company.

Remuneration outcomes in FY14 were consistent with the company's positive performance against financial objectives and although we did not achieve the customer advocacy targets we set, we still improved in a number of areas. The governance of these outcomes remains a key focus of the Board and Remuneration Committee, and we regularly review our policies to ensure that remuneration for our executives continues to be aligned with company performance.

The structure and layout of this year's report is similar to the FY13 report.

Highlights for the FY14 year include:

| | |
|---|--|
| Total Shareholder Return of 15.2% | Telstra's share price continued to rise in FY14, and with a full year dividend payment of 28.5c we delivered a total shareholder return of 15.2 per cent over the financial year. |
| Chief Executive Officer (CEO) Remuneration | The CEO's Fixed Remuneration (FR) was not increased during FY14 as his FR of \$2,650,000 is close to the median of the ASX20 CEO positions. Total reported remuneration for the CEO in Table 5.1 decreased from \$8.8m to \$8.2m, primarily due to a lower STI outcome in FY14. |
| Short Term Incentive Outcomes | The STI outcome for Senior Executives was an average of 53.6 per cent of the maximum opportunity based on the assessment of financial, customer and individual performance. This outcome reflects Telstra's strong financial performance but also that we did not achieve our customer advocacy targets. |
| Long Term Incentive Outcomes | For the FY12 LTI Plan, 78.15 per cent of Performance Rights vested in the form of Restricted Shares as a result of top quartile performance in TSR relative to a peer group of global competitors and above target performance on Free Cashflow Return On Investment (FCF ROI) measured over the three year performance period. These shares are subject to a further Restriction Period ending August 2015. |
| Non-executive Director Remuneration | There was no increase in Board or Committee fees in FY14. |

1.2 Changes during FY14

The overall structure and philosophy of Telstra's approach to remuneration remained consistent throughout FY14, however there were some changes to the organisation structure and Senior Executive roles. We made some position title changes during the year, a number of roles that were previously referred to as Group Managing Directors (GMD) are now Group Executives (GE). We have also made some adjustments to aspects of our remuneration framework and practices to further align with company strategy and enhance remuneration governance. These changes were:

Structural changes

GE Global Enterprise & Services (GES): Brendon Riley was appointed as GE on 28 October 2013 of a newly created business unit that operates a global, industry-based services and solutions business to support the rapid growth in key portfolio areas in the global market that is part of Telstra's strategy. This business unit incorporates Network Applications and Services (NAS), Telstra Enterprise and Government (TEG) and Telstra Global (TG).

Chief Operations Officer (COO): Kate McKenzie was appointed as COO on 28 October 2013. The COO portfolio now includes the Chief Technology Office and innovation portfolios to better integrate technology development and implementation. Telstra Operations will lead Telstra's ongoing technical excellence across fixed and mobile networks. As a result of Ms McKenzie's appointment, her fixed remuneration was increased from \$1,040,000 to \$1,200,000 effective 1 March 2014 to reflect the increase in scope.

GE Telstra Retail: Gordon Ballantyne's position of Chief Customer Officer (CCO) changed to GE Telstra Retail effective 28 October 2013. His portfolio no longer contains TEG but incorporates the Products, Marketing and Media portfolios.

Chief Financial Officer (CFO) and GE International: Andrew Penn's portfolio was expanded effective 7 May 2014 to assume responsibility for our International operations to further support Telstra's strategy for growth in Asia.

Sale of the Sensis advertising and directories business: following the completion of the sale of our 70 per cent interest in the Sensis advertising and directories business to Platinum Equity Group, the responsibilities of the GE Telstra Media were significantly reduced and the role is no longer part of our structure. Rick Ellis left Telstra on completion of the sale as the role became redundant.

REMUNERATION REPORT

Remuneration Policy enhancements

Diversity and values: the Board reviewed Telstra's remuneration philosophy and principles to ensure they remained aligned to our strategy and our values. We decided to include a principle that specifically highlights diversity and acknowledges Telstra's commitment to providing equitable and fair pay. Section 2.1 provides detail on Telstra's Remuneration Policy, Strategy and Governance.

Clawback mechanisms: clawback provisions have been included in the terms for LTI grants with effect from FY14 to provide the Board with discretion to clawback Performance Rights or Restricted Shares if a clawback event occurs. These mechanisms are now consistent with the STI Deferral Plan. The scenarios in which the Board could consider applying a clawback mechanism have also been broadened to include where the behaviour of a Senior Executive brings Telstra into disrepute or may impact on Telstra's long term financial strength.

LTI and STI Restricted Shares: grants are now structured so that the Restriction Periods end on 30 June to better align with disclosure of executive remuneration outcomes for the relevant performance periods.

CEO LTI allocation: we sought and obtained shareholder approval for David Thodey's FY14 LTI allocation at our 2013 AGM and intend to continue this practice.

1.3 Key Management Personnel

KMP comprise the Directors of the company and Senior Executives. The term "Senior Executives" refers to the CEO and those executives with authority and responsibility for planning, directing and controlling the activities of the Company and the Group, directly or indirectly. Our Senior Executive KMP group has not changed from FY13, but during the year some of their respective portfolios were reallocated as discussed in section 1.2. The Senior Executives disclosed in this report are:

| Name and most recent KMP title | Prior positions held in FY14 |
|--|------------------------------|
| David Thodey CEO | - |
| Gordon Ballantyne GE Telstra Retail from 28 October 2013 | CCO until 27 Oct 2013 |
| Stuart Lee GE Telstra Wholesale | - |
| Kate McKenzie COO from 28 October 2013 | GMD TIPM until 27 Oct 2013 |
| Robert Nason GE Business Support and Improvement | - |
| Andrew Penn CFO and from 7 May 2014, CFO and GE International | - |
| Brendon Riley GE Global Enterprise and Services from 28 October 2013 | COO until 27 Oct 2013 |
| Rick Ellis GE Telstra Media (to 31 March 2014) | - |

1.4 Actual pay and benefits which crystallised in FY14

The table in this section details actual pay and benefits for Senior Executives who were employed as at 30 June 2014. This is a voluntary disclosure and we have continued to include this table in our Remuneration Report. We believe it is helpful to assist shareholders in understanding the cash and other benefits actually received by Senior Executives (from the various components of their remuneration) during FY14.

As a general principle, the Australian Accounting Standards require the value of share based payments to be calculated at the time of grant and accrued over the performance period and Restriction Period. This may not reflect what Senior Executives actually receive or become entitled to during FY14.

Some of the figures in this table have not been prepared in accordance with the Australian Accounting Standards. Those figures are indicated by an asterisk (*) in the table header. They provide additional and different disclosures to Table 5.1 (which provides a breakdown of Senior Executive remuneration in accordance with statutory obligations and the Australian Accounting Standards).

The amounts shown in this table include Fixed Remuneration, STI payable as cash under the FY14 STI Plan, as well as any restricted STI or LTI that has been earned as a result of performance in previous financial years but was subject to a Restriction Period during FY14 ending June 2014 or August 2014.

We believe that including amounts in this table, even though they may not be paid (or the relevant Restriction Period for equity may not end) until early FY15, is an effective way of showing the link between executive remuneration outcomes and the relevant performance year. It is also consistent with changes we have made to the structure of STI Deferral and LTI plans from FY14 so that the Restriction Period ends on 30 June to better align disclosure of executive remuneration outcomes with the relevant performance periods.

Our sustained share price growth over the past three years has driven much of the value in the table below. Telstra uses the volume weighted average share price (VWAP) of Telstra shares for the five days following the annual results announcements for calculating the number of Performance Rights and Restricted Shares to be allocated. The VWAP value for the FY11 LTI Plan was \$2.95 and the Telstra share price as at 30 June 2014 was \$5.21. This increase of 76.6 per cent is reflected in the value of the equity that became unrestricted, demonstrating the link between executive remuneration and shareholder returns.

REMUNERATION REPORT

| Name | Fixed Remuneration (\$) (1) | Non-monetary benefits (\$) (2) | Short Term Incentive payable as cash (\$) (3) | Value of STI Restricted Shares that became unrestricted (\$) (4) * | Value of LTI that became unrestricted (\$) (5) (6) (7) (8) * | FY14 Total (\$) * |
|-------------------|-----------------------------|--------------------------------|---|--|--|-------------------|
| David Thodey | 2,650,000 | 8,286 | 2,112,713 | 1,000,432 | 7,064,406 | 12,835,837 |
| Gordon Ballantyne | 1,324,795 | 57,754 | 1,005,413 | 490,756 | 4,579,548 | 7,458,266 |
| Stuart Lee | 1,029,918 | 12,452 | 930,150 | 305,230 | 1,621,289 | 3,899,039 |
| Kate McKenzie | 1,083,397 | 11,557 | 956,700 | 381,145 | 1,576,254 | 4,009,053 |
| Robert Nason | 1,072,438 | 17,544 | 804,330 | 407,495 | 1,531,219 | 3,833,026 |
| Andrew Penn | 1,437,397 | 6,480 | 1,156,013 | 372,442 | 251,383 | 3,223,715 |
| Brendon Riley | 1,337,397 | 8,172 | 754,059 | 498,930 | - | 2,598,558 |

- (1) The sum of Salary and Fees and Superannuation as detailed in Table 5.1.
- (2) Includes the value of personal home security services provided by Telstra, provision of car parking and in the case of Gordon Ballantyne, return flight benefits to the United Kingdom as per the terms of his service agreement.
- (3) Amount relates to the cash component (75 per cent) of STI earned for FY14, which will be paid in September 2014. The remaining 25 per cent will be provided as Restricted Shares. The Restriction Period for half of the shares will end on 30 June 2015 and the other half on 30 June 2016.
- (4) Amount relates to the value of STI earned in prior financial years which was provided as Restricted Shares and the Restriction Period in respect of which ends on 30 June 2014 (in relation to FY13 awards) or in August 2014 (in relation to FY12 awards). These represent 50 per cent of the Restricted Shares relating to the FY12 and FY13 performance periods respectively. Equity has been valued based on the Telstra closing share price on 30 June 2014 of \$5.21.
- (5) Amount relates to Performance Rights with a final test date of 30 June 2013 which vested as Restricted Shares under the FY11 LTI Plan and the Restriction Period in respect of which ends in August 2014. Equity has been valued based on the Telstra closing share price on 30 June 2014 of \$5.21. Table 5.1 displays the value of Equity Settled Share-based Payments in accordance with the Australian Accounting Standards.
- (6) As disclosed in the 2013 Remuneration Report, the LTI cash value of \$4,579,548 for Gordon Ballantyne was for the FY11 LTI Plan where stretch levels of FCF ROI and RTSR were achieved in FY13. Payment was made on 30 June 2014. Due to Gordon Ballantyne's original engagement on a fixed term contract, his maximum opportunity for the FY11 LTI Plan included amounts representing the pro rata value of the maximum opportunity under the FY12 and FY13 LTI Plans. He received no Performance Rights under the FY12 and FY13 LTI Plans.
- (7) The LTI value for Andrew Penn represents 48,250 shares vesting on 14 December 2013 from his total allocation of 96,500 Performance Shares. Equity has been valued based on the Telstra closing share price on 30 June 2014 of \$5.21. Andrew Penn did not participate in the FY11 LTI Plan as he had not commenced at Telstra at the date of allocation.
- (8) Brendon Riley did not participate in the FY11 LTI Plan as he had not commenced with Telstra at the date of allocation.

1.5 Looking forward

For FY15, no changes are anticipated in our approach to Senior Executive remuneration. There will be no changes to the STI and LTI opportunities as a percentage of Fixed Remuneration for the CEO and Senior Executives.

The Board also determined that there will be no Fixed Remuneration increase for the CEO as he is appropriately positioned against the market and performance is being rewarded through the STI and LTI plans.

2. SETTING SENIOR EXECUTIVE REMUNERATION

2.1 Remuneration policy, strategy and governance

Our remuneration policy is designed to:

- support the business strategy and reinforce our culture and values
- link financial rewards directly to employee contributions and company performance
- provide market competitive remuneration to attract, motivate and retain highly skilled employees
- achieve remuneration outcomes of internal consistency to ensure employees performing at similar levels in similar roles are remunerated within a broadly similar range
- ensure that all reward decisions are made free from bias and support diversity within Telstra
- obtain outcomes that reflect commercially responsible pay decisions.

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

The Remuneration Committee

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

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

Annual remuneration review

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

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

REMUNERATION REPORT

Incentive design and performance assessment

The Remuneration Committee oversees the process of setting robust performance measures and targets that encourage strong Senior Executive performance and ethical behaviour. STI and LTI performance measures are set at the beginning of each year. If performance targets are achieved we pay 50 per cent of the total maximum potential. The maximum level is only paid if there is significant over achievement of annual targets. There will be no payment unless a threshold level of performance is achieved. At the end of each financial year, the Board reviews the company's audited financial results and the results of the other non-financial measures. The Board then assesses performance against each measure to determine the percentage outcome of the STI and LTI plans. The Board considers that it is best positioned to assess whether the applicable measures have been met.

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

Engagement with consultants

External consultants are required to engage directly with the Remuneration Committee Chairman as the first point of contact whenever market data for Senior Executive positions is supplied to Telstra. To assess market competitiveness in FY14, the Committee engaged Guerdon Associates for the provision of ASX20 market data but did not require a remuneration recommendation. As a result, no disclosures are required under the Corporations Act.

2.2 Remuneration components

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

| | | | |
|--|--|--|--|
| Attract, motivate and retain highly skilled people | Reinforce values and cultural priorities | Reward achievement of financial and strategic objectives | Align to long term shareholder value creation |
| FIXED | AT RISK | | |
| Fixed Remuneration | Short Term Incentive | | Long Term Incentive |
| CASH | | EQUITY | |
| <ul style="list-style-type: none"> Base salary plus superannuation. Set based on market and internal relativities, performance, qualifications and experience. | <ul style="list-style-type: none"> 75% of STI outcome paid in September after the financial year end. STI outcome based on Telstra's financial, customer and individual performance. | <ul style="list-style-type: none"> 25% of the STI outcome is deferred as Restricted Shares. Half of the shares are restricted for 1 year and the other half for 2 years. The shares are subject to clawback at the Board's discretion. The shares are forfeited if employment ends unless for a Permitted Reason (STI). | <ul style="list-style-type: none"> Performance Rights subject to performance conditions. 50% subject to RTSR. 50% subject to FCF ROI. Performance is measured over 3 years with an additional 1 year Restriction Period. Performance Rights are subject to clawback at the Board's discretion and lapse if employment ends unless for a Permitted Reason (LTI). |
| Base reward market competitive | Encourages sustainable performance in the medium to longer term and provides a retention element. | | |

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

2.2.1 FY14 STI Plan

For FY14, all of our Senior Executives participated in the same STI Plan with the exception of the GE Telstra Wholesale (for regulatory reasons as explained below). The performance measures of this Plan were Free Cashflow, EBITDA, Total Income, Net Promoter Score (NPS) and individual performance objectives. The Board selected these performance measures as it believes they are a critical link between achieving the outcomes of Telstra's business strategy and increasing shareholder value. In relation to these performance measures:

- the financial measures were set in accordance with our FY14 financial plan and strategy
- the NPS supports the shift in Telstra's strategy from the goal of delivering outstanding customer satisfaction to creating customer advocates. An explanation of the way in which NPS is calculated is included in section 3.2.2
- the individual performance objectives were set at the beginning of FY14 and were based on each Senior Executive's expected individual contribution to the achievement of our strategy.

REMUNERATION REPORT

The performance measures of the STI plan operate independently of each other. Each measure has a threshold, target and stretch level of performance. Where threshold performance is not achieved, there is no payment for that component of the incentive. Depending on the role they perform, each Senior Executive has a maximum STI opportunity ranging from 150 per cent to 200 per cent of their Fixed Remuneration where stretch targets are met.

A Senior Executive will earn an STI payment of 50 per cent of the maximum opportunity if performance targets are achieved but not exceeded.

The FY14 STI Plan for the GE Telstra Wholesale must comply with the Structural Separation Undertaking (SSU) as part of the NBN Transaction. This provides that the GE Telstra Wholesale may only participate in incentive plans that reflect solely the objectives and performance of the Wholesale business unit. As a result, the performance measures applicable to his FY14 STI Plan were different. The performance measures for the FY14 STI Plan applicable to the GE Telstra Wholesale were Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance.

Details of the STI outcomes for Senior Executives for FY14 are provided in section 3.2.

2.2.2 STI deferral

Twenty five per cent of Senior Executives' actual STI payment is provided as Restricted Shares. Half of the shares are restricted for one year and the other half are restricted for two years.

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

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

Restricted Shares may also be forfeited if a clawback event occurs during the Restriction Period. A clawback event includes circumstances where a Senior Executive has engaged in fraud, dishonesty or gross misconduct, or where the financial results that led to the Restricted Shares being granted are subsequently shown to be materially misstated, and also situations where the behaviour of a Senior Executive brings Telstra into disrepute or may impact on Telstra's long term financial strength.

2.2.3 FY14 LTI Plan

Participation

All of our Senior Executives participated in the same FY14 LTI Plan, with the exception of the GE Telstra Wholesale (as explained below).

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

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

Details of the Performance Rights granted to Senior Executives in relation to the FY14 LTI Plan are provided in section 5.

Plan structure

| Plan component | Detail |
|---------------------------------------|---|
| Performance Measure Weighting | 50% to RTSR 50% to FCF ROI |
| Performance Period | 1 July 2013 to 30 June 2016 |
| Restriction Period End Date | 30 June 2017 |
| Minimum Threshold for RTSR Vesting | 50 th percentile of peer group |
| RTSR Vesting Schedule | 25% vests at 50 th percentile, straight-line vesting to 75 th percentile where 100% vests |
| Minimum Threshold for FCF ROI Vesting | 15.1% |
| FCF ROI Vesting Schedule | 50% vests at target of 15.1%, straight line vesting to stretch of 16.7% where 100% vests |
| Retesting | No |

Relative Total Shareholder Return

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

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

The comparator group for the FY14 LTI Plan included the following large market capitalisation telecommunication firms: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; Orange SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Singapore Telecommunications Ltd; SK Telecom Co Ltd; Sprint Nextel Corporation; Swisscom AG; Telekom Austria AG; Telecom Italia Sp.A.; Telecom Corporation of New Zealand Ltd; Telefonica S.A.; Telenor ASA; TeliaSonera AB; Verizon Communications Inc and Vodafone Group Plc.

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

No amendments were made to the comparator group in FY14.

Free Cashflow Return On Investment

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

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

Vesting of Performance Rights as Restricted Shares

At the end of FY16, the Board will review Telstra's audited financial results for FCF ROI and RTSR to determine the percentage of Performance Rights that vest as Restricted Shares under the FY14 LTI Plan.

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Until the Performance Rights vest as Restricted Shares, a Senior Executive has no legal or beneficial interest in Telstra shares, no entitlement to receive dividends and no voting rights in relation to any securities granted under the FY14 LTI Plan.

If a Senior Executive leaves Telstra for any reason other than a Permitted Reason (LTI), any unvested Performance Rights lapse. If they leave Telstra for a Permitted Reason (LTI), a pro rata number of Performance Rights will lapse based on the proportion of time remaining until 30 June 2017. The pro rata portion relating to the Senior Executive's completed service may still vest as Restricted Shares subject to achieving the performance measures of the FY14 LTI Plan at the end of the applicable performance period. The Board has a discretion to determine that any unvested Performance Rights do not lapse on cessation of employment and continue to be eligible to vest in accordance with their terms.

In certain limited circumstances, such as a takeover event where 50 per cent or more of all issued fully paid shares are acquired, the Board may exercise discretion to vest Performance Rights that have not lapsed as Restricted Shares.

Any Restricted Shares that are allocated based on the vesting of Performance Rights are subject to a Restriction Period expiring on 30 June 2017. If a Senior Executive leaves Telstra for any reason other than a Permitted Reason (LTI) before the end of the Restriction Period, the Restricted Shares are forfeited, unless the Board exercises its discretion to determine otherwise.

The Performance Rights may lapse and Restricted Shares may be forfeited if a clawback event occurs during the performance period or Restriction Period. A clawback event includes circumstances where a Senior Executive has engaged in fraud, dishonesty or gross misconduct, or where the financial results that led to the equity being awarded are subsequently shown to be materially misstated and also where the behaviour of a Senior Executive brings Telstra into disrepute or may impact on Telstra's long term financial strength.

The Restricted Shares are transferred to the Senior Executive on the first day after the end of the Restriction Period that the Senior Executive is able to deal in shares under Telstra's Securities Trading Policy.

Group Executive Telstra Wholesale

Due to SSU requirements the GE Telstra Wholesale participated in a separate equity plan in lieu of the FY13 LTI Plan for other Senior Executives.

In FY14, the GE Telstra Wholesale was allocated 133,595 Restricted Shares based on performance against the FY13 STI measures. They are subject to a Restriction Period that will end on 30 June 2016, during which time the GE Telstra Wholesale is entitled to earn dividends on, and exercise votes attached to, the Restricted Shares.

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

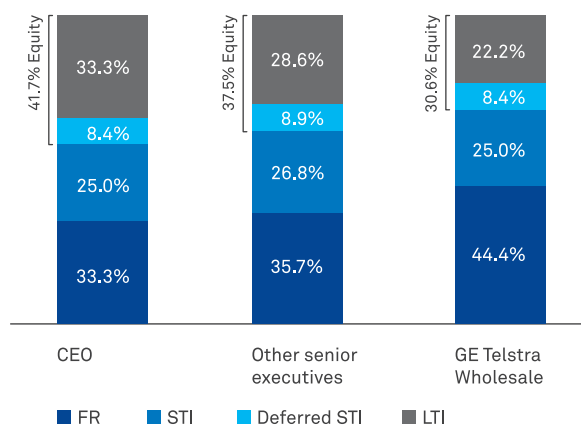
This Plan contains the same clawback provisions as the FY14 STI Deferral Plan for other Senior Executives.

In lieu of participation in the Senior Executive FY14 LTI Plan the GE Telstra Wholesale will be allocated Restricted Shares based on his performance against his FY14 STI Plan measures, namely Wholesale Total Income, Wholesale EBITDA, Wholesale NPS and individual performance. Clawback provisions relating to these Restricted Shares will be aligned with the STI Deferral Plan for other Senior Executives.

2.3 Policy and practice

2.3.1 Remuneration mix of senior executives

The graph below shows the FY14 remuneration mix for Senior Executives as at 30 June 2014. The variable components of STI (including any potential Restricted Shares) and LTI are expressed at 50 per cent of the maximum opportunity which is representative of the outcome if we achieve our target performance measures. The variable components would only pay at maximum if targets are significantly exceeded. The STI and LTI plans will only provide a reward to a Senior Executive if the threshold performance measures of the relevant plans are met.



2.3.2 Plan variation guidelines

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

- material change of the strategic business plan
- material regulatory or legislative change
- significant out of plan business development such as acquisitions and divestments.

In these circumstances the Board may also exercise its discretion in determining the outcomes under the STI plan and LTI plan for similar reasons.

During FY14 no plan terms were amended, however the Board did exercise its discretion in determining outcomes under each of the plans as outlined below.

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2.3.3 NBN and remuneration

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

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

The Board may use its discretion as outlined in 2.3.2 if, due to external factors, the NBN roll-out does not proceed according to NBN Co's published business plan at the time the measures are developed to avoid windfall gains and losses.

NBN adjustments made in determining the outcomes for the STI plan and the LTI plan are outlined in 3.2.2 and 3.3 respectively.

2.3.4 Executive share ownership policy

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

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

Progress is monitored by the Board on an ongoing basis and Senior Executives are tracking well against this requirement.

2.3.5 Restrictions and governance

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

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

They are also prohibited from entering into arrangements which limit the economic risk of their security holdings allocated under Telstra's equity plans prior to vesting or exercise of those securities or during the Restriction Period. This ensures that KMP are not permitted to hedge against participation in Telstra's equity plans.

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

3. EXECUTIVE REMUNERATION OUTCOMES

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

3.1 Financial performance

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

| Performance measures | FY14 \$m | FY13 (1) \$m | FY12 \$m | FY11 \$m | FY10 \$m |
|--|----------|--------------|----------|----------|----------|
| Earnings | | | | | |
| Total Income | 26,296 | 24,776 | 25,503 | 25,304 | 25,029 |
| EBITDA | 11,135 | 10,168 | 10,234 | 10,151 | 10,847 |
| Net Profit (2) | 4,275 | 3,739 | 3,405 | 3,231 | 3,883 |
| Shareholder value | | | | | |
| Share price (\$) (3) | 5.21 | 4.77 | 3.69 | 2.89 | 3.25 |
| Total dividends paid per share (cents) | 28.5 | 28 | 28 | 28 | 28 |

(1) For FY13 Total Income, EBITDA and Net Profit were restated due to the Sensis divestiture (i.e. now we are reporting continuing operations only for FY13 and FY14, Sensis is excluded from these amounts, refer to note 12 to the financial statements). Also contributing to the EBITDA and Net Profit adjustments was a change in the Australian Accounting Standards (AASB 119) which required retrospective application, therefore FY13 expenses were restated which resulted in the additional adjustments to EBITDA and Net Profit. Refer to note 12 to the financial statements for further details.

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

(3) Share prices are as at 30 June for the respective year. The closing share price for FY09 was \$3.39.

3.2 Short Term Incentive outcomes

3.2.1 Average STI payment as a percentage of STI opportunity

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

| Performance year | FY14 | FY13 | FY12 | FY11 | FY10 |
|------------------------------|-------|-------|-------|-------|-------|
| STI received as % of maximum | 53.6% | 66.0% | 65.6% | 48.4% | 22.7% |

3.2.2 Overall FY14 STI Plan outcomes

At the end of FY14, the Board reviewed Telstra's audited financial results and the results of other performance measures. The Board has assessed performance against each measure and determined the percentage of STI that was payable, of which 25 per cent will be provided through Restricted Shares.

The Board determined the outcomes of the financial measures to ensure there were no windfall gains or losses due to the timing of the NBN roll out, spectrum purchases as well as acquisitions and divestments including CSL and the Sensis advertising and directories business.

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For the calculation of the NPS measure, NPS is based on asking Telstra's customers to rate their likelihood of recommending Telstra, out of a score of 10. The overall NPS result for Telstra is the weighted average of the surveys from Telstra's Consumer (50 per cent), Business (25 per cent), and Enterprise and Government (25 per cent) customers. The surveys are undertaken by third party research companies. The measurement period for the FY14 results is based on the three month average across 1 April 2014 to 30 June 2014 for Consumer and Business, and the six month consolidated result from 1 January 2014 to 30 June 2014 for Enterprise and Government. The final result was audited by Telstra's Group Internal Audit team.

For determining the Wholesale NPS measure that applies to the GE Telstra Wholesale, its calculation is based on a survey of Wholesale customers only, undertaken by a third party research company undertaken from 28 April 2014 through to 16 May 2014.

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

Senior Executive STI (excluding Group Executive Telstra Wholesale)

| Measure | Outcome (% of maximum) |
|---------------|------------------------|
| Total Income | 100.0% |
| EBITDA | 98.3% |
| Free Cashflow | 100.0% |
| NPS | 0.0% |

Group Executive Telstra Wholesale STI

| Measure | Outcome (% of maximum) |
|------------------------|------------------------|
| Wholesale Total Income | 100.0% |
| Wholesale EBITDA | 100.0% |
| Wholesale NPS | 75.0% |

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

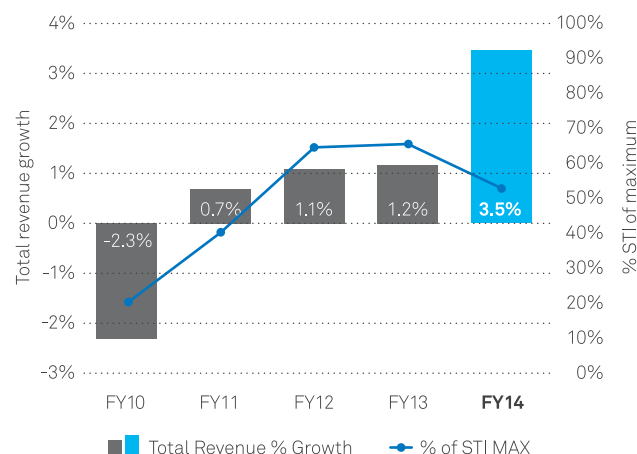
Definitions for the STI financial measures of Total Income, EBITDA and Free Cashflow are provided in the Glossary at the end of the Remuneration Report.

3.2.3 FY14 STI Plan payment results

The table below displays FY14 STI payments as a percentage of Fixed Remuneration and also as a percentage of the maximum opportunity for both FY14 and FY13 STI plans for current Senior Executives:

| Name | FY14 % of FR | FY14 % of max | FY13 % of max |
|---------------------|---------------|---------------|---------------|
| David Thodey | 106.3% | 53.2% | 66.4% |
| Gordon Ballantyne | 99.3% | 49.7% | 63.9% |
| Stuart Lee | 119.3% | 79.5% | 85.0% |
| Kate McKenzie | 106.3% | 53.2% | 63.9% |
| Robert Nason | 99.3% | 49.7% | 66.4% |
| Andrew Penn | 106.3% | 53.2% | 66.4% |
| Brendon Riley | 74.5% | 37.2% | 63.9% |
| KMP Average: | 101.6% | 53.6% | 66.0% |

The graph below shows how STI payments as a percentage of the maximum opportunity have tracked closely to Total Revenue growth over four of the past five years. Telstra's incentive plans measure performance against a range of financial and non-financial metrics with varied weightings. Accordingly, the pay for performance relationship is based on the performance against these metrics as a whole and may not always align with revenue growth, as is the case for FY14, where the lower STI payment reflects that we did not achieve our customer advocacy target.



3.3 Long Term Incentive outcomes

The performance period for the FY12 LTI Plan concluded on 30 June 2014.

The results of Telstra's RTSR was calculated by an external provider and audited by Telstra's Group Internal Audit team. The RTSR vesting result was based on Telstra ranking at the 95th percentile of the global peer group.

Consistent with prior years the Board determined the FCF ROI outcome to ensure there are no windfall gains or losses due to the timing of the NBN roll out. The Board also excluded spectrum purchases as well as acquisitions and divestments including CSL, the Sensis advertising and directories business and TelstraClear. The result was reviewed by Telstra's Group Internal Audit team and our external auditor Ernst & Young.

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

Vesting outcomes for both the RTSR and the FCF ROI performance measures for the FY12 LTI Plan can be found in 3.3.1.

3.3.1 FY12 LTI Plan testing as at 30 June 2014

The vesting table for the FY12 LTI Plan is detailed below, reflecting performance up to 30 June 2014 against the two performance measures of RTSR and FCF ROI.

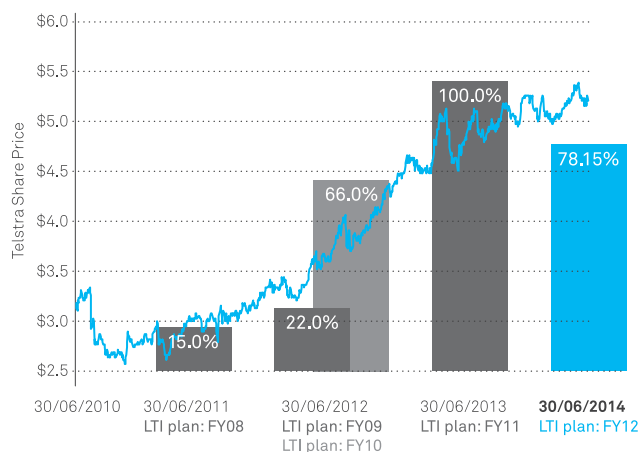
| Test date | Performance measure | % of total plan vested |
|---------------|-------------------------|------------------------|
| 30 June 2014 | RTSR (100% vesting) | 50.00% |
| | FCF ROI (56.3% vesting) | 28.15% |
| Total: | | 78.15% |

Upon vesting, each participant was allocated Restricted Shares which are subject to a Restriction Period (concluding August 2015), during which Senior Executives are not permitted to trade those shares.

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3.3.2 Historical LTI plan performance relative to Telstra share price

The following chart compares Telstra's LTI plan vesting results for the past five LTI plans as a percentage of plan maximum opportunity to the share price history during the same performance period:



In FY12 Telstra had two LTI plans with a final performance test as the FY09 LTI was the last LTI plan format where performance testing was done in years 2, 3 and 4. This was different to the current format of a 3 year performance period plus 1 year Restriction Period.

3.4 Senior Executive contract details

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

The service contracts for current Senior Executives are ongoing subject to their individual terms and conditions.

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

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

Separation payments for Mr Rick Ellis are detailed in Table 5.1 and have been paid in accordance with his employment contract and Part 2.D of the Corporations Act 2001.

| Name | Fixed Remuneration at the end of FY14 | Notice period | Termination payment |
|-------------------|---------------------------------------|---------------|---------------------|
| David Thodey | 2,650,000 | 6 months | 12 months (1) |
| Gordon Ballantyne | 1,350,000 | 6 months | 6 months |
| Stuart Lee | 1,040,000 | 6 months | 12 months |
| Kate McKenzie | 1,200,000 | 6 months | 6 months |
| Robert Nason | 1,080,000 | 6 months | 6 months |
| Andrew Penn | 1,450,000 | 6 months | 6 months |
| Brendon Riley | 1,350,000 | 6 months | 12 months |

(1) In relation to David Thodey's contract, if the Board forms the view that the CEO is not performing to the standard required of a CEO, Telstra may terminate him by providing four months' written notice.

4. NON-EXECUTIVE DIRECTOR REMUNERATION

4.1 Remuneration structure

The Telstra Board and Committee fee structure (inclusive of superannuation) during FY14 was:

| Board fees | Chairman | Non-executive Director |
|--------------------------|-----------------|------------------------|
| Board | 705,000 | 235,000 |
| Committee fees | Committee Chair | Committee member |
| Audit and Risk Committee | 70,000 | 35,000 |
| Remuneration Committee | 50,000 | 25,000 |
| Nomination Committee | - | 7,000 |

The Chairman of the Board does not receive Committee fees in respect of her role as a Chair or a member of any Board Committee.

There was no increase in Board or Committee fees in FY14.

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

The total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY14 remained within the approved fee pool.

4.2 Remuneration policy and strategy

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

To align the non-executive Directors' interests with the interests of our shareholders, the Board has established guidelines to encourage non-executive Directors to hold Telstra shares equivalent to at least 50 per cent of their annual fees. Such shares are to be acquired over a five year period from the later of 1 July 2009 or the date of appointment.

Progress is monitored on an ongoing basis and non-executive Directors are tracking well against the guidelines. Details of non-executive Directors' (and their related parties) interests in Telstra shares as at 30 June 2014 are set out in Table 5.8 of this report.

4.3 Remuneration components

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

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

Table 5.7 provides full details of non-executive Director remuneration for FY14.

Section 2.3.5 of this Report provides details on the Telstra securities trading restrictions which apply to all KMP, including non-executive Directors.

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5. REMUNERATION TABLES AND GLOSSARY

5.1 Senior executives remuneration (main table)

This table below has been prepared in accordance with the requirements of the Corporations Act and the relevant Australian Accounting Standards. The figures provided under the equity settled share based payments columns are based on accounting values and do not reflect actual payments received by Senior Executives in FY14.

| Name and title | Year | Short term employee benefits | | | | Post-employment benefits | Termination benefits | Other long term benefits | | Equity settled share-based payments | | |
|---|------|------------------------------|---------------------------------------|--------------------------------|-------------------------|--------------------------|----------------------|-------------------------------|-----------------------------|-------------------------------------|-------------------------------------|--------------------------------------|
| | | Salary and fees (\$ (1)) | Short term incentives (cash) (\$ (2)) | Non-monetary benefits (\$ (3)) | Superannuation (\$ (4)) | | | Termination benefits (\$ (5)) | Accrued leave benefits (\$) | Other (\$ (6)) | Accounting value (at risk) (\$ (7)) | Short term incentive shares (\$ (8)) |
| David Thodey Chief Executive Officer | 2014 | 2,620,224 | 2,112,713 | 8,286 | 29,776 | - | 66,250 | - | 793,931 | 2,580,070 | - | 8,211,250 |
| | 2013 | 2,580,094 | 2,637,413 | 9,568 | 16,470 | - | 64,914 | - | 701,786 | 2,793,368 | - | 8,803,613 |
| Gordon Ballantyne GE Telstra Retail | 2014 | 1,287,051 | 1,005,413 | 57,754 | 37,744 | - | 33,120 | 4,579,548 | 377,843 | 323,575 | - | 7,702,048 |
| | 2013 | 1,213,562 | 1,197,188 | 80,585 | 36,438 | - | 31,250 | - | 346,094 | - | - | 2,905,117 |
| Stuart Lee GE Telstra Wholesale | 2014 | 1,012,142 | 930,150 | 12,452 | 17,776 | - | 25,748 | - | 296,639 | 510,601 | - | 2,805,508 |
| | 2013 | 971,603 | 956,250 | 14,090 | 46,642 | - | 24,715 | - | 219,409 | 339,704 | - | 2,572,413 |
| Kate McKenzie Chief Operations Officer | 2014 | 1,039,194 | 956,700 | 11,557 | 44,203 | - | 27,085 | - | 318,977 | 744,371 | - | 3,142,087 |
| | 2013 | 925,427 | 957,750 | 14,297 | 61,970 | - | 24,685 | - | 265,724 | 793,401 | - | 3,043,254 |
| Robert Nason GE Business Support and Improvement | 2014 | 1,054,662 | 804,330 | 17,544 | 17,776 | - | 26,811 | - | 312,728 | 768,547 | - | 3,002,398 |
| | 2013 | 1,020,927 | 1,045,013 | 19,747 | 16,470 | - | 25,935 | - | 284,828 | 735,634 | - | 3,148,554 |
| Andrew Penn Chief Financial Officer and GE International | 2014 | 1,419,621 | 1,156,013 | 6,480 | 17,776 | - | 35,935 | - | 386,923 | 820,089 | - | 3,842,837 |
| | 2013 | 1,383,530 | 1,393,350 | 4,357 | 16,470 | - | 35,000 | - | 275,633 | 506,078 | - | 3,614,418 |
| Brendon Riley GE Global Enterprise and Services | 2014 | 1,319,621 | 754,059 | 8,172 | 17,776 | - | 33,435 | - | 347,501 | 796,861 | - | 3,277,425 |
| | 2013 | 1,270,927 | 1,245,075 | 9,882 | 16,470 | - | 32,185 | - | 347,537 | 755,721 | - | 3,677,797 |
| Rick Ellis former GE Telstra Media | 2014 | 676,323 | - | 17,812 | 18,061 | 1,020,456 | 17,360 | - | 123,340 | (340,245) | - | 1,533,107 |
| | 2013 | 889,644 | 729,825 | 21,265 | 22,753 | - | 22,810 | - | 156,303 | 398,224 | - | 2,240,824 |
| TOTAL CURRENT AND FORMER KMP | 2014 | 10,428,838 | 7,719,378 | 140,057 | 200,888 | 1,020,456 | 265,744 | 4,579,548 | 2,957,882 | 6,203,869 | 6,322,130 | 33,516,660 |
| | 2013 | 10,255,714 | 10,161,864 | 173,791 | 233,683 | - | 261,494 | - | 2,597,314 | 6,322,130 | - | 30,005,990 |

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Footnotes to Table 5.1:

If the former GE Telstra Media Rick Ellis is removed from both the FY13 and FY14 totals, the FY14 total is \$31,983,553 compared to FY13 of \$27,765,166, an increase of 15.2 per cent compared to FY13. This increase is due to the cash LTI payment for Gordon Ballantyne outlined in footnote (6).

- (1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.
- (2) Short term incentives (cash) relates to performance in FY13 and FY14 respectively and is based on actual performance for Telstra and the individual.
- (3) Includes the value of personal home security services provided by Telstra, provision of car parking and in the case of Gordon Ballantyne, return flight benefits to the United Kingdom as per the terms of his service agreement. Also includes the value of non recourse loans under TESP-99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 – First-time Adoption of Australian Equivalence to International Financial Reporting Standards).
- (4) Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.
- (5) Termination Benefits for Rick Ellis of \$1,020,456 is comprised of \$462,500 payment in lieu of notice as per his service agreement plus \$451,518 pro rata at target FY14 STI as per Telstra STI Policy and \$106,438 redundancy payment.
- (6) Gordon Ballantyne did not participate in any LTI for FY12 and FY13 due to the fixed term nature (four years) of his initial employment contract. He participated in a cash based LTI beginning 7 March 2011 (details of which are included in Telstra's 2011 Remuneration Report) and his maximum opportunity for the FY11 LTI Plan included amounts representing the pro rata value of the maximum opportunity under the FY12 and FY13 LTI Plans. The stretch levels of FCF-ROI and RTSR were achieved in FY13 and the stretch amount of \$4,579,548 was paid to Gordon Ballantyne on 30 June 2014.
- (7) In accordance with AASB 2, the accounting value represents a portion of the fair value of Performance Rights, Restricted Shares and Performance Shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that Performance Rights, Restricted Shares and Performance Shares will vest at the end of the vesting period. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the Performance Rights, Restricted Shares and Performance Shares vest. Refer to footnote (9) and Table 5.4 for further information.
- (8) This includes the amortised value of Restricted Shares allocated under the FY11 (only applicable to FY13 comparatives), FY12, FY13 and FY14 STI plans whereby 25 per cent of the STI payment was provided as Restricted Shares which are subject to a Restriction Period, half for one year and half for two years, subject to the Senior Executive's continued employment.
- (9) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY14. For FY14, this occurred for a portion of the FY12 LTI Plan that failed to satisfy the FCF-ROI performance target at 30 June 2014, a non-market (i.e. non-RTSR) measure, resulting in equity instruments lapsing. For Rick Ellis, accounting expense that was previously recognised as remuneration has been reversed in FY14 for the FY14, FY13 and FY12 LTI Plans due to his departure. There was no accounting expense that was reversed in FY13. Refer to section 3.3 on LTI outcomes for FY14 for further information.

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5.2 STI Payments (cash and shares)

| Name | Year | Maximum potential STI opportunity (\$) (1) | Current year grant of STI (\$) (2) | | % of the maximum potential opportunity | % forfeited | Total grant of STI (\$) |
|-------------------|------|--|------------------------------------|---------------------------------------|--|-------------|-------------------------|
| | | | 75% cash component | 25% deferred shares component (3) (4) | | | |
| David Thodey | 2014 | 5,300,000 | 2,112,713 | 704,237 | 53.2% | 46.8% | 2,816,950 |
| | 2013 | 5,300,000 | 2,637,413 | 879,137 | 66.4% | 33.6% | 3,516,550 |
| Gordon Ballantyne | 2014 | 2,700,000 | 1,005,413 | 335,137 | 49.7% | 50.3% | 1,340,550 |
| | 2013 | 2,500,000 | 1,197,188 | 399,062 | 63.9% | 36.1% | 1,596,250 |
| Stuart Lee | 2014 | 1,560,000 | 930,150 | 310,050 | 79.5% | 20.5% | 1,240,200 |
| | 2013 | 1,500,000 | 956,250 | 318,750 | 85.0% | 15.0% | 1,275,000 |
| Kate McKenzie | 2014 | 2,400,000 | 956,700 | 318,900 | 53.2% | 46.8% | 1,275,600 |
| | 2013 | 2,000,000 | 957,750 | 319,250 | 63.9% | 36.1% | 1,277,000 |
| Robert Nason | 2014 | 2,160,000 | 804,330 | 268,110 | 49.7% | 50.3% | 1,072,440 |
| | 2013 | 2,100,000 | 1,045,013 | 348,337 | 66.4% | 33.6% | 1,393,350 |
| Andrew Penn | 2014 | 2,900,000 | 1,156,013 | 385,337 | 53.2% | 46.8% | 1,541,350 |
| | 2013 | 2,800,000 | 1,393,350 | 464,450 | 66.4% | 33.6% | 1,857,800 |
| Brendon Riley | 2014 | 2,700,000 | 754,059 | 251,354 | 37.2% | 62.8% | 1,005,413 |
| | 2013 | 2,600,000 | 1,245,075 | 415,025 | 63.9% | 36.1% | 1,660,100 |
| Rick Ellis (5) | 2014 | 1,850,000 | n/a | n/a | n/a | n/a | n/a |
| | 2013 | 1,850,000 | 729,825 | 243,275 | 52.6% | 47.4% | 973,100 |

- (1) Represents the maximum potential STI specific to FY14 and FY13 respectively, where the Senior Executive was a KMP, adjusted for any variation in Fixed Remuneration throughout FY14 and FY13 that impacts the maximum potential STI available. If the minimum threshold performance is not met, the minimum possible STI payment is nil.
- (2) The STI for FY14 and FY13 was approved by the Board on 13 August 2014 and 7 August 2013 respectively.
- (3) The grant date for the equity component of the FY14 STI will be subsequent to the date of this Remuneration Report.
- (4) The Restricted Shares are subject to a Restriction Period, half for one year, half for two years ending 30 June 2015 and 30 June 2016 respectively, subject to the Senior Executive's continued employment. Refer to section 2.2.2 for further details.
- (5) Rick Ellis did not receive an STI payment for FY14 due to his position becoming redundant on 31 March 2014. Refer to footnote (5) to Table 5.1 for a breakdown of his termination payment.

REMUNERATION REPORT

5.3 Summary of LTI plans and other equity plans as at 30 June 2014 (*)

| Name | Plan | Type of instrument granted | Performance period | End date (1) | % of total plan tested at 30 June 2014 | % of grant expired in current year (2) | Future financial dates in which grants may Vest | Accounting value yet to vest (3) | |
|-------------------|------|----------------------------|-------------------------|--------------|--|--|---|----------------------------------|-----------|
| | | | | | | | | Min (\$) | Max (\$) |
| David Thodey | FY11 | Performance Rights | 1/07/2010 - 30/06/2013 | 20/08/14 | n/a | - | n/a | nil | - |
| | FY12 | Performance Rights | 1/07/2011 - 30/06/2014 | 19/08/15 | 100 | 21.85% | 30/06/15 | nil | 711,183 |
| | FY13 | Performance Rights | 1/07/2012 - 30/06/2015 | 17/08/16 | n/a | n/a | 30/06/16 | nil | 1,884,908 |
| | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 2,381,873 |
| Gordon Ballantyne | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 970,724 |
| Stuart Lee (4) | FY11 | Performance Rights | 1/07/2010 - 30/06/2013 | 20/08/14 | n/a | - | n/a | nil | - |
| | FY13 | Restricted Shares | n/a | 17/08/15 | n/a | n/a | 17/08/15 | nil | 148,179 |
| | FY14 | Restricted Shares | n/a | 01/07/16 | n/a | n/a | 01/07/16 | nil | 453,332 |
| Kate McKenzie | FY11 | Performance Rights | 1/07/2010 - 30/06/2013 | 20/08/14 | n/a | - | n/a | nil | - |
| | FY12 | Performance Rights | 1/07/2011 - 30/06/2014 | 19/08/15 | 100 | 21.85% | 30/06/15 | nil | 221,698 |
| | FY13 | Performance Rights | 1/07/2012 - 30/06/2015 | 17/08/16 | n/a | n/a | 30/06/16 | nil | 569,030 |
| | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 747,820 |
| Robert Nason | FY11 | Performance Rights | 1/07/2010 - 30/06/2013 | 20/08/14 | n/a | - | n/a | nil | - |
| | FY12 | Performance Rights | 1/07/2011 - 30/06/2014 | 19/08/15 | 100 | 21.85% | 30/06/15 | nil | 233,365 |
| | FY13 | Performance Rights | 1/07/2012 - 30/06/2015 | 17/08/16 | n/a | n/a | 30/06/16 | nil | 597,479 |
| | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 776,579 |
| Andrew Penn (5) | FY12 | Performance Shares | 14/12/2011 - 14/12/2014 | 14/12/14 | n/a | n/a | 14/12/14 | nil | 20,345 |
| | FY13 | Performance Rights | 1/07/2012 - 30/06/2015 | 17/08/16 | n/a | n/a | 30/06/16 | nil | 796,640 |
| | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 1,042,633 |
| Brendon Riley | FY12 | Performance Rights | 1/07/2011 - 30/06/2014 | 19/08/15 | 100 | 21.85% | 30/06/15 | nil | 291,707 |
| | FY13 | Performance Rights | 1/07/2012 - 30/06/2015 | 17/08/16 | n/a | n/a | 30/06/16 | nil | 739,738 |
| | FY14 | Performance Rights | 1/07/2013 - 30/06/2016 | 30/06/17 | n/a | n/a | 30/06/17 | nil | 970,724 |
| Total | | | | | | | nil | 13,557,957 | |

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

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

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

(4) The FY14 Restricted Shares grant to Stuart Lee was made in lieu of participation in the FY13 LTI Plan. See section 2.2.3 for more information

(5) As part of his Service Agreement negotiated upon appointment, Andrew Penn was allocated 96,500 Performance Shares in FY12. The first tranche of 48,250 vested on 14 December 2013. The second tranche is scheduled to vest on 14 December 2014 subject to Andrew Penn's continued employment and satisfactory performance.

(*) As Rick Ellis ceased to be a KMP as at 31 March 2014, he has been excluded from the table above.

REMUNERATION REPORT

5.4 Accounting value of all LTI and other equity instruments

| Name | Year | Accounting value of LTI equity allocations (1) (2) | | | Total | Accounting value as a % of total remuneration (3) |
|-------------------|-------------|---|----------------------------|---------------------------|------------------|---|
| | | Performance Rights (\$) | Performance Shares (\$) | Restricted Shares (\$) | (\$) | (%) |
| David Thodey | 2014 | 2,580,070 | - | - | 2,580,070 | 31.4% |
| | 2013 | 2,793,368 | - | - | 2,793,368 | 31.7% |
| Gordon Ballantyne | 2014 | 323,575 | - | - | 323,575 | 4.2% |
| | 2013 | - | - | - | - | - |
| Stuart Lee | 2014 | 135,756 | - | 374,845 | 510,601 | 18.2% |
| | 2013 | 191,525 | - | 148,179 | 339,704 | 13.2% |
| Kate McKenzie | 2014 | 744,371 | - | - | 744,371 | 23.7% |
| | 2013 | 793,401 | - | - | 793,401 | 26.1% |
| Robert Nason | 2014 | 768,547 | - | - | 768,547 | 25.6% |
| | 2013 | 735,634 | - | - | 735,634 | 23.4% |
| Andrew Penn | 2014 | 745,864 | 74,225 | - | 820,089 | 21.3% |
| | 2013 | 398,320 | 107,758 | - | 506,078 | 14.0% |
| Brendon Riley | 2014 | 796,861 | - | - | 796,861 | 24.3% |
| | 2013 | 755,721 | - | - | 755,721 | 20.5% |
| Rick Ellis | 2014 | (340,245) | - | - | (340,245) | -22.2% |
| | 2013 | 398,224 | - | - | 398,224 | 17.8% |

- (1) The value of each equity instrument is calculated by applying valuation methodologies as described in note 27 to the financial statements and is then amortised, based on the maximum achievable allocation, over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed in the Equity Settled share based payments section in the remuneration Table 5.1.
- (2) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY14. For FY14, this occurred for a portion of the FY12 LTI Plan that failed to satisfy the FCF ROI performance target at 30 June 2014, a non-market (i.e. non-RTSR) measure, resulting in equity instruments lapsing. There was no accounting expense that was reversed in FY13. Refer to section 3.3 on LTI outcomes for FY14 for further information.
- (3) Total remuneration is the sum of short term employee benefits, post employment benefits, termination benefits, other long term benefits and equity settled share based payments as detailed in Table 5.1.

REMUNERATION REPORT

5.5 Number of equity instruments granted, vested and exercised during FY14 (LTI and other equity)

| Name | Instrument | Equity movements | | | | | Equity outcomes | |
|-------------------|--------------------|--------------------------------|-------------------------|------------------------------------|-------------------|--------------------------------|---|--|
| | | Total held at 30 June 2013 (*) | Granted during FY14 (1) | Vested / exercised during FY14 (2) | Other changes (3) | Total held at 30 June 2014 (*) | Achieved performance target during FY14 (4) | Achieved performance target as at 30 June 2014 (5) |
| David Thodey | Options | 389,547 | - | (389,547) | - | - | - | - |
| | Performance Rights | 5,040,128 | 1,041,256 | (725,274) | (342,574) | 5,013,536 | 1,225,272 | 2,581,204 |
| Gordon Ballantyne | Performance Rights | - | 424,360 | - | - | 424,360 | - | - |
| | Options | 81,555 | - | (81,555) | - | - | - | - |
| Stuart Lee | Performance Rights | 438,111 | - | (126,923) | - | 311,188 | - | 311,188 |
| | Restricted Shares | 116,371 | 133,595 | - | - | 249,966 | - | - |
| | TESOP99 | 400 | - | - | - | 400 | - | - |
| Kate McKenzie | Options | 148,720 | - | (148,720) | - | - | - | - |
| | Performance Rights | 1,401,623 | 326,916 | (190,385) | (106,791) | 1,431,363 | 381,955 | 684,499 |
| Robert Nason | Performance Rights | 1,341,785 | 339,488 | (92,473) | (112,411) | 1,476,389 | 402,057 | 695,957 |
| | Performance Rights | 587,926 | 455,796 | - | - | 1,043,722 | - | - |
| Andrew Penn | Performance Shares | 96,500 | - | (48,250) | - | 48,250 | - | - |
| | Performance Rights | 1,189,018 | 424,360 | - | (140,514) | 1,472,864 | 502,572 | 502,572 |
| Rick Ellis | Performance Rights | 613,532 | 290,766 | - | (783,367) | 120,931 | 120,931 | 120,931 |

In the table above, vest has the meaning defined in the Australian Accounting Standards. A Performance Right vests when it has been performance tested and the resultant Restricted Share has been released from restriction and provided to the executive. Table 5.8 includes details of such Restricted Shares allocated during FY14.

All service and performance conditions for each of the options or rights granted in previous financial years and that have vested or been exercised in FY14 are summarised in the Remuneration Report for each relevant year of grant. Each equity instrument granted, vested or exercised in FY14 (where applicable) in the table above was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument granted, vested or exercised.

- (1) Performance Rights granted on 16 October 2013 relate to the FY14 LTI Plan. The FY14 Restricted Shares grant to Stuart Lee on 15 August 2013 was made in lieu of participation in the FY13 LTI Plan. See section 2.2.3 for more information.
- (2) Relates to options exercised during the year or Performance Rights coming out of restriction or Performance Shares being provided as shares. Options exercised during FY14 relate to the FY09 LTI Plan. Performance Rights vested during FY14 relate to the FY10 LTI Plan. Performance Shares vested in FY14 are the first tranche of the Performance Shares allocated in FY12 for Andrew Penn, see footnote (5) in Table 5.3. For more information on our KMPs' interests in Telstra Shares refer to Table 5.8.
- (3) Relates to Performance Rights lapsing or being forfeited due to the specified performance hurdles not being achieved or KMP departing during the year.
- (4) Relates to instruments that have been performance tested for the performance period ending on 30 June 2014 and met the specified performance hurdles. Performance Rights in this column relate to the FY12 LTI Plan and will be provided as Restricted Shares early in FY15.
- (5) Relates to instruments that have met the specified performance hurdles as at 30 June 2014. Performance Rights in this column include the FY12 LTI Plan that was performance tested at the end of FY14 as well as the FY11 LTI Plan that was performance tested at the end of FY13 and have been provided as Restricted Shares during FY14. The FY12 LTI Plan will be provided as Restricted Shares in the next financial year. For more information on our KMPs' interests in Telstra Shares refer to Table 5.8.
- (*) There are no Performance Rights or options held indirectly or beneficially by our KMP or their related parties.
- (*) As at 30 June 2014, there were no options or Performance Rights vested, vested and exercisable or vested and unexercisable.

REMUNERATION REPORT

5.6 Value of LTI and other equity instruments granted, exercised and expired/forfeited in FY14

| Name | Granted during period (\$) (1) (2) | | Vested/exercised (\$) (3) | | | Expired/forfeited (\$) (4) |
|-------------------|------------------------------------|-------------------|---------------------------|---------|--------------------|----------------------------|
| | Performance Rights | Restricted Shares | Performance Rights | Options | Performance Shares | Performance Rights |
| David Thodey | 3,175,831 | - | 3,568,348 | 296,056 | - | 1,658,202 |
| Gordon Ballantyne | 1,294,298 | - | - | - | - | - |
| Stuart Lee | - | 679,999 | 624,461 | 66,875 | - | - |
| Kate McKenzie | 997,094 | - | 936,694 | 135,335 | - | 516,910 |
| Robert Nason | 1,035,438 | - | 454,967 | - | - | 544,117 |
| Andrew Penn | 1,390,178 | - | - | - | 239,803 | - |
| Brendon Riley | 1,294,298 | - | - | - | - | 680,145 |
| Rick Ellis | 886,836 | - | - | - | - | 3,582,761 |

(1) The grant date of the FY14 LTI Plan was 16 October 2013. The fair value of the RTSR and FCF ROI Performance Rights granted in FY14 at the grant date is \$1.97 and \$4.13 respectively. The fair value reflects the valuation approach required by AASB 2 using an option pricing model, as explained in note 27 to the financial statements.

(2) The FY14 Restricted Share grant to Stuart Lee was made in lieu of participation in the FY13 LTI Plan. See section 2.2.3 for more information. The fair value of Restricted Shares granted on 15 August 2013 was \$5.09 and is based on the market value of Telstra shares on allocation.

(3) The value of the equity instruments exercised reflects the market value at the date of exercise after deducting any exercise price paid. The exercise price for options exercised was \$4.36 for the FY09 LTI Plan.

(4) The value of equity instruments that have lapsed during the year represents the value foregone and is calculated at the date the equity instruments lapsed using valuation methodologies as described in note 27 to the financial statements.

REMUNERATION REPORT

5.7 Non-executive Director remuneration

| Name | Year | Short term employee benefits | | Post-employment benefits | Total (\$) |
|--------------------------------|-------------|------------------------------|--------------------------------|--------------------------|------------------|
| | | Salary and fees (\$) (1) | Non-monetary benefits (\$) (2) | Superannuation (\$) | |
| Catherine B Livingstone | 2014 | 687,225 | 4,425 | 17,775 | 709,425 |
| Chairman | 2013 | 688,530 | 5,952 | 16,470 | 710,952 |
| Geoffrey A Cousins (3) | 2014 | 267,000 | - | 4,444 | 271,444 |
| Director | 2013 | 250,530 | - | 16,470 | 267,000 |
| Russell A Higgins | 2014 | 252,225 | - | 17,775 | 270,000 |
| Director | 2013 | 253,530 | 388 | 16,470 | 270,388 |
| Chin Hu Lim (4) (7) | 2014 | 199,033 | - | 5,701 | 204,734 |
| Director | 2013 | - | - | - | - |
| John P Mullen | 2014 | 274,225 | - | 17,775 | 292,000 |
| Director | 2013 | 275,530 | 1,013 | 16,470 | 293,013 |
| Nora L Scheinkestel | 2014 | 287,225 | - | 17,775 | 305,000 |
| Director | 2013 | 288,530 | - | 16,470 | 305,000 |
| Margaret L Seale | 2014 | 252,225 | - | 17,775 | 270,000 |
| Director | 2013 | 243,366 | - | 16,470 | 259,836 |
| Steven M Vamos (5) | 2014 | 249,225 | - | 17,775 | 267,000 |
| Director | 2013 | 251,153 | 1,902 | 19,491 | 272,546 |
| John D Zeglis (7) | 2014 | 230,672 | - | 4,328 | 235,000 |
| Director | 2013 | 225,204 | 1,590 | 16,470 | 243,264 |
| Total (6) | 2014 | 2,699,055 | 4,425 | 121,123 | 2,824,603 |
| | 2013 | 2,476,373 | 10,845 | 134,781 | 2,621,999 |

(1) Includes fees for membership on Board Committees.

(2) For FY14, Telstra has applied the exemption for transactions with KMP that are not remuneration and are trivial or domestic in nature (Corporations Regulation 2M.3.03 (3B)) such as Foxtel or the provision of phones or computers. The non-monetary value of \$4,425 for FY14 is the value of a car parking benefit.

(3) Due to an administrative error, we made insufficient superannuation contributions for Geoffrey Cousins of \$13,331. Salary and fees were overpaid by \$4,444 in FY14. The amounts actually paid are included in the table above. The overpayment and the under contribution of superannuation will be rectified in FY15.

(4) Chin Hu Lim was appointed as a non-executive Director on 9 August 2013 and the amount included in the table above is for the period 9 August 2013 to 30 June 2014. Due to an administrative error, excess superannuation contributions of \$2,274 were made. The amounts actually paid are included in the table above. The excess contribution will be rectified in FY15.

(5) In the 2013 Remuneration Report, Steven Vamos' Superannuation Component was overstated by \$7,898 and his Salary and Fees was understated by the same amount. However the overall total of \$272,546 as disclosed in the 2013 Remuneration Report is correct. These amounts have been restated in the table above.

(6) In the 2013 Remuneration Report the Total Remuneration for Non-executive Directors was \$2,775,713. The above table show a 2013 total of \$2,621,999. The difference is represented by \$71,753 for Timothy Y Chen and \$81,961 for John W Stocker who were not KMP for any part of FY14.

(7) As Chin Hu Lim and John Zeglis are overseas residents, their superannuation contributions for FY14 are less than the contributions for Australian resident non-executive Directors.

REMUNERATION REPORT

5.8 KMP interests in shares of the Telstra entity

During FY14, our KMP and their related parties held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

| | Total shares held at 30 June 2013 (1) | Equity instruments vested/exercised | STI Restricted Shares granted (2) | LTI Restricted Shares received during FY14 (3) | Net shares acquired or disposed of and other changes (4) | Total shares held at 30 June 2014 (1) | Shares held nominally at 30 June 2014 (5) |
|--------------------------------|---------------------------------------|-------------------------------------|-----------------------------------|--|--|---------------------------------------|---|
| Non-Executive Directors | | | | | | | |
| Catherine B Livingstone | 175,816 | - | - | - | 10,000 | 185,816 | 181,922 |
| Geoffrey A Cousins | 81,765 | - | - | - | 20,000 | 101,765 | 21,765 |
| Russell A Higgins | 88,404 | - | - | - | - | 88,404 | 83,084 |
| Chin Hu Lim | - | - | - | - | - | - | - |
| John P Mullen | 26,159 | - | - | - | - | 26,159 | 26,159 |
| Nora L Scheinkestel | 87,297 | - | - | - | (13,182) | 74,115 | 74,115 |
| Margaret L Seale | 235,755 | - | - | - | 4,886 | 240,641 | 240,641 |
| Steven M Vamos | 40,000 | - | - | - | - | 40,000 | 40,000 |
| John D Zeglis | 103,993 | - | - | - | - | 103,993 | 37,493 |
| Total | 839,189 | - | - | - | 21,704 | 860,893 | 705,179 |
| Senior Executives | | | | | | | |
| David Thodey (*) | 1,735,326 | 389,547 | 172,718 | 1,355,932 | (334,520) | 3,319,003 | 3,319,003 |
| Gordon Ballantyne | 196,558 | - | 78,400 | - | - | 274,958 | 133,395 |
| Stuart Lee (*) | 563,276 | 81,555 | 62,622 | 444,783 | (69,375) | 1,082,861 | 746,118 |
| Kate McKenzie (*) | 441,676 | 148,720 | 62,720 | 302,544 | (148,720) | 806,940 | 407,061 |
| Robert Nason (*) | 259,251 | - | 68,436 | 293,900 | - | 621,587 | 431,332 |
| Andrew Penn | 138,909 | 48,250 | 91,248 | - | - | 278,407 | 175,910 |
| Brendon Riley | 293,407 | - | 81,537 | - | 8,365 | 383,309 | 296,602 |
| Rick Ellis (6) | 56,607 | - | 47,794 | - | - | 104,401 | 73,098 |
| Total | 3,685,010 | 668,072 | 665,475 | 2,397,159 | (544,250) | 6,871,466 | 5,582,519 |
| | 4,524,199 | 668,072 | 665,475 | 2,397,159 | (522,546) | 7,732,359 | 6,287,698 |

Each equity instrument exercised or granted in FY14 (where applicable) in the table above, was issued by Telstra and resulted or will result in one ordinary Telstra share per equity instrument exercised or granted.

- Total shareholdings include shares held by our KMP and their related parties. Unless related to our employee share plans, shares acquired or disposed by our KMP during FY14 were on an arm's length basis at market price.
- STI Restricted Shares granted during FY14 relate to the FY13 STI Plan which were allocated on 1 July 2013. However, the allocation of Restricted Shares under the FY14 STI Plan will be made subsequent to the reporting date of 30 June 2014, therefore they have not been included in the table above.
- This column relates to those equity instruments that have been performance tested last financial year and have been provided as Restricted Shares during this financial year. For FY14, this relates to the FY11 LTI Plan.
- For Nora Scheinkestel, refers to a shareholding in which she has no beneficial interest and which no longer meets the requisite criteria for a related party shareholding. For all others, refers to shares acquired or disposed of by other means.
- Nominally refers to shares held either indirectly or beneficially, including (for non-executive Directors) those acquired under Directshare, as well as (for Senior Executives) certain Restricted Shares. These shares are subject to a Restriction Period, such that the non-executive Director or Senior Executive is restricted from dealing with the shares until the Restriction Period ends. Refer to note 27 to the financial statements for further details.
- For Rick Ellis who left Telstra during the year, the quantity represents shares held as at the date of cessation as a KMP.
- The opening balance has been adjusted to include those instruments that were performance tested and became Restricted Shares during prior periods, due to regulatory changes and a change in the way we have treated these instruments for disclosure purposes. An additional adjustment was also made to Stuart Lee's opening balance due to a restatement of a related party's opening balance.

REMUNERATION REPORT

5.9 Glossary

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

DIRECTORS' REPORT



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Rounding of amounts

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

This report is made on 14 August 2014 in accordance with a resolution of the Directors.

Catherine B Livingstone AO
Chairman
14 August 2014

David I Thodey
Chief Executive Officer and Executive Director
14 August 2014

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 2014, 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

SJ Ferguson
Partner
Sydney
14 August 2014

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TELSTRA CORPORATION LIMITED AND CONTROLLED ENTITIES

Australian Business Number (ABN): 33 051 775 556

FINANCIAL REPORT

as at 30 June 2014

Page
number

Financial Statements

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INCOME STATEMENT

For the year ended 30 June 2014

| | | Telstra Group | |
|---|------|--------------------|---------------|
| | | Year ended 30 June | |
| | | Restated | |
| | | 2014 | 2013 |
| | | \$m | \$m |
| | Note | | |
| Continuing operations | | | |
| Income | | | |
| Revenue (excluding finance income)..... | 6 | 25,320 | 24,474 |
| Other income..... | 6 | 976 | 302 |
| | | 26,296 | 24,776 |
| Expenses | | | |
| Labour..... | | 4,732 | 4,527 |
| Goods and services purchased..... | | 6,465 | 6,247 |
| Other expenses..... | 7 | 3,988 | 3,833 |
| | | 15,185 | 14,607 |
| Share of net profit/(loss) from joint ventures and associated entities..... | 26 | 24 | (1) |
| | | 15,161 | 14,608 |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)..... | | 11,135 | 10,168 |
| Depreciation and amortisation..... | 7 | 3,950 | 4,078 |
| Earnings before interest and income tax expense (EBIT)..... | | 7,185 | 6,090 |
| Finance income..... | 6 | 156 | 219 |
| Finance costs..... | 7 | 1,113 | 1,152 |
| Net finance costs..... | | 957 | 933 |
| Profit before income tax expense | | 6,228 | 5,157 |
| Income tax expense..... | 9 | 1,679 | 1,517 |
| Profit for the year from continuing operations | | 4,549 | 3,640 |
| Discontinued operation | | | |
| (Loss)/profit for the year from discontinued operation..... | 12 | (204) | 151 |
| Profit for the year from continuing and discontinued operations | | 4,345 | 3,791 |
| Attributable to | | | |
| Equity holders of Telstra Entity..... | | 4,275 | 3,739 |
| Non-controlling interests..... | | 70 | 52 |
| | | 4,345 | 3,791 |
| Earnings per share from continuing operations (cents per share) | | | |
| Basic..... | 3 | 36.1 | 28.9 |
| Diluted..... | 3 | 36.0 | 28.8 |
| Earnings per share (cents per share) | | | |
| Basic..... | 3 | 34.4 | 30.1 |
| Diluted..... | 3 | 34.3 | 30.0 |

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2014

| | | Telstra Group | |
|--|--|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| Note | | | |
| Profit for the year from continuing and discontinued operations | | | |
| | Attributable to equity holders of Telstra Entity | 4,275 | 3,739 |
| | Attributable to non-controlling interests | 70 | 52 |
| | | 4,345 | 3,791 |
| Items that will not be reclassified to the income statement | | | |
| Retained profits: | | | |
| | - actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity 24 | 116 | 782 |
| | - income tax on actuarial gain on defined benefit plans | (34) | (234) |
| | - actuarial gain on defined benefit plans attributable to non-controlling interests 24 | 1 | 2 |
| Foreign currency translation reserve: | | | |
| | - translation differences of foreign operations attributable to non-controlling interests | (4) | 23 |
| | | 79 | 573 |
| Items that may be subsequently reclassified to the income statement | | | |
| Foreign currency translation reserve: | | | |
| | - translation differences of foreign operations attributable to equity holders of Telstra Entity..... | 39 | 101 |
| | - income tax on movements in the foreign currency translation reserve..... | (13) | 21 |
| | - translation differences transferred to the income statement on disposal of controlled entities..... | 239 | 112 |
| | - income tax on translation differences transferred to the income statement on disposal of controlled entities..... | 48 | 18 |
| | - translation differences transferred to the income statement for controlled entities deregistered or in liquidation | 100 | - |
| Cash flow hedging reserve: | | | |
| | - changes in fair value of cash flow hedges..... | (116) | 365 |
| | - changes in fair value transferred to other expenses..... | (140) | (617) |
| | - changes in fair value transferred to goods and services purchased | (17) | 12 |
| | - changes in fair value transferred to finance costs | 228 | 236 |
| | - income tax on movements in the cash flow hedging reserve | 15 | (1) |
| | | 383 | 247 |
| | Total other comprehensive income | 462 | 820 |
| | Total comprehensive income for the year | 4,807 | 4,611 |
| | Total comprehensive income attributable to equity holders of Telstra Entity | 4,740 | 4,534 |
| | Total comprehensive income attributable to non-controlling interests | 67 | 77 |

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

| | | Telstra Group | |
|---|-------|---------------|---------------|
| | | As at 30 June | |
| | Note | 2014 \$m | 2013 \$m |
| Current assets | | | |
| Cash and cash equivalents | 20 | 5,527 | 2,479 |
| Trade and other receivables | 10 | 4,172 | 4,557 |
| Inventories | 11 | 362 | 431 |
| Derivative financial assets | 17(f) | 23 | 43 |
| Current tax receivables | | 2 | 79 |
| Prepayments | | 329 | 314 |
| Assets classified as held for sale | 12 | 23 | - |
| Total current assets | | 10,438 | 7,903 |
| Non current assets | | | |
| Trade and other receivables | 10 | 973 | 943 |
| Inventories | 11 | 29 | 27 |
| Investments - accounted for using the equity method | 26 | 196 | 18 |
| Investments - other | | 127 | 38 |
| Property, plant and equipment | 13 | 19,842 | 20,326 |
| Intangible assets | 14 | 6,382 | 8,202 |
| Derivative financial assets | 17(f) | 1,322 | 1,062 |
| Deferred tax assets | 9 | 7 | 5 |
| Defined benefit asset | 24 | 44 | 3 |
| Total non current assets | | 28,922 | 30,624 |
| Total assets | | 39,360 | 38,527 |
| Current liabilities | | | |
| Trade and other payables | 15 | 3,834 | 4,241 |
| Provisions | 16 | 932 | 918 |
| Borrowings | 17(a) | 2,277 | 751 |
| Derivative financial liabilities | 17(f) | 400 | 44 |
| Current tax payables | | 296 | 444 |
| Revenue received in advance | | 926 | 1,124 |
| Liabilities classified as held for sale | 12 | 19 | - |
| Total current liabilities | | 8,684 | 7,522 |
| Non current liabilities | | | |
| Other payables | 15 | 66 | 163 |
| Provisions | 16 | 261 | 276 |
| Borrowings | 17(a) | 13,547 | 14,313 |
| Derivative financial liabilities | 17(f) | 1,169 | 1,625 |
| Deferred tax liabilities | 9 | 1,286 | 1,330 |
| Defined benefit liability | 24 | - | 42 |
| Revenue received in advance | | 387 | 381 |
| Total non current liabilities | | 16,716 | 18,130 |
| Total liabilities | | 25,400 | 25,652 |
| Net assets | | 13,960 | 12,875 |
| Equity | | | |
| Share capital | 19 | 5,719 | 5,711 |
| Reserves | | (228) | (619) |
| Retained profits | | 8,331 | 7,519 |
| Equity available to Telstra Entity shareholders | | 13,822 | 12,611 |
| Non-controlling interests | | 138 | 264 |
| Total equity | | 13,960 | 12,875 |

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

| | | Telstra Group | |
|---|-------|--------------------|----------------|
| | | Year ended 30 June | |
| | Note | 2014 \$m | 2013 \$m |
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax (GST)) | | 28,950 | 28,585 |
| Payments to suppliers and to employees (inclusive of GST) | | (18,710) | (18,803) |
| Government grants received | | 147 | 77 |
| Net cash generated by operations | | 10,387 | 9,859 |
| Income taxes paid | | (1,774) | (1,500) |
| Net cash provided by operating activities | 20(a) | 8,613 | 8,359 |
| Cash flows from investing activities | | | |
| Payments for: | | | |
| - property, plant and equipment | | (2,868) | (2,818) |
| - intangible assets | | (894) | (1,691) |
| Capital expenditure (before investments) | | (3,762) | (4,509) |
| - shares in controlled entities (net of cash acquired) | 20(c) | (165) | (9) |
| - payments for joint ventures and associated entities | 26(f) | (3) | (8) |
| - payments for other investments | | (88) | (19) |
| Total capital expenditure (including investments) | | (4,018) | (4,545) |
| Proceeds from: | | | |
| - sale of property, plant and equipment | | 94 | 57 |
| - sale of intangible assets | | - | 12 |
| - sale of shares in controlled entities (net of cash disposed) | 20(d) | 2,397 | 693 |
| - sale of businesses (net of cash disposed) | | - | 4 |
| Proceeds from finance lease principal amounts | | 98 | 64 |
| Loans to joint ventures and associated entities | | - | (1) |
| Interest received | | 150 | 236 |
| Settlement of hedges in net investments | | (21) | (11) |
| Investments in financial instruments | | 4 | - |
| Dividends received | | 1 | 1 |
| Distributions received from Foxtel Partnership | 6 | 165 | 155 |
| Net cash used in investing activities | | (1,130) | (3,335) |
| Operating cash flows less investing cash flows | | 7,483 | 5,024 |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 1,572 | 2,074 |
| Repayment of borrowings | | (1,387) | (4,042) |
| Repayment of finance lease principal amounts | | (91) | (97) |
| Proceeds from sale and finance lease back transactions | | - | 52 |
| Staff repayments of share loans | | 3 | 4 |
| Purchase of shares for employee share plans | | (61) | - |
| Proceeds received from exercise of equity instruments | | 29 | 29 |
| Finance costs paid | | (947) | (1,037) |
| Issue of equity by controlled entities | 20(c) | 160 | - |
| Payment for share buy-back of non-controlling interests | 20(c) | (149) | (1) |
| Proceeds from sale of controlled entity shares on behalf of non-controlling interests | | 8 | - |
| Dividends paid to equity holders of Telstra Entity | 4 | (3,545) | (3,480) |
| Dividends paid to non-controlling interests | | (22) | (28) |
| Net cash used in financing activities | | (4,430) | (6,526) |
| Net increase/(decrease) in cash and cash equivalents | | 3,053 | (1,502) |
| Cash and cash equivalents at the beginning of the year | | 2,479 | 3,945 |
| Effects of exchange rate changes on cash and cash equivalents | | (5) | 36 |
| Cash and cash equivalents at the end of the year | 20(b) | 5,527 | 2,479 |

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

Telstra Group

| | Reserves | | | | | Total \$m | Non-controlling interests \$m | Total equity \$m |
|--|-------------------|--------------------------------------|---------------------------|-------------------------|----------------------|-----------|-------------------------------|------------------|
| | Share capital \$m | Foreign currency translation (a) \$m | Cash flow hedging (b) \$m | General reserve (c) \$m | Retained profits \$m | | | |
| Balance at 1 July 2012 | 5,635 | (751) | (87) | (29) | 6,712 | 11,480 | 209 | 11,689 |
| Profit for the year (restated)..... | - | - | - | - | 3,739 | 3,739 | 52 | 3,791 |
| Other comprehensive income (restated) | - | 252 | (5) | - | 548 | 795 | 25 | 820 |
| Total comprehensive income for the year | - | 252 | (5) | - | 4,287 | 4,534 | 77 | 4,611 |
| Dividends..... | - | - | - | - | (3,480) | (3,480) | (28) | (3,508) |
| Transactions with non-controlling interests..... | - | - | - | 1 | - | 1 | - | 1 |
| Amounts repaid on share loans provided to employees..... | 47 | - | - | - | - | 47 | - | 47 |
| Additional shares purchased..... | (42) | - | - | - | - | (42) | - | (42) |
| Exercise of employee share options.. | 29 | - | - | - | - | 29 | - | 29 |
| Share-based payments..... | 42 | - | - | - | - | 42 | 6 | 48 |
| Balance at 30 June 2013 | 5,711 | (499) | (92) | (28) | 7,519 | 12,611 | 264 | 12,875 |
| Profit for the year | - | - | - | - | 4,275 | 4,275 | 70 | 4,345 |
| Other comprehensive income..... | - | 413 | (30) | - | 82 | 465 | (3) | 462 |
| Total comprehensive income for the year | - | 413 | (30) | - | 4,357 | 4,740 | 67 | 4,807 |
| Dividends..... | - | - | - | - | (3,545) | (3,545) | (22) | (3,567) |
| Non-controlling interests on acquisitions..... | - | - | - | - | - | - | 6 | 6 |
| Non-controlling interests on disposals | - | - | - | - | - | - | (198) | (198) |
| Transactions with non-controlling interests (d) | - | - | - | 8 | - | 8 | 13 | 21 |
| Amounts repaid on share loans provided to employees..... | 3 | - | - | - | - | 3 | - | 3 |
| Additional shares purchased..... | (61) | - | - | - | - | (61) | - | (61) |
| Exercise of employee share options.. | 29 | - | - | - | - | 29 | - | 29 |
| Share-based payments..... | 37 | - | - | - | - | 37 | 8 | 45 |
| Balance at 30 June 2014 | 5,719 | (86) | (122) | (20) | 8,331 | 13,822 | 138 | 13,960 |

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

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

(b) The cash flow hedging reserve represents the effective portion of gains or losses on remeasuring the fair value of the hedge instrument, where a hedge qualifies for hedge accounting. These gains or losses are transferred to the income statement when the hedged item affects income or, in the case of forecast transactions, is included in the measurement of the initial cost of property, plant and equipment or inventory.

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

(d) During the year we decreased our ownership of Autohome Inc. from 66.0 per cent at 30 June 2013 to 63.2 per cent at 30 June 2014 via share buy-back, subsequent initial public offering and employee share issues. We also acquired the non-controlling interests of the Octave Group. Neither of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve. Refer to note 20 for further details.

1. BASIS OF PREPARATION

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

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

- year or financial year means the year ended 30 June
- reporting date means the date 30 June
- 2014 means financial year 2014 and similarly for other financial years.

The financial report of the Telstra Group for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 14 August 2014. The Directors have the power to amend and reissue the financial report.

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

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report, prepared by a for-profit entity, in accordance with the requirements of the Australian Corporations Act 2001, Accounting Standards applicable in Australia and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). This financial report also complies with International Financial Reporting Standards (IFRS) and Interpretations published by the International Accounting Standards Board (IASB).

Both the functional and presentation currency of the Telstra Entity and its Australian controlled entities is Australian dollars. The functional currency of certain non Australian controlled entities is not Australian dollars. As a result, the results of these entities are translated into Australian dollars for presentation in the Telstra Group financial report.

This financial report is prepared in accordance with historical cost, except for some categories of investments and some financial instruments, which are recorded at fair value; and assets held for sale, which are measured at fair value less costs to sell. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we are required to make judgements and estimates that affect:

- income and expenses for the year
- the reported amounts of assets and liabilities
- the disclosure of off-balance sheet arrangements, including contingent assets and contingent liabilities.

We continually evaluate our judgements and estimates. We base our judgements and estimates on historical experience, various other assumptions we believe to be reasonable under the circumstances and, where appropriate, practices adopted by international telecommunications companies. Actual results may differ from our estimates.

1.2 Clarification of terminology used in our income statement

Under the requirements of AASB 101: "Presentation of Financial Statements", we must classify all of our expenses (apart from any finance costs and our share of net profit/loss from joint ventures and associated entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. Depreciation and amortisation are calculated in accordance with AASB 116: "Property, Plant and Equipment" and AASB 138: "Intangible Assets" respectively. We believe that EBITDA is a relevant and useful financial measure used by management to measure the Company's operating performance.

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

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

1.3 Rounding

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2014:

(a) Consolidated Financial Statements and Separate Financial Statements

AASB 10: "Consolidated Financial Statements" revises the definition of control and related application guidance so that a single control model can be applied to all entities. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

We adopted AASB 10 on a retrospective basis from 1 July 2013, along with the entire suite of consolidation and related standards.

We have reviewed our investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under the previous accounting standard AASB 127:

"Consolidated and Separate Financial Statements". No material differences were found and therefore no adjustments are required as a result of the adoption of AASB 10. Investments accounted for as subsidiaries under AASB 127 continue to meet the revised definition of control under AASB 10 and therefore continue to be consolidated in the Group's financial statements. Investments accounted for as associates under the previous accounting standard AASB 128: "Investments in Associates" have been assessed against the revised control definition and there are no material changes in the accounting treatment for these investments.

We also adopted revised AASB 127: "Separate Financial Statements" from 1 July 2013. However, there is no impact to the Group as we already comply with the requirements in this standard. AASB 127 only applies to the separate financial statements of Telstra Entity and some of the Group's subsidiaries.

(b) Joint Arrangements and Investments in Associates and Joint Ventures

AASB 11: "Joint Arrangements" has revised the definition types of joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form.

The definition types have been consolidated into joint ventures (previously referred to as jointly controlled entities) and joint operations (previously referred to as jointly controlled assets and jointly controlled operations). Furthermore, the accounting treatment options for joint venture arrangements have been removed to eliminate inconsistent treatments. Equity accounting is mandatory for joint ventures and proportionate consolidation can no longer be used.

We adopted this standard on a retrospective basis from 1 July 2013, along with the entire suite of consolidation and related standards.

We have reviewed our joint arrangements to assess whether the revised definition types under AASB 11 change the way we account for these compared to the previous standard AASB 131: "Interests in Joint Ventures". No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 11.

The assessment of our previously classified jointly controlled entities shows that none give us direct rights over assets or obligations to settle liabilities, such that they should be classified as joint operations. Therefore, all of these jointly controlled entities have been classified as joint ventures and, given that our accounting policy under AASB 131 for jointly controlled entities was to use the equity accounting method, we have continued to equity account these joint ventures under AASB 11.

On adoption, we did not have any jointly controlled assets or jointly controlled operations, now referred to as joint operations. Overall, there has been no impact on the measurement of any of our joint arrangements.

We also adopted AASB 128: "Investments in Associates and Joint Ventures" from 1 July 2013. There has been no impact to our financial results as a result of this new standard.

(c) Disclosure of Interests in Other Entities

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

We also adopted AASB 12 on a retrospective basis from 1 July 2013, along with the entire suite of consolidation and related standards. We have assessed the disclosure requirements under AASB 12 and additional disclosures for material joint ventures are included in our financial report. Refer to note 26 for further details.

There are no measurement impacts from the adoption of this standard.

(d) Fair Value Measurement

We adopted AASB 13: "Fair Value Measurement" from 1 July 2013 on a prospective basis. It is a new standard providing a single source of guidance for all fair value measurements and a precise definition of fair value. AASB 13 replaces all fair value measurement guidance in Australian Accounting Standards and Interpretations (with some exceptions, including share-based payments and leases) but does not replace existing standard requirements on when fair values should be used.

We have assessed the new guidance and definition of fair value against our previous fair value measurements of assets and liabilities and there is no change to how we measure fair value. We use exit prices and, where possible, observable market-based inputs to determine fair value.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.1 Changes in accounting policies (continued)

(d) Fair Value Measurement (continued)

We are, however, required to make additional disclosures in our financial report, specifically in the following areas:

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

Additional fair value disclosures relating to our financial instruments have also been provided in note 17.

(e) Employee Benefits

We adopted AASB 119: "Employee Entitlements" retrospectively from 1 July 2013 in accordance with the transitional provisions set out in this revised standard. Comparatives have been restated accordingly.

Some of the key changes that affect us include the following:

(i) Defined Benefit

Change in accounting for defined benefit plans:

- the interest cost and expected return on plan assets used under the previous version of AASB 119 have been replaced with a net interest amount, which is calculated by applying a blended Commonwealth and State discount rate to the net defined benefit liability or asset at the start of each annual reporting period
- the defined benefit expense has been disaggregated into two components: service costs, which will be presented as part of labour expenses; and a net interest amount, which will be presented as part of finance costs.

This change in accounting policy has increased the defined benefit expense recognised in the income statement by \$82 million, increased finance costs by \$24 million and decreased the income tax expense by \$32 million. The corresponding increase in the actuarial gain recognised in other comprehensive income was \$74 million (after tax) for the financial year ended 30 June 2013.

The following table summarises the financial effects on the continuing operations and discontinued operation in the income statement and other comprehensive income on implementation of the new policy:

| | Telstra Group | | |
|--|-------------------------|--------------|--------------|
| | Year ended 30 June 2013 | | |
| | Reported | Adjustment | Restated |
| Income Statement: | \$m | \$m | \$m |
| Continuing operations | | | |
| Labour expenses..... | 4,445 | 82 | 4,527 |
| Finance costs..... | 1,128 | 24 | 1,152 |
| Income tax expense..... | 1,549 | (32) | 1,517 |
| Discontinued operation | | | |
| Labour expenses..... | 358 | - | 358 |
| Income tax expense..... | 68 | - | 68 |
| Total | | | |
| Labour expenses..... | 4,803 | 82 | 4,885 |
| Finance costs..... | 1,128 | 24 | 1,152 |
| Income tax expense..... | 1,617 | (32) | 1,585 |
| | cents | cents | cents |
| Total | | | |
| Earnings per share - Basic..... | 30.7 | (0.6) | 30.1 |
| Earnings per share - Diluted..... | 30.6 | (0.6) | 30.0 |
| Other Comprehensive Income: | \$m | \$m | \$m |
| Actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity | 676 | 106 | 782 |
| Income tax on actuarial gain on defined benefit plans | (202) | (32) | (234) |

This change in accounting policy has had no impact on net assets at 30 June 2013.

Refer to note 24 for further details on our defined benefit plans.

(ii) Annual Leave

The revised standard has also changed the accounting for the Group's annual leave obligations. As we do not expect all annual leave to be taken within 12 months of the respective service being provided, a portion of annual leave obligations is now classified as long term employee benefits and needs to be measured on a discounted basis. We have assessed the financial effect of discounting our long term annual leave balances to be immaterial to our financial results.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.1 Changes in accounting policies (continued)

(f) Disclosures - Offsetting Financial Assets and Financial Liabilities

On 1 July 2013, we adopted AASB 2012-2: "Disclosures - Offsetting Financial Assets and Financial Liabilities" retrospectively. AASB 2012-2 amends the disclosure requirements in AASB 7: "Financial Instruments: Disclosures" so that more extensive disclosures are required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

We have assessed the new disclosure requirements under AASB 2012-2 and added additional disclosures in our financial report, including the following:

- our bilateral international roaming agreements, that have unconditional rights of set-off and are offset in the statement of financial position
- our International Swaps and Derivative Association agreements and Telstra Wholesale Customer Relationship Agreements that have conditional rights of set-off and are not offset in the statement of financial position.

There are no measurement impacts from the adoption of this standard.

Refer to note 17(h) for further details on offsetting disclosures.

(g) Recoverable Amount Disclosures for Non-financial Assets

On 1 July 2013, we early adopted AASB 2013-3: "Amendments to AASB 136 - Recoverable Amount Disclosures for Non-financial Assets". The intention of this amendment is to harmonise the disclosure requirements for fair value less costs of disposal and value in use when present value techniques are used to measure the recoverable amount of impaired assets. We have assessed the disclosure requirements under the amended AASB 136 and no additional material disclosures are required in our financial report.

(h) Other

In addition to the above changes in accounting policy, we note the following new accounting standards that are applicable to us from 1 July 2013:

- AASB 2011-4: "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements"
- AASB 2011-7: "Amendments to Australian Standards Arising from the Consolidation and Joint Arrangement Standards"
- AASB 2011-8: "Amendments to Australian Accounting Standards arising from AASB 13"
- AASB 2011-10: "Amendments to Australian Accounting Standards Arising from AASB 119"

- AASB 2012-5: "Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle"
- AASB 2012-10: "Amendments to Australian Accounting Standards - Transition Guidance and other Amendments"
- AASB CF 2013-1: "Amendments to the Australian Conceptual Framework".

These new accounting standards do not have any material impact on our financial results.

2.2 Principles of consolidation

The consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the year and the consolidated results and cash flows for the year. The effect of all intra-group transactions and balances are eliminated in full from our consolidated financial statements.

An entity is considered to be a controlled entity where we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power to direct the activities of the entity.

Where we do not control an entity for the entire year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

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

We account for the acquisition of our controlled entities using the acquisition method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the fair value of consideration over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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 each transaction. Amounts payable or receivable in foreign currencies at reporting date are converted into the relevant functional currency at market exchange rates at reporting date. Any currency translation gains and losses that arise are included in our income statement. Where we enter into a hedge for a specific expenditure commitment or for the construction of an asset, hedging gains and losses are accumulated in other comprehensive income over the period of the hedge and are transferred to the carrying value of the asset upon completion, or included in the income statement at the same time as the discharge of the expenditure commitment.

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of Telstra Corporation Limited.

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

Our operations include subsidiaries, associates and joint ventures, whose activities and operations are in an economic environment where the functional currency is not Australian dollars. The financial statements of these entities are translated into Australian dollars (our presentation currency) using the following method:

- assets and liabilities are translated into Australian dollars using market exchange rates at reporting date
- equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at the exchange rates current at the dates of those movements
- income statements are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction
- currency translation gains and losses are recorded in other comprehensive income.

Refer to note 2.22(c) for details regarding our accounting policy for derivative financial instrument items that are used to hedge our net investment in entities whose functional currency is not Australian dollars.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, negotiable certificates of deposit and bills of exchange that are held for the purposes of meeting short term cash commitments rather than investment purposes.

Bank deposits are recorded at amounts to be received. Negotiable certificates of deposit and bills of exchange are classified as available-for-sale financial assets and are held at fair value. The carrying amount of these assets approximates their fair value due to the short term to maturity.

2.5 Trade and other receivables

Trade and other receivables are considered financial assets. They are initially recorded at the fair value of the amounts to be received and are subsequently measured at amortised cost using the effective interest method. These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at reporting date. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, an insolvency risk or an incapacity to pay a legally recoverable debt.

Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

2.6 Inventories

Our finished goods include goods available for sale and material and spare parts to be used for less than one year 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 cost of disposal. We calculate net realisable value of inventories by making certain price assumptions to project selling prices into the future and assumptions about technologies at reporting date.

Net realisable value of items expected to be consumed, for example, used in the construction of another asset, is the net value expected to be earned through future use.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.7 Construction contracts

(a) Valuation

We record construction contracts in progress at cost, include any profits recognised less progress billings and any provision for foreseeable losses. Cost includes:

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

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

(b) Recognition of revenue and profit

Revenue and profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion. Refer to note 2.17(d) for further details.

Profits are recognised when:

- the stage of contract completion can be reliably determined
- costs to date can be clearly identified
- 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) Joint arrangements

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control involves the contractually agreed sharing of control over an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or joint venture depends on the rights and obligations of the parties to the arrangement.

(i) Joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. In the Telstra Group financial statements our interests in joint ventures are accounted for using the equity method of accounting.

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
- deferred profit brought to account.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years' share of losses and reserve reductions. Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of the investment falls below zero, we reduce the value of these long term assets in proportion to our cumulative losses.

(ii) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. We recognise our own, and our share of any jointly held or incurred, assets, liabilities, revenue and expenses under the appropriate headings. We are not party to any joint operations at present.

(b) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20 per cent and 50 per cent, and are able to significantly influence the decisions of the entity, that entity is an associated entity. In the Telstra Group financial statements associated entities are accounted for using the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.8 Investments (continued)

(c) Listed securities and investments in other corporations

Our investments in listed securities and other corporations, where we do not have control, joint control or significant influence, 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 active market, we use the current quoted market bid price at reporting date
- for investments in unlisted entities whose securities are not traded in an active market, we establish fair value by using other valuation techniques, including reference to discounted cash flows and fair values of recent orderly transactions between market participants involving instruments that are substantially the same, maximising the use of observable (market) inputs and minimising the use of unobservable (non-market) inputs.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in other comprehensive income until we dispose of the investment or we determine it to be impaired, at which time we transfer cumulative gains and losses to the income statement. Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

2.9 Impairment

(a) Non-financial assets

Our tangible and intangible assets (excluding inventories, assets arising from construction contracts, current and deferred tax assets, defined benefit assets and financial assets) are measured using the cost basis and are written down to recoverable amount where their carrying value exceeds recoverable amount.

Assets with an indefinite useful life are not subject to amortisation and are tested for impairment on an annual basis, or whenever an indication of impairment exists. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. 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.

Fair value less cost of disposal is measured with reference to quoted market prices in an active market. In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

The expected net cash flows included in determining recoverable amounts of our assets are discounted to present values using a market determined, risk adjusted discount rate. When determining an appropriate discount rate, we use the weighted average cost of capital (WACC) as an initial point of reference, adjusted for specific risks associated with each different category of assets assessed.

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

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

The Telstra Entity CGU excludes the hybrid fibre coaxial (HFC) cable network, which we consider not to be integrated with the rest of our telecommunications network. Refer to note 21 for further details.

(b) Financial assets

At each reporting date we assess whether there is objective evidence to suggest that any of our financial assets are impaired.

For listed securities and investments in other corporations, we consider the financial asset to be impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its acquisition cost. At this time, all revaluation losses in relation to impaired financial assets that have been accumulated within other comprehensive income are recognised in the income statement.

For financial assets held at cost or amortised cost, we consider the financial asset to be impaired when there is objective evidence, as a result of one or more events, that the present value of estimated discounted future cash flows is lower than the carrying value. Any impairment losses are recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.10 Property, plant and equipment

(a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 2.10(b) below. The cost of our constructed property, plant and equipment is directly attributable in bringing the asset to the location and condition necessary for its intended use and includes:

- the cost of material and direct labour
- an appropriate proportion of direct and indirect overheads
- where we have an obligation for removal of the asset or restoration of the site, an estimate of the cost of restoration or removal if that cost can be reliably estimated.

Management judgement is required in the assessment of the types of costs that are directly attributable to the construction of our property, plant and equipment. Satisfying the directly attributable criteria requires an assessment of those unavoidable costs that, if not incurred, would result in the property, plant and equipment not being constructed. We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

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

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

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

(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 | |
| | 2014 | 2013 |
| Property, plant and equipment | Service life (years) | Service life (years) |
| Buildings | | |
| Buildings..... | 32 - 52 | 52 |
| Fitouts..... | 10 - 20 | 10 - 20 |
| Leasehold improvements..... | 4 - 40 | 4 - 40 |
| Communication assets | | |
| Network land and buildings..... | 10 - 58 | 10 - 58 |
| Network support infrastructure | 3 - 51 | 3 - 53 |
| Access fixed | 4 - 30 | 4 - 30 |
| Access mobile | 3 - 16 | 4 - 16 |
| Content/IP products - core | 3 - 10 | 4 - 8 |
| Core network - data | 4 - 10 | 3 - 10 |
| Core network - switch..... | 3 - 18 | 3 - 26 |
| Core network - transport..... | 3 - 30 | 5 - 30 |
| Specialised premise equipment..... | 3 - 7 | 3 - 8 |
| International connect..... | 9 - 21 | 9 - 21 |
| Managed service..... | 4 - 12 | 4 - 13 |
| Network control layer | 2 - 13 | 2 - 13 |
| Network product..... | 4 - 7 | 3 - 7 |
| Other plant and equipment | | |
| IT equipment | 3 - 7 | 3 - 7 |
| Motor vehicles/trailer/caravan/huts | 5 - 15 | 5 - 15 |
| Other plant and equipment | 8 - 20 | 3 - 20 |

The service lives and residual values of our assets are reviewed each year. We apply management judgement in determining the service lives of our assets. This assessment includes a comparison with international trends for telecommunications companies and, in relation to communication assets, includes a determination of when the asset may be superseded technologically or made obsolete.

The net effect of the assessment of service lives for financial year 2014 was a decrease in depreciation expense of \$200 million (2013: \$224 million) for the Telstra Group.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (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, and operating leases under which the lessor effectively retains substantially all such risks and benefits. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

(a) Telstra as a lessee

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

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

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

(b) Telstra as a lessor

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

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

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, joint ventures and associated entities, when we pay an amount greater than the fair value of the net identifiable assets of the entity, this excess is considered to be goodwill. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a joint venture 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 on an annual basis or when an indication of impairment exists in accordance with note 2.9(a).

(b) Internally generated intangible assets

Research costs are recorded as an expense as incurred.

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

(i) Software assets

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

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project.

We capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.

We review our software assets and software assets under development on a regular basis to ensure the assets are still in use and projects are still expected to be completed. Refer to note 7 for details of impairment losses recognised on our intangible assets.

Software assets developed for internal use have a finite life and are amortised on a straight line basis over their useful lives to us. Amortisation commences once the software is ready for use.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.12 Intangible assets (continued)

(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. Intangible assets acquired through specific acquisition are recorded at cost. 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 on an annual basis or when an indication of impairment exists in accordance with note 2.9(a).

(d) Deferred expenditure

Deferred expenditure mainly includes costs incurred for basic access installation and connection fees, for existing and new services, as well as direct incremental costs of establishing a customer contract.

Significant items of expenditure are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity. Any costs in excess of future revenue are recognised immediately in the income statement. Handset subsidies are considered to be separate units of accounting and are expensed as incurred.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised.

(e) Amortisation

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

| | Telstra Group | |
|--------------------------------|--------------------------|--------------------------|
| | As at 30 June | |
| | 2014 | 2013 |
| Identifiable intangible assets | Expected benefit (years) | Expected benefit (years) |
| Software assets | 9 | 9 |
| Patents and trademarks | 5 | 5 |
| Mastheads..... | 5 | 5 |
| Licences..... | 15 | 15 |
| Brand names..... | 14 | 17 |
| Customer bases | 8 | 6 |
| Deferred expenditure..... | 4 | 3 |

The service lives of our identifiable intangible assets are reviewed each year. Any reassessment of service lives in a particular year will affect the amortisation expense through to the end of the reassessed useful life for both that current year and future years.

The net effect of the reassessment for financial year 2014 was a decrease in our amortisation expense of \$72 million (2013: \$34 million) for the Telstra Group.

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

2.13 Trade and other payables

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

2.14 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events
- it is probable that a future sacrifice of economic benefits will arise
- a reliable estimate can be made of the amount of the obligation.

(a) Employee benefits

We accrue liabilities for employee benefits relating to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related costs.

Certain employees who have been employed by Telstra for at least 10 years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of reporting date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

We calculate present values using rates based on government guaranteed securities with due dates similar to those of our liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.14 Provisions (continued)

(a) Employee benefits (continued)

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
- discount rate (determined by reference to a State and Commonwealth blended 10-year Australian government bond rate).

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates (determined by reference to a State and Commonwealth blended 10-year Australian government bond rate) based on the risks specific to the liability with a similar due date.

Certain controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities. Refer to note 16 for further details.

(c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that it will be carried out.

2.15 Borrowings

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

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

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

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

(a) Borrowings in a designated hedging relationship

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

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

Fair value is calculated using valuation techniques that utilise data from observable markets. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve that 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 are recognised initially at fair value plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost and translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

When currency gains or losses on the borrowings are recognised in the income statement, the associated gains or losses on the hedging instrument are also transferred from the cash flow hedging reserve to the income statement.

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include offshore loans, Telstra bonds and domestic loans.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.15 Borrowings (continued)

(c) Statement of cash flows presentation

Where our short term borrowings are held for the purposes of meeting short term cash commitments, we report the cash receipts and subsequent repayments on a net basis in the statement of cash flows.

2.16 Share capital

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

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

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

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

Refer to note 2.21 for further details on our accounting for employee share plans.

2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

(a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12(d). In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life.

Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2013: 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.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue and profit on a percentage of contract completion basis. The percentage of completion is calculated based on estimated costs to complete the contract. Our construction contracts are classified according to their type. There are two types of construction contracts: material intensive and short duration. Revenue and profit are recognised on a percentage of completion basis using the appropriate measures as follows:

- for material intensive projects: (actual costs divided by planned costs) multiplied by planned revenue, including profit
- for short duration projects (those that are expected to be completed within a month): revenues, profit and costs are recognised on completion.

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis and revenues are recognised when the advertisement is published.

All of our Yellow Pages® and White Pages® directory print revenues are recognised on delivery of the published directories to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. The sale excluded the voice services business. As a result, the Sensis Group advertising and directory services have been disclosed as discontinued operation. Refer to note 12 for further details.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.17 Revenue recognition (continued)

(f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

(h) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

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

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. If there is neither vendor specific objective evidence nor third party evidence for the selling price, then the item is measured based on the best estimate of the selling price of that unit. When allocating revenue to the separate units within an arrangement, the amount allocated to a delivered item is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount). The non-contingent revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

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

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

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

(j) Sales incentives

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

A cash consideration (for example, cash payment, credit or rebate) provided to a customer is generally recorded as a reduction in revenue.

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

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

(k) Government grants

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (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 in which the asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to other comprehensive income or equity, in which case our current and deferred tax is also recognised directly in other comprehensive income or equity.

We apply the balance sheet 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
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit nor our taxable income at the time of the transaction.

In respect of our investments in subsidiaries, joint ventures and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Management judgement is required to determine the amount of deferred tax assets that can be recognised. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits, can be utilised.

The carrying amount of our deferred tax asset is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

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

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 unless they are within the tax consolidated group.

(b) Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due to the ATO but not paid 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 SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (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 post employment benefit plan. As this plan has elements of both defined contribution and defined benefit, it is treated as defined benefit plan.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that will be available to us in the form of reductions in future contributions or as a cash refund. Fair value is used to determine the value of the plan assets at reporting date and is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from current and past employee services. These obligations are influenced by many factors, including final salaries and employee turnover. We engage qualified actuaries to calculate the present value of the defined benefit obligations which are measured gross of tax.

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of the plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement, with the exception of actuarial gains and losses that are recognised directly in other comprehensive income. Components of defined benefit costs include current and past service cost, interest cost and return on assets. Past service cost is recognised immediately.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

We apply judgement in estimating the following key assumptions used in the calculation of our defined benefit liabilities and assets at reporting date:

- discount rates (determined by reference to a State and Commonwealth blended 10-year Australian government bond rate)
- salary inflation rate.

The estimates applied in the actuarial calculation have a significant impact on the reported amount of our defined benefit plan liabilities and assets. If the estimates prove to be incorrect, the carrying value may be materially affected in the next reporting period. Additional volatility may also potentially be recorded in other comprehensive income to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group.

Following the disposal of the Sensis Group we account for our proportionate share of assets, liabilities and costs of our defined benefit divisions and continue to account for our contributions to the defined contribution divisions.

Refer to note 24 for details on the key management judgements used in the calculation of our defined benefit liabilities and assets.

2.21 Employee Share Plans

We own 100 per cent of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.21 Employee Share Plans (continued)

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

We own 100 per cent of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also consolidate the results, position and cash flows of Growthshare.

We recognise an expense for all share-based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is recognised in the income statement over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

2.22 Derivative financial instruments

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

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

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

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Refer to note 17 for details on the basis used to estimate fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and, if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as “held for trading” financial instruments. All of our derivative financial instruments are stated at fair value.

Derivative assets are derecognised when the rights to receive cash flows from the derivative assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership. Derivative liabilities are derecognised when the contractual obligations are discharged, are cancelled or expire.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. We do not offset the receivable or payable with the underlying financial asset or financial liability being hedged, as the transactions are usually with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to offset the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set-off, and intend to exercise that right, we also include this position on a net basis in our statement of financial position.

Our derivative financial instruments that are held to hedge exposures can be classified into three different types, according to the reason we are holding them: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. For all of our hedging instruments, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement in the period in which they occur. The extent to which gains or losses on the hedged item and the hedge instrument do not offset represents ineffectiveness, which will create volatility in the income statement.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions, together with the methods that will be used to assess the effectiveness of the hedge relationship. We also document, both at hedge inception and on an ongoing basis, our assessment of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative financial instruments are recognised on the date on which we commit to purchase or sell an asset or liability.

(a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

(Continued)

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

2.22 Derivative financial instruments (continued)

(b) Cash flow hedges

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

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument is recognised directly in other comprehensive income in the cash flow hedging reserve until such time as the hedged item affects profit or loss, and then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment), the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create volatility in equity reserve balances.

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

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

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

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

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

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

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

Derivatives associated with borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship for hedge accounting purposes are classified as "held for trading".

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the remeasurement of these borrowings as at the date of de-designation are unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs.

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

Any gains or losses on remeasuring to fair value forward exchange contracts that are not in a designated hedging relationship are recognised directly in the income statement in the period in which they occur within other expenses or other income.

(e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

2.23 Contingent liabilities

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

We first determine whether an obligation should be recorded as a liability or a contingent liability. This requires management to assess the probability that Telstra will be required to make payment as well as an estimate of that payment.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

2.23 Contingent liabilities (continued)

This assessment is made based on the facts and circumstances, factoring in past experience and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.

Refer to notes 23, 26 and 30 for further details on contingent liabilities.

2.24 Non current assets (or disposal groups) held for sale and discontinued operations

Non current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, rather than through continuing use, and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non current asset (or disposal group) is recognised at the date of derecognition.

Non current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Refer to note 12 for further details.

2.25 New accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2014 but will be applicable to the Telstra Group in future reporting periods are detailed below.

Apart from these standards, we have considered other accounting standards that will be applicable in future periods but are considered insignificant to Telstra.

(a) Financial Instruments

In December 2013, the AASB issued AASB 2013-9: "Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments" which completed a series of amendments to AASB 9: "Financial Instruments" (AASB 9 (2013)). AASB 9 (2013) currently applies to annual reporting periods beginning on or after 1 January 2017 (i.e. from 1 July 2017 for Telstra), with early adoption permitted. We resolved to early adopt the current version of AASB 9 (2013), i.e. sections regarding classification and measurement of financial assets and financial liabilities and hedge accounting, from 1 July 2014.

In regards to classification and measurement of financial assets and financial liabilities AASB 9 (2013) will replace AASB 139: "Financial instruments: Recognition and measurement". We have assessed that there will be no material impact to our financial statements resulting from the amended requirements and we do not expect any retrospective restatement of comparatives. Under AASB 9 (2013) financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The objective of our business model is to hold financial assets in order to collect contractual cash flows. Accordingly, our non-derivative financial assets will continue to be measured at amortised cost. Derivatives will continue to be measured at fair value consistent with current accounting requirements. For liabilities, AASB 9 (2013) retains most of the AASB 139 requirements and there are no significant implications with respect to classification and measurement. There will be some changes relating to measurement of financial liabilities associated with changes to hedge accounting discussed below.

We expect that the early adoption of the new hedge accounting rules will result in reduced volatility in the income statement as a consequence of the revised hedge effectiveness requirements and changed accounting treatment associated with costs of hedging relating to currency basis spreads. We will redefine our hedge relationships relating to the portion of our offshore borrowing portfolio in fair value hedges which is also expected to reduce volatility in the income statement. All changes to the hedge accounting model will be applied prospectively with no restatement of comparatives required.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

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

(a) Financial Instruments (continued)

On 24 July 2014, the IASB issued the final component of IFRS 9: “Financial Instruments” on impairment. It applies to annual reporting periods beginning on or after 1 January 2018 (i.e. from 1 July 2018 for Telstra), with early adoption permitted. The transitional provisions allow for early adoption of the current standard before February 2015 without the requirement to early adopt the impairment requirements. We anticipate that the AASB will replicate the transitional provisions of the IASB. We are currently assessing the impact of the impairment requirements.

(b) Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The new revenue standard is applicable to Telstra from 1 July 2017. We are currently assessing the impact of IFRS 15 on our financial results.

(c) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 1031: “Materiality”
- AASB 2013-9: “Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments”
- AASB 2014-1 “Australian Accounting Standards – Part A: Annual Improvements 2010 - 2012 and 2011-2013 Cycles, Part B: “Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)”
- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”
- Amendments to IAS 16 and IAS 38 “Clarification of acceptable methods of depreciation and amortisation”.

We do not expect these accounting standards, upon adoption, will have any material impact on our financial results.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. EARNINGS PER SHARE

| | Telstra Group | |
|--|--------------------------------------|------------------|
| | Year ended 30 June | |
| | 2014 | Restated 2013 |
| | cents | cents |
| Earnings per share from continuing operations | | |
| Basic | 36.1 | 28.9 |
| Diluted | 36.0 | 28.8 |
| | \$m | \$m |
| Earnings used in the calculation of basic and diluted earnings per share | | |
| Profit for the year from continuing operations attributable to equity holders of Telstra Entity..... | 4,479 | 3,588 |
| | cents | cents |
| Earnings per share | | |
| Basic | 34.4 | 30.1 |
| Diluted | 34.3 | 30.0 |
| | \$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..... | 4,275 | 3,739 |
| | Number of shares millions | |
| Weighted average number of ordinary shares | | |
| Weighted average number of ordinary shares on issue..... | 12,443 | 12,443 |
| Effect of shares held by employee share plan trusts (a)(b) | (25) | (37) |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share..... | 12,418 | 12,406 |
| Effect of dilutive employee share instruments (c) | 27 | 38 |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share | 12,445 | 12,444 |

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

(b) Share options issued under the Telstra Employee Share Ownership Plan Trust I (TESOP97) and II (TESOP99) are not considered outstanding for the purposes of calculating basic and diluted earnings per share.

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

- certain restricted shares granted under the Growthshare short term incentive (STI) scheme
- certain performance rights and restricted shares granted under the Growthshare long term incentive (LTI) scheme
- share options issued under TESOP99.

Certain performance rights and restricted shares issued under the Growthshare STI and LTI schemes are not considered dilutive to earnings per share.

Refer to note 27 for details of equity instruments issued under the Growthshare and TESOP share plans.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. DIVIDENDS

| | Telstra Entity | |
|--|--------------------|--------------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Dividends paid | | |
| Previous year final dividend paid..... | 1,742 | 1,739 |
| Interim dividend paid..... | 1,803 | 1,741 |
| Total dividends paid..... | 3,545 | 3,480 |
| | cents | cents |
| Previous year final dividend paid..... | 14.0 | 14.0 |
| Interim dividend paid..... | 14.5 | 14.0 |
| Total dividends paid..... | 28.5 | 28.0 |

Dividends paid are fully franked at a tax rate of 30 per cent.

Dividends per share in respect of each financial year are detailed below.

| | Telstra Entity | |
|-------------------------------------|--------------------|-------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | cents | cents |
| Dividends per ordinary share | | |
| Interim dividend paid..... | 14.5 | 14.0 |
| Final dividend to be paid (a)..... | 15.0 | 14.0 |
| Total dividends..... | 29.5 | 28.0 |

| | Telstra Entity | |
|--|----------------|------|
| | 2014 | 2013 |
| | \$m | \$m |
| Franking credits available for use in subsequent reporting periods | | |
| Franking account balance..... | 111 | (85) |
| Franking credits that will arise from the payment of income tax payable as at 30 June (b)..... | 253 | 368 |
| | 364 | 283 |

(a) As the final dividend for financial year 2014 was not determined or publicly recommended by the Board as at 30 June 2014, no provision for dividend has been raised in the statement of financial position. The final dividend has been reported as an event subsequent to reporting date. Refer to note 31 for further details.

(b) Franking credits that will arise from the payment of income tax are expressed at the 30 per cent tax rate on a tax paid basis.

We believe that our current balance in the franking account, combined with the franking credits that will arise on tax instalments expected to be paid, will be sufficient to fully frank our final 2014 dividend.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. SEGMENT INFORMATION

Operating segments

We report segment information on the same basis as our internal management reporting structure, which determines how our Company is organised and managed.

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives reflect the organisational changes that have occurred since the prior reporting period to present a like-for-like view.

During the year ended 30 June 2014, the following changes were made to our operating segments:

- a new business unit “Global Enterprise and Services” (GES) was created that operates as a global scale, industry-based services and solutions business. GES is a separate reportable segment which includes mainly Telstra Enterprise and Government (previously a separate reportable segment), Network Applications and Services (NAS) (previously in the Telstra Operations segment), Telstra Global (previously in the Telstra International Group segment), as well as Telstra Ventures Group and Global Applications and Platforms (both previously in the “All Other” category)
- Telstra Customer Sales and Services business unit changed its name to Telstra Retail (TR), now reported as a separate segment and, following the creation of GES, it includes Telstra Consumer (TC), Telstra Business (TB), Telstra Health (TH) and TR head office function
- On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. The Sensis Group results, previously reported within the Telstra Media Group (TMG) segment, have been included in the “All Other” category. The remaining parts of the TMG segment are now reported within the TR segment.

For the financial year 2014 the Telstra Group is organised for internal management reporting purposes into the following reportable segments:

Telstra Retail (TR) is responsible for:

- supporting consumer customers and small to medium enterprises in Australia
- providing a full range of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV
- the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network
- delivering for Telstra customers self-care capabilities, across all phases of the customer experience, from browsing to buying, billing and service requests
- the supply of Hybrid Fibre Coaxial (HFC) cable services to our Foxtel joint venture and the distribution of Foxtel products
- providing a connected health IT ecosystem and delivering transformative change in the healthcare sector.

Global Enterprise and Services (GES) is responsible for:

- sales and contract management support for business and government customers in Australia and globally
- product management for advanced technology solutions, including data and Internet Protocol (IP) networks, and NAS such as managed network, unified communications, cloud, industry solutions and integrated services
- technology delivery for NAS customers in Australia and globally.

Telstra Operations (TOPs) is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology
- construction of infrastructure for our fixed, mobile, IP and data networks
- delivery of customer services across these networks
- operation, assurance and maintenance (including activation and restoration of these networks)
- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs.

Telstra Wholesale (TW) is responsible for:

- the provision of a wide range of telecommunication products and services delivered over Telstra networks and associated support systems to non-Telstra branded carriers, carriage service providers and internet service providers.

Telstra International Group (TIG) is responsible for managing the following assets outside Australia:

- Telstra China, our mainland China business providing digital media services in auto, IT and consumer electronics (this includes the Autohome and Sequel Media businesses)
- CSL New World Mobility Limited (CSL), our 76.4 per cent owned subsidiary in Hong Kong, responsible for providing to the Hong Kong market full mobile services, including handset and device sales, mobile voice, and mobile data products. In May 2014, we disposed of our entire 76.4 per cent shareholding in CSL and its controlled entities (CSL Group). Refer to note 20 for further details.

In our segment results, the “All Other” category consists of various business units that do not qualify as reportable segments in their own right and includes the Sensis Group results.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. SEGMENT INFORMATION (CONTINUED)

Segment results

The measurement of segment results is in line with information presented to management for internal management reporting purposes. The result of each segment is measured based on its “earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution”. EBITDA contribution excludes the effects of all inter-segment balances and transactions (with the exception of transactions referred to in footnote (v) below). Therefore, only transactions external to the Telstra Group are reported.

We have no reconciling items between segment results and Telstra Group’s reported EBITDA. The reconciliation of segment results to Telstra Group’s reported EBIT and profit before income tax expense in the financial statements includes only depreciation and amortisation expenses and net finance costs.

Certain items of income and expense are recorded by our corporate areas, rather than being allocated to each segment. These items include:

- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy (our reportable segments record these amounts upfront)
- the majority of redundancy expenses for the Telstra Entity.

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

- revenue associated with mobile handsets sold via dealers for the GES segment is allocated to the TR segment along with the associated costs of goods and services purchased, as the TR segment manages our suppliers, delivery and dealership arrangements. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage services are recorded in the TR and GES segments depending on the type of customer segment serviced
- NAS costs associated with revenue from the TB customers, included in the TR segment, are reported in the GES segment
- the TOps segment result includes network service delivery costs for the TR, GES and TW customers
- the TOps segment recognises costs related to NAS revenue reported in the GES segment, mainly for commercial recoverable works, where customers contribute to the extension of our networks
- the TOps segment recognises certain expenses in relation to the installation and running of the HFC cable network
- domestic promotion and advertising expenses for the Telstra Entity are recorded centrally in the TR head office function
- call centre costs associated with the GES segment are included in the TR segment.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

The following tables detail our segment results based on our reporting structure as at 30 June 2014:

Telstra Group

| Year ended 30 June 2014 | TR \$m | GES \$m | TOps \$m | TW \$m | TIG (i)(ii) \$m | All Other (iii) \$m | Total \$m |
|--|---------------|--------------|----------------|--------------|--------------------|------------------------|---------------|
| Revenue from external customers (iii)(v)..... | 16,279 | 5,279 | 103 | 2,262 | 1,323 | 626 | 25,872 |
| Other income..... | 71 | 5 | 58 | 66 | 564 | 212 | 976 |
| Total income | 16,350 | 5,284 | 161 | 2,328 | 1,887 | 838 | 26,848 |
| Labour expenses..... | 1,186 | 876 | 1,603 | 72 | 209 | 997 | 4,943 |
| Goods and services purchased (v)..... | 4,676 | 1,390 | 11 | 78 | 505 | (128) | 6,532 |
| Other expenses | 1,181 | 373 | 1,707 | 51 | 356 | 670 | 4,338 |
| Share of equity accounted profits/(losses) ... | - | (1) | - | - | - | 25 | 24 |
| EBITDA contribution | 9,307 | 2,644 | (3,160) | 2,127 | 817 | (676) | 11,059 |

Telstra Group

| Year ended 30 June 2013 | TR \$m | GES \$m | TOps \$m | TW \$m | TIG (i) \$m | All Other (iii)(iv) \$m | Total \$m |
|---|---------------|--------------|----------------|--------------|----------------|----------------------------|---------------|
| | Restated | Restated | Restated | Restated | Restated | Restated | Restated |
| Revenue from external customers (iii)(v)..... | 15,716 | 5,060 | 92 | 2,097 | 1,163 | 1,550 | 25,678 |
| Other income..... | 68 | 14 | 64 | 18 | - | 138 | 302 |
| Total income | 15,784 | 5,074 | 156 | 2,115 | 1,163 | 1,688 | 25,980 |
| Labour expenses (vi)..... | 1,124 | 714 | 1,615 | 70 | 169 | 1,193 | 4,885 |
| Goods and services purchased (v)..... | 4,612 | 1,213 | 21 | 72 | 466 | 5 | 6,389 |
| Other expenses | 1,085 | 237 | 1,730 | 31 | 210 | 865 | 4,158 |
| Share of equity accounted (losses)..... | - | (1) | - | - | - | - | (1) |
| EBITDA contribution | 8,963 | 2,909 | (3,210) | 1,942 | 318 | (375) | 10,547 |

(i) Following the disposal of the CSL Group in May 2014, the current period includes only 10 months of the CSL Group results, including a \$561 million profit recognised on disposal (based on expected completion adjustments). The comparative period includes 12 months. Refer to note 20 for further details.

(ii) As at 30 June 2014, the assets and liabilities of Sequel Media Inc. and its controlled entities (Sequel Media Group) were classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell. This resulted in a \$12 million goodwill impairment recorded in other expenses. Refer to note 12 for further details.

As a result of the Octave Group entering into voluntary liquidation, we recognised a \$98 million loss written off from the foreign currency translation reserve. Refer to note 26 for further details.

(iii) Following the disposal of the Sensis Group on 28 February 2014, the current period includes only eight months of the Sensis Group results, including \$150 million goodwill impairment recognised on the re-measurement of the assets of the disposal group recorded in other expenses. The comparative period includes 12 months. Revenue from external customers includes \$552 million (2013: \$1,204 million) of income from the discontinued operation of the Sensis Group.

The "All Other" category also includes a \$24 million (2013: nil) share of net profit from our 30 per cent investment in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group, for the period from 1 March 2014 to 30 June 2014.

Refer to notes 12 and 26 for further details.

(iv) Following the disposal of TelstraClear Limited and its controlled entities (TelstraClear) on 31 October 2012, the comparative period includes four months of TelstraClear results, with a \$127 million loss on sale of TelstraClear recorded in other expenses. Refer to note 20 for further details.

(v) Revenue from external customers in the TIG segment includes \$168 million (2013: \$130 million) of intersegment revenue treated as external expenses in the TR segment, TW segment and the "All Other" category, that is eliminated in the "All Other" category. External expenses in the GES segment include \$22 million (2013: \$32 million) intersegment expenses treated as external revenue in the TW segment that are eliminated in the "All Other" category.

(vi) Labour expenses have been restated as a result of a retrospective application of AASB 119: "Employee Entitlements". Refer to note 2.1(e) for further details.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

A reconciliation of EBITDA contribution for reportable segments to Telstra Group's EBITDA, EBIT and profit before income tax expense is provided below:

| | Telstra Group | |
|---|--------------------|------------------|
| | Year ended 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| EBITDA contribution | 11,735 | 10,922 |
| All other | (676) | (375) |
| Telstra Group EBITDA from continuing and discontinued operations | 11,059 | 10,547 |
| Depreciation and amortisation..... | (4,042) | (4,238) |
| Telstra Group EBIT from continuing and discontinued operations | 7,017 | 6,309 |
| Net finance costs..... | (957) | (933) |
| Telstra Group profit before income tax expense | 6,060 | 5,376 |
| Telstra Group profit before income tax expense, including: | | |
| Profit before income tax expense from continuing operations..... | 6,228 | 5,157 |
| (Loss)/profit before income tax expense from discontinued operation | (168) | 219 |
| Telstra Group profit before income tax expense | 6,060 | 5,376 |

| | Telstra Group | |
|--|--------------------|---------------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Information about our geographic operations (vii) | | |
| Revenue from external customers | | |
| Australian customers | 23,860 | 23,774 |
| Offshore customers | 2,012 | 1,904 |
| | 25,872 | 25,678 |
| Carrying amount of non current assets (viii) | | |
| Located in Australia..... | 26,916 | 27,896 |
| Located offshore..... | 633 | 1,658 |
| | 27,549 | 29,554 |

(vii) Our geographical operations are split between our Australian and offshore operations. Our offshore operations include the CSL Group (Hong Kong) up to the date of disposal, Autohome Inc. (China), Sequel Media (China), Telstra Limited (United Kingdom), Telstra International Limited (Hong Kong), Telstra Inc. (United States) and TelstraClear (New Zealand) up to the date of disposal in the last financial year. No individual geographical area, other than our Australian operations, forms a significant part of our operations.

(viii) The carrying amount of our segment non current assets excludes derivative assets, defined benefit assets and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. SEGMENT INFORMATION (CONTINUED)

Segment results (continued)

| | | Telstra Group | |
|--|----------|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| | Note | | |
| Income from our products and services | | | |
| Fixed..... | | 7,245 | 7,305 |
| Mobile | | 9,668 | 9,200 |
| Data and IP | | 2,968 | 3,041 |
| Network applications and services | | 1,896 | 1,484 |
| Media | | 982 | 987 |
| CSL Group..... | | 1,045 | 1,011 |
| China digital media | | 278 | 162 |
| Global connectivity and NAS..... | | 678 | 566 |
| TelstraClear | | - | 164 |
| Other sales revenue (ix) | | 359 | 378 |
| Other revenue (x) | 6 | 201 | 176 |
| Other income | 6 | 976 | 302 |
| Sensis Group | 12 | 552 | 1,204 |
| Total income (excluding finance income) | 6 | 26,848 | 25,980 |

(ix) Other sales revenue includes revenue for the build of the National Broadband Network (NBN) related infrastructure of \$87 million (2013: \$168 million) and late payment and miscellaneous fee revenue.

(x) Other revenue primarily consists of distributions from our Foxtel Partnership and rental income.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. INCOME

| | | Telstra Group | |
|---|--|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| Note | | | |
| Continuing operations | | | |
| Sales revenue | | | |
| | Rendering of services | 10,417 | 10,850 |
| | Sale of goods | 2,358 | 2,197 |
| | Rent of network facilities and access | 11,701 | 10,709 |
| | Construction contracts | 264 | 249 |
| | Advertising..... | 379 | 293 |
| | | 25,119 | 24,298 |
| Other revenue (excluding finance income) | | | |
| | Distribution from Foxtel Partnership | 165 | 155 |
| | Rent from property | 36 | 21 |
| | | 201 | 176 |
| | Total revenue (excluding finance income) | 25,320 | 24,474 |
| Other income | | | |
| | Net gain on disposal of: | | |
| | - property, plant and equipment and intangibles | 76 | 66 |
| | - investments (a) | 561 | - |
| | Net gain on de-recognition of finance leases..... | - | 8 |
| | Net foreign currency translation gains | - | 7 |
| | Government grants (b)..... | 175 | 152 |
| | NBN disconnection fees..... | 66 | 7 |
| | Other miscellaneous income | 98 | 62 |
| | | 976 | 302 |
| | Total income (excluding finance income) | 26,296 | 24,776 |
| Finance income | | | |
| | Interest on cash and cash equivalents | 85 | 91 |
| | Interest on finance lease receivables | 14 | 11 |
| | Interest on loans to joint ventures and associated entities..... | 54 | 53 |
| | Interest on other receivables | 3 | 64 |
| | | 156 | 219 |
| | Total income from continuing operations | 26,452 | 24,995 |
| | Total income from discontinued operation | 552 | 1,204 |

(a) Net gain on disposal of investments relates to the \$561 million net gain on disposal of the CSL Group. Refer to note 20 for further details.

(b) During the financial year the following government grants were recognised as other income:

- \$157 million (2013: \$124 million) under the Telecommunications Universal Services and Management Agency National Broadband Network (NBN) Definitive Agreement, which replaced the Universal Services Obligation (USO)
- \$14 million (2013: \$11 million) under the Retraining Fund Deed NBN Definitive Agreement. The grant, received in financial year 2012, is being used to retrain certain employees over a period of eight to ten years
- \$4 million (2013: \$11 million) related to other contracts accounted for as government grants

- \$ nil (2013: \$6 million) related to the Australia Communications and Media Authority's (ACMA) USO.

There are no unfulfilled conditions or other contingencies attached to these grants.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. EXPENSES

| | | Telstra Group | |
|--|--|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| Note | | | |
| Continuing operations | | | |
| Labour | | | |
| Included in our labour expenses are the following: | | | |
| | Employee redundancy | 251 | 189 |
| | Share-based payments | 45 | 47 |
| | Defined benefit plan expense 24 | 306 | 305 |
| | Cost of goods sold | 2,906 | 2,881 |
| Other expenses | | | |
| Impairment losses | | | |
| | - impairment in value of inventories | 30 | 29 |
| | - impairment in value of trade and other receivables | 220 | 230 |
| | - impairment in value of property, plant and equipment 13 | 15 | 15 |
| | - impairment in value of intangibles (a) | 1 | 5 |
| | - impairment in value of goodwill (a) | 12 | - |
| | - impairment in value of TelstraClear net assets (b) | - | 28 |
| | - impairment in value of amounts owed by joint ventures | - | 16 |
| | - impairment in investments | 2 | - |
| | | 280 | 323 |
| | Reversal of impairment losses | | |
| | - reversal of impairment in value of trade and other receivables 10 | (20) | (39) |
| | | (20) | (39) |
| | Net loss on disposal of TelstraClear 20 | - | 127 |
| | Rental expense on operating leases | 632 | 583 |
| | Net foreign currency translation losses (c) | 111 | - |
| | Service contracts and other agreements | 1,468 | 1,367 |
| | Promotion and advertising | 346 | 279 |
| | General and administration | 977 | 951 |
| | Other operating expenses | 194 | 242 |
| | Other expenses | 3,988 | 3,833 |
| | Depreciation of property, plant and equipment 13 | 2,896 | 3,066 |
| | Amortisation of intangible assets | 1,054 | 1,012 |
| | | 3,950 | 4,078 |
| Finance costs | | | |
| | Interest on borrowings 17(e) | 961 | 1,017 |
| | Net interest on defined benefit plan 24 | 10 | 24 |
| | Unwinding of discount on liabilities recognised at present value | 14 | 18 |
| | Loss on fair value hedges - effective (d) | 128 | 95 |
| | Gain on cash flow hedges - ineffective | (11) | - |
| | Loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (e) | 64 | 89 |
| | Other | 5 | 5 |
| | | 1,171 | 1,248 |
| | Less: interest on borrowings capitalised (f) | (58) | (96) |
| | | 1,113 | 1,152 |
| | Research and development expenses | 4 | 2 |
| | Total expenses from discontinued operation 12 | 720 | 985 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. EXPENSES (CONTINUED)

(a) We have recognised an impairment loss of \$13 million (2013: \$5 million) relating to impairment of goodwill and other intangible assets. Refer to note 14 for further details.

(b) During the financial year 2013, we recognised an impairment loss of \$28 million relating to the impairment of TelstraClear net assets. This was due to the operating results of TelstraClear increasing the net assets at the date of disposal, which were not recoverable through the disposal of TelstraClear. Refer to note 12 for further details.

(c) During the financial year, we recognised \$111 million net foreign currency translation losses (2013: \$7 million net foreign currency translation gains), which included a \$98 million loss written off from the foreign currency translation reserve as a result of the Octave Group entering into voluntary liquidation. Refer to note 25 for further details.

(d) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings.

The \$128 million (2013: \$95 million) unrealised loss reflects the following valuation impacts:

- movement in base market rates and our borrowing margins between valuation dates
- reduction in the number of future interest flows as we approach maturity of the financial instruments
- discount factor unwinding as borrowings move closer to maturity.

In general it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(e) A combination of the following factors has resulted in a net unrealised loss of \$64 million (2013: \$89 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (e) above for fair value hedges
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value)
- a net loss of \$21 million (2013: \$21 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings.

Although these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(f) Interest on borrowings has been capitalised using a capitalisation rate of 6.2 per cent (2013: 6.4 per cent).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8. REMUNERATION OF AUDITORS

| | Telstra Group | |
|--|--------------------|--------------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Audit fees | | |
| Ernst & Young (EY) has charged the following amounts for auditing and reviewing the financial reports | 7.556 | 7.796 |
| Other services | | |
| Audit related (a)..... | 1.162 | 1.374 |
| Non-audit services (b)..... | 0.111 | 0.454 |
| Total other services provided by EY | 1.273 | 1.828 |

Other services

Other services comprise audit related fees and non-audit services.

(a) Audit related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include assurance services over debt raising prospectuses, additional control assessments, various accounting advice and additional audit services related to our controlled entities.

(b) Non-audit services comprise:

- tax fees charged by EY that mainly related to income tax return services
- other services that relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial reports, audit related and tax. These services include various reviews and non assurance services across the Group, including risk assessments and IT related projects.

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

The Audit and Risk Committee approves the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by either the Chief Financial Officer, the Chairman of the Audit and Risk Committee or the Audit and Risk Committee, depending upon the fees involved, if not covered by the Audit and Risk Committee pre-approval, subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence. Our auditor independence guidelines clearly identify prohibited services. All additional approved EY engagements are reported to the Audit and Risk Committee at the next meeting.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9. INCOME TAXES

| | Telstra Group | |
|---|---------------|------------------|
| | As at 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| Major components of income tax expense | | |
| Current tax expense..... | 1,799 | 1,588 |
| Deferred tax resulting from the origination and reversal of temporary differences..... | (90) | (4) |
| Under provision of tax in prior years..... | 6 | 1 |
| | 1,715 | 1,585 |
| Notional income tax expense on profit differs from actual income tax expense recorded as follows: | | |
| (Loss)/profit before income tax expense from discontinued operation..... | (168) | 219 |
| Profit before income tax expense from continuing operations..... | 6,228 | 5,157 |
| Profit before tax..... | 6,060 | 5,376 |
| Notional income tax expense calculated at the Australian tax rate of 30%..... | 1,818 | 1,613 |
| Which is adjusted by the tax effect of: | | |
| Different rates of tax on overseas income..... | (44) | (24) |
| Non assessable and non deductible items (a)..... | (56) | (2) |
| Amended assessments..... | (9) | (3) |
| Under provision of tax in prior years..... | 6 | 1 |
| Income tax expense on profit..... | 1,715 | 1,585 |
| Comprising: | | |
| Tax expense from continuing operations..... | 1,679 | 1,517 |
| Tax expense from discontinued operation..... | 36 | 68 |
| Income tax (benefit)/expense recognised directly in other comprehensive income or equity during the year..... | (16) | 196 |

| | Telstra Group | |
|--|----------------|------------------|
| | As at 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| (Deferred tax liability)/deferred tax asset | | |
| Deferred tax items recognised in the income statement (including impact of foreign exchange movements in deferred tax items recognised in the income statement) | | |
| Property, plant and equipment..... | (1,110) | (1,199) |
| Intangible assets..... | (881) | (883) |
| Borrowings and derivative financial instruments..... | (14) | (22) |
| Provision for employee entitlements..... | 307 | 297 |
| Revenue received in advance..... | 103 | 139 |
| Provision for workers' compensation..... | 19 | 18 |
| Allowance for doubtful debts..... | 34 | 48 |
| Defined benefit asset/liability (b)..... | 105 | 97 |
| Trade and other payables..... | 95 | 153 |
| Other provisions..... | 28 | 31 |
| Income tax losses..... | 1 | 2 |
| Other..... | 13 | (11) |
| | (1,300) | (1,330) |
| Deferred tax items recognised in other comprehensive income or equity (c) | | |
| Defined benefit asset/liability (b)..... | (120) | (86) |
| Derivative financial instruments..... | 141 | 91 |
| | 21 | 5 |
| Net deferred tax liability..... | (1,279) | (1,325) |
| Our net deferred tax liability is split as follows: | | |
| Deferred tax assets recognised in the statement of financial position..... | 7 | 5 |
| Deferred tax liabilities recognised in the statement of financial position..... | (1,286) | (1,330) |
| | (1,279) | (1,325) |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9. INCOME TAXES (CONTINUED)

| | Telstra Group | |
|---|---------------|------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Deferred tax assets not recognised (d) | | |
| Income tax losses | 48 | 98 |
| Capital tax losses | 349 | 202 |
| Deductible temporary differences | 306 | 307 |
| | 703 | 607 |

(a) Non assessable and non deductible items include a non assessable gain on disposal of the CSL Group (\$169 million, 2013: nil), a non deductible goodwill impairment loss on disposal of the Sensis Group (\$45 million, 2013: nil), a non deductible write off of Octave foreign currency translation reserve (\$30 million, 2013: nil) and various other items (\$38 million net expense, 2013: \$2 million net benefit).

(b) Our net deferred tax liability on our defined benefit asset for the Telstra Group is \$15 million (2013: \$11 million deferred tax asset).

(c) When the underlying transactions to which our deferred tax relates are recognised directly in other comprehensive income or equity, the temporary differences associated with these adjustments are also recognised directly in other comprehensive income or equity.

(d) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit
- we have sufficient future capital gains to be offset against the above capital losses
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses
- 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 2014, our deferred tax assets not recognised in the statement of financial position include an estimate of the capital loss on disposal of the Sensis Group.

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.

For entities within the tax consolidated group, a tax funding arrangement is also in place 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
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable by the Telstra Entity of \$35 million (2013: \$34 million) and amounts payable by the Telstra Entity of \$74 million (2013: \$247 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. TRADE AND OTHER RECEIVABLES

| | | Telstra Group As at 30 June | |
|--|------|--------------------------------|--------------|
| | Note | 2014 \$m | 2013 \$m |
| Current | | | |
| Trade receivables (a) | | 2,950 | 3,515 |
| Allowance for doubtful debts (a) | | (120) | (180) |
| | | 2,830 | 3,335 |
| Finance lease receivable (b) | | 93 | 66 |
| Accrued revenue | | 1,155 | 1,093 |
| Other receivables | | 94 | 63 |
| | | 1,342 | 1,222 |
| | | 4,172 | 4,557 |
| Non current | | | |
| Trade receivables (a) | | 317 | 321 |
| Amounts owed by joint ventures and associated entities..... | 29 | 457 | 457 |
| Allowance for amounts owed by joint ventures and associated entities - loans | 29 | (6) | (6) |
| | | 451 | 451 |
| Finance lease receivable (b) | | 184 | 148 |
| Other receivables | | 21 | 23 |
| | | 205 | 171 |
| | | 973 | 943 |

(a) Trade receivables and allowance for doubtful debts

The ageing of current and non current trade receivables is detailed below.

| | | Telstra Group As at 30 June | | | |
|------------------------------|--|--------------------------------|------------------|--------------|------------------|
| | | 2014 | | 2013 | |
| | | Gross \$m | Allowance \$m | Gross \$m | Allowance \$m |
| Not past due | | 2,297 | (25) | 2,817 | (13) |
| Past due 0 - 30 days | | 631 | (12) | 598 | (32) |
| Past due 31 - 60 days | | 135 | (8) | 176 | (16) |
| Past due 61 - 90 days | | 62 | (12) | 72 | (16) |
| Past due 91 - 120 days | | 49 | (10) | 49 | (14) |
| Past 120 days | | 93 | (53) | 124 | (89) |
| | | 3,267 | (120) | 3,836 | (180) |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

Movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

| | Telstra Group | |
|---|--------------------|-------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Opening balance | (180) | (210) |
| - additional allowance from continuing operations..... | (34) | (109) |
| - additional allowance from discontinued operation..... | (6) | (21) |
| - amount used..... | 51 | 123 |
| - amount reversed from continuing operations..... | 20 | 39 |
| - amount reversed from discontinued operation..... | 9 | - |
| - foreign currency exchange differences..... | - | (2) |
| - disposal of controlled entities..... | 20 | - |
| Closing balance | (120) | (180) |

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. Our customer deferred debt program allows eligible customers the opportunity to repay the cost of their mobile handset, other hardware and approved accessories monthly over 12, 18, 24 or 36 months. The loan is provided interest free to our mobile postpaid customers.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables, including past due or impaired receivables in the form of guarantees, letters of credit and deposits. During financial year 2014, the securities we called upon were insignificant.

We have used the following basis to assess the allowance for doubtful debts for trade receivables:

- a statistical approach to apply risk segmentation to the debt and applying the historical impairment rate to each segment at the end of the reporting period
- an individual account by account assessment based on past credit history
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2014, trade receivables with a carrying amount of \$875 million (2013: \$852 million) for the Telstra Group were past due but not impaired.

These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

(b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 and 5 years (2013: 2 and 5 years).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Finance lease receivable (continued)

| | Telstra Group | |
|---|---------------|------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Amounts receivable under finance leases | | |
| Within 1 year..... | 106 | 77 |
| Within 1 to 5 years..... | 178 | 152 |
| After 5 years | 30 | 8 |
| Total minimum lease receivables | 314 | 237 |
| Less unearned finance income..... | (37) | (23) |
| Present value of minimum lease receivables..... | 277 | 214 |
| Included in the financial statements as | | |
| Current finance lease receivables..... | 93 | 66 |
| Non current finance lease receivables | 184 | 148 |
| | 277 | 214 |

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 6.1 per cent (2013: 7.7 per cent) per annum.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11. INVENTORIES

| | Telstra Group | |
|--|---------------|-------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Current | | |
| Finished goods recorded at cost | 201 | 276 |
| Finished goods recorded at net realisable value | 78 | 64 |
| Total finished goods..... | 279 | 340 |
| Raw materials and stores recorded at cost..... | 11 | 11 |
| Construction contracts (a) | 72 | 80 |
| | 362 | 431 |
| Non current | | |
| Finished goods recorded at net realisable value | 29 | 27 |
| | 29 | 27 |
| (a) Construction contract disclosures are shown as follows: | | |
| Contract costs incurred and recognised profits | 589 | 592 |
| Progress billings | (517) | (512) |
| | 72 | 80 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

Current Year

Sensis disposal group and discontinued operation

On 17 December 2013, the Directors approved the divestment of 70 per cent of our directories business and on 13 January 2014 a sale agreement was signed.

The sale excludes voice services business and includes economic benefits to us from services we will continue to provide to Sensis Pty Ltd and its controlled entities (Sensis Group). Voice services, including the 1234 and 12456 services, are a part of our core telecommunication offering and will continue to be operated by us.

The Sensis Group represents a separate major line of business and is responsible for management of the domestic directories and advertising business, including print and digital directories, digital mapping and satellite navigation, digital display and business information services. This includes management of information brands such as Yellow Pages®, White Pages®, Whereis®, Citysearch®, Mediasmart® and Quotify®.

In accordance with AASB 5: "Non current Assets Held for Sale and Discontinued Operations", the Sensis Group was disclosed as a discontinued operation and the carrying value of assets and liabilities of the Sensis Group, with the exception of the cash balances which were excluded from the sale agreement, were classified as held for sale as at 31 December 2013 and measured at the lower of carrying amount and fair value less costs to sell prior to their disposal.

The sale was completed on 28 February 2014 via disposal of our 100 per cent shareholding in the Sensis Group for a total cash consideration of \$454 million and acquisition of 30 per cent shareholding in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group.

On completion we deconsolidated 100 per cent of the balance sheet of the Sensis Group and recorded, at fair value of \$157 million, our 30 per cent interest in Project Sunshine I Pty Ltd. Our investment in the associate is based on a Level 3 fair value derived from a discounted cash flow model incorporating the impacts of debt in the business and certain preferential rights for the subordination of distributions to equity holders in favour of the purchaser. The discount rate applied was 11.5 per cent with a nil terminal growth rate. The investment in the associate is equity accounted from 1 March 2014, which means that we record our 30 per cent share of the associate's net profit after tax as part of our continuing operations.

The Sensis Group results are reported in the "All Other" category in our segment disclosures in note 5 and include eight months (2013: 12 months) of consolidated results to the date of disposal and a \$24 million (2013: nil) share of net profit from our 30 per cent investment in the new holding company of the Sensis Group.

Financial information related to the discontinued operation is set out below. Financial year 2014 includes eight months of the Sensis Group results, compared with 12 months for financial year 2013.

| | Sensis Group | |
|---|---------------------------|-------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Revenue | 552 | 1,204 |
| Expenses | 570 | 985 |
| (Loss)/profit before income tax expense | (18) | 219 |
| Income tax expense | 36 | 68 |
| (Loss)/profit after income tax expense from discontinued operation | (54) | 151 |
| (Loss) on disposal of discontinued operation (a) | (150) | - |
| Income tax expense | - | - |
| (Loss) after tax on disposal of discontinued operation | (150) | - |
| (Loss)/profit for the year from discontinued operation | (204) | 151 |
| Net cash provided by operating activities | 339 | 607 |
| Net cash provided by/(used in) investing activities (includes proceeds from sale) | 414 | (107) |
| Net cash (used in)/provided by financing activities | (2) | 1 |
| Net increase in cash and cash equivalents | 751 | 501 |
| Earnings per share for (loss)/profit from discontinued operation (cents per share) | cents | cents |
| Basic | (1.6) | 1.2 |
| Diluted | (1.6) | 1.2 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)

Sensis disposal group and discontinued operation (continued)

The effect of the disposal of the Sensis Group is detailed below:

| | Sensis Group |
|--|--|
| Note | Year ended 30 June 2014 \$m |
| Consideration on disposal | |
| Cash consideration on disposal | 454 |
| Fair value of investment in the associate 26 | 157 |
| Total consideration on disposal | 611 |
| Assets/(liabilities) at disposal date | |
| Assets classified as held for sale | 1,002 |
| Liabilities classified as held for sale | (391) |
| Net assets classified as held for sale | 611 |
| Loss on disposal after impairment (a) | - |

(a) Based on the sale price of \$454 million, \$157 million fair value of the 30 per cent shareholding in Project Sunshine I Pty Ltd, and final completion adjustments, on the re-measurement of assets and liabilities of the disposal group the carrying value of the Sensis Group goodwill was impaired by \$150 million and recognised in the loss for the year from the discontinued operation.

| | Telstra Entity | |
|---|-----------------------|--------------|
| | Year ended | |
| | 2014 | 2013 |
| | \$m | \$m |
| Profit/(loss) attributable to equity holders of Telstra Entity | | |
| Profit for the year from continuing operations | 4,479 | 3,588 |
| (Loss)/profit for the year from discontinued operation | (204) | 151 |
| | 4,275 | 3,739 |

Sequel Media disposal group

On 2 July 2014 we signed a binding term sheet to dispose of our entire 55 per cent shareholding in Sequel Media Inc. and its controlled entities (Sequel Media Group) for total consideration of \$3 million subject to completion adjustments.

In accordance with AASB 5, the carrying value of assets and liabilities of the Sequel Media Group, with the exception of cash balances which will be recovered via completion adjustments, were classified as held for sale as at 30 June 2014 and measured at the lower of the carrying amount and fair value less costs to sell.

Based on the agreed sale price, subject to completion adjustments, the carrying value of the Sequel Media Group goodwill was impaired by \$12 million.

If the conditions precedent are satisfied and the disposal of the Sequel Media Group occurs, the foreign currency translation reserve calculated at the completion date will be reclassified to our income statement increasing our loss on disposal. The foreign currency translation reserve balance at 30 June 2014 was \$3 million.

The Sequel Media Group is included in the TIG reportable segment in our segment disclosures in note 5.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION (CONTINUED)

Sequel Media disposal group (continued)

| | Sequel Media Group | |
|------------------------------------|--------------------|-------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Current assets | | |
| Trade and other receivables..... | 13 | - |
| Total current assets..... | 13 | - |
| Non current assets | | |
| Property, plant and equipment..... | 1 | - |
| Intangible assets..... | 6 | - |
| Deferred tax assets..... | 3 | - |
| Total non current assets..... | 10 | - |
| Total assets | 23 | - |
| Current liabilities | | |
| Trade and other payables..... | 14 | - |
| Current tax payable..... | 2 | - |
| Revenue received in advance..... | 1 | - |
| Total current liabilities..... | 17 | - |
| Non current liabilities | | |
| Deferred tax liabilities..... | 2 | - |
| Total non current liabilities..... | 2 | - |
| Total liabilities | 19 | - |
| Net assets | 4 | - |

| | Sequel Media Group | |
|---|--------------------|-------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Cumulative income or expense recognised in other comprehensive income relating to non current assets classified as held for sale | | |
| Foreign currency translation reserve attributable to equity holders of Telstra Entity..... | 3 | - |
| Foreign currency translation reserve attributable to non-controlling interests..... | (1) | - |
| | 2 | - |

Prior Year

TelstraClear disposal group

On 12 July 2012 we signed an agreement to dispose of our 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear) and on 31 October 2012 disposed of it following regulatory approval. Refer to note 20 for further details.

In accordance with AASB 5, the carrying value of assets and liabilities of TelstraClear, with the exception of cash balances which were excluded from the sale agreement, were classified as held for sale up to the date of sale. On completion of the sale, included in our disposal values was \$11 million of cash, which was recovered through additional proceeds on sale.

During financial year 2013, we impaired \$28 million of our TelstraClear net assets which increased due to the operating results of TelstraClear but were not recoverable through the disposal of TelstraClear.

TelstraClear is included in the "All Other" category in our segment information disclosures in note 5.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13. PROPERTY, PLANT AND EQUIPMENT

| | Telstra Group | |
|---|-----------------|-------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Land and site improvements | | |
| At cost | 51 | 52 |
| Buildings (including leasehold improvements) | | |
| At cost | 1,209 | 1,166 |
| Accumulated depreciation and impairment..... | (606) | (586) |
| | 603 | 580 |
| Communication assets | | |
| At cost | 59,761 | 58,090 |
| Accumulated depreciation and impairment..... | (41,055) | (38,911) |
| | 18,706 | 19,179 |
| Other plant, equipment and motor vehicles | | |
| At cost | 1,647 | 1,676 |
| Accumulated depreciation and impairment..... | (1,165) | (1,161) |
| | 482 | 515 |
| Total property, plant and equipment | | |
| At cost | 62,668 | 60,984 |
| Accumulated depreciation and impairment..... | (42,826) | (40,658) |
| | 19,842 | 20,326 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Telstra Group

| | Land and site improvements \$m | Buildings (a) \$m | Comm- unication assets (b) \$m | Other plant, equipment and motor vehicles \$m | Total property, plant, and equipment (c) \$m |
|--|-----------------------------------|-------------------------|--|---|---|
| Written down value at 1 July 2012 | 38 | 541 | 19,441 | 484 | 20,504 |
| - additions | 14 | 119 | 2,625 | 140 | 2,898 |
| - disposals | - | (52) | (24) | (3) | (79) |
| - impairment losses from continuing operations | - | - | (11) | (4) | (15) |
| - depreciation expenses from continuing operations ... | - | (74) | (2,892) | (100) | (3,066) |
| - depreciation expenses from discontinued operation . | - | - | - | (7) | (7) |
| - net foreign currency exchange differences | - | 6 | 40 | 5 | 51 |
| - other (d) | - | 40 | - | - | 40 |
| Written down value at 30 June 2013 | 52 | 580 | 19,179 | 515 | 20,326 |
| - additions | - | 106 | 2,584 | 159 | 2,849 |
| - additions due to acquisitions of controlled entities.... | - | 1 | 1 | 5 | 7 |
| - disposals | (1) | (7) | (12) | (20) | (40) |
| - disposals through the sale of controlled entities | - | (9) | (334) | (47) | (390) |
| - impairment losses from continuing operations | - | - | (14) | (1) | (15) |
| - depreciation expenses from continuing operations.... | - | (73) | (2,696) | (127) | (2,896) |
| - depreciation expenses from discontinued operation . | - | - | - | (3) | (3) |
| - transfer to non current asset held for sale | - | - | - | (1) | (1) |
| - net foreign currency exchange differences | - | 5 | (2) | 2 | 5 |
| Written down value at 30 June 2014 | 51 | 603 | 18,706 | 482 | 19,842 |

(a) Includes leasehold improvements and the \$53 million net book value of buildings under finance lease.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes \$39 million (2013: \$60 million) of capitalised borrowing costs directly attributable to qualifying assets.

(d) \$40 million is the net result of refinancing a property under a finance lease owned by Telstra Europe Limited, during financial year 2013. Refer to note 22 for further details.

Work in progress

As at 30 June 2014, the Telstra Group has property, plant and equipment under construction amounting to \$564 million (2013: \$637 million). As the assets are not installed and ready for use, there is no depreciation being charged on these amounts.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

14. INTANGIBLE ASSETS

| | Telstra Group | |
|--|---------------|--------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Goodwill | | |
| At cost | 489 | 1,650 |
| Accumulated impairment | (94) | (268) |
| | 395 | 1,382 |
| Internally generated intangible assets | | |
| Software assets developed for internal use | 8,733 | 8,882 |
| Accumulated amortisation and impairment | (4,468) | (4,142) |
| | 4,265 | 4,740 |
| Acquired intangible assets | | |
| Mastheads | 447 | 447 |
| Accumulated amortisation and impairment | (447) | (380) |
| | - | 67 |
| Patents and trademarks | 12 | 30 |
| Accumulated amortisation and impairment | - | (12) |
| | 12 | 18 |
| Licences | 1,168 | 1,426 |
| Accumulated amortisation and impairment | (352) | (373) |
| | 816 | 1,053 |
| Customer bases | 129 | 107 |
| Accumulated amortisation and impairment | (87) | (96) |
| | 42 | 11 |
| Brand names | 14 | 179 |
| Accumulated amortisation and impairment | (5) | (103) |
| | 9 | 76 |
| Total acquired intangible assets | 879 | 1,225 |
| Deferred expenditure | | |
| Deferred expenditure | 1,667 | 1,450 |
| Accumulated amortisation and impairment | (824) | (595) |
| | 843 | 855 |
| Total intangible assets | | |
| At cost | 12,659 | 14,171 |
| Accumulated amortisation and impairment | (6,277) | (5,969) |
| | 6,382 | 8,202 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

14. INTANGIBLE ASSETS (CONTINUED)

Telstra Group

| | Goodwill \$m | Software assets developed (a) (b) \$m | Mastheads trademarks \$m | Patents and trademarks \$m | Licences (c) \$m | Customer bases \$m | Brand names \$m | Deferred expenditure (d) (e) \$m | Total intangible assets \$m |
|--|-----------------|---|--------------------------------|----------------------------------|------------------------|--------------------------|-----------------------|---|--------------------------------------|
| Written down value at 1 July 2012 | 1,289 | 4,813 | 135 | 22 | 279 | 15 | 79 | 789 | 7,421 |
| - additions..... | - | 941 | - | - | 822 | - | - | 796 | 2,559 |
| - acquisition of controlled entities..... | 1 | - | - | - | - | 2 | 1 | - | 4 |
| - impairment losses from continuing operations..... | - | (5) | - | - | - | - | - | - | (5) |
| - impairment losses from discontinued operation..... | (3) | - | - | - | - | - | - | - | (3) |
| - amortisation expense from continuing operations | - | (868) | (68) | (1) | (60) | (7) | (8) | (730) | (1,742) |
| - amortisation expense from discontinued operation | - | (148) | - | (2) | - | - | (3) | - | (153) |
| - net foreign currency exchange differences..... | 95 | 7 | - | - | 12 | 1 | 7 | - | 122 |
| - other..... | - | - | - | (1) | - | - | - | - | (1) |
| Written down value at 30 June 2013 | 1,382 | 4,740 | 67 | 18 | 1,053 | 11 | 76 | 855 | 8,202 |
| - additions..... | - | 907 | - | - | 1 | 2 | - | 840 | 1,750 |
| - acquisition of controlled entities..... | 116 | 38 | - | - | - | 42 | 3 | - | 199 |
| - disposal through sale of controlled entities (f)..... | (944) | (459) | - | (5) | (145) | (2) | (55) | (33) | (1,643) |
| - impairment losses from continuing operations (g). | (12) | (1) | - | - | - | - | - | - | (13) |
| - impairment losses from discontinued operation (h) | (150) | - | - | - | - | - | - | - | (150) |
| - amortisation expense from continuing operations | - | (877) | (67) | - | (93) | (11) | (6) | (819) | (1,873) |
| - amortisation expense from discontinued operation | - | (85) | - | (1) | - | - | (2) | - | (88) |
| - net foreign currency exchange differences..... | 3 | 2 | - | - | - | - | (1) | - | 4 |
| - transfers to non current assets held for sale (g)..... | - | - | - | - | - | - | (6) | - | (6) |
| Written down value at 30 June 2014 | 395 | 4,265 | - | 12 | 816 | 42 | 9 | 843 | 6,382 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

14. INTANGIBLE ASSETS (CONTINUED)

(a) As at 30 June 2014, we had software assets under development amounting to \$214 million (2013: \$345 million). As these assets were not installed and ready for use, there is no amortisation being charged on the amounts.

(b) Includes \$19 million (2013: \$36 million) of capitalised borrowing costs directly attributable to software assets.

(c) During financial year 2013, we renewed our existing 800Mhz and 1800Mhz spectrum licences for \$779 million.

(d) During financial year 2005, we entered into an arrangement with our joint venture, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an infeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2018.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The IRU is deemed to be an extension of our investment in Reach. The IRU has a carrying value of nil in the consolidated financial statements due to the recognition of equity accounted losses in Reach.

(e) The majority of the deferred expenditure relates to the deferral of direct incremental costs of establishing a customer contract, which are amortised to goods and services purchased in the income statement. In addition, the deferred expenditure includes basic access installation and connection fees for in place and new services.

(f) During financial year 2014, we disposed of our interests in the Sensis Group and the CSL Group. Refer to notes 12 and 20 for further details.

(g) As at 30 June 2014, Sequel Media Group's assets and liabilities were classified as held for sale. Impairment loss of \$12 million was recognised against goodwill for the Sequel Media cash generating units (CGU). Refer to notes 12 and 21 for further details.

(h) During financial year 2014, and following its classification as assets and liabilities held for sale at 31 December 2013 and subsequent disposal on 28 February 2014, we recognised an impairment charge of \$150 million against goodwill for the Sensis Group and Location Navigation CGUs. Refer to notes 12 and 21 for further details.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

15. TRADE AND OTHER PAYABLES

| | Telstra Group | |
|--|---------------|--------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Current | | |
| Trade creditors (a) | 1,164 | 1,297 |
| Accrued expenses | 1,519 | 1,690 |
| Accrued capital expenditure | 257 | 400 |
| Accrued interest | 386 | 365 |
| Deferred consideration for capital expenditure | 10 | 30 |
| Other creditors (a) | 498 | 459 |
| | 3,834 | 4,241 |
| Non current | | |
| Deferred consideration for capital expenditure | - | 104 |
| Other creditors | 66 | 59 |
| | 66 | 163 |

(a) Trade creditors and other creditors are non-interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

16. PROVISIONS

| | Telstra Group | |
|---------------------------------|---------------|------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Current | | |
| Employee benefits (a) | 838 | 853 |
| Workers' compensation (b) | 22 | 23 |
| Redundancy (b) | 40 | 6 |
| Other (b) | 32 | 36 |
| | 932 | 918 |
| Non current | | |
| Employee benefits (a) | 135 | 131 |
| Workers' compensation (b) | 121 | 126 |
| Other (b) | 5 | 19 |
| | 261 | 276 |

(a) Aggregate employee benefits

| | Telstra Group | |
|---|---------------|--------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Current provision for employee benefits | 838 | 853 |
| Non current provision for employee benefits | 135 | 131 |
| Current provision for redundancy | 40 | 6 |
| Accrued labour and on-costs (*) | 440 | 555 |
| | 1,453 | 1,545 |

(*) Accrued labour and related on-costs are included within our current trade and other payables (note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees. For long service leave these amounts cover all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

The amounts are presented as current, since we do not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, we do not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts have been determined in accordance with an actuarial assessment and reflect leave that is not expected to be taken or paid within the next 12 months:

| | Telstra Group | |
|--|---------------|------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Leave obligations expected to be settled after 12 months | 521 | 507 |

Employee benefits are measured at their present value. Refer to note 2.14 for further details. The following assumptions were adopted in measuring this amount.

| | Telstra Group | |
|--|---------------|------|
| | As at 30 June | |
| | 2014 | 2013 |
| Weighted average projected increase in salaries, wages and associated on-costs | 4.8% | 4.7% |
| Discount rates | 3.7% | 4.2% |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

16. PROVISIONS (CONTINUED)

(b) Movement in provisions, other than employee benefits

| | Telstra Group | |
|---|--------------------|------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Workers' compensation (i) | | |
| Opening balance | 149 | 155 |
| - additional provisions..... | 8 | 16 |
| - amount used..... | (22) | (22) |
| - unwinding of discount on liabilities recognised at present value..... | 5 | 5 |
| - effect of any change in the discount rate..... | 3 | (5) |
| Closing balance | 143 | 149 |
| Redundancy (ii) | | |
| Opening balance | 6 | 6 |
| - additional provisions..... | 42 | 6 |
| - reversal of amounts unused..... | (1) | - |
| - amount used..... | (7) | (6) |
| Closing balance | 40 | 6 |
| Other (iii) | | |
| Opening balance | 55 | 79 |
| - additional provisions..... | 22 | 32 |
| - amount used..... | (30) | (54) |
| - unwinding of discount on liabilities recognised at present value..... | - | 1 |
| - reversal of amounts unused..... | (1) | (4) |
| - foreign currency exchange differences | - | 1 |
| - disposal of controlled entities..... | (9) | - |
| Closing balance | 37 | 55 |

(i) Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The average time for which these payments are expected to be made is eight years (2013: eight years).

Certain controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation.

(ii) Redundancy

A provision exists only for those redundancy costs for which 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 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. The execution of these detailed formal plans, for which the redundancy provision has been raised, is expected to be completed during financial year 2015.

(iii) Other

Other provisions include provision for lease incentives, provision for committed capital expenditure, provision for reinstatement costs, and other provisions.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial instruments.

Section (a) includes details on our gearing.

Section (b) sets out the carrying values, fair values and contractual face values of our financial instruments. The amounts provided in this section are prior to netting offsetting risk positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we generally hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Section (d) includes a reconciliation of movements in gross and net debt positions.

Section (e) includes details on our interest expense and interest rate yields.

Section (f) provides further details on our derivative financial instruments.

Section (g) provides information on the method for estimating fair value of our financial instruments.

Section (h) shows financial instruments subject to offsetting or netting arrangements.

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 18.

(a) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, to continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During financial year 2014, we paid dividends of \$3,545 million (2013: \$3,480 million). Refer to note 4 for further details.

Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

Gearing and net debt

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our target zone for the net debt gearing ratio is currently 50 to 70 per cent (2013: 50 to 70 per cent). The gearing ratios and carrying value of our net debt are shown in Table A. The impact of the higher liquidity is reflected in the reduction in our net debt gearing ratio from 50.5 per cent at 30 June 2013 to 43.0 per cent at 30 June 2014.

| Table A | Note | Telstra Group | |
|--|-------|---------------|---------|
| | | As at 30 June | |
| | | 2014 | 2013 |
| | | \$m | \$m |
| Current | | | |
| Short term debt | | | |
| Promissory notes | | 365 | 125 |
| | | 365 | 125 |
| Long term debt-current portion | | | |
| Offshore borrowings (i) | | 1,334 | 55 |
| Telstra bonds and domestic loans (ii) | | 500 | 505 |
| Finance leases | 22 | 78 | 66 |
| | | 1,912 | 626 |
| | | 2,277 | 751 |
| Non current | | | |
| Long term debt | | | |
| Offshore borrowings (i) | | 11,023 | 11,836 |
| Telstra bonds and domestic borrowings (ii) | | 2,293 | 2,263 |
| Finance leases | 22 | 231 | 214 |
| | | 13,547 | 14,313 |
| | | 15,824 | 15,064 |
| Short term debt | | 365 | 125 |
| Long term debt (including current portion) | | 15,459 | 14,939 |
| Total debt | | 15,824 | 15,064 |
| Net derivative financial liability | 17(f) | 224 | 564 |
| Gross debt | | 16,048 | 15,628 |
| Cash and cash equivalents | 20 | (5,527) | (2,479) |
| Net debt | | 10,521 | 13,149 |
| Total equity | | 13,960 | 12,875 |
| Total capital | | 24,481 | 26,024 |
| | | % | % |
| Gearing ratio | | 43.0 | 50.5 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(a) Capital management (continued)

Gearing and net debt (continued)

Net debt included in Table A is based on the carrying values of our financial instruments, which are provided in Table C in the following section (b). For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our derivative instruments and borrowings excludes accrued interest. Accrued interest is recorded in current "trade and other receivables" and current "trade and other payables" in the statement of financial position.

Our borrowings are unsecured, except for finance leases, which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. No assets are pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities. Details of interest rates and maturity profiles are included in note 18.

We are not subject to any externally imposed capital requirements.

(i) Offshore borrowings

Offshore borrowings comprise debt raised overseas. The carrying amounts of offshore borrowings are denominated in the currencies in Table B. Our policy is to swap foreign currency borrowings into Australian dollars, except where they are held to hedge translation foreign exchange risk associated with our offshore investments. Refer to Table D for the net contractual face values of our borrowings on a post hedge basis.

Refer to Table E for details on debt issuance and maturities.

(ii) Telstra bonds and domestic borrowings

Telstra bonds currently on issue total \$233 million, mature up until the year 2020, and are issued to wholesale investors. Domestic borrowings as at 30 June 2014 total \$2,560 million, with various maturity dates up until the year 2020. Refer to Table E for details on debt issuance and maturities.

| | Telstra Group | |
|-----------------------------|----------------------|--------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Australian dollar | 190 | 190 |
| Euro | 9,533 | 9,054 |
| United States dollar..... | 1,210 | 1,225 |
| British pound sterling..... | 361 | 329 |
| Japanese yen..... | 494 | 566 |
| New Zealand dollar..... | 236 | 214 |
| Swiss franc | 282 | 262 |
| Hong Kong dollar..... | 47 | 47 |
| Indian rupee | 4 | 4 |
| | 12,357 | 11,891 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table C. The amounts disclosed are prior to netting offsetting risk positions of financial instruments in a hedge relationship.

We also have potential financial liabilities, not included in the tables below, which may arise from certain contingencies disclosed in note 23 and note 30.

Table C

Telstra Group

| | As at 30 June 2014 | | | As at 30 June 2013 | | |
|--|----------------------|-----------------|-----------------|----------------------|-----------------|-----------------|
| | 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 | 305 | 305 | 305 | 295 | 295 | 295 |
| Available-for-sale - at fair value | | | | | | |
| Bank deposits, bills of exchange and promissory notes (i) | 5,222 | 5,222 | 5,252 | 2,184 | 2,184 | 2,195 |
| In designated hedge relationships - at fair value | | | | | | |
| Net derivative liability - hedging instrument..... | 1 | 1 | (53) | (382) | (382) | (327) |
| Promissory notes - hedged item (ii)..... | (265) | (265) | (265) | (125) | (126) | (126) |
| Offshore borrowings - hedged item (ii)..... | (4,211) | (4,211) | (3,774) | (3,950) | (3,950) | (3,732) |
| Telstra bonds and domestic borrowings - hedged item (ii) | (964) | (964) | (950) | (735) | (735) | (750) |
| In designated hedge relationships - at amortised cost | | | | | | |
| Offshore borrowings - hedged item..... | (6,072) | (6,634) | (6,105) | (6,504) | (6,948) | (6,547) |
| Telstra bonds and domestic borrowings - hedged item ... | (274) | (275) | (275) | (275) | (271) | (275) |
| De-designated or not in designated hedge relationship - at fair value | | | | | | |
| Net derivative liability..... | (225) | (225) | (254) | (182) | (182) | (261) |
| De-designated from hedge relationship - at amortised cost | | | | | | |
| Offshore borrowings..... | (1,880) | (1,982) | (1,904) | (1,243) | (1,365) | (1,289) |
| Other financial liabilities - at amortised cost | | | | | | |
| Finance lease payable..... | (309) | (309) | (444) | (280) | (280) | (392) |
| Promissory notes | (100) | (100) | (100) | - | - | - |
| Offshore borrowings | (194) | (214) | (194) | (194) | (202) | (194) |
| Telstra bonds and domestic borrowings..... | (1,555) | (1,713) | (1,568) | (1,758) | (1,906) | (1,772) |
| Telstra Group net debt | (10,521) | (11,364) | (10,329) | (13,149) | (13,868) | (13,175) |
| Other financial instruments | | | | | | |
| Interest bearing financial assets | | | | | | |
| Finance lease receivable..... | 277 | 277 | 314 | 214 | 214 | 237 |
| Amounts owed by joint ventures and associated entities. | 451 | 451 | 451 | 451 | 451 | 451 |
| Other receivables (i)..... | 3 | 3 | 3 | 7 | 7 | 7 |
| Net interest bearing financial liabilities | (9,790) | (10,633) | (9,561) | (12,477) | (13,196) | (12,480) |
| Equity investments classified as available-for-sale | | | | | | |
| Unlisted securities (iii)..... | 127 | n/a | 127 | 38 | 38 | 38 |
| Loans and receivables at amortised cost | | | | | | |
| Trade/other receivables and accrued revenue (i) | 4,414 | 4,414 | 4,534 | 4,828 | 4,828 | 5,008 |
| Amounts owed by joint ventures and associated entities. | - | - | 6 | - | - | 6 |
| Financial liabilities at amortised cost | | | | | | |
| Trade/other creditors and accrued expenses (i)..... | (3,890) | (3,890) | (3,890) | (4,270) | (4,270) | (4,270) |
| Deferred consideration for capital expenditure..... | (10) | (10) | (10) | (134) | (134) | (187) |
| Net financial liabilities | (9,149) | (10,119) | (8,794) | (12,015) | (12,734) | (11,885) |

(i) For financial assets and financial liabilities with a short term to maturity, the carrying amount is considered to approximate fair value.

(ii) These borrowings are in fair value hedges. The carrying amount is adjusted for fair value movements attributable to the hedged risk.

(iii) Investments in unlisted securities are measured at historical cost. Fair value for these securities cannot be reliably measured. Refer to section (g) for further details.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(c) Net position on a contractual face value basis

The amounts disclosed in Table D represent the net contractual face values of our financial instruments on a post hedge basis.

Table D

| | | | Telstra Group | |
|--|----------|-------------------|-----------------|-----------------|
| | | | As at 30 June | |
| | | | Face value | |
| | | | 2014 | 2013 |
| | | | \$m | \$m |
| | | Currency | | |
| Interest bearing financial assets included in net debt | | | | |
| Cash and cash equivalents | Floating | Australian dollar | 5,137 | 2,076 |
| Cash and cash equivalents held in foreign currencies | Floating | Various | 325 | 336 |
| | | | 5,462 | 2,412 |
| Interest bearing financial liabilities included in net debt | | | | |
| Offshore and domestic borrowings - hedged (i) | Fixed | Australian dollar | (6,200) | (7,311) |
| Borrowings - not hedged | Fixed | Australian dollar | (1,497) | (1,653) |
| Finance lease liability and other offshore borrowings | Fixed | Foreign | (158) | (150) |
| Offshore and domestic borrowings - hedged (i) | Floating | Australian dollar | (7,145) | (5,373) |
| Borrowings - not hedged | Floating | Australian dollar | (600) | (505) |
| Forward contract liability - net (ii) | Floating | Australian dollar | (285) | (89) |
| Cross currency swap liability - net | Floating | Foreign | - | (584) |
| | | | (15,885) | (15,665) |
| Net interest bearing debt | | | (10,423) | (13,253) |
| Non-interest bearing cash included in net debt | | Various | 94 | 78 |
| Net debt - based on contractual face values | | | (10,329) | (13,175) |
| Other interest bearing financial assets | Fixed | Australian dollar | 768 | 695 |
| Net interest bearing financial liabilities - based on contractual face values | | | (9,561) | (12,480) |

(i) These amounts represent the end hedge position as described in our hedge relationships in note 18, Table H.

(ii) Includes final pay legs \$603 million (2013: \$556 million) as described in note 18, Table J. The balance also includes receive legs relating to hedges of forecast purchases, trade and other non-interest bearing assets and liabilities of \$318 million (2013: \$467 million).

The above table represents our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship.

Accordingly, consistent with our policy to swap foreign currency borrowings into Australian dollars, only our Australian dollar end positions are included in the table above, except for a small proportion of financial instruments comprising some cash balances and borrowings held in foreign currencies by our foreign controlled entities. These foreign currency amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June. In the prior year foreign currency balances also included financial instruments used to hedge our offshore investment in the CSL Group which we disposed of during the year. Refer to note 20 for further details.

Total net debt in Table D agrees to the face value of our financial instruments included in net debt in Table C. The face values differ from the statement of financial position carrying amounts. The carrying amounts reflect a part of our borrowing portfolio at fair value, with the remaining part at amortised cost, whereas the face values represent the undiscounted contractual liability at maturity date.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(d) Movements in net debt

The decrease in the carrying amount (including net cash movements) of our net debt during the year of \$2,628 million for the Telstra Group (2013: decrease of \$128 million) is represented by the movements shown in Table E below.

| Table E | Telstra Group | |
|--|-----------------------|----------------|
| | Year ended 30 June | |
| | 2014 \$m | 2013 \$m |
| Debt issuance - offshore and domestic borrowings | 498 | 2,074 |
| Net short term borrowings | 252 | (442) |
| Repayment of offshore and domestic borrowings | (565) | (3,600) |
| Finance lease repayments | (91) | (97) |
| Net cash inflow/(outflow) | 94 | (2,065) |
| Non-cash movements in gross debt before tax | | |
| Revaluation losses affecting cash flow hedging reserve | 45 | 4 |
| Revaluation (gains)/losses affecting foreign currency translation reserve | (64) | 57 |
| Revaluation losses/(gains) affecting other expenses in the income statement | 23 | (15) |
| Revaluation losses/affecting finance costs in the income statement (i) | 200 | 188 |
| Borrowings on acquisition of domestic controlled entity | 1 | - |
| Finance lease additions | 121 | 237 |
| | 326 | 471 |
| Total increase/(decrease) in gross debt | 420 | (1,594) |
| Net (increase)/decrease in cash and cash equivalents (including foreign currency exchange differences) | (3,048) | 1,466 |
| Total decrease in net debt | (2,628) | (128) |

(i) The net revaluation loss of \$200 million (2013: loss of \$188 million) includes:

- loss of \$182 million (2013: \$185 million) affecting other finance costs, comprising a loss of \$128 million (2013: \$95 million) from fair value hedges; a loss of \$64 million (2013: \$89 million) from transactions either not designated or de-designated from fair value hedge relationships; and a gain of \$10 million (2013: loss of \$1 million) relating to other hedge accounting adjustments
- loss of \$18 million (2013: \$3 million) affecting interest on borrowings, comprising a gain of \$1 million (2013: \$15 million) relating to interest and cross currency swap proceeds on new borrowings, which will be amortised to interest in the income statement over the life of the borrowing; and a loss of \$19 million (2013: \$18 million) comprising the amortisation of discounts.

During the year we issued a domestic public bond with proceeds of \$498 million (face value \$500 million), maturing on 13 November 2018.

Our unsecured promissory notes are used principally to support working capital and short term liquidity. These unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

We repaid the following long term debt during the year (Australian dollar equivalent):

- \$5 million Telstra bonds relating to wholesale investors, matured 15 July 2013
- \$59 million offshore Japanese yen private placement matured 30 September 2013
- \$500 million domestic public bond, matured 15 November 2013
- \$1m other subsidiary loan repayments.

Long term debt of \$2,191 million will mature during financial year 2015. This represents the contractual face value amount after hedging. Included in this amount are offshore borrowings that were swapped into Australian dollars at inception of the borrowing through to maturity through the use of cross currency and interest rate swaps, creating synthetic Australian dollar obligations.

The amount of \$2,191 million is different to the carrying amount of \$1,834 million that is included in current borrowings (along with promissory notes of \$365 million and finance leases of \$78 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis, with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under the Australian Accounting Standards.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(e) Interest and yields

The net interest on borrowings is shown in Table F below. Where applicable, finance costs are assigned to categories on the basis of the hedged item.

Table F

| | | Telstra Group | |
|---|------|---------------|--------------|
| | | As at 30 June | |
| | Note | 2014 \$m | 2013 \$m |
| Interest on borrowings (i) | | | |
| Financial instruments in hedge relationships (ii) | | | |
| Domestic borrowings in cash flow and fair value hedges | | 51 | 37 |
| Offshore borrowings in cash flow hedges | | 465 | 452 |
| Offshore borrowings in fair value hedges | | 168 | 207 |
| Promissory notes in fair value hedges | | 21 | 9 |
| Derivatives hedging net foreign investments | | (9) | (15) |
| Other financial instruments | | | |
| Promissory notes | | 7 | 5 |
| Offshore borrowings not in a hedge relationship or de-designated from fair value hedge relationships (ii) | | 117 | 150 |
| Telstra bonds and domestic borrowings | | 114 | 153 |
| Finance leases | | 20 | 12 |
| Other | | 7 | 7 |
| Total interest on borrowings | 7 | 961 | 1,017 |
| Finance income on net debt | | | |
| Interest on cash and cash equivalents | 6 | 85 | 91 |
| Interest on finance lease receivables | 6 | 14 | 11 |
| Interest on loans to joint ventures and associated entities | 6 | 54 | 53 |
| Net interest on interest bearing financial liabilities | | 808 | 862 |

(i) The interest expense as shown in Table F above is categorised based on the classification of financial instruments applicable as at 30 June.

(ii) Interest expense is a net amount after offsetting interest income and interest expense on associated derivative instruments.

The year-on-year decrease in net interest is due to a reduction in the average volume of our net interest bearing liabilities and a reduction in the net average interest yield. The net average interest yield during the year was 6.2 per cent (2013: 6.4 per cent) for the Telstra Group. The reduction in yield arose through a combination of a reduction in short term market base rates year on year, resulting in lower costs on the floating rate debt component of our debt portfolio and from re-financing at lower rates.

Other finance costs are included within note 7.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Derivative financial instruments

All of our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for a number of derivatives classified as held for trading which are in economic relationships but not in a designated hedge relationship for hedge accounting purposes. Refer to note 18 for details on hedge relationships.

Derivative financial instruments for the Telstra Group as at 30 June are shown in Table G and Table H below. For these derivative instruments the fair value equates to the carrying amounts in the statement of financial position, which differs from the face values that are also provided in other tables within this note.

Table G

| | Telstra Group | | | | | | | | |
|----------------------------|----------------------|-------|---------------------|-------|-------------------|-------|-----------|---------|-------|
| | As at 30 June 2014 | | | | | | | | |
| | Cross currency swaps | | Interest rate swaps | | Forward contracts | | Total | Total | Total |
| Asset | Liability | Asset | Liability | Asset | Liability | Asset | Liability | Net | |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| Current | | | | | | | | | |
| Fair value hedge..... | - | - | - | - | - | (12) | - | (12) | (12) |
| Cash flow hedge (i)..... | 20 | (238) | 1 | (2) | - | (5) | 21 | (245) | (224) |
| Held for trading (ii)..... | - | (141) | 1 | - | 1 | (2) | 2 | (143) | (141) |
| | 20 | (379) | 2 | (2) | 1 | (19) | 23 | (400) | (377) |
| Non current | | | | | | | | | |
| Fair value hedge..... | 272 | (18) | 294 | - | - | - | 566 | (18) | 548 |
| Cash flow hedge (i)..... | 250 | (431) | 414 | (545) | - | - | 664 | (976) | (312) |
| Held for trading (ii)..... | 36 | (140) | 56 | (35) | - | - | 92 | (175) | (83) |
| | 558 | (589) | 764 | (580) | - | - | 1,322 | (1,169) | 153 |
| | 578 | (968) | 766 | (582) | 1 | (19) | 1,345 | (1,569) | (224) |

Table H

| | Telstra Group | | | | | | | | |
|---|----------------------|---------|---------------------|-------|-------------------|-------|-----------|---------|-------|
| | As at 30 June 2013 | | | | | | | | |
| | Cross currency swaps | | Interest rate swaps | | Forward contracts | | Total | Total | Total |
| Asset | Liability | Asset | Liability | Asset | Liability | Asset | Liability | Net | |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| Current | | | | | | | | | |
| Fair value hedge..... | - | (4) | - | - | 3 | - | 3 | (4) | (1) |
| Cash flow hedge (i)..... | - | - | - | - | 18 | - | 18 | - | 18 |
| Hedge of net investment in foreign operation..... | - | (37) | - | - | - | - | - | (37) | (37) |
| Held for trading (ii)..... | - | - | - | - | 22 | (3) | 22 | (3) | 19 |
| | - | (41) | - | - | 43 | (3) | 43 | (44) | (1) |
| Non current | | | | | | | | | |
| Fair value hedge..... | 237 | (13) | 120 | (7) | - | - | 357 | (20) | 337 |
| Cash flow hedge (i)..... | 183 | (737) | 463 | (580) | - | - | 646 | (1,317) | (671) |
| Hedge of net investment in foreign operation..... | - | (27) | - | - | - | - | - | (27) | (27) |
| Held for trading (ii)..... | - | (261) | 59 | - | - | - | 59 | (261) | (202) |
| | 420 | (1,038) | 642 | (587) | - | - | 1,062 | (1,625) | (563) |
| | 420 | (1,079) | 642 | (587) | 43 | (3) | 1,105 | (1,669) | (564) |

(i) Gains or losses recognised in the cash flow hedging reserve on cross currency swap and interest rate swap contracts will be continuously released to the income statement until the underlying borrowings are repaid. Gains or losses recognised in the cash flow hedging reserve on forward exchange contracts will be released to the income statement when the underlying forecast transaction occurs and affects profit or loss. However, where the underlying forecast transaction is a purchase of a non-financial asset (for example property, plant and equipment) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date on which the asset is recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(f) Derivative financial instruments (continued)

(ii) Derivatives that are classified as held for trading are in economic relationships but are not in designated hedge relationships for hedge accounting purposes. Refer to note 18 for details on our hedging strategies. Although these held for trading derivatives did not satisfy the requirements for hedge accounting, these relationships are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction.

(g) Fair value hierarchy

We use various methods to estimate the fair value of our financial instruments:

- Level 1: the fair value is calculated using quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety has been determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10 per cent change in the overall fair value of the instruments.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables I, J and K below, followed by a description of the methods used to estimate the fair value.

| | Telstra Group | | | |
|---|--------------------|----------------|----------------|--------------|
| | As at 30 June 2014 | | | |
| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
| Assets and liabilities for which fair value is disclosed | | | | |
| Domestic and offshore borrowings..... | - | (15,993) | - | (15,993) |
| Promissory notes..... | - | (365) | - | (365) |
| | - | (16,358) | - | (16,358) |
| Assets and liabilities measured at fair value | | | | |
| Derivative assets | | | | |
| Cross currency swaps | - | 578 | - | 578 |
| Interest rate swaps..... | - | 766 | - | 766 |
| Forward contracts | - | 1 | - | 1 |
| | - | 1,345 | - | 1,345 |
| Derivative liabilities | | | | |
| Cross currency swaps | - | (968) | - | (968) |
| Interest rate swaps..... | - | (582) | - | (582) |
| Forward contracts | - | (19) | - | (19) |
| | - | (1,569) | - | (1,569) |
| | - | (224) | - | (224) |

| | Telstra Group | | | |
|---|--------------------|----------------|----------------|--------------|
| | As at 30 June 2013 | | | |
| | Level 1 \$m | Level 2 \$m | Level 3 \$m | Total \$m |
| Assets and liabilities for which fair value is disclosed | | | | |
| Domestic and offshore borrowings..... | - | (15,377) | - | (15,377) |
| Promissory notes..... | - | (126) | - | (126) |
| | - | (15,503) | - | (15,503) |
| Assets and liabilities measured at fair value | | | | |
| Available-for-sale investments | | | | |
| Unlisted securities..... | - | - | 19 | 19 |
| Derivative assets | | | | |
| Cross currency swaps | - | 420 | - | 420 |
| Interest rate swaps..... | - | 642 | - | 642 |
| Forward contracts | - | 43 | - | 43 |
| | - | 1,105 | 19 | 1,124 |
| Derivative liabilities | | | | |
| Cross currency swaps | - | (1,079) | - | (1,079) |
| Interest rate swaps..... | - | (587) | - | (587) |
| Forward contracts | - | (3) | - | (3) |
| | - | (1,669) | - | (1,669) |
| | - | (564) | 19 | (545) |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(g) Fair value hierarchy (continued)

There were no transfers between Levels 1 and 2 for recurring fair value measurements for our financial instruments during the year. All balances were transferred out of the Level 3 fair value hierarchy and measured at historical cost as their fair value cannot be reliably measured. Refer below Available-for-sale investments - other - unlisted securities for further details.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data. There were no changes in valuation techniques during the year. Specific valuation techniques used to value our financial instruments are as follows:

Borrowings, cross currency and interest rate swaps

The net fair values of our borrowings, cross currency and interest rate swaps are determined using valuation techniques that utilise data from observable and unobservable market data.

Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. In particular, the following inputs are used to derive yield curves used in the calculation of fair value of our derivatives and borrowings:

- base curves which are readily available market data and quoted for all major currencies
- pricing data reflecting Telstra's borrowing margins obtained from selected market participants with whom Telstra has transacted or would transact in capital markets. We generally use the mid point of the pricing data range in calculating the yield curve. This pricing data used to estimate Telstra's borrowing margins is not observable. However, sensitivity analysis on changes to this input, by using the maximum point in the pricing range, does not result in a significant change to the fair value of our borrowings, cross currency and interest rate swaps.

We have therefore classified these financial instruments based on the observable market inputs as Level 2.

Forward contracts

The fair value of our forward exchange contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

Available-for-sale investments - other - unlisted securities

Securities not listed on any stock exchange and where a quoted market price is not available are classified within Level 3 of the fair value hierarchy.

Fair value of unlisted securities represents the price that would be received to sell the financial asset in an orderly transaction between market participants at balance date.

Table K shows the fair value of shares not listed on any stock exchange and where a quoted market price is not available. Accordingly, these unlisted securities have been classified within Level 3 of the fair value hierarchy.

| Table K | Unlisted securities |
|---|---------------------|
| | Level 3 \$m |
| Opening balance 1 July 2013 | 19 |
| Purchases (a)..... | - |
| Transfers out of Level 3 (b) | (19) |
| Closing balance 30 June 2014 | - |

(a) During the financial year we acquired the following investments in unlisted securities:

- Box Inc.
- Nexmo Inc.
- Matrixx Software Inc.
- Telesign Holdings Inc.
- Docusign Inc.

As at 30 June 2014, all of our available-for-sale investments totalled \$127 million (2013: \$38 million). These are securities with no quoted market price in an active market and for which the fair value cannot be reliably measured as the range of reasonable fair value estimates was significant and the probabilities of the various estimates could not be reasonably assessed. Therefore, we measured these investments at historical cost.

We do not intend to dispose of these investments in the near future.

(b) Transfers out of the Level 3 fair value hierarchy relate to our investment in Kony Solutions Inc., an unlisted security with no quoted market price in an active market and for which the fair value cannot be reliably measured. Therefore, as at 30 June 2014, this investment was measured at its historical cost of \$19 million as the range of reasonable fair value estimates for this business was significant and the probabilities of the various estimates could not be reasonably assessed. We do not intend to dispose of this investment in the near future.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17. CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

(h) Offsetting and netting arrangements

The following tables present our financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements:

| Financial Instruments | Gross amounts of recognised financial instruments \$m (a) | Amounts that are offset in the statement of financial position \$m (b) | Net amounts of financial instruments presented in the statement of financial position \$m (c) = (a) - (b) | Gross amounts not offset in the statement of financial position (i) | | Net amounts that are not subject to offsetting arrangements \$m (e) = (c) - (d) |
|---------------------------------------|---|--|---|---|--|---|
| | | | | Financial instruments (ii) \$m (d) | Collateral received or pledged \$m (d) | |
| Trade and other receivables..... | 500 | 73 | 427 | 156 | 3 | 268 |
| Trade and other payables..... | (463) | (73) | (390) | (156) | - | (234) |
| Derivative financial assets..... | 1,345 | - | 1,345 | 748 | - | 597 |
| Derivative financial liabilities | (1,569) | - | (1,569) | (748) | - | (821) |
| Total | (187) | - | (187) | - | 3 | (190) |

| Financial Instruments | Gross amounts of recognised financial instruments \$m (a) | Amounts that are offset in the statement of financial position \$m (b) | Net amounts of financial instruments presented in the statement of financial position \$m (c) = (a) - (b) | Gross amounts not offset in the statement of financial position (i) | | Net amounts that are not subject to offsetting arrangements \$m (e) = (c) - (d) |
|---------------------------------------|---|--|---|---|--|---|
| | | | | Financial instruments (ii) \$m (d) | Collateral received or pledged \$m (d) | |
| Trade and other receivables..... | 592 | 67 | 525 | 207 | 4 | 314 |
| Trade and other payables..... | (444) | (67) | (377) | (207) | - | (170) |
| Derivative financial assets..... | 1,105 | - | 1,105 | 726 | - | 379 |
| Derivative financial liabilities | (1,669) | - | (1,669) | (726) | - | (943) |
| Total | (416) | - | (416) | - | 4 | (420) |

(i) Reflects amounts subject to conditional offsetting arrangements.

(ii) Below is a description of our material rights of set-off that are not otherwise included in column (b) in Tables L and M above:

- for our inter operative tariff arrangements with some of our international roaming partners, we have executed agreements that allow the netting of amounts payable and receivable by us on cessation of the contract
- for our wholesale customers we have executed Customer Relationship Agreements which allow for the netting of amounts payable and receivable by us in certain circumstances where there is a right to suspend the supply of services or on the expiration or termination of the agreement
- for all our derivative financial instruments, we have executed master netting arrangements under our International Swaps

and Derivatives Association agreements. These arrangements allow for the netting of amounts payable and receivable by us or the counterparty in the event of default or a credit event. In line with contractual provisions, in the event of insolvency all derivatives with a positive or negative fair value that exist with the respective counterparty are offset against each other, leaving a net receivable or liability.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT

We undertake transactions using a range of financial instruments, including:

- cash assets
- receivables
- payables
- negotiable certificates of deposits
- bank deposits
- bills of exchange and promissory notes
- listed investments and investments in other corporations
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. We manage our risks with a view to the outcomes of both our financial results and the underlying economic position. Financial risk management is carried out centrally by our Treasury department, which is part of our corporate areas, under policies approved by the Board. The Board approves written principles for overall risk management such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and liquidity management.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps
- interest rate swaps
- forward foreign exchange contracts.

We do not speculatively trade in derivative financial instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Section (a) of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Sections (b) and (c) provide details of our hedging strategies and hedge relationships that are used for financial risk management. In particular, these sections give context to 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. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates, which exposes us to fair value interest rate risk. Our borrowings, which have a variable interest rate attached, give rise to cash flow interest rate risk.

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage these risks on our net debt portfolio by:

- adjusting to our target ratio the ratio of fixed interest debt to variable interest debt, as required by our debt management policy
- ensuring access to diverse sources of funding
- reducing risks of refinancing by establishing and managing in accordance with target maturity profiles
- undertaking hedging activities through the use of derivative financial instruments.

Under our interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract interest rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 17, Table D, for our residual post hedge fixed and floating interest positions on a contractual face value basis.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps. “Hedging strategies” and “Hedge relationships” contained in sections (b) and (c) of this note provides further information.

The weighted average interest rates on our fixed and floating rate financial instruments as at 30 June, which do not have offsetting risk positions, and the principal/notional amounts on which interest is calculated, are shown in Table A. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset. Accordingly, the majority of our instruments in Table A represent Australian dollar interest positions. Principal/notional amounts shown are net of discounts and therefore differ from the face value disclosed in note 17 (Tables C and D).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(i) Interest rate risk (continued)

Table A

| | Telstra Group | | | |
|--|---|------------------------------|---|------------------------------|
| | As at 30 June 2014 | | As at 30 June 2013 | |
| | Principal/ receivable/ (payable) \$m | Weighted average % (*) | Principal/ receivable/ (payable) \$m | Weighted average % (*) |
| Fixed rate instruments - Australian interest rate | | | | |
| Cross currency and interest rate swap payable | (6,200) | 5.76 | (7,311) | 5.88 |
| Finance lease payable | (250) | 6.14 | (226) | 6.55 |
| Telstra bonds and domestic borrowings | (1,056) | 7.14 | (1,253) | 7.47 |
| Offshore borrowings | (140) | 6.10 | (140) | 6.10 |
| Fixed rate instruments - foreign interest rates | | | | |
| Finance lease payable | (59) | 9.41 | (54) | 9.38 |
| Offshore borrowings | (4) | 11.06 | (4) | 12.0 |
| | <u>(7,709)</u> | | <u>(8,988)</u> | |
| Variable rate instruments - Australian interest rates | | | | |
| Contractual repricing or maturity 3 months or less | | | | |
| Cash and cash equivalents (^) | 5,108 | 3.15 | 2,065 | 3.22 |
| Cross currency swap receivable (#) | - | - | 520 | 2.82 |
| Cross currency and interest rate swap payable | (6,960) | 4.48 | (5,893) | 4.37 |
| Telstra bonds and domestic borrowings | - | - | (5) | 12.58 |
| Promissory notes | (100) | 2.84 | - | - |
| Contractual repricing or maturity 3 to 12 months | | | | |
| Telstra bonds and domestic borrowings | (499) | 6.50 | (500) | 6.48 |
| Forward contract liability - net | (285) | 2.41 | (89) | 2.08 |
| Cross currency and interest rate swap payable | (185) | 8.18 | - | - |
| Variable rate instruments - foreign interest rates | | | | |
| Contractual repricing or maturity 6 months or less | | | | |
| Cash and cash equivalents (^) | 325 | 1.84 | 336 | 0.92 |
| Cross currency swap payable (#) | - | - | (584) | 0.15 |
| | <u>(2,596)</u> | | <u>(4,150)</u> | |
| | <u>(10,305)</u> | | <u>(13,138)</u> | |
| Net interest bearing debt | | | | |
| Other interest bearing financial assets | | | | |
| Fixed rate instruments - Australian interest rates | | | | |
| Finance lease receivable | 277 | 6.13 | 214 | 7.72 |
| Amounts owed by joint ventures entities | 451 | 12.00 | 451 | 12.00 |
| Floating rate instruments - foreign interest rate | | | | |
| Other receivables | 3 | 2.86 | 7 | 3.30 |
| | <u>(9,574)</u> | | <u>(12,466)</u> | |

(*) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate, as at reporting date.

(#) In the prior year we had cross currency swaps in place to hedge our offshore investment in the CSL Group which was disposed of during the year.

(^*) Rates on cash and cash equivalents represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(ii) Sensitivity analysis - interest rate risk

The sensitivity analysis included in this section is based on the interest rate risk exposures on our net debt portfolio as at reporting date.

A sensitivity of plus or minus 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. For example, a 10 per cent increase would move short term interest rates (cash) at 30 June 2014 from 2.50 per cent (2013: 2.75 per cent) to 2.75 per cent (2013: 3.03 per cent), representing a 25 (2013: 28) basis point shift. This basis point shift is considered reasonable taking into account the absolute rates as at 30 June and current market conditions.

This sensitivity analysis assumes a parallel shift in interest rates across all currencies. The results reflect the net impact on a hedged basis, which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges. Therefore, the movement in the Australian dollar interest rates is a significant assumption in this sensitivity analysis.

Based on the sensitivity analysis, equity would be affected by the revaluation of our derivatives associated with borrowings designated in a cash flow hedge relationship and finance costs would be affected by:

- the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year
- the revaluation of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship
- the ineffectiveness resulting from the change in fair value of both our derivatives and our borrowings that are designated in a fair value hedge.

The carrying value of borrowings de-designated from fair value hedge relationships or not in a hedge relationship is not adjusted for fair value movements attributable to interest rate risk.

Accordingly, the revaluation gain or loss on our foreign currency derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing.

The impact of the sensitivity analysis comprises:

- the revaluation impact on our derivatives and borrowings from a 10 per cent movement in interest rates based on the net debt balances as at reporting date
- the effect on interest expense on our floating rate borrowings from a 10 per cent movement in interest rates at each reset date during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(ii) Sensitivity analysis - interest rate risk (continued)

Table B below shows the effect on net profit after tax and shareholders' equity if interest rates had been 10 per cent higher or lower based on the relevant interest rate yield curve applicable to the underlying currency of the borrowings and derivatives which are denominated in various currencies (including Australian dollars, Euros, Swiss francs, Japanese yen, New Zealand dollars and United States dollars) with all other variables held constant. This takes into account all underlying exposures and related hedges and does not include the impact of any management action that might take place if these events occurred. A sensitivity of 10 per cent has been selected as this is considered reasonable given the current level of both short-term and long-term interest rates. Our sensitivity analyses are based on reasonably possible market conditions but they are not forecasts or predictions.

Table B

| | Telstra Group | | | | | | | |
|---|------------------------|------|------------------------------------|------|------------------------|------|------------------------------------|------|
| | +10% | | | | -10% | | | |
| | Net profit or loss (*) | | Equity (cash flow hedging reserve) | | Net profit or loss (*) | | Equity (cash flow hedging reserve) | |
| | Year ended 30 June | | As at 30 June | | Year ended 30 June | | As at 30 June | |
| | Gain/(loss) | | Gain/(loss) | | Gain/(loss) | | Gain/(loss) | |
| 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| Revaluation of derivatives and borrowings - fair value hedges of offshore borrowings | 25 | 36 | - | - | (25) | (37) | - | - |
| Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship | 4 | (1) | - | - | (4) | 2 | - | - |
| Revaluation of derivatives - cash flow hedges of offshore borrowings | - | - | 47 | 63 | - | - | (49) | (66) |
| Floating rate Australian dollar instruments | (36) | (33) | - | - | 36 | 33 | - | - |
| | (7) | 2 | 47 | 63 | 7 | (2) | (49) | (66) |

(*) The before tax impact is included within finance costs.

(iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign currency rates. Our foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currencies
- trade and other creditor balances denominated in foreign currencies
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, including:

- Euro
- United States dollar
- British pound sterling
- New Zealand dollar
- Swiss franc
- Hong Kong dollar
- Chinese renminbi
- 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.

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(iii) Foreign currency risk (continued)

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 a combination of interest rate and cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. Foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore investments. Refer to note 17, Table D, for our residual post hedge currency exposures on a contractual face value basis.

Foreign exchange risk that arises from transactional exposures such as firm commitments or highly probable transactions settled in a foreign currency (primarily United States dollars) are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as property, plant and equipment and inventory purchases settled in foreign currencies) in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our foreign controlled entities which have a functional currency other than Australian dollars. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. Where significant we may choose to 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. Currently we have no hedges of net investment in foreign controlled entities in place. During the year we disposed of our shareholding in CSL Group which were hedged for foreign currency translation risk. Refer to note 20 for further details.

In addition, our controlled entities may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction.

We also economically hedge a proportion of foreign currency risk associated with trade and other liability and asset balances using forward foreign currency contracts.

Refer to section (b) "Hedging strategies" and section (c) "Hedge relationships" in this note for further information.

(iv) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in this section is based on foreign currency risk exposures on our financial instruments and net foreign investment balances as at reporting date.

The translation of our investments in foreign operations from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable taking into account the current level of exchange rates and the volatility observed both on an historical basis and on market expectations for future movements. For example, comparing the Australian dollar exchange rate against the Euro, the year end rate of 0.6906 (2013: 0.7096) would generate a 10 per cent favourable position of 0.7597 (2013: 0.7806) and an adverse position of 0.6215 (2013: 0.6386). This range is considered reasonable given the volatility that has been observed.

Foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit or loss from foreign currency movements associated with these borrowings as they are effectively hedged.

There is some volatility in profit or loss from exchange rate movements associated with our borrowings de-designated or not in hedge relationships and with our forecast transactions denominated in a foreign currency.

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency. Our foreign currency exposure associated with cash flow hedge derivatives is predominantly in Euros and our offshore investments, mainly in British pounds sterling and Chinese renminbi (relating to our investments in Telstra Limited, Autohome Inc. and Sequel Media Inc.).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Market risk (continued)

(iv) Sensitivity analysis - foreign currency risk (continued)

Table C below shows the effect on net profit after tax and shareholders' equity from a 10 per cent adverse/favourable movement in foreign exchange rates based on balances at reporting date had the Australia dollar moved against all applicable currencies (including Euros, Swiss francs, Japanese yen, New Zealand dollars and United States dollars) with all other variables held constant and taking into account all underlying exposures and related hedges. This does not include the impact of any management action that might take place if these events occurred. A sensitivity of 10 per cent has been selected as this is considered reasonable. Our sensitivity analyses are based on reasonably possible market conditions but they are not forecasts or predictions.

Table C

Telstra Group

| | 10% adverse movement | | | | | | 10% favourable movement | | | | | |
|--|----------------------|------|---|------|------------------------------------|------|-------------------------|------|---|------|------------------------------------|------|
| | Net profit or loss | | Equity (foreign currency translation reserve) | | Equity (cash flow hedging reserve) | | Net profit or loss | | Equity (foreign currency translation reserve) | | Equity (cash flow hedging reserve) | |
| | | | As at 30 June | | As at 30 June | | | | As at 30 June | | | |
| | 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) | |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | |
| Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship (*)..... | (9) | (8) | - | - | - | - | 11 | 10 | - | - | - | - |
| Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (^)..... | (12) | (19) | - | - | - | - | 10 | 15 | - | - | - | - |
| Revaluation of derivatives - cash flow hedges of offshore borrowings..... | - | - | - | - | (41) | (33) | - | - | - | - | 50 | 41 |
| Net foreign investments (**) | - | - | (38) | (72) | - | - | - | - | 46 | 88 | - | - |
| | (21) | (27) | (38) | (72) | (41) | (33) | 21 | 25 | 46 | 88 | 50 | 41 |

(*) The impact of some of our borrowings de-designated from fair value hedge relationships or not in a hedge relationship has resulted in some volatility to profit or loss. The revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings. However, there will be some profit or loss impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. The borrowings, which are accounted for on an amortised cost basis, will reflect revaluation movements for changes in the spot exchange rate that are not discounted. Therefore, the impact on profit or loss is primarily attributable to the discounting effect of the foreign

exchange gains and losses on the hedging derivatives.

(^) Represents the impact relating to the unhedged portion of forecast transactions that would affect profit or loss.

(**) Relates to the translation of the net assets of our foreign controlled entities. The lower sensitivity in the current year reflects the sale of our net investment in the CSL Group during the year. As at 30 June 2014 no hedges of net investments in foreign controlled entities were in place and accordingly the net gain or loss in the sensitivity analysis represents the impact relating to unhedged net assets of our foreign controlled entities.

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and will cause us to incur a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position, comprising cash and cash equivalents, trade and other receivables, loan receivables, available-for-sale financial assets, finance lease receivables and derivative financial instruments. To help manage this risk:

- we have a policy for performing credit risk assessments on new and existing customers and, where required, establishing credit limits and payment terms for entities we deal with
- we monitor exposure to high risk debtors on a predictive and proactive basis
- we may require collateral where appropriate
- we manage through a system of credit limits our exposure to individual entities with which we either transact or enter into derivative contracts.

Where entities have a right of offset and intend to settle on a net basis, this offset has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 23 and note 30.

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ageing analysis and ongoing credit evaluation are performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debts is raised. In addition, receivable balances are monitored on an ongoing basis so that our exposure to bad debts is not significant. For further details about our trade and other receivables refer to note 10.

In relation to our transactions in money market instruments, forward foreign currency contracts and cross currency and interest rate swaps, there is a credit risk only when the contracting entity is liable to pay us in the event of a closeout (i.e. in-the-money). We have policies that limit the amount of credit exposure to any financial institution. These risk limits are regularly monitored. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with our policy requirements. Our credit risk and financial instruments are spread amongst a number of financial institutions.

One of the methods that we use to manage the credit risk exposure relating to these instruments is to monitor our exposure based on a value at risk (VaR) methodology. VaR calculations are a technique that estimates the potential losses that could occur on risk positions in the future as a result of movements in market rates over a specified time horizon given a specified level of confidence which is statistically determined.

The amounts included in Table D below include the in-the-money market values combined with a potential credit calculation and will therefore not equate to the accounting carrying value, fair value or face value of the transactions as disclosed in note 17.

In determining the potential credit limit factors to be used in these calculations, the following should be noted:

- reference is made to the historical volatility factors relevant to the particular currencies/interest rates applicable to the instruments
- in determining the volatility factors, reference has been made to the maturity of the instrument. In some cases, the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this period given historical observations
- we have used 90 per cent (2013: 90 per cent) confidence levels to determine the applicable potential credit limit factors.

The VaR based methodology employed has the following limitations:

- the use of historical data as a proxy for estimating future events may not cover all potential events. In particular this is relevant when trying to estimate potential volatility over a long holding period such as 10 years
- the use of a 90 per cent confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

| | Credit risk concentrations (VaR based) | | | |
|---------------------|---|---------------|-------------|------------|
| | As at 30 June | | | |
| | 2014 | | 2013 | |
| | % | \$m | % | \$m |
| Australia | 37.0 | 4,953 | 23.4 | 2,521 |
| United States | 17.8 | 2,382 | 22.8 | 2,454 |
| Japan | 0.3 | 35 | 0.5 | 54 |
| Europe | 20.3 | 2,720 | 21.6 | 2,329 |
| United Kingdom ... | 6.2 | 828 | 13.2 | 1,417 |
| Canada..... | 0.5 | 67 | - | - |
| Switzerland | 0.5 | 64 | 0.6 | 67 |
| China/Hong Kong. | 16.8 | 2,255 | 17.3 | 1,864 |
| Singapore | 0.5 | 65 | 0.6 | 68 |
| Other | 0.1 | 11 | - | 4 |
| | 100.0 | 13,380 | 100.0 | 10,778 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Credit risk (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 that is less than what they are worth or
- we may be unable to settle a financial liability or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained
- have readily accessible standby facilities and other funding arrangements in place
- generally use instruments that are tradeable in highly liquid markets
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid to highly liquid and liquid instruments.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow. Our objective is to maintain a balance between continuity of funding and flexibility through the use of liquid instruments, borrowings and committed available credit lines.

At 30 June 2014, based on contractual face values, 15 per cent (2013: 4 per cent) of our debt (after hedging) comprising offshore borrowings, Telstra bonds and domestic borrowings and excluding promissory notes, will mature in less than one year.

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in Table E. The contractual maturity amounts (nominal cash flows) represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values. These amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June. We have also included derivative financial assets in the following table on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed together.

For floating rate instruments, the amount disclosed is determined by reference to the current market pricing for interest rates over the period to maturity.

Also affecting liquidity are cash and cash equivalents, available-for-sale financial assets and other interest and non-interest bearing financial assets. Liquidity risk associated with these financial instruments is represented by the face values as shown in note 17, Table C.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Liquidity risk (continued)

| | As at 30 June 2014 | | | | | | As at 30 June 2013 | | | | | |
|--|---------------------|---|------------------|------------------|------------------|-----------|---------------------|----------------------|------------------|------------------|------------------|-----------|
| | Carrying amount \$m | Contractual maturity (nominal cash flows) | | | | | Carrying amount \$m | Less than 1 year \$m | 1 to 2 years \$m | 2 to 5 years \$m | Over 5 years \$m | Total \$m |
| | | Less than 1 year \$m | 1 to 2 years \$m | 2 to 5 years \$m | Over 5 years \$m | Total \$m | | | | | | |
| Derivative financial instruments | | | | | | | | | | | | |
| Net interest rate swaps payable (i) | (582) | (208) | (176) | (274) | (74) | (732) | (192) | (172) | (280) | (95) | (739) | |
| Cross currency swaps payable (ii) | (12,464) | (2,172) | (1,866) | (3,294) | (8,136) | (15,468) | (900) | (2,481) | (4,696) | (8,995) | (17,072) | |
| Forward foreign currency contracts payable (ii) | (660) | (651) | - | - | - | (651) | (645) | - | - | - | (645) | |
| Net interest rate swaps receivable (i) | 766 | 284 | 229 | 348 | 109 | 970 | 642 | 228 | 299 | 78 | 841 | |
| Cross currency receivable (ii) | 12,074 | 1,522 | 1,338 | 2,378 | 8,144 | 13,382 | 12,159 | 1,739 | 3,369 | 8,600 | 14,227 | |
| Forward foreign currency contracts receivable (ii) | 642 | 631 | - | - | - | 631 | 685 | - | - | - | 682 | |
| Non-derivative financial liabilities | | | | | | | | | | | | |
| Telstra bonds and domestic borrowings | (2,793) | (651) | (121) | (1,956) | (662) | (3,390) | (2,768) | (630) | (1,415) | (748) | (3,443) | |
| Trade/other creditors and accrued expenses.. | (3,890) | (3,833) | (3) | (21) | (33) | (3,890) | (4,270) | - | (18) | (39) | (4,270) | |
| Offshore borrowings..... | (12,357) | (1,810) | (1,574) | (2,766) | (8,483) | (14,633) | (11,891) | (1,738) | (3,703) | (8,869) | (14,817) | |
| Finance leases..... | (309) | (97) | (84) | (114) | (157) | (452) | (280) | (69) | (112) | (135) | (392) | |
| Promissory notes..... | (365) | (365) | - | - | - | (365) | (125) | - | - | - | (125) | |
| Deferred consideration for capital expenditure | (10) | (10) | - | - | - | (10) | (134) | (31) | (79) | (47) | (187) | |

(i) Net amounts for interest rate swaps are exchanged. Classification into net receive and net pay positions is based on the total net cash flows over the life of the contract.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Risk and mitigation (continued)

Liquidity risk (continued)

Financing arrangements

Table F

| | Telstra Group | |
|--|---------------|------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| We have access to the following lines of credit: | | |
| Credit standby arrangements | | |
| Unsecured committed cash standby facilities which are subject to annual review | 559 | 662 |
| Amount of credit unused | 559 | 662 |

We have promissory note facilities in place in the United States, Australia and New Zealand. Under these facilities, in current market conditions we would expect to be able to nominally issue up to \$4 billion (2013: between \$4 billion and \$5 billion). As at 30 June 2014, we had on issue \$365 million (2013: \$125 million) under these facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

As at 30 June 2014, our subsidiaries had bank bill acceptance facilities of nil (2013: \$155 million) of which nil was issued (2013: \$84 million). Subsidiary bank facilities in the prior year were held by CSL Limited. During the year we sold our shareholding in this subsidiary.

Generally, given that we retain suitable ratings, our facilities are available, subject to market conditions, unless we default on any terms applicable under the relevant agreements or become insolvent. During the current and prior years there were no defaults or breaches under any of our facility agreements.

(b) Hedging strategies

We hold a number of different financial instruments to hedge risks relating to underlying transactions. Our major exposure to interest rate risk and foreign currency risk arises from our long term borrowings. We also have translation currency risk associated with our offshore investments and transactional currency exposures such as purchases in foreign currencies.

We designate certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges)
- hedges of foreign currency risk associated with recognised liabilities or highly probable forecast transactions (cash flow hedges) or
- hedges of a net investment in a foreign operation.

The terms and conditions in relation to our derivative financial instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

Financial instruments de-designated from fair value hedge relationships or not in a designated hedge relationship

Our financial instruments de-designated from fair value hedge relationships or not in designated hedge relationships comprise:

- a number of offshore borrowings denominated in United States dollars, Euros and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes as they did not meet requirements for hedge effectiveness
- an Australian dollar interest rate swap which is not in a designated hedge relationship for hedge accounting purposes used to economically hedge changes in fair value attributable to changes in market interest rates relating to an Australian dollar private placement bond
- some forward foreign currency contracts that are not in a designated hedge relationship for hedge accounting purposes, used to economically hedge fair value movements for changes in foreign exchange rates associated with trade creditors and other liability and asset balances denominated in a foreign currency.

During the year some derivative contracts associated with two Euro borrowings were novated to another counterparty which resulted in the discontinuation of the hedge relationship as required under the current accounting standards. The portion of the underlying borrowings and associated derivatives relating to the novation were not re-designated into a new hedge relationship for hedge accounting purposes. The novation resulted in no change to the terms of the contract or the underlying cash flows and the underlying borrowing and hedging derivatives continue to remain in effective economic relationships. There has been no adjustments required for changes in counterparty risk.

All our financial liabilities de-designated or not in designated hedge relationships are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

All other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Hedging strategies (continued)

Financial instruments de-designated from fair value hedge relationships or not in a designated hedge relationship (continued)

Refer to section (c) for details on our hedge relationships based on contractual face value amounts and cash flows. Refer to note 7 for the impact on finance costs relating to borrowings de-designated or not in hedge relationships.

Fair value hedges

We hold cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated are a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the fair value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

The net impact on finance costs from remeasuring the fair value of the hedge instruments together with the gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks largely represents ineffectiveness attributable to movements in Telstra's borrowing margins.

During the year the remeasurement of the hedged items resulted in a loss before tax of \$331 million (2013: loss of \$599 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of \$203 million (2013: gain of \$504 million). This results in a net loss before tax of \$128 million and a net loss after tax of \$90 million (2013: net loss before tax of \$95 million and net loss after tax of \$67 million).

Refer to note 7 for the impact on finance costs relating to borrowings in fair value hedges.

The effectiveness of the hedging relationship is tested prospectively, both at inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative financial instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and thus supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as fair value hedges.

Cash flow hedges

Cash flow hedges are predominantly used to hedge exposures relating to our borrowings and our ongoing business activities where we have highly probable purchase or settlement commitments in foreign currencies.

We enter into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long term offshore borrowings. The hedged items designated are a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also enter into forward exchange contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency; these contracts hedge foreign currency risk arising from spot rate changes. The hedged items comprise a portion of highly probable forecast payments for operating and capital items primarily denominated in United States dollars.

The effectiveness of the hedging relationship relating to our borrowings is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods where the actual derivative financial instruments are regressed against a hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and thus supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125, the hedge is effective.

In relation to our offshore borrowings, ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year, there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year, there was no material impact on profit or loss as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedging reserve refer to the statement of comprehensive income.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as cash flow hedges.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Hedging strategies (continued)

Cash flow hedges (continued)

Table G shows the maturities of the payments in our cash flow hedges (i.e. when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at reporting date in relation to our cash flow hedges.

| Table G | Telstra Group | |
|--|-----------------------|----------------|
| | Nominal cash outflows | |
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Highly probable forecast transactions | | |
| Non-capital items (i) | | |
| Within 1 year..... | (306) | (431) |
| Borrowings (ii) | | |
| Within 1 year..... | (1,156) | (264) |
| Within 1 to 5 years | (2,485) | (3,768) |
| After 5 years | (4,055) | (4,465) |
| | (7,696) | (8,497) |

(i) These amounts will affect our income statement in the same period as the period in which the cash flows are expected to occur.

(ii) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit or loss over the life of the borrowing, however the impact on profit or loss is expected to be nil as the borrowings are effectively hedged.

Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We may choose to hedge a portion of our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year, there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the statement of comprehensive income, net gains before tax of \$43 million and after tax of \$30 million (2013: losses before tax of \$69 million and after tax of \$48 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Following the disposal of the CSL Group on 14 May 2014, as at 30 June 2014 we had no hedges of net investments in foreign controlled entities in place.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as hedges of net foreign investments.

(c) Hedge relationships

The following tables give context to our hedge transactions and in particular describe how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the tables will not be equal to the carrying values.

Table H and Table I describe each of our hedge relationships which use cross currency and interest rate swaps as the hedging instruments. These comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore borrowings and some domestic borrowings. In the prior year hedging instruments were also in place to hedge our offshore investment in the CSL Group which was disposed of during the year. Outlined in the following tables is the pre hedge underlying exposure, each leg of our cross currency and interest rate swaps and the end post hedge position. This post hedge position represents our net final currency and interest positions and is represented in our residual economic position as described in note 17, Table D.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Hedge relationships (continued)

Table H

Telstra Group - 30 June 2014

| | Derivative hedging instruments - cross currency and interest rate swaps | | | | | | | | | | Final currency and interest positions | | |
|---|---|--------------------------------------|--------|---|----------|---|---------|--|---------|--|---------------------------------------|---------------------|-------------------|
| | Face value | | | | | Notional/face value | | | | | Notional/face value | | |
| | Local currency exposure | Interest rate swap fixed/(pay) float | | Cross currency swap receive/(pay) float | | Cross currency swap receive/(pay) float | | Interest rate swap receive/(pay) float | | Interest rate swap receive/(pay) float | | (Pay)/receive float | (Pay)/fixed float |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| In hedge relationships | | | | | | | | | | | | | |
| Offshore borrowings - fixed | | | | | | | | | | | | | |
| Swiss francs | (225) | (225) | 225 | - | - | (251) | - | - | - | - | (251) | - | - |
| Euros | (5,825) | (4,750) | 4,750 | 1,075 | (8,288) | (8,288) | (4,447) | (4,447) | - | (3,841) | (3,841) | (4,447) | (4,447) |
| Hong Kong dollar | (330) | - | - | 330 | (50) | (50) | - | - | - | (50) | (50) | - | - |
| Japanese yen | (37,000) | - | - | 37,000 | (517) | (517) | (35) | (409) | - | (108) | (108) | (444) | (444) |
| United States dollar | (1,150) | (1,000) | 1,000 | 150 | (1,158) | (1,158) | (79) | (955) | - | (203) | (203) | (955) | (955) |
| New Zealand dollar | (100) | - | - | 100 | - | - | - | - | - | - | - | (79) | (79) |
| Australian dollar | (50) | - | - | - | - | - | - | - | (50) | (50) | (50) | - | - |
| Offshore borrowings - floating (i) | | | | | | | | | | | | | |
| Euros | (500) | (500) | 500 | - | (858) | (858) | - | - | - | (858) | (858) | - | - |
| British pounds sterling | (200) | (200) | 200 | - | (584) | (584) | - | - | - | (584) | (584) | - | - |
| New Zealand dollar | (155) | - | 155 | - | (123) | (123) | - | - | - | (123) | (123) | - | - |
| Japanese yen | (10,000) | - | 10,000 | - | (127) | (127) | - | - | - | (127) | (127) | - | - |
| Domestic borrowings - fixed | | | | | | | | | | | | | |
| Australian dollar | (950) | - | - | - | - | - | - | - | (950) | (950) | (950) | - | - |
| Domestic borrowings - floating | | | | | | | | | | | | | |
| Australian dollar | (275) | - | - | - | - | - | - | (275) | (275) | - | - | (275) | (275) |
| | | | | | (11,956) | (11,956) | (114) | (6,086) | (1,000) | (7,145) | (7,145) | (6,200) | (6,200) |

(i) Borrowings due to mature within 12 months are classified as floating.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Hedge relationships (continued)

Table I Telstra Group - 30 June 2013

| | Derivative hedging instruments - cross currency and interest rate swaps | | | | | | | | | | Final currency and interest positions | |
|---|---|----------------|--------------------------------------|--|--|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---------------------------------------|-------------|
| | Face value | | Notional/face value | | | | Interest rate swaps | | | | Notional/face value | |
| | Local | Local currency | Interest rate swap fixed/(pay) float | Cross currency swap receiver/(pay) float | Cross currency swap receiver/(pay) float | Cross currency swap receiver/(pay) float | Interest rate swap receive float | Interest rate swap receive fixed | Interest rate swap receive float | Interest rate swap receive fixed | (Pay)/receive float | (Pay)/fixed |
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| In hedge relationships | | | | | | | | | | | | |
| Offshore borrowings - fixed | | | | | | | | | | | | |
| Swiss francs | (225) | 225 | (225) | - | (251) | - | - | - | - | (251) | - | - |
| Euros | (6,325) | 5,250 | (5,250) | 1,075 | (9,145) | - | (4,947) | - | - | (4,198) | (4,947) | - |
| British pounds sterling | (200) | 200 | (200) | - | (584) | - | (360) | - | - | (224) | (360) | - |
| Hong Kong dollar | (330) | - | - | 330 | (50) | - | - | - | - | (50) | - | - |
| Japanese yen | (47,000) | - | - | 47,000 | (517) | (163) | (409) | - | - | (108) | (572) | - |
| United States dollar | (1,150) | 1,000 | (1,000) | 150 | (1,158) | - | (955) | - | - | (203) | (955) | - |
| New Zealand dollar | (255) | - | - | 255 | - | (202) | - | - | - | - | (202) | - |
| Australian dollar | (50) | - | - | - | - | - | - | (50) | - | (50) | - | - |
| Offshore borrowings - floating (i) | | | | | | | | | | | | |
| Japanese yen | (5,000) | 5,000 | - | - | (59) | - | - | - | - | (59) | - | - |
| Domestic borrowings - fixed | | | | | | | | | | | | |
| Australian dollar | (750) | - | - | - | - | - | - | (750) | - | (750) | - | - |
| Domestic borrowings - floating | | | | | | | | | | | | |
| Australian dollar | (275) | - | - | - | - | - | (275) | - | - | - | (275) | - |
| Net foreign investments | | | | | | | | | | | | |
| Hong Kong dollar | 8,752 | (4,200) | - | - | 520 | - | - | - | - | 520 | - | - |
| | | | | | (11,244) | (365) | (6,946) | (800) | | (5,373) | (7,311) | |

(i) Borrowings due to mature within 12 months are classified as floating.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

18. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Hedge relationships (continued)

Table J describes each of our hedge relationships, where forward foreign currency exchange contracts are used as the hedging instruments. These relationships comprise effective economic relationships based on contractual face value amounts and cash flows, including relationships that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to economically hedge our promissory notes, forecast transactions denominated in foreign currency, and foreign currency trade and other liabilities.

Outlined in the following table is the pre hedge underlying exposure, each leg of the forward foreign currency contract and the end post hedge position. This post hedge position represents our net final currency positions and is represented in our residual economic position as described in note 17, Table D.

Table J

| | Telstra Group | | | | | | | |
|--|---|----------------|--------------------------------|--------------------|--|-------|-----------------------|--------|
| | Derivative hedging instruments | | | | | | | |
| | - forward foreign currency contracts | | | | | | | |
| | Face value | | Notional value | | | | Average exchange rate | |
| | Pre hedge underlying exposure (payable)/receive | | Forward contract receive/(pay) | | Forward contract (pay)/receive - final leg | | | |
| Local currency | | Local currency | | Australian dollars | | | | |
| 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | |
| \$m | \$m | \$m | \$m | \$m | \$m | | | |
| Forward contracts hedging interest bearing debt | | | | | | | | |
| Promissory notes | | | | | | | | |
| United States dollars - contractual maturity 0-3 months (2013: nil) | (250) | - | 250 | - | (278) | - | 0.8998 | - |
| New Zealand dollars - contractual maturity nil (2013: 0-3 months) | - | (150) | - | 150 | - | (124) | - | 1.2143 |
| Loans to and from wholly owned controlled entities | | | | | | | | |
| British pounds sterling - contractual maturity 0-3 months (2013: 0-3 months) | (55) | (56) | 55 | 56 | (98) | (81) | 0.5548 | 0.6839 |
| New Zealand dollars - contractual maturity 0-3 months (2013: 0-3 months) | (1) | (1) | 1 | 1 | (1) | (1) | 1.0871 | 1.1981 |
| United States dollars - contractual maturity 0-3 months (2013: 0-3 months) | (47) | (64) | 47 | 64 | (50) | (62) | 0.9268 | 1.0323 |
| Hong Kong dollars - contractual maturity 0-3 months (2013: 0-3 months) | (4) | 13 | 4 | (13) | (1) | 1 | 7.1738 | 8.8780 |
| Japanese yen - contractual maturity 0-3 months (2013: 0-3 months) | 136 | (125) | (136) | 125 | 1 | (1) | 94.59 | 97.85 |
| Forward contracts hedging forecast payments and other liabilities | | | | | | | | |
| Forecast transactions | | | | | | | | |
| United States dollars - contractual maturity 0-12 months (2013: 0-12 months) | (289) | (400) | 138 | 177 | (154) | (175) | 0.8993 | 1.0114 |
| Other assets and liabilities - non-interest bearing | | | | | | | | |
| Japanese yen - contractual maturity nil (2013: 1 month) | - | (542) | - | 542 | - | (6) | - | 90.08 |
| United states dollars - contractual maturity 0-12 months (2013: nil) | 23 | - | (23) | - | 25 | - | 0.9234 | - |
| United states dollars - contractual maturity 0-12 months (2013: 0-12 months) | (44) | (102) | 44 | 102 | (47) | (107) | 0.9353 | 0.9441 |
| | | | | | (603) | (556) | | |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

19. SHARE CAPITAL

| | Telstra Group | |
|--|---------------|--------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Contributed equity | 5,793 | 5,793 |
| Share loan to employees | (17) | (20) |
| Shares held by employee share plans..... | (107) | (129) |
| Net services received under employee share plans | 50 | 67 |
| | 5,719 | 5,711 |

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 (2013: 12,443,074,357) authorised fully paid ordinary shares on issue.

Share loan to employees

The share loan to employees represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plan (TESOP) Trusts (TESOP97 and TESOP99). Refer to note 27 for further details regarding these plans.

Shares held by employee share plans

The shares held by employee share plans represent the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded with contributions and intercompany loans from Telstra Corporation Limited. As at 30 June 2014, the number of shares totalled 21,550,102 (2013: 26,774,268). These shares are excluded from the calculation of basic and diluted earnings per share. Refer to note 3 for further details.

The total number of shares acquired on market during the financial year by Growthshare for employee incentive schemes was 11,838,299 shares. The average price per share at which the shares were acquired during the financial year was \$5.14.

Net services received under employee share plans

The net services received under employee share plans represents the cumulative value of our options, performance rights, restricted shares, incentive shares, Directshare and Ownshare issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit to net cash provided by operating activities

| | Note | Telstra Group | |
|---|------|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| Profit for the year from continuing operations | | 4,549 | 3,640 |
| (Loss)/profit for the year from discontinued operation | | (204) | 151 |
| Profit for the year | | 4,345 | 3,791 |
| Add/(subtract) the following transactions | | | |
| Depreciation and amortisation | | 4,042 | 4,238 |
| Finance income | | (156) | (219) |
| Finance costs | | 1,113 | 1,152 |
| Distribution from Foxtel Partnership | | (165) | (155) |
| Share-based payments | | 45 | 47 |
| Defined benefit plan expense | | 306 | 305 |
| Consideration in kind | | (23) | - |
| Net gain on disposal of property, plant and equipment | | (76) | (54) |
| Net gain on disposal of intangibles | | - | (12) |
| Net gain on de-recognition of finance leases | 22 | - | (8) |
| Net (gain)/loss on disposal of controlled entities | | (561) | 127 |
| Share of net (profit)/loss from joint ventures and associated entities | | (24) | 1 |
| Impairment losses (excluding inventories and trade and other receivables) | | 180 | 68 |
| Foreign exchange loss/(gain) | | 111 | (7) |
| Cash movements in operating assets and liabilities | | | |
| (net of acquisitions and disposals of controlled entity balances) | | | |
| Increase in trade and other receivables | | (164) | (249) |
| Decrease/(increase) in inventories | | 35 | (173) |
| Increase in prepayments and other assets | | (49) | (162) |
| Decrease in trade and other payables | | (391) | (301) |
| Increase/(decrease) in revenue received in advance | | 54 | (99) |
| (Decrease)/increase in net taxes payable | | (59) | 84 |
| Increase/(decrease) in provisions | | 50 | (15) |
| Net cash provided by operating activities | | 8,613 | 8,359 |

(b) Cash and cash equivalents

| | Telstra Group | |
|--|--------------------|------------------|
| | Year ended 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| Cash at bank and on hand | 305 | 295 |
| Bank deposits, negotiable certificates of deposits and bills of exchange | 5,222 | 2,184 |
| Cash and cash equivalents in the statement of cash flows | 5,527 | 2,479 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(c) Acquisitions

Current year

On 22 August 2013, we acquired a 100 per cent shareholding in NSC Group Pty Ltd (NSC) and its controlled entities for a total consideration of \$45 million.

On 2 September 2013, we acquired a 100 per cent shareholding in DCA eHealth Solutions Pty Ltd (DCA Health) and its controlled entities for a total consideration of \$44 million.

On 30 September 2013, we acquired a 50 per cent shareholding in Fred IT Group Pty Ltd and its controlled entities (Fred IT Group) for a total consideration of \$27 million, with \$3 million of this contingent upon the entity achieving pre-determined targets for the earn out period of financial year 2014. At 30 June 2014 earn out targets were reassessed resulting in \$3 million additional contingent consideration being recognised in the income statement. We consolidate the results of Fred IT Group as we have control through our decision making ability on the board.

On 31 December 2013, we acquired a 100 per cent shareholding in O2 Networks Pty Ltd via an acquisition of three holding entities: Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd, for a total consideration of \$57 million, with \$4 million of this contingent upon the entity achieving pre-determined targets by 30 June 2014. We are still assessing whether these targets have been met.

The effect of these acquisitions on payments for shares in controlled entities is detailed below:

| | Total acquisitions | |
|---|--------------------|-----------------------|
| | Year ended 30 June | |
| | 2014 | 2014 |
| | \$m | \$m |
| Consideration for acquisition | | |
| Cash consideration for acquisition | 166 | |
| Contingent consideration for acquisition | 10 | |
| Total purchase consideration | <u>176</u> | |
| Cash balances acquired..... | (5) | |
| Contingent consideration | (10) | |
| Loan | 4 | |
| Outflow of cash on acquisition | <u>165</u> | |
| | Fair Value | Carrying Value |
| Assets/(liabilities) at acquisition date | | |
| Cash and cash equivalents | 5 | 5 |
| Trade and other receivables..... | 28 | 28 |
| Property, plant and equipment..... | 7 | 7 |
| Intangible assets | 82 | 54 |
| Other assets | 11 | 11 |
| Trade and other payables..... | (25) | (25) |
| Unearned revenue | (15) | (15) |
| Other liabilities..... | (12) | (12) |
| Deferred tax liabilities | (15) | (2) |
| Net assets | 66 | 51 |
| Adjustment to reflect non-controlling interests | (6) | |
| Goodwill on acquisition | <u>116</u> | |
| Total purchase consideration | <u>176</u> | |

Since the dates of acquisitions, these entities have contributed income of \$101 million and profit before income tax expense of \$6 million.

If the acquisitions had occurred on 1 July 2013, our adjusted consolidated income and consolidated profit before income tax expense for the year ended 30 June 2014 for the Telstra Group would have been \$26,334 million and \$6,226 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(c) Acquisitions (continued)

The following transactions affected cash flows from financing activities:

On 4 November 2013, Telstra Holdings Pty Ltd acquired an additional 2.8 per cent interest in Autohome Inc. from minority shareholders for total consideration of \$60 million. At the same time Autohome Inc. completed a share buy-back from minority shareholders for total consideration of \$84 million. The combined effect of the two transactions increased Telstra Holdings Pty Ltd ownership in Autohome Inc. from 66.0 per cent at 30 June 2013 to 71.5 per cent immediately prior to the initial public offering (IPO).

Following this, on 11 December 2013 Autohome Inc. was listed on the New York Stock Exchange with gross proceeds to Autohome Inc. of \$160 million (US\$142 million). Immediately following the IPO, our ownership interest decreased from 71.5 per cent to 65.4 per cent. Our ownership interest further decreased to 63.2 per cent at 30 June 2014 resulting from employee share issues.

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited for a total consideration of \$5 million, including \$1 million of cash disposed, in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. Refer to note 25 for further details.

Prior year

iVision

iVision Pty Ltd (iVision) was acquired on 31 March 2011 for a total consideration of \$41 million, with \$5 million of this contingent upon the entity achieving pre-determined integration targets by 31 December 2012.

On 7 September 2012, Telstra Corporation Ltd paid the \$5 million contingent consideration for the successful integration of iVision.

TrueLocal

On 29 April 2013, our controlled entity Sensis Pty Ltd acquired 100 per cent of the issued capital of Australian Local Search Pty Ltd (TrueLocal) for net consideration of \$4 million.

Telstra Technology Services

On 18 June 2013, Telstra Holdings Pty Ltd acquired an additional 25 per cent in Telstra Technology Services (Hong Kong) Limited for a purchase consideration of \$1 million, increasing its ownership from 75 per cent to 100 per cent.

(d) Disposals

Current year

Sensis Group and CSL Group

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) for total consideration of \$454 million and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of Sensis Pty Ltd and its controlled entities. The Sensis Group was classified as a discontinued operation and, on the re-measurement of assets of the disposal group, the carrying value of its goodwill was impaired by \$150 million. Refer to note 12 for further details and financial information on the disposal of the Sensis Group.

On 20 December 2013, we signed an agreement with HKT Limited to dispose of our entire 76.4 per cent shareholding in CSL New World Mobility Limited and its controlled entities (CSL Group) and, in accordance with AASB 5: "Non Current Assets Held for Sale and Discontinued Operations", the carrying value of assets and liabilities of the CSL Group, with the exception of the cash balances (which will be recovered via the completion adjustments), were classified as held for sale as at 31 December 2013 and measured at the lower of carrying amount and fair value less costs to sell. Completion occurred on 14 May 2014. The effect of the disposal, subject to completion audit is detailed below:

| | CSL Group |
|---|-----------------------------------|
| | Year ended 30 June 2014 \$m |
| Consideration on disposal | |
| Cash consideration on disposal | 2,107 |
| Cash and cash equivalents disposed | (164) |
| Total inflow of cash on disposal | 1,943 |
| Contingent consideration | 33 |
| Total consideration on disposal | 1,976 |
| Assets/(liabilities) at disposal date | |
| Assets classified as held for sale (including cash disposed) | 1,957 |
| Liabilities classified as held for sale | (473) |
| Net assets classified as held for sale | 1,484 |
| Foreign currency translation reserve disposed (net of income tax) | 287 |
| Adjustments for non-controlling interests | (198) |
| Other adjustments | 6 |
| Profit on disposal | 561 |

Unlike the Sensis Group, the CSL Group does not meet the criteria of a discontinued operation under AASB 5.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(d) Disposals (continued)

Prior year

TelstraClear

On 31 October 2012, our controlled entity Telstra New Zealand Holdings Limited sold its 100 per cent shareholding in TelstraClear Limited and its controlled entity (TelstraClear). The effect of the disposal is detailed below:

| | TelstraClear |
|---|--------------|
| | Year ended |
| | 30 June 2013 |
| | \$m |
| Consideration on disposal | |
| Cash consideration on disposal | 680 |
| Cash and cash equivalents disposed..... | (11) |
| Total inflow of cash on disposal | 669 |
| Assets/(liabilities) at disposal date | |
| Assets classified as held for sale (including cash disposed) | 772 |
| Liabilities classified as held for sale..... | (98) |
| Net assets classified as held for sale | 674 |
| Foreign currency translation reserve disposed (net of income tax) | 130 |
| Other adjustments..... | 3 |
| Loss on disposal..... | (127) |

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 goodwill has been allocated to the CGUs as detailed below:

| | Goodwill | |
|---|---------------|--------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| CGUs | | |
| CSL New World Group (a) | - | 860 |
| Telstra UK Group (*) | 65 | 60 |
| Sensis Group (b) | - | 216 |
| Location Navigation (b)..... | - | 14 |
| 1300 Australia Group..... | 16 | 16 |
| Autohome (*) | 108 | 108 |
| Sequel Media (c) | - | 13 |
| O2 Networks Group (d) | 47 | - |
| DCA Health Group (e) | 16 | - |
| Fred IT Group (f)..... | 21 | - |
| Telstra Enterprise & Services Group (g) | 122 | 95 |
| | 395 | 1,382 |

(*) These CGUs operate in overseas locations, therefore the goodwill allocated to these CGUs will fluctuate in line with movements in applicable foreign exchange rates during the period.

(a) Goodwill allocated to the CSL New World Group CGU (included in the Telstra International Group (TIG) reportable segment) arises on consolidation of CSL New World Mobility Limited and its controlled entities (CSL Group). CSL Group was disposed of on 14 May 2014. Refer to note 20 for further details.

(b) Goodwill allocated to the Sensis Group and Location Navigation CGUs (included in the "All Other" category in our segments) relates to the Sensis advertising and directories business. On 28 February 2014, we divested 70 per cent of that business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) for total consideration of \$454 million and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. The Sensis Group was classified as a discontinued operation and, on the re-measurement of assets of the disposal group, the carrying amount of the Sensis Group goodwill was impaired by \$150 million. Refer to note 12 for further details.

(c) As at 30 June 2014, the assets and liabilities of Sequel Media Inc. and its controlled entities (Sequel Media Group) were classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell. This resulted in an impairment charge of \$12 million against goodwill being recognised in the Telstra Group financial statements. Goodwill allocated to the Sequel Media CGU (included in the TIG reportable segment) related to Sequel Media Inc. Refer to note 12 for further details.

(d) On 31 December 2013, we acquired a 100 per cent shareholding in O2 Networks Pty Ltd via an acquisition of three holding entities: Prentice Management Consulting Pty Ltd, Kelzone Pty Ltd and Goodwin Enterprises (Vic) Pty Ltd (O2 Networks Group). Refer to note 20 for further details.

(e) On 2 September 2013, we acquired a 100 per cent shareholding in DCA eHealth Solutions Pty Ltd and its controlled entities (DCA Health Group). Refer to note 20 for further details.

(f) On 30 September 2013, we acquired a 50 per cent shareholding in Fred IT Group Pty Ltd and its controlled entities (Fred IT Group). Refer to note 20 for further details.

(g) The Telstra Enterprise & Services Group includes goodwill from past acquisitions integrated into our business. On 22 August 2013, we acquired a 100 per cent shareholding in NSC Group Pty Ltd and its controlled entities (NSC Group) which is also included in this CGU. Refer to note 20 for further details.

Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network

In addition to the aforementioned CGUs, we have two further significant CGUs that are reviewed for impairment. These are:

- the Telstra Entity CGU, excluding the HFC cable network
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications network in Australia, excluding the HFC cable network as we consider it not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

Impairment testing

Our impairment testing compares the carrying amount of an individual asset or CGU with its recoverable amount as determined using a value in use calculation, with the exception of Autohome whose recoverable amount was determined using fair value less cost of disposal as an observable market price is available for Autohome following its listing on the New York Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

21. IMPAIRMENT (CONTINUED)

Impairment testing (continued)

Our assumptions for determining the recoverable amount using value in use of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on a maximum five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

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

| | Discount rate (h) | | Terminal value growth rate (i) | |
|--|----------------------|-----------|-----------------------------------|-----------|
| | As at 30 June | | As at 30 June | |
| | 2014 % | 2013 % | 2014 % | 2013 % |
| CSL New World Group..... | n/a | 11.6 | n/a | 2.0 |
| Telstra UK Group | 8.1 | 8.0 | 3.0 | 3.0 |
| Sensis Group | n/a | 15.9 | n/a | 3.0 |
| Location Navigation..... | n/a | 12.3 | n/a | 3.0 |
| 1300 Australia Group..... | 11.7 | 12.6 | 3.0 | 3.0 |
| Autohome (j) | n/a | 19.8 | n/a | 5.0 |
| Sequel Media | n/a | 20.0 | n/a | 5.0 |
| O2 Networks Group..... | 12.4 | n/a | 3.0 | n/a |
| DCA Health Group | 11.7 | n/a | 3.0 | n/a |
| Fred IT Group | 11.5 | n/a | 3.0 | n/a |
| Telstra Enterprise & Services Group | 14.3 | n/a | 3.0 | n/a |

(h) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which it operates.

(i) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets.

The value in use calculations are sensitive to changes in discount rates, earnings and foreign exchange rates varying from the assumptions and forecast data used in the impairment testing. As such, sensitivity analysis was undertaken to examine the effect of a change in a variable on each CGU. The discount rate would need to increase by 382 basis points (2013: 480 basis points) or the terminal value growth rate would need to be negative growth of 2.1 per cent (2013: negative 3.5 per cent) before the recoverable amount of any of the CGUs would be equal to the carrying value.

(j) As at 30 June 2014, following the Autohome Inc. listing on 11 December 2013 (refer to note 20 for further details), the recoverable amount calculation for this CGU was based on fair value less cost of disposal measured with reference to quoted market prices in an active market (Level 1) (2013: recoverable amount based on value in use). Our assumption for determining the fair value less cost of disposal for the Autohome CGU was based on the New York Stock Exchange 30 June 2014 closing share price of US\$34.43, which represented a quoted price in an active market. Telstra holds 68,788,940 shares valued at US\$2,368 million (A\$2,514 million).

Ubiquitous telecommunications network and Hybrid Fibre Coaxial (HFC) cable network ("the networks")

Our discounted expected future cash flows more than support the carrying amount of the networks. This is based on:

- forecast cash flows from continuing to:
 - use the core network
 - provide Pay TV services via the HFC cable network into the future
- the consideration we expect to receive under the National Broadband Network (NBN) Definitive Agreements (DAs) for:
 - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint
 - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts
 - the sale of lead-in-conduits.

Given this, the results of our impairment testing for the networks show that the carrying amounts are recoverable at 30 June 2014.

Although renegotiations have commenced between us and the Commonwealth Government it is still uncertain as to what the outcomes of any renegotiations will be. Based on the current status of these renegotiations we are not aware of any basis under which we would anticipate any renegotiated agreements would give rise to any material impairment of our networks.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

22. EXPENDITURE COMMITMENTS

| | Telstra Group | |
|--|---------------|--------------|
| | As at 30 June | |
| | 2014 \$m | 2013 \$m |
| Capital expenditure commitments | | |
| Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements: | | |
| Property, plant and equipment commitments (a) | 880 | 1,272 |
| Intangible assets commitments (b) | 1,350 | 1,524 |
| Operating lease commitments | | |
| Future lease payments for non-cancellable operating leases not recorded in the financial statements: | | |
| Within 1 year | 476 | 502 |
| Within 1 to 5 years | 1,273 | 1,301 |
| After 5 years | 1,029 | 1,175 |
| | 2,778 | 2,978 |

(a) This includes the Telstra Entity capital expenditure commitments of \$847 million (2013: \$1,222 million). Refer to note 30 for further details.

(b) This includes commitments of \$1,302 million (2013: \$1,302 million) for the 700MHz and 2.5GHz spectrum licences won at auction, with the payments due in financial year 2015.

Description of our operating leases

We have operating leases for the following types of assets:

- rental of land and buildings
- rental of motor vehicles, caravan huts and trailers, mechanical aids and heavy excavation equipment
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:

- 16 years for land and buildings
- 2 years for motor vehicles, 4 to 5 years for light commercial vehicles, and 7 to 12 years for trucks and mechanical aids and heavy excavation equipment
- 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 \$39 million (2013: \$15 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3 and 5 per cent, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

22. EXPENDITURE COMMITMENTS (CONTINUED)

| | | Telstra Group | |
|--|------|---------------|-------------|
| | | As at 30 June | |
| | Note | 2014 \$m | 2013 \$m |
| Finance lease commitments | | | |
| Within 1 year..... | | 99 | 76 |
| Within 1 to 5 years..... | | 191 | 181 |
| After 5 years | | 154 | 135 |
| Total minimum lease payments..... | | 444 | 392 |
| Future finance charges on finance leases..... | | (135) | (112) |
| Present value of net future minimum lease payments | | 309 | 280 |
| The present value of finance lease liabilities is as follows: | | | |
| Within 1 year..... | 17 | 78 | 66 |
| Within 1 to 5 years..... | | 155 | 147 |
| After 5 years | | 76 | 67 |
| Total finance lease liabilities | 17 | 309 | 280 |

Description of our finance leases

We have finance leases for the following types of assets:

- property lease in our controlled entity, Telstra Limited
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:

- 25 years for the property lease, with a remaining average life of 23 years
- 5 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:

- property lease interest rate of 9.5 per cent
- computer mainframes, computer processing equipment associated equipment weighted average interest rate of 6.1 per cent.

We sublease computer mainframes, computer processing equipment and other related equipment as part of the solutions management and outsourcing services that we provide to our customers. Refer to note 10 for further details on these finance subleases.

During financial year 2013, we acquired the property head leases held by Telstra Limited and extinguished the finance leases. This resulted in a net gain of \$8 million being recognised in the income statement. We then sold the property and entered into a lease back transaction, whereby a finance lease asset and finance lease liability of \$52 million were recognised. The lease term is 25 years, with two 10 year options to extend. There is no purchase option. Rent is based on market prices, reviewed on an annual basis and subject to a cap and collar of 5 per cent and 2 per cent respectively.

Information on our share of our joint ventures 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 2014. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Refer to note 30 for Telstra Entity contingent liabilities.

Other

Other contingent liabilities identified for the Telstra Group are as follows:

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 25. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 25 for further details.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS

We participate in or sponsor defined benefit and defined contribution schemes. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans is 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)

The Telstra Entity participates in Telstra Super, a regulated fund in accordance with Superannuation Industry Supervision Act governed by the Australian Prudential Regulatory Authority.

Responsibility for governance of the plan, including investment decisions and plan rules, rests solely with the board of directors of Telstra Super. Contribution levels are determined by Telstra after obtaining the advice of the actuary and consulting with the Trustee. The board of directors comprises of an equal number of member and employer representatives and an independent chair.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super which are closed to new members provide benefits based on years of service and final average salary paid as a lump sum. Post employment benefits do not include payments for medical costs.

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 each employee's length of service, final average salary and employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

Telstra Super is exposed to Australia's inflation, credit risk, liquidity risk and market risk. Market risk includes interest rate risk, equity price risk and foreign currency risk. The strategic investment policy of the fund is to build a diversified portfolio of assets across equities, alternative investments, fixed interest securities and cash to generate sufficient growth to match the projected liabilities of the defined benefit plan while providing appropriate liquidity to meet the expected timing of such liabilities, in line with the fund's actuarial reviews.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Employees of the Sensis Group will remain within Telstra Super following the disposal of the Sensis Group. Sensis Pty Ltd will continue to contribute to the fund on behalf of its employees at the rate required under the trust deed in line with actuarial recommendations. Sensis Pty Ltd has no interest in the defined benefit asset that may exist in the future upon wind up of the plan. We have no remaining contributions or other financial obligations in regards to the Sensis Group employees who remained in Telstra Super.

Following the disposal of the Sensis Group we account for our proportionate share of assets, liabilities and costs of our defined benefit division and continue to account for our contributions to the defined contribution divisions.

CSL Limited (CSL) Retirement Scheme

On 14 May 2014, we disposed of our entire 76.4 per cent shareholding in CSL New World Mobility Limited and its controlled entities (CSL Group), including CSL Limited. Refer to note 20 for further details.

CSL Limited (CSL) participated in a superannuation scheme known as the CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance and is administered by an independent trustee. The scheme had three defined benefit sections and one defined contribution section. Actuarial assessments were undertaken annually for this scheme. The benefits received by members of the defined benefit schemes were based on each employee's remuneration and length of service.

Following the disposal of the CSL Group on 14 May 2014, we have no remaining contributions or other financial obligations to the CSL Retirement Scheme.

Measurement dates

For Telstra Super, actual membership data as at 30 April was used to value the defined obligations as at that date. Details of assets, benefit payments and other cash flows as at 31 May were also used in relation to Telstra Super. These April and May figures were then rolled forward to 30 June to allow for changes in the membership and actual asset return. Contributions as at 30 June were used in relation to the defined benefit and defined contribution divisions.

Asset values as at 30 April 2014 (2013: 30 June) were used to measure the defined benefit asset prior to disposal of the CSL Retirement Scheme. Details of membership data, contributions, benefit payments and other cash flows as at 30 April 2014 (2013: 30 June) were also used in the valuation.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations are determined by our actuaries. The details of the defined benefit divisions are set out in the following pages.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS (CONTINUED)

(a) Net defined benefit plan asset/(liability) - historical summary

Our net defined benefit plan asset/(liability) recognised in the statement of financial position for the current and previous periods is determined as follows:

| | Telstra Group | | | | |
|---|---------------|-------------|--------------|--------------|--------------|
| | As at 30 June | | | | |
| | 2014 \$m | 2013 \$m | 2012 \$m | 2011 \$m | 2010 \$m |
| Fair value of defined benefit plan assets (b) | 2,953 | 2,944 | 2,559 | 2,599 | 2,546 |
| Present value of the defined benefit obligation (c) | 2,909 | 2,983 | 3,390 | 2,793 | 3,003 |
| Net defined benefit asset/(liability) at 30 June | 44 | (39) | (831) | (194) | (457) |
| Comprised of: | | | | | |
| Net defined benefit asset/(liability) attributable to Telstra Super Scheme | 44 | (42) | (825) | (205) | (464) |
| Net defined benefit asset/(liability) attributable to CSL Limited Retirement Scheme | n/a | 3 | (6) | 11 | 7 |
| | 44 | (39) | (831) | (194) | (457) |

(b) Reconciliation of changes in fair value of defined benefit plan assets

| | Telstra Group | |
|---|---------------|-------------------------|
| | As at 30 June | |
| | 2014 \$m | Restated 2013 \$m |
| Fair value of defined benefit plan assets at beginning of year | 2,944 | 2,559 |
| Employer contributions | 86 | 145 |
| Member contributions | 44 | 66 |
| Benefits paid (including contributions tax) (i) | (331) | (266) |
| Plan expenses after tax | (19) | (23) |
| Foreign currency exchange differences | - | 6 |
| Interest income on plan assets | 106 | 96 |
| Actual asset gain | 206 | 361 |
| Disposal through sale of controlled entities | (83) | - |
| Fair value of defined benefit plan assets at end of year | 2,953 | 2,944 |

The actual return on defined benefit plan assets was 10.6 per cent (2013: 15.5 per cent) for Telstra Super and 3.7 per cent to the date of disposal (2013: 10.2 per cent) for the CSL Retirement Scheme.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS (CONTINUED)

(c) Reconciliation of changes in the present value of the wholly funded defined benefit obligation

| | Telstra Group | |
|---|---------------|------------------|
| | As at 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| Present value of defined benefit obligation at beginning of year | 2,983 | 3,390 |
| Current service cost | 131 | 146 |
| Interest cost | 116 | 120 |
| Member contributions | 15 | 36 |
| Benefits paid (i) | (331) | (266) |
| Actuarial loss/(gain) due to change in financial assumptions | 123 | (343) |
| Actuarial loss due to change in demographic assumptions | - | 6 |
| Actuarial (gain) due to experience | (34) | (96) |
| Curtailment loss | (14) | (17) |
| Foreign currency exchange differences | - | 7 |
| Disposal through sale of controlled entities | (80) | - |
| Present value of wholly funded defined benefit obligation at end of year | 2,909 | 2,983 |

(i) Benefits paid include \$315 million (2013: \$230 million) of entitlements to existing defined benefit members which have been retained in Telstra Super and transferred to the defined contribution scheme. For financial year 2015, total benefit payments expected to be paid are \$344 million (including benefits retained and transferred to the defined contribution scheme).

(d) Amounts recognised in the income statement and in other comprehensive income

| | Note | Telstra Group | |
|--|------|--------------------|------------------|
| | | Year ended 30 June | |
| | | 2014 | Restated 2013 |
| | | \$m | \$m |
| Components of the defined benefit and defined contribution plans expense recognised in the income statement within labour expenses from continuing operations | | | |
| Service cost | | 107 | 122 |
| Employer contributions - defined contribution plan | | 199 | 183 |
| | | 306 | 305 |
| Net interest on net defined benefit (asset)/liability | 7 | 10 | 24 |
| Total expense from continuing operations recognised in the income statement | | 316 | 329 |
| Actuarial gain recognised directly in other comprehensive income | | 117 | 784 |
| Cumulative actuarial gains/(losses) recognised directly in other comprehensive income | | 79 | (38) |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS (CONTINUED)

(e) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets for defined benefit divisions as at 30 June is as follows:

| | Telstra Super | | CSL Retirement Scheme | |
|---------------------------|---------------|------------|-----------------------|------------|
| | As at 30 June | | As at 30 June | |
| | 2014 | 2013 | 2014 | 2013 |
| | % | % | % | % |
| Asset allocations | | | | |
| Equity instruments | | | | |
| Australian equity (*) | 14 | 13 | n/a | - |
| International equity (*) | 15 | 33 | n/a | 53 |
| Private equity | 8 | 7 | n/a | - |
| Debt instruments | | | | |
| Fixed Interest (*) | 36 | 2 | n/a | - |
| Bonds (*) | - | - | n/a | 43 |
| Property | 1 | 7 | n/a | - |
| Cash (*) | 19 | 28 | n/a | 3 |
| Infrastructure | - | 1 | n/a | - |
| International hedge funds | 5 | 6 | n/a | - |
| Opportunities (*) | 2 | 3 | n/a | 1 |
| | 100 | 100 | n/a | 100 |

(*) These assets have quoted prices in active markets.

Telstra Super's investments in debt and equity instruments include bonds issued by, and shares in, Telstra Corporation Limited. Refer to note 29 for further details.

(f) Principal actuarial assumptions

We used the following major annual assumptions to determine our defined benefit obligations for the year ended 30 June:

| | Telstra Super | | CSL Retirement Scheme | |
|---|--------------------|------|-----------------------|-----------|
| | Year ended 30 June | | Year ended 30 June | |
| | 2014 | 2013 | 2014 | 2013 |
| | % | % | % | % |
| Discount rate (i) | 3.7 | 4.2 | n/a | 2.1 |
| Expected rate of increase in future salaries (ii) | 3.5 | 3.5 | n/a | 4.0 - 6.0 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS (CONTINUED)

(g) Sensitivity analysis of actuarial assumptions

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. The following table summarises how the defined benefit obligation as at 30 June would have increased/(decreased) as a result of a change in the respective assumptions by 1 percentage point (1pp):

| | Telstra Super Defined benefit obligation | |
|---|--|------------------------|
| | 1pp increase \$m | 1pp decrease \$m |
| Discount rate (i) | (283) | 327 |
| Expected rate of increase in future salaries (ii) | 297 | (264) |

(i) The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with due dates similar to those of these expected cash flows.

For Telstra Super we have used a blended 10-year Australian government bond rate as the term from the Australian bond market match the closest to the term of the defined benefit obligations.

For the CSL Retirement Scheme, as at 30 June 2013 we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 11 years to match the term of the defined benefit obligations.

(ii) Our assumption for the salary inflation rate for Telstra Super is 3.5 per cent, which is reflective of our long term expectation for salary increases. As at 30 June 2013 the salary inflation rate for the CSL Retirement Scheme was 5.0 per cent in 2013 to 2015, and 4.0 per cent thereafter to reflect the long term expectations for salary increases.

(h) Employer contributions

Telstra Super

Our employer contributions are currently determined by the funding deed we have with Telstra Super. Under the terms of the deed, contributions are currently required to be made with reference to the average vested benefits index (VBI) in respect of the defined benefit liabilities (the ratio of defined benefit plan assets to vested benefits for defined benefits), although the deed also allows us to choose to contribute at a higher rate than specified. Our employer contributions are also influenced by the Actuary's recommendations and legislative requirements. At VBI levels greater than 103 per cent, we are not required to pay any contributions under the funding deed.

For the quarter ended 30 June 2014, the VBI was 109 per cent (30 June 2013: 103 per cent). While no contributions are required under the funding deed, consistent with the actuarial recommendation, we have continued to contribute (in respect of defined benefit divisions of Telstra Super) at a rate of 15 per cent of defined benefit member's salaries effective June 2014 (June 2013: 16 per cent).

During the year we paid contributions totalling \$385 million (2013: \$435 million). This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions, which are excluded from the employer contributions in the reconciliations above.

The VBI, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to leave the fund voluntarily on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately \$355 million in financial year 2015. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions. Contributions to the defined benefit divisions are estimated at a contribution rate of 15 per cent for financial year 2015. This contribution rate could change depending on market conditions during financial year 2015.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24. POST EMPLOYMENT BENEFITS (CONTINUED)

(h) Employer Contributions (continued)

The following tables shows the expected proportion of benefits paid from the defined benefit obligation in future years:

| | Telstra Super | |
|-------------------------------|--------------------|------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | % | % |
| Less than 1 year | 4 | 4 |
| Between 2 and 4 years | 16 | 15 |
| Between 5 and 10 years | 23 | 22 |
| Between 11 and 19 years | 45 | 45 |
| Beyond 20 years | 12 | 14 |

The average duration of the defined benefit plan obligation at the end of the reporting period is 10.1 years (2013: 10.3 years).

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.

(i) Other defined contribution schemes

A number of our controlled entities also participate in defined contribution schemes that receive employer and employee contributions based on a percentage of the employees' salaries. We made contributions to these schemes of \$31 million (2013: \$24 million).

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 | |
| | | 2014 \$m | 2013 \$m | 2014 % | 2013 % |
| Parent entity | | | | | |
| Telstra Corporation Limited (a) | Australia | | | | |
| Controlled entities | | | | | |
| Chief Entertainment Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Muru-D Pty Ltd (f) | Australia | 3 | - | 100.0 | - |
| Research Resources Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Telstra 3G Spectrum Holdings Pty Ltd | Australia | 302 | 302 | 100.0 | 100.0 |
| Telstra Business Systems Pty Ltd (b) | Australia | - | 50 | - | 100.0 |
| Telstra Communications Limited (a) | Australia | 29 | 29 | 100.0 | 100.0 |
| Telstra ESOP Trustee Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Telstra Finance Limited (a) | Australia | - | - | 100.0 | 100.0 |
| Telstra Foundation Limited (i) | Australia | - | - | 100.0 | 100.0 |
| Telstra Foundation (Philippines) Inc (f) | Philippines | - | - | 100.0 | - |
| Telstra Growthshare Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Telstra International (Aus) Limited (a) | Australia | 2 | 2 | 100.0 | 100.0 |
| Telstra Media Pty Ltd | Australia | 393 | 393 | 100.0 | 100.0 |
| Telstra Multimedia Pty Ltd (a) | Australia | 2,678 | 2,678 | 100.0 | 100.0 |
| Telstra OnAir Holdings Pty Ltd | Australia | 478 | 478 | 100.0 | 100.0 |
| Telstra Pay TV Pty Ltd (a) | Australia | - | - | 100.0 | 100.0 |
| Telstra Plus Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Telstra Services Solutions Holdings Limited (a) | Australia | 303 | 303 | 100.0 | 100.0 |
| Telstra Ventures Pty Ltd (a) | Australia | - | - | 100.0 | 100.0 |
| 1300 Australia Pty Ltd | Australia | 20 | 20 | 85.0 | 85.0 |
| • Alpha Phone Words Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| DCA eHealth Solutions Pty Ltd (a)(f) | Australia | 44 | - | 100.0 | - |
| • Argus Connecting Care Pty Ltd (f) | Australia | - | - | 100.0 | - |
| • Communicare EHealth Solutions Pty Ltd (f) | Australia | - | - | 100.0 | - |
| • DCA Direct Health Pty Ltd (a)(f) | Australia | - | - | 100.0 | - |
| • KCS Solutions Pty Ltd (f) | Australia | - | - | 100.0 | - |
| Goodwin Enterprises (Vic) Pty Ltd (a)(f) | Australia | 16 | - | 100.0 | - |
| • O2 Networks Pty Ltd (a)(f) | Australia | - | - | 31.6 | - |
| Kelzone Pty Ltd (a)(f) | Australia | 16 | - | 100.0 | - |
| • O2 Networks Pty Ltd (a)(f) | Australia | - | - | 31.7 | - |
| Prentice Management Consulting Pty Ltd (a)(f) | Australia | 16 | - | 100.0 | - |
| • O2 Networks Pty Ltd (a)(f) | Australia | - | - | 31.7 | - |
| O2 Networks Pty Ltd (a)(f) | Australia | 9 | - | 5.0 | - |
| Network Design and Construction Limited (a) | Australia | 20 | 20 | 100.0 | 100.0 |
| • NDC Global Holdings Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| • NDC Global Services Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| NSC Group Pty Ltd (a)(f) | Australia | 45 | - | 100.0 | - |
| • NSC Enterprise Solutions Pty Ltd (a)(f) | Australia | - | - | 100.0 | - |
| • NSC NZ Limited (f) | New Zealand | - | - | 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 | |
| | | 2014 \$m | 2013 \$m | 2014 % | 2013 % |
| Controlled entities (continued) | | | | | |
| Fred IT Group Pty Ltd (d)(e)(f) | Australia | 27 | - | 50.0 | - |
| • ERX Script Exchange Pty Ltd (e)(f) | Australia | - | - | 100.0 | - |
| • Fred Health Pty Ltd (e)(f) | Australia | - | - | 100.0 | - |
| • Fred Retail Pty Ltd (e)(f) | Australia | - | - | 100.0 | - |
| • Pharmacy Research Network Pty Ltd (e)(f) | Australia | - | - | 100.0 | - |
| Telstra iVision Pty Ltd (a) | Australia | 41 | 41 | 100.0 | 100.0 |
| • Integrated Vision Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| • iVision (QLD) Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| • iVision Investments Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| • iVision (Unify) Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| • Unify Pty Ltd | Australia | - | - | 100.0 | 100.0 |
| Telstra Holdings Pty Ltd (a) | Australia | 7,474 | 7,474 | 100.0 | 100.0 |
| • Autohome Inc. (c)(d)(g) | Cayman Islands | - | - | 63.2 | 66.0 |
| • Cheerbright International Holdings Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Beijing Cheerbright Technologies Co. Ltd (c) | China | - | - | 100.0 | 100.0 |
| • Autohome (Hong Kong) Limited (c) | Hong Kong | - | - | 100.0 | 100.0 |
| • Autohome Media Limited (c)(f) | Hong Kong | - | - | 100.0 | - |
| • Autohome Shanghai Advertising Co. Ltd (c)(f) | China | - | - | 100.0 | - |
| • Beijing Autohome Software Co. Ltd (c)(f) | China | - | - | 100.0 | - |
| • Beijing Autohome Technologies Co. Ltd (c)(f) | China | - | - | 100.0 | - |
| • Beijing Autohome Advertising Co. Ltd (c)(f) | China | - | - | 100.0 | - |
| • Guangzhou Autohome Advertising Co. Ltd (c)(f) | China | - | - | 100.0 | - |
| • Beijing Australia Telecommunications Technical Consulting Services Co. Ltd | China | - | - | 100.0 | 100.0 |
| • Reach Holdings Limited (c) | Mauritius | - | - | 100.0 | 100.0 |
| • Reach Network India Private Limited (c) | India | - | - | 99.9 | 99.9 |
| • Reach Data Services India Private Limited (c) | India | - | - | 99.9 | 99.9 |
| • Sequel Media Inc. (c)(d) | Cayman Islands | - | - | 55.0 | 55.0 |
| • China Topside Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Beijing Topside Technologies Co. Ltd (c) | China | - | - | 100.0 | 100.0 |
| • Norstar Advertising Media Holdings Limited (c) | Cayman Islands | - | - | 100.0 | 100.0 |
| • Shengtuo Shidai (Beijing) Information Technology Co. Ltd (c) | China | - | - | 100.0 | 100.0 |
| • Union Tough Advertisement Limited (c) | Hong Kong | - | - | 100.0 | 100.0 |
| • Haochen Shidai (Beijing) Advertisement Co. Ltd (c)(d) | China | - | - | 30.0 | 30.0 |
| • Telstra Asia Holdings Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Telstra Octave Holdings Limited (b)(c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Octave Investments Holdings Limited (b)(c)(g) | British Virgin Islands | - | - | 100.0 | 67.0 |
| • Sharp Point Group Limited (b)(c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Beijing Liang Dian Shi Jian Technology Co. Ltd (b)(c) | China | - | - | 100.0 | 100.0 |
| • Telstra Robin Holdings Limited (c) | British Virgin Islands | - | - | 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 | |
| | | 2014 \$m | 2013 \$m | 2014 % | 2013 % |
| Controlled entities (continued) | | | | | |
| • Telstra Asia Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Telstra SE Asia Holdings Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • PT Reach Network Services Indonesia | Indonesia | - | - | 90.0 | 90.0 |
| • Telstra Asia Regional Holdings Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Telstra Malaysia Sdn. Bhd. | Malaysia | - | - | 51.0 | 51.0 |
| • Telstra (Thailand) Limited (d)..... | Thailand | - | - | 49.0 | 49.0 |
| • Telstra Network (Thailand) Limited | Thailand | - | - | 68.0 | 68.0 |
| • Telstra Network (Thailand) Limited..... | Thailand | - | - | 32.0 | 32.0 |
| • Telstra Philippines Holdings Limited (c) | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Incomgen Holdings Inc.(d) | Philippines | - | - | 40.0 | 40.0 |
| • Telstra Web Holdings Inc. | Philippines | - | - | 60.0 | 60.0 |
| • Telstra Philippines Inc..... | Philippines | - | - | 60.0 | 60.0 |
| • Telstra Philippines Inc..... | Philippines | - | - | 40.0 | 40.0 |
| • Telstra Web Holdings Inc. | Philippines | - | - | 40.0 | 40.0 |
| • Thai Cyber Web Co Limited (d)..... | Thailand | - | - | 48.8 | 48.8 |
| • Telstra Global Holdings Limited | British Virgin Islands | - | - | 100.0 | 100.0 |
| • Telstra International Limited | Hong Kong | - | - | 100.0 | 100.0 |
| • Telstra Global Limited | United Kingdom | - | - | 100.0 | 100.0 |
| • PT Telstra Nusantara | Indonesia | - | - | 100.0 | 100.0 |
| • Telstra Limited | United Kingdom | - | - | 100.0 | 100.0 |
| • Telstra (Cable Telecom) Limited | United Kingdom | - | - | 100.0 | 100.0 |
| • Telstra (PSINet)..... | United Kingdom | - | - | 100.0 | 100.0 |
| • Telstra (CTE) Limited | United Kingdom | - | - | 100.0 | 100.0 |
| • Cable Telecommunications Limited | United Kingdom | - | - | 100.0 | 100.0 |
| • PSINet Datacentre UK Limited..... | United Kingdom | - | - | 100.0 | 100.0 |
| • Inteligen Communications Limited..... | United Kingdom | - | - | 100.0 | 100.0 |
| • PSINet Jersey Limited..... | Jersey | - | - | 100.0 | 100.0 |
| • PSINet Hosting Centre Limited | Jersey | - | - | 100.0 | 100.0 |
| • Cordoba Holdings Limited | Jersey | - | - | 100.0 | 100.0 |
| • London Hosting Centre Limited | Jersey | - | - | 100.0 | 100.0 |
| • Telstra Holdings (Bermuda) No 1 Limited | Bermuda | - | - | 100.0 | 100.0 |
| • Telstra Holdings (Bermuda) No. 2 Limited..... | Bermuda | - | - | 100.0 | 100.0 |
| • CSL New World Mobility Limited (h)..... | Bermuda | - | - | - | 76.4 |
| • New World PCS Holdings Limited (h)..... | Cayman Islands | - | - | - | 100.0 |
| • CSL Limited (h) | Hong Kong | - | - | - | 100.0 |
| • Hong Kong CSL Limited (h) | Hong Kong | - | - | - | 100.0 |
| • Big Bang Holdings Limited (h) | Hong Kong | - | - | - | 100.0 |
| • One2Free PersonalCom Limited (h)..... | Hong Kong | - | - | - | 100.0 |
| • Integrated Business Systems Limited (h) | Hong Kong | - | - | - | 100.0 |
| • New World PCS Limited (h)..... | Hong Kong | - | - | - | 100.0 |
| • New World Mobility Limited (h) | Hong Kong | - | - | - | 60.0 |
| • New World 3G Limited (h) | Hong Kong | - | - | - | 100.0 |

(continued over page)

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 | |
| | | 2014 \$m | 2013 \$m | 2014 % | 2013 % |
| Controlled entities (continued) | | | | | |
| • Telstra Holdings Singapore Pte. Ltd (f) | Singapore | - | - | 100.0 | - |
| • Telstra Inc..... | United States | - | - | 100.0 | 100.0 |
| • Telstra India (Private) Limited (c)..... | India | - | - | 100.0 | 100.0 |
| • Telstra International HK Limited | Hong Kong | - | - | 100.0 | 100.0 |
| • Telstra International Holdings Limited | Bermuda | - | - | 100.0 | 100.0 |
| • Telstra International Philippines Inc..... | Philippines | - | - | 100.0 | 100.0 |
| • Telstra International PNG Limited (c) | Papua New Guinea | - | - | 100.0 | 100.0 |
| • Telstra Japan K. K..... | Japan | - | - | 100.0 | 100.0 |
| • Telstra Network Services NZ Limited | New Zealand | - | - | 100.0 | 100.0 |
| • Telstra New Zealand Holdings Limited (b)..... | New Zealand | - | - | - | 100.0 |
| • Telstra NZ Limited | New Zealand | - | - | 100.0 | 100.0 |
| • Telstra Services Korea Limited | Republic of Korea | - | - | 100.0 | 100.0 |
| • Telstra Singapore Pte. Ltd..... | Singapore | - | - | 100.0 | 100.0 |
| • Telstra Technology Services (Hong Kong) Limited | Hong Kong | - | - | 100.0 | 100.0 |
| • Telstra Telecommunications Private Limited (c) | India | - | - | 74.0 | 74.0 |
| • Willoughby (602) Limited | United Kingdom | - | - | 100.0 | 100.0 |
| Sensis Pty Ltd (a)(h) | Australia | - | 851 | - | 100.0 |
| • Location Navigation Pty Ltd (h) | Australia | - | - | - | 100.0 |
| • Life Events Media Pty Ltd (h) | Australia | - | - | - | 100.0 |
| • CitySearch Australia Pty Ltd (h)..... | Australia | - | - | - | 100.0 |
| • Australian Local Search Pty Ltd (h)..... | Australia | - | - | - | 100.0 |
| • Sensis Holdings Pty Ltd (a)(h)..... | Australia | - | - | - | 100.0 |
| • Telstra Sensis (Beijing) Co. Ltd (b)..... | China | - | - | - | 100.0 |
| Investment in controlled entities..... | | 11,916 | 12,641 | | |
| Allowance for impairment in value..... | | (7,635) | (8,190) | | |
| Total investment in controlled entities..... | | 4,281 | 4,451 | | |

(#) The amounts recorded are before any provision for reduction in value.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(a) ASIC deed of cross guarantee financial information

A deed of cross guarantee, as defined in ASIC Class Order 98/1418 (Class Order), was entered into on 17 May 2010.

The following entities form part of the deed of cross guarantee:

- Telstra Corporation Limited
- Telstra Multimedia Pty Ltd
- Telstra International (Aus) Limited
- Telstra Pay TV Pty Ltd
- Telstra Ventures Pty Ltd
- Telstra iVision Pty Ltd
- Telstra Communications Limited
- Telstra Holdings Pty Ltd
- Network Design and Construction Limited
- Telstra Services Solutions Holdings Limited
- NSC Group Pty Ltd
- NSC Enterprise Solutions Pty Ltd
- DCA eHealth Solutions Pty Ltd
- DCA Direct Health Pty Ltd
- Kelzone Pty Ltd
- Goodwin Enterprises (Vic) Pty Ltd
- Prentice Management Consulting Pty Ltd
- O2 Networks Pty Ltd.

The following entities were added via an assumption deed on 26 June 2014:

- NSC Group Pty Ltd
- NSC Enterprise Solutions Pty Ltd
- DCA eHealth Solutions Pty Ltd
- DCA Direct Health Pty Ltd
- Kelzone Pty Ltd
- Goodwin Enterprises (Vic) Pty Ltd
- Prentice Management Consulting Pty Ltd
- O2 Networks Pty Ltd.

Small proprietary companies, Kelzone Pty Ltd, Goodwin Enterprises (Vic) Pty Ltd and Prentice Management Consulting Pty Ltd will not obtain relief under ASIC Class Order, however, as shareholders of O2 Networks Pty Ltd they are required to enter into the assumption deed so that O2 Networks Pty Ltd can obtain the relief under the Class Order.

Telstra Finance Limited is trustee of the closed group. However, it is not a group entity under the deed.

Sensis Pty Ltd and Sensis Holdings Pty Ltd were sold by the Telstra Group on 28 February 2014 and ceased to be parties to the deed by executing a notice of disposal lodged with ASIC on 3 March 2014. The Closed Group statement of comprehensive income excludes the eight months of the Sensis Pty Ltd and Sensis Holdings Pty Ltd results in the financial year 2014, however, it includes their full year results in financial year 2013. Sensis Pty Ltd and its controlled entities (Sensis Group) is disclosed as a discontinued operation. Refer to note 12 for further details on the disposal of the Sensis Group.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order)
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(a) ASIC deed of cross guarantee financial information (continued)

The statement of financial position and statement of comprehensive income of the closed group are presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

| Closed group statement of financial position | Closed group | |
|---|---------------|---------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Current assets | | |
| Cash and cash equivalents | 5,156 | 2,121 |
| Trade and other receivables | 3,429 | 4,340 |
| Inventories | 361 | 421 |
| Derivative financial assets | 23 | 43 |
| Current tax receivables | 2 | 79 |
| Prepayments | 315 | 269 |
| Total current assets | 9,286 | 7,273 |
| Non current assets | | |
| Trade and other receivables | 966 | 935 |
| Inventories | 29 | 27 |
| Investments - accounted for using the equity method | 196 | 15 |
| Investments in controlled entities | 1,536 | 1,970 |
| Investments - other | 126 | 38 |
| Property, plant and equipment | 19,391 | 19,558 |
| Intangible assets | 6,064 | 6,762 |
| Deferred tax assets | 1 | - |
| Derivative financial assets | 1,322 | 1,062 |
| Defined benefit asset | 44 | - |
| Total non current assets | 29,675 | 30,367 |
| Total assets | 38,961 | 37,640 |
| Current liabilities | | |
| Trade and other payables | 3,525 | 3,687 |
| Provisions | 925 | 911 |
| Borrowings | 3,618 | 1,346 |
| Derivative financial liabilities | 400 | 44 |
| Current tax payables | 259 | 367 |
| Revenue received in advance | 852 | 1,044 |
| Total current liabilities | 9,579 | 7,399 |
| Non current liabilities | | |
| Other payables | 63 | 53 |
| Provisions | 259 | 267 |
| Borrowings | 13,484 | 14,259 |
| Derivative financial liabilities | 1,169 | 1,625 |
| Deferred tax liabilities | 1,238 | 1,277 |
| Defined benefit liability | - | 42 |
| Revenue received in advance | 375 | 369 |
| Total non current liabilities | 16,588 | 17,892 |
| Total liabilities | 26,167 | 25,291 |
| Net assets | 12,794 | 12,349 |
| Equity | | |
| Share capital | 5,719 | 5,711 |
| Reserves | (118) | (87) |
| Retained profits | 7,193 | 6,725 |
| Equity available to the closed group | 12,794 | 12,349 |

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 comprehensive income | Closed group | |
|--|--------------------|------------------|
| | Year ended 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| Continuing operations | | |
| Income | | |
| Revenue (excluding finance income)..... | 25,493 | 22,732 |
| Other income..... | 441 | 273 |
| | 25,934 | 23,005 |
| Expenses | | |
| Labour..... | 4,349 | 4,195 |
| Goods and services purchased..... | 5,730 | 5,488 |
| Other expenses..... | 5,681 | 4,517 |
| | 15,760 | 14,200 |
| Share of net profit/(loss) from joint ventures and associated entities..... | 24 | (1) |
| | 15,736 | 14,201 |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)..... | 10,198 | 8,804 |
| Depreciation and amortisation..... | 3,798 | 3,833 |
| Earnings before interest and income tax expense (EBIT)..... | 6,400 | 4,971 |
| Finance income..... | 152 | 298 |
| Finance costs..... | 1,096 | 1,158 |
| Net finance costs..... | 944 | 860 |
| Profit before income tax expense | 5,456 | 4,111 |
| Income tax expense..... | 1,780 | 1,452 |
| Profit for the year from continuing operations | 3,676 | 2,659 |
| Profit for the year from discontinued operation..... | - | 151 |
| Profit for the year from continuing and discontinued operations available to the closed group | 3,676 | 2,810 |
| Items that will not be reclassified to the closed group income statement | | |
| Retained profits: | | |
| - actuarial gain on defined benefit plans..... | 114 | 774 |
| - income tax on actuarial gain on defined benefit plans..... | (34) | (232) |
| | 80 | 542 |
| Items that may be subsequently reclassified to the closed group income statement | | |
| Cash flow hedging reserve: | | |
| - changes in fair value of cash flow hedges..... | (116) | 365 |
| - changes in fair value transferred to other expenses..... | (140) | (617) |
| - changes in fair value transferred to goods and services purchased..... | (17) | 12 |
| - changes in fair value transferred to finance costs..... | 228 | 236 |
| - income tax on movements in the cash flow hedging reserve..... | 15 | (1) |
| | (30) | (5) |
| Total other comprehensive income for the closed group | 50 | 537 |
| Total comprehensive income for the year for the closed group | 3,726 | 3,347 |
| Retained profits reconciliation | | |
| Retained profits at the beginning of the financial year available to the closed group..... | 6,725 | 6,853 |
| Effect on retained profits from removal of entities from the closed group..... | 257 | - |
| Total comprehensive income recognised in retained profits..... | 3,756 | 3,352 |
| Dividends..... | (3,545) | (3,480) |
| Retained profits at the end of the financial year available to the closed group | 7,193 | 6,725 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(b) Liquidations

During the year the following entities were deregistered:

- Telstra New Zealand Holdings Limited
- Telstra Business Systems Pty Ltd.

During the year Telstra Sensis (Beijing) Co. Ltd was liquidated.

During the year we ceased operations of our Octave Group in China and at 30 June 2014, the following entities were in voluntary liquidation:

- Telstra Octave Holdings Limited
- Octave Investments Holdings Limited
- Sharp Point Group Limited
- Beijing Liang Dian Shi Jian Technology Co. Ltd.

As a result of the voluntary liquidation and in accordance with the AASB 121: "The Effect of Changes in Foreign Exchange Rates", we have written off to the income statement a \$98 million foreign currency translation reserve associated with the Octave Group investment.

(c) Controlled entities with different reporting dates

The following companies have reporting dates that differ from our reporting date of 30 June for the financial year 2014:

31 December:

- Autohome Inc. and its controlled entities
- Sequel Media Inc. and its controlled entities
- Telstra Asia Holdings Limited and its controlled entities
- Telstra Asia Limited
- Telstra SE Asia Holdings Limited
- Telstra Asia Regional Holdings Limited
- Telstra Philippines Holdings Limited
- Telstra International PNG Limited
- Reach Holdings Limited.

31 March:

- Reach Network India Private Limited
- Reach Data Services India Private Limited
- Telstra India (Private) Limited
- Telstra Telecommunications Private Limited.

These entities have different reporting dates due to jurisdictional requirements. Financial reports prepared as at 30 June are used for consolidation purposes.

(d) Controlled entities in which our equity ownership is less than or equal to 50 per cent

We have no direct equity interest in the following entities within the Autohome Inc. (Autohome) group:

- Beijing Autohome Information Technology Co. Ltd
- Shanghai You Che You Jia Advertising Co. Ltd
- Guangzhou You Che You Jia Advertising Co. Ltd.

The purpose of these entities is to hold the licences and approvals required to operate Autohome's internet content provision and advertising business in China. Laws and regulations in the People's Republic of China (PRC) currently limit foreign ownership of such companies, therefore Autohome's operations in China are conducted primarily through contractual agreements between these entities and Beijing Cheerbright Technologies Co. Ltd. The contractual arrangements enable Autohome to exercise effective control over the entities, receive substantially all of the economic benefits of the entities and have exclusive options to purchase all of the equity interests in these entities when and to the extent permitted under PRC law. Based on this we have consolidated the financial results, financial position and cash flows of these entities into our Telstra Group financial report.

We have no direct equity interest in the following entities within the Sequel Media Inc. (Sequel Media) group:

- Beijing Haochen Domain Information Technology Co. Ltd
- Lianhe Shangqing (Beijing) Advertisement Co. Ltd
- Beijing POP Information Technology Co. Ltd
- Shijiazhuang Xinrong Advertising Co. Ltd.

In addition, our controlled entity Union Tough Advertisement Limited has a 30 per cent direct interest in Haochen Shidai (Beijing) Advertisement Co. Ltd.

The purpose of these entities is to hold the licences and approvals required to operate Sequel Media's internet content provision and advertising business in China. Laws and regulations in the People's Republic of China (PRC) currently limit foreign ownership of such companies, therefore Sequel Media's operations in China are conducted primarily through contractual agreements between these entities and Beijing Topside Technologies Co. Ltd, Shengtuo Shidai (Beijing) Information Technology Co. Ltd and Haochen Shidai (Beijing) Advertisement Co. Ltd. The contractual arrangements enable Sequel Media to exercise effective control over the entities, receive substantially all of the economic benefits of the entities and have exclusive options to purchase all of the equity interests in these entities when and to the extent permitted under PRC law. Based on this we have consolidated the financial results, financial position and cash flows of these entities into our Telstra Group financial report.

We have effective control over the following entities through economic dependency and contractual arrangements with the majority shareholders and have consolidated them into our group:

- Telstra (Thailand) Limited
- Incomgen Holdings Inc.
- Thai Cyber Web Co Limited.

We have control over Fred IT Group Pty Ltd through our decision making ability on the board.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

25. INVESTMENTS IN CONTROLLED ENTITIES (CONTINUED)

(e) Controlled entities not individually audited by EY

These companies are not audited by EY, our Australian statutory auditor.

(f) New incorporations and business combinations

On 22 August 2013, we acquired 100 per cent of NSC Group Pty Ltd and its controlled entities. Refer to note 20 for further details.

On 2 September 2013, we acquired 100 per cent of DCA eHealth Solutions Pty Ltd and its controlled entities. Refer to note 20 for further details.

On 30 September 2013, we acquired 50 per cent of Fred IT Group Pty Ltd and its controlled entities. Refer to note 20 for further details.

On 9 October 2013, we incorporated Muru-D Pty Ltd.

On 18 October 2013, Autohome (Hong Kong) Limited acquired 100 per cent of Autohome Media Limited (formerly Prbrownies Marketing Limited). During the year Autohome Media Limited incorporated the following wholly owned subsidiaries:

- Autohome Shanghai Advertising Co. Ltd
- Beijing Autohome Software Co. Ltd
- Beijing Autohome Technologies Co. Ltd
- Beijing Autohome Advertising Co. Ltd
- Guangzhou Autohome Advertising Co. Ltd.

On 31 December 2013, we acquired 100 per cent of O2 Networks Group. Refer to note 20 for further details.

On 11 March 2014, we incorporated Telstra Foundation (Philippines) Inc.

On 18 June 2014, we incorporated Telstra Holdings Singapore Pte. Ltd.

(g) Purchase of additional interest

On 10 December 2013, Telstra Octave Holdings Limited acquired the remaining 33 per cent interest in Octave Investments Holdings Limited in exchange for selling the net assets of the five variable interest entities controlled by Sharp Point Group Limited. As a result our shareholding in Octave Investments Holding Limited as at 30 June 2014 is 100 per cent. Subsequent to this acquisition we ceased operations of the Octave Group and the legal entities in the Octave Group entered into voluntary liquidation (refer (b) above).

During the year we decreased our ownership of Autohome Inc. from 66.0 per cent at 30 June 2013 to 63.2 per cent at 30 June 2014, via share buy-back, subsequent initial public offering and employee share issues. None of these transactions resulted in a change of control. Changes in valuation of non-controlling interests resulting from these transactions are recorded in the general reserve. Refer to note 20 for further details.

(h) Sales and disposals

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Refer to note 12 for further details on the disposal. Our 30 per cent associate investment in Project Sunshine I Pty Ltd is disclosed in note 26.

On 14 May 2014, we sold our entire 76.4 per cent shareholding in CSL Limited and its controlled entities (CSL Group) for a total expected cash consideration of \$2,140 million subject to completion audit. Refer to note 20 for further details.

(i) Limited by guarantee

We own 100 per cent of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to \$100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Foundation Community Development Fund and manager of the Telstra Kids Fund.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES

| | Telstra Group | |
|---|---------------|------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Investments in joint ventures accounted for using the equity method | | |
| Investments in joint ventures | 4 | 5 |
| Allowance for impairment in value | - | - |
| Carrying amount of investments in joint ventures | 4 | 5 |
| Investments in associated entities accounted for using the equity method | | |
| Investments in associated entities | 216 | 38 |
| Allowance for impairment in value | (24) | (25) |
| Carrying amount of investments in associated entities | 192 | 13 |
| | 196 | 18 |

Our investments in joint ventures and associated entities are listed below:

| Name of Entity | Principal activities | Ownership interest | |
|---|---|--------------------|-------|
| | | As at 30 June | |
| | | 2014 | 2013 |
| | | % | % |
| Joint ventures | | | |
| Foxtel Partnership (f)(g) | Pay television | 50.0 | 50.0 |
| Foxtel Television Partnership (f)(g) | Pay television | 50.0 | 50.0 |
| Customer Services Pty Ltd (f)(g) | Customer service | 50.0 | 50.0 |
| Foxtel Management Pty Ltd (f)(g) | Management services | 50.0 | 50.0 |
| Foxtel Cable Television Pty Ltd (a)(f)(g) | Pay television | 80.0 | 80.0 |
| Reach Ltd (incorporated in Bermuda) (e)(f)(g) | International connectivity services | 50.0 | 50.0 |
| 3GIS Pty Ltd (e)(f) | Management of former 3GIS Partnership (non-operating) | 50.0 | 50.0 |
| Bridge Mobile Pte Ltd (incorporated in Singapore) (b)(f) | Regional roaming provider | - | 10.0 |
| HealthEngine Pty Ltd (b)(f) | Online healthcare booking | 33.3 | 25.0 |
| Associated entities | | | |
| Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (e)(f)(g) | Network cable provider | 46.9 | 46.9 |
| Telstra Super Pty Ltd (a)(f)(g) | Superannuation trustee | 100.0 | 100.0 |
| Telstra Foundation Ltd (d) | Charitable trustee organisation | - | 100.0 |
| Mandoe Pty Ltd (f) | Signage software provider | 26.7 | 25.0 |
| IPscape Pty Ltd (f) | Cloud based call centre solution | 24.9 | 31.3 |
| Dimmi Pty Ltd (d)(f) | Online restaurant reservation | - | 23.4 |
| Whispir Limited (c)(f) | Software as a solution provider | 18.0 | 18.0 |
| IP Health Pty Ltd (f) | Software development | 32.1 | 32.9 |
| Project Sunshine I Pty Ltd (d)(f) | Holding entity of Sensis Pty Ltd (directory services) | 30.0 | - |

Unless otherwise noted, all investments have a reporting date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (CONTINUED)

(a) Joint ventures and associated entities in which we own more than 50 per cent equity

- We own 80 per cent of the equity of Foxtel Cable Television Pty Ltd. This entity is disclosed as a joint venture because our effective voting power is restricted to 50 per cent due to the participative rights of the other equity shareholder and we have joint control.
- We own 100 per cent of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the board of directors. The board of directors consists of an equal number of employer and member representatives and an independent chairman. Our voting power over the relevant activities is 44 per cent, which is equivalent to our representation on the board. The entity is therefore classified as an associated entity as we have significant influence over the investee.

(b) Joint ventures in which we own less than or equal to 50 per cent equity

During the year we disposed of our 10 per cent holding of Bridge Mobile Pte Ltd as part of the CSL Group disposal (refer to note 20 for further details). Previously we had joint control over Bridge Mobile Pte Ltd through our decision making ability on the board.

We own 33.3 per cent (2013: 25.0 per cent) of HealthEngine Pty Ltd and we have joint control through our decision making ability on the board.

(c) Associated entities in which we own less than or equal to 20 per cent equity

We own 18 per cent of Whispir Limited and we have significant influence over this entity through our decision making ability on the board.

(d) Other changes in joint ventures and associated entities

We own 100% of the equity of Telstra Foundation Limited (TFL). TFL is the trustee of the Telstra Foundation Community Development Fund and manager of the Telstra Kids Fund, which have no material operations. From 1 July 2013, we consolidate on a prospective basis the TFL results previously accounted for as an associate, as we meet the criteria for control under AASB 10: "Consolidated Financial Statements". Refer to note 25 for further details.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in Sensis Pty Ltd and its controlled entities (Sensis Group) for a total cash consideration of \$454 million and a non-cash acquisition of 30 per cent shareholding in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. As a result, we deconsolidated 100 per cent of the balance sheet of the Sensis Group and recorded, at fair value of \$157 million, our 30 per cent interest in Project Sunshine I Pty Ltd. From 1 March 2014 we have accounted for our interest in Project Sunshine I Pty Ltd as an associated entity. Refer to notes 12 and 25 for further details on the disposal and changes in our controlled entities.

On 14 April 2014, following an equity issuance to other investors our ownership interest in Dimmi Pty Ltd was diluted from 23.4 per cent to 15.4 per cent. As a result our ability to exercise significant influence over the investee was lost, the investment in associate was reclassified as an available-for-sale investment.

(e) Joint ventures and associated entities with different reporting dates

Several of our joint ventures and associated entities have reporting dates that differ from our reporting date of 30 June for financial year 2014, as follows:

- Reach Ltd - 31 December
- 3GIS Pty Ltd - 31 December
- Australia-Japan Cable Holdings Limited - 31 December.

The differences in reporting dates are due to jurisdictional requirements. Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in joint ventures and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (CONTINUED)

(f) Other disclosures for joint ventures and associated entities

The movements in the consolidated equity accounted amount of our joint ventures and associated entities are summarised as follows:

| | Telstra Group | | | |
|---|--------------------------|------|---------------------|------|
| | Year ended/As at 30 June | | | |
| | Joint ventures | | Associated entities | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$m | \$m | \$m | \$m |
| Carrying amount of investments at beginning of year | 5 | 2 | 13 | 10 |
| Additional investments made during the year | 2 | 3 | 158 | 5 |
| Disposal of investments during the year | (2) | - | - | - |
| Investment reclassified to available-for-sale during the year | - | - | (1) | - |
| Impairment loss recognised in the income statement | - | - | (2) | - |
| | 5 | 5 | 168 | 15 |
| Share of net profit/(loss) for the year (i) | (1) | - | 25 | (1) |
| Dividends received | - | - | (1) | (1) |
| Carrying amount of investments at end of year | 4 | 5 | 192 | 13 |
| Our share of contingent liabilities of joint ventures and associated entities | 5 | 10 | - | - |
| Our share of capital commitments contracted for by our joint ventures and associated entities | 4 | 1 | - | - |

(i) Share of the net profit/(loss) from associated entities includes a \$24 million profit (2013: nil) from our 30 per cent investment in Project Sunshine I Pty Ltd, the new holding company of the Sensis Group, for the period from 1 March 2014 to 30 June 2014.

Other commitments

Our joint venture Foxtel has other commitments amounting to approximately \$4,658 million (2013: \$3,950 million). The majority of our 50 per cent share of these commitments relates to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between one 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.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

26. INVESTMENTS IN JOINT VENTURES AND ASSOCIATED ENTITIES (CONTINUED)

(f) Other disclosures for joint ventures and associated entities (continued)

Our joint venture Foxtel includes Foxtel Partnership and its controlled entities, Foxtel Television Partnership, Customer Services Pty Ltd, Foxtel Cable Television Pty Ltd and Foxtel Management Pty Ltd and its controlled entities. Foxtel is not a publicly listed entity.

Foxtel is our strategic partner primarily delivering subscription television services over cable, satellite and broadband to our customers in Australian regional and metropolitan areas.

Equity accounting of our investment in Foxtel is currently suspended. Refer to note 26(g) for further details.

Full financial information of the Foxtel Partnership and its controlled entities is presented in the table below:

| | Foxtel joint venture | |
|--|----------------------|--------------|
| | Year ended 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Current assets..... | 501 | 485 |
| Non current assets | 2,989 | 3,042 |
| Total assets | 3,490 | 3,527 |
| Current liabilities | 816 | 1,023 |
| Non current liabilities..... | 3,068 | 2,841 |
| Total liabilities | 3,884 | 3,864 |
| Net liabilities | (394) | (337) |
| Cash and cash equivalents..... | 34 | 34 |
| Current financial liabilities (*)..... | 37 | 307 |
| Non current financial liabilities (*)..... | 3,034 | 2,821 |
| Revenue | 3,138 | 3,116 |
| Expenses | 2,162 | 2,173 |
| Depreciation and amortisation..... | 394 | 427 |
| Interest income | 1 | 3 |
| Interest expense | 236 | 232 |
| Other finance costs | 11 | - |
| Income tax expense..... | 24 | 30 |
| Profit for the year | 312 | 257 |
| Other comprehensive income..... | (40) | 42 |
| Total comprehensive income for the year | 272 | 299 |

(*) Financial liabilities exclude trade and other payables and provisions

We also have interests in a number of individually immaterial joint ventures and associated entities. Our share of the aggregate financial information (including joint ventures and associated entities where equity accounting has been suspended) is presented in the table below:

| | Telstra Group | | | |
|---|--------------------|------------|---------------------|----------|
| | Year ended 30 June | | | |
| | Joint ventures | | Associated entities | |
| | 2014 | 2013 | 2014 | 2013 |
| | \$m | \$m | \$m | \$m |
| Profit/(loss) for the year | (2) | 2 | 36 | 7 |
| Other comprehensive income..... | 1 | (8) | 1 | (5) |
| Total comprehensive income | (1) | (6) | 37 | 2 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

26. INVESTMENTS IN JOINT VENTURES 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 2014 \$m | Cumulative 2014 \$m | Period 2013 \$m | Cumulative 2013 \$m |
| Joint ventures | | | | |
| Foxtel | 31 | 197 | 4 | 166 |
| Reach Ltd | - | 558 | (2) | 558 |
| Associated entities | | | | |
| Australia-Japan Cable Holdings Limited | (11) | 115 | (11) | 126 |
| | 20 | 870 | (9) | 850 |

Equity accounting has been suspended for Telstra Super Pty Ltd. There is no significant unrecognised profits/losses in this entity.

A \$165 million distribution was received from Foxtel during the year (2013: \$155 million). This has been recorded as revenue in the income statement. Our share of Foxtel's profit for the year was \$156 million. Excess distribution and our \$22 million share of the cash flow hedging reserve over our share of profit increased our cumulative share of unrecognised losses in Foxtel.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS

The Company has a number of employee share plans that are available for executives and employees. These include those conducted through the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant details are disclosed below.

Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in financial year 2000. Under the trust, we operate a number of different equity plans, including:

- short term incentive plans
- long term incentive plans
- other equity plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100 per cent owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares to underpin the equity instruments issued.

In financial year 2014, we recorded an expense of \$37 million for our share-based payment plans operated by the Telstra Growthshare Trust (2013: \$42 million). As at 30 June 2014, we had an estimated total expense yet to be recognised of \$29 million (2013: \$26 million), which is expected to be recognised over a weighted average of 1.7 years (2013: 1.6 years).

(a) Short term incentive (STI) plans

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and restricted shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

(i) Description of equity instruments

Restricted shares (previously referred to as deferred shares)

For financial years 2014, 2013, and 2012, the Board approved 25 per cent of executives' STI to be allocated as restricted shares. The effective allocation dates were 1 July 2014, 1 July 2013 and 17 August 2012 for financial years 2014, 2013 and 2012 respectively.

For the CEO and other senior executives, half of these shares are restricted for 12 months and half for 24 months. For other executives (other than the CEO and other senior executives), these shares are restricted for three years from their effective allocation date.

The shares will be forfeited in certain circumstances where the executive ceases, before the end of the restriction period, to be employed by any entity that forms part of the Telstra Group. However, the executive may retain the shares if they cease employment in certain circumstances, for example because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Restricted shares may also be retained if the executive ceases employment due to retirement or expiry of a fixed term contract, providing that notice of retirement or fixed term contract expiry is more than six months after the actual allocation date. Restricted shares allocated in financial years 2014 and 2013 may be forfeited if certain clawback events occur during the restriction period. The executives are able to vote and receive dividends as and from the actual allocation date. Performance hurdles are applied in determining the number of restricted shares allocated and therefore restricted shares are not subject to any performance hurdles.

Incentive shares

Incentive shares allocated in financial year 2008 were subject to a restriction period. An executive was able to use the incentive shares to vote and receive dividends from the actual allocation date. However, the executive was restricted from dealing with the incentive shares until after they were released from the restriction period. The restriction period has now ended and all incentive shares have been released from trust and transferred to the executives.

(ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and restricted shares under our STI plans and are detailed in the following table.

| | Incentive and restricted shares (^) | |
|--|-------------------------------------|---------------------------------|
| | Number | Weighted average fair value (*) |
| Outstanding as at 30 June 2012 | 1,250,470 | \$3.67 |
| Granted | 3,763,365 | \$3.05 |
| Forfeited | (208,856) | \$3.24 |
| Exercised (^) | (756,327) | \$3.79 |
| Outstanding as at 30 June 2013 | 4,048,652 | \$3.10 |
| Granted | 3,156,996 | \$3.96 |
| Forfeited | (162,702) | \$2.98 |
| Exercised (^) | (928,022) | \$3.67 |
| Outstanding as at 30 June 2014 (#) .. | 6,114,924 | \$3.46 |

(^) The weighted average share price for incentive and restricted shares exercised during the financial year was \$5.01 (2013: \$3.95).

(*) The fair value of incentive and restricted shares granted is based on the market value of Telstra shares on allocation date.

(^ ^) Exercise refers to incentive and restricted shares released from restriction. As at 30 June 2014, there were no exercisable STI instruments.

(#) The number outstanding includes incentives and restricted shares that are subject to a restriction period.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans

The purpose of LTI plans is to align key executives' rewards with shareholders' interests, and reward performance improvement whilst supporting business plans and corporate strategies. The Telstra Growthshare Trust board administers the plans, and the Remuneration Committee and the Telstra Board determine who is invited to participate in these plans.

Performance of the LTI plans is measured with respect to the relevant performance period and subject to subsequent verification, ratification and sign off by the Remuneration Committee and approval by the Board.

(i) Outstanding equity based instruments

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our LTI plans. These represent a share or a right to acquire a share in Telstra subject to certain conditions. Further information regarding each type of LTI plan that was outstanding during the year is detailed in the following table:

| | Allocation date | Performance period from | to | Exercise price | End date (#) |
|---|--------------------|-------------------------|--------------------|----------------|--------------------|
| Growthshare 2009 | | | | | |
| ESOP options..... | 21 Aug 2008 | n/a | n/a | \$4.36 | 21 Aug 2013 |
| US ESOP options..... | 21 Aug 2008 | n/a | n/a | \$4.25 | 21 Aug 2013 |
| RTSR options..... | 21 Aug 2008 | 1 Jul 2008 | 30 Jun 2012 | \$4.36 | 30 Jun 2014 |
| Growthshare 2010 | | | | | |
| RTSR performance rights..... | 21 Aug 2009 | 1 Jul 2009 | 30 Jun 2012 | nil | 21 Aug 2013 |
| FCF ROI performance rights..... | 21 Aug 2009 | 1 Jul 2009 | 30 Jun 2012 | nil | 21 Aug 2013 |
| Growthshare 2011 | | | | | |
| ESRP performance rights..... | 20 Aug 2010 | n/a | n/a | nil | 20 Aug 2013 |
| RTSR performance rights..... | 20 Aug 2010 | 1 Jul 2010 | 30 Jun 2013 | nil | 20 Aug 2014 |
| FCF ROI performance rights..... | 20 Aug 2010 | 1 Jul 2010 | 30 Jun 2013 | nil | 20 Aug 2014 |
| Growthshare 2012 | | | | | |
| ESP restricted shares..... | 19 Apr 2012 | n/a | n/a | nil | 19 Apr 2015 |
| RTSR performance rights..... | 19 Aug 2011 | 1 Jul 2011 | 30 Jun 2014 | nil | 19 Aug 2015 |
| FCF ROI performance rights..... | 19 Aug 2011 | 1 Jul 2011 | 30 Jun 2014 | nil | 19 Aug 2015 |
| Growthshare 2013 | | | | | |
| ESP restricted shares..... | 21 Feb 2013 | n/a | n/a | nil | 21 Feb 2016 |
| RTSR performance rights..... | 17 Aug 2012 | 1 Jul 2012 | 30 Jun 2015 | nil | 17 Aug 2016 |
| FCF ROI performance rights..... | 17 Aug 2012 | 1 Jul 2012 | 30 Jun 2015 | nil | 17 Aug 2016 |
| GE Telstra Wholesale restricted shares..... | 17 Aug 2012 | n/a | n/a | nil | 17 Aug 2015 |
| Growthshare 2014 | | | | | |
| ESP restricted shares..... | 28 Feb 2014 | n/a | n/a | nil | 28 Feb 2017 |
| RTSR performance rights..... | 1 Jul 2013 | 1 Jul 2013 | 30 Jun 2016 | nil | 30 Jun 2017 |
| FCF ROI performance rights..... | 1 Jul 2013 | 1 Jul 2013 | 30 Jun 2016 | nil | 30 Jun 2017 |
| GE Telstra Wholesale restricted shares..... | 1 Jul 2013 | n/a | n/a | nil | 1 Jul 2016 |

(#) End date refers to expiry date of options, end of the restriction period for Employee Share Plan (ESP) restricted shares or end of the service period for performance rights and Group Executive (GE) Telstra Wholesale restricted shares to vest.

Refer to section (b)(ii) for a description of the following equity instruments:

- Employee Share Option Plan (ESOP) options
- US Employee Share Option Plan (ESOP) options
- Relative Total Shareholder Return (RTSR) options
- Relative Total Shareholder Return (RTSR) performance rights
- Free-Cashflow Return-on-Investment (FC ROI) performance rights
- Employee Share Plan (ESP) restricted shares
- Employee Share Rights Plan (ESRP) performance rights
- GE Telstra Wholesale restricted shares.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(i) Outstanding equity based instruments (continued)

In relation to these executive LTI plans, the Board may, in its discretion, reset the hurdles governing the financial year 2014, 2013 and 2012 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of certain factors, including:

- a material change in the strategic business plan
- a material regulatory change or
- a significant out-of-plan business development (this could include a major acquisition outside the current business plan, resulting in a significant change to the business of Telstra or the Telstra Group that means (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In financial year 2014, the Board did not reset the hurdles governing the equity instruments issued in financial years 2014, 2013 and 2012.

(ii) Description of equity instruments

Performance rights

Executive LTI performance rights

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights become restricted shares.

In relation to performance rights issued, if the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights, as determined in accordance with the trust deed and terms of issue, will become restricted shares. Although the trustee holds the shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they vest and are transferred to them or sold on their behalf, at the end of the restriction period, or, in the case of performance rights granted in financial year 2014, on the first day after the end of the restriction period that the executive is able to deal with the shares under Telstra's Securities Trading Policy (unless forfeited).

Employee Share Rights Plan (ESRP) performance rights

For ESRP performance rights allocated in financial year 2011, there is no exercise price payable. Once the performance rights have vested, the rights will be automatically exercised and Telstra shares will be transferred to the employee. Until this time, the employee cannot use the performance rights to vote or receive dividends.

A description of each type of performance right that existed in financial year 2014 follows:

Executive LTI performance rights:

- Relative Total Shareholder Return (RTSR) performance rights - the performance hurdle for these rights is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in a peer group
- Free-Cashflow Return-on-Investment (FCF ROI) performance rights - the performance hurdle for these rights is based on Telstra's annual free-cashflow (less finance costs) over the performance period divided by the average investment over the performance period.

Employee performance rights:

- Employee Share Rights Plan (ESRP) performance rights - the vesting condition for these rights is based on the completion of three years continuous service by the participant (and once granted the rights are not subject to any performance conditions).

Restricted shares

GE Telstra Wholesale restricted shares (previously referred to as GMD Telstra Wholesale restricted shares)

Due to the Structural Separation Undertaking (SSU) arising from the National Broadband Network (NBN) transaction, the GE Telstra Wholesale is prohibited from participating in the financial year 2014, 2013 and 2012 LTI plans. As a result, an alternative remuneration arrangement has been provided in financial years 2014 and 2013, which is a restricted share plan where the number of restricted shares allocated is based on the same performance measures as his financial year 2013 and 2012 STI plans.

Employee Share Plan (ESP) restricted shares

Restricted shares provided under the ESP in financial years 2014, 2013 and 2012 were allocated at no cost to certain eligible employees (excluding executives). The shares are held by the Trustee on behalf of employees until the restriction period ends. During the restriction period, employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment.

A description of each type of restricted share that existed in financial year 2014 is set out below:

Executive LTI restricted shares:

- GE Telstra Wholesale restricted shares - performance hurdles are applied in determining the number of restricted shares allocated and therefore the restricted shares are not subject to any performance hurdles.

Employee restricted shares:

- Employee Share Plan (ESP) restricted shares - there are no performance hurdles for these restricted shares.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(ii) Description of equity instruments (continued)

Options

An employee or executive is not entitled to Telstra shares unless the options initially vest (subject to the achievement of the relevant performance hurdles) and then are exercised. This means that the employee or executive cannot use options to vote or receive dividends until they have vested and been exercised. If the performance hurdles are satisfied in the applicable performance period, options must be exercised at any time before the expiry date, otherwise they will lapse. Once the options are exercised and the exercise price is paid, Telstra shares will be transferred to the eligible employee or executive.

A description of each type of option that existed in financial year 2014 is set out below:

Executive LTI options:

- Relative Total Shareholder Return options (RTSR options) - the performance hurdle for these options is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in a peer group.

Employee options:

- ESOP options - the vesting condition for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions)
- US ESOP options - the vesting condition for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

(iii) Performance hurdles

Performance rights

Details of the relevant performance hurdles in relation to performance rights, are set out below:

Relative Total Shareholder Return (RTSR) performance rights

For financial years 2014, 2013, 2012, 2011 and 2010 RTSR performance rights, the single performance period is the three year period ending on 30 June 2016, 30 June 2015, 30 June 2014, 30 June 2013 and 30 June 2012 respectively.

If Telstra achieves a result placing it in at least the 50th percentile for the performance period, then:

- the number of RTSR performance rights that will meet the hurdle for that performance period is scaled proportionately from the 50th percentile (which equates to 25 per cent of the allocation) to the 75th percentile (which equates to 100 per cent of the allocation)
- any performance rights that do not meet the hurdle will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR performance rights will lapse.

Any RTSR performance rights that meet the hurdle become restricted shares and are held by the Trustee until the restriction period ends (four years after the effective allocation date of the performance rights).

Free-Cashflow Return-on-Investment (FCF ROI) performance rights

For financial years 2014, 2013, 2012, 2011 and 2010 FCF ROI performance rights, the single performance period is the three year period ending on 30 June 2016, 30 June 2015, 30 June 2014, 30 June 2013 and 30 June 2012 respectively.

The number of FCF ROI performance rights that will meet the hurdle is calculated as follows:

- if the threshold target is achieved, then 50 per cent of the allocation of FCF ROI performance rights will meet the hurdle
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI performance rights that will meet the hurdle is scaled proportionately between 50 per cent and 100 per cent
- if the stretch target is achieved or exceeded, then 100 per cent of the FCF ROI performance rights will meet the hurdle
- if the threshold target is not achieved, all of these FCF ROI performance rights will lapse.

Any FCF ROI performance rights that meet the hurdle become restricted shares and are held by the Trustee until the end of the restriction period (four years after the effective allocation date of the performance rights).

Employee Share Rights Plan (ESRP) performance rights

As part of the employee share rights plan for financial years 2011 and 2010, certain eligible employees were provided with performance rights that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the performance rights (and in certain other circumstances) the performance rights will vest. These performance rights are not subject to any performance hurdles.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

Options

Details of the performance hurdles relevant to options are set out below:

ESOP options and US ESOP options

As part of the employee share option plan for financial year 2009, certain eligible employees were provided with options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the options (and in certain other circumstances), the options will vest. These options are not subject to any performance hurdles.

Relative Total Shareholder Return (RTSR) options

For RTSR options for financial year 2009, the applicable performance hurdle is based on comparing the TSR growth of Telstra against other companies in the peer group. Telstra is then given a score to determine its rank by comparison with the peer group. The RTSR options vest only if Telstra achieves a rank of at least the 50th percentile.

The Board has the discretion to amend the members in the peer group, as well as make necessary adjustments to the calculation of the TSR amount, TSR growth or rank.

For RTSR options, there are three performance periods:

- first performance period - 1 July 2008 to 30 June 2010
- second performance period - 1 July 2008 to 30 June 2011
- third performance period - 1 July 2008 to 30 June 2012.

The result for each performance period is separately measured. If Telstra achieves a rank greater than or equal to the 50th percentile for the performance period, then:

- the number of TSR options that will vest for that performance period is scaled proportionately from the 50th percentile (at which 25 per cent of the allocation becomes exercisable) to the 75th percentile (at which 100 per cent of the allocation becomes exercisable)
- 25 per cent of any unvested options for that performance period will lapse.

If Telstra achieves a rank of less than the 50th percentile for the performance period, then none of the options allocated for that performance period will vest and 25 per cent of the options will lapse.

In addition, for the third performance period, if Telstra's rank meets or exceeds:

- both the 50th percentile and the rank achieved in the first performance period, the remaining unvested options from the first performance period will vest, and/or
- both the 50th percentile and the rank achieved in the second performance period, the remaining unvested options from the second performance period will vest.

The number of additional unvested options which may vest is also determined by using a linear scale.

If Telstra achieves a rank of less than the 50th percentile for the third performance period, then no options will vest for the third performance period. Furthermore, any remaining unvested options will lapse following the end of the third performance period.

Restricted shares

Details of the relevant performance hurdles in relation to restricted shares are set out below:

GE Telstra Wholesale restricted shares

As part of the financial year 2014 and 2013 GE Telstra Wholesale restricted share plans, the GE Telstra Wholesale was provided with restricted shares. Performance hurdles were applied in determining the number of restricted shares allocated and therefore the restricted shares are not subject to any performance hurdles.

Employee Share Plan (ESP) restricted shares

As part of the financial year 2014, 2013 and 2012 ESP, certain eligible employees were provided with restricted shares. There are no performance hurdles for these restricted shares.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information

| | Number of equity instruments | | | | | | Outstanding at 30 June 2014 | Exercisable at 30 June 2014 |
|--|-----------------------------------|-----------|---------------|---------------|-------------|-----------|-----------------------------------|-----------------------------------|
| | Outstanding at 30 June 2013 | Granted | Forfeited (*) | Exercised (#) | Expired (^) | | | |
| Growthshare 2009 | | | | | | | | |
| ESOP options..... | 9,169,697 | - | (4,734,733) | (4,434,964) | - | - | - | - |
| US ESOP options..... | 29,000 | - | (17,500) | (11,500) | - | - | - | - |
| RTSR options..... | 2,329,659 | - | (55,329) | (2,274,330) | - | - | - | - |
| Growthshare 2010 | | | | | | | | |
| RTSR performance rights..... | 3,674,716 | - | - | (3,674,716) | - | - | - | - |
| FCF ROI performance rights..... | 2,116,894 | - | - | (2,116,894) | - | - | - | - |
| Growthshare 2011 | | | | | | | | |
| ESRP performance rights..... | 982,905 | - | (13,400) | (969,505) | - | - | - | - |
| RTSR performance rights..... | 5,069,579 | - | (154,160) | - | - | 4,915,419 | - | - |
| FCF ROI performance rights..... | 5,059,346 | - | (154,160) | - | - | 4,905,186 | - | - |
| Growthshare 2012 | | | | | | | | |
| ESP restricted shares..... | 2,138,600 | - | - | (214,700) | - | 1,923,900 | - | - |
| RTSR performance rights..... | 2,453,859 | - | (35,169) | - | - | 2,418,690 | - | - |
| FCF ROI performance rights..... | 2,453,859 | - | (35,169) | - | (1,056,968) | 1,361,722 | - | - |
| Growthshare 2013 | | | | | | | | |
| ESP restricted shares..... | 2,483,900 | - | - | (254,000) | - | 2,229,900 | - | - |
| RTSR performance rights..... | 2,469,604 | - | (194,226) | - | - | 2,275,378 | - | - |
| FCF ROI performance rights..... | 2,469,604 | - | (194,226) | - | - | 2,275,378 | - | - |
| GE Telstra Wholesale restricted shares | 116,371 | - | - | - | - | 116,371 | - | - |
| Growthshare 2014 | | | | | | | | |
| ESP restricted shares..... | - | 2,695,300 | - | (89,700) | - | 2,605,600 | - | - |
| RTSR performance rights..... | - | 2,705,618 | (145,383) | - | - | 2,560,235 | - | - |
| FCF ROI performance rights..... | - | 2,705,618 | (145,383) | - | - | 2,560,235 | - | - |
| GE Telstra Wholesale restricted shares | - | 133,595 | - | - | - | 133,595 | - | - |

(*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(#) Exercised refers to either options exercised during the year or performance rights and restricted shares released from restriction.

(^) Expired refers to the performance hurdle not being met.

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(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

| | Number of equity instruments | | | | | | Outstanding at 30 June 2013 | Exercisable at 30 June 2013 |
|--|------------------------------|-----------|---------------|---------------|-------------|-----------------------------|-----------------------------|-----------------------------|
| | Outstanding at 30 June 2012 | Granted | Forfeited (*) | Exercised (#) | Expired (^) | Outstanding at 30 June 2013 | | |
| Growthshare 2006 | | | | | | | | |
| RG performance rights | 40,517 | - | (22,398) | (18,119) | - | - | - | - |
| NT performance rights | 18,313 | - | (9,166) | (9,147) | - | - | - | - |
| Growthshare 2008 | | | | | | | | |
| ESOP options..... | 10,133,145 | - | (10,132,395) | (750) | - | - | - | - |
| ROI options | 3,337,162 | - | (540,941) | (2,796,221) | - | - | - | - |
| Growthshare 2009 | | | | | | | | |
| ESOP options..... | 11,653,546 | - | (960,028) | (1,523,821) | - | 9,169,697 | 9,169,697 | - |
| US ESOP options..... | 36,000 | - | (2,000) | (5,000) | - | 29,000 | 29,000 | - |
| RTSR options | 4,992,832 | - | (196,958) | (2,466,215) | - | 2,329,659 | 2,329,659 | - |
| Growthshare 2010 | | | | | | | | |
| ESRP performance rights..... | 1,555,645 | - | (212,652) | (1,342,993) | - | - | - | - |
| RTSR performance rights..... | 3,848,717 | - | (174,001) | - | - | 3,674,716 | - | - |
| FCF ROI performance rights..... | 2,346,779 | - | (229,885) | - | - | 2,116,894 | - | - |
| Growthshare 2011 | | | | | | | | |
| ESRP performance rights..... | 1,076,385 | - | (93,480) | - | - | 982,905 | - | - |
| RTSR performance rights..... | 5,639,238 | - | (569,659) | - | - | 5,069,579 | - | - |
| FCF ROI performance rights..... | 5,639,238 | - | (579,892) | - | - | 5,059,346 | - | - |
| Growthshare 2012 | | | | | | | | |
| ESP restricted shares..... | 2,357,100 | - | - | (218,500) | - | 2,138,600 | - | - |
| RTSR performance rights..... | 2,749,267 | - | (295,408) | - | - | 2,453,859 | - | - |
| FCF ROI performance rights..... | 2,749,267 | - | (295,408) | - | - | 2,453,859 | - | - |
| Growthshare 2013 | | | | | | | | |
| ESP restricted shares..... | - | 2,556,700 | - | (72,800) | - | 2,483,900 | - | - |
| RTSR performance rights..... | - | 2,664,516 | (194,912) | - | - | 2,469,604 | - | - |
| FCF ROI performance rights..... | - | 2,664,516 | (194,912) | - | - | 2,469,604 | - | - |
| GE Telstra Wholesale restricted shares | - | 116,371 | - | - | - | 116,371 | - | - |

(*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(#) Exercised refers to either options exercised during the year or performance rights and restricted shares released from restriction.

(^) Expired refers to the performance hurdle not being met.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

| | Options (*) | | Performance rights (^) | | Restricted Shares (#) | |
|---|--------------|----------------------------------|------------------------|----------------------------------|-----------------------|-----------------------------------|
| | Number | Weighted average fair value (**) | Number | Weighted average fair value (**) | Number | Weighted average fair value (***) |
| Outstanding as at 30 June 2012 | 30,152,685 | \$0.32 | 25,663,366 | \$1.95 | 2,357,100 | \$3.36 |
| Granted..... | - | - | 5,329,032 | \$2.71 | 2,673,071 | \$4.55 |
| Forfeited..... | (11,832,322) | \$0.42 | (2,871,773) | \$2.16 | - | - |
| Exercised (^)..... | (6,792,007) | \$0.35 | (1,370,259) | \$2.89 | (291,300) | \$3.66 |
| Expired..... | - | - | - | - | - | - |
| Outstanding as at 30 June 2013 | 11,528,356 | \$0.21 | 26,750,366 | \$2.03 | 4,738,871 | \$4.01 |
| Granted..... | - | - | 5,411,236 | \$3.05 | 2,828,895 | \$5.10 |
| Forfeited..... | (4,807,562) | \$0.22 | (1,071,276) | \$2.50 | - | - |
| Exercised (##)..... | (6,720,794) | \$0.20 | (6,761,115) | \$1.71 | (558,400) | \$4.19 |
| Expired..... | - | - | (1,056,968) | \$2.68 | - | - |
| Outstanding as at 30 June 2014 | - | - | (23,272,243) | \$2.31 | 7,009,366 | \$4.44 |
| Exercisable as at 30 June 2014 | - | - | - | - | - | - |

(*) Options include RTSR, ROI, ESOP and US ESOP options. The options "exercised" includes those participants who have been made redundant and are then consequently entitled to the Telstra shares.

(^) Performance rights include RG, NT, RTSR, FCF ROI and ESRP performance rights.

(#) Restricted shares relate to GE Telstra Wholesale and ESP restricted shares.

(**) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

(***) The fair value of these instruments is based on the market value of Telstra shares at the allocation date.

(^^) The weighted average share price for instruments exercised during financial year 2013 was \$4.65 for the financial years 2008 and 2009 allocation of options, \$3.73 for the financial years 2006 and 2010 allocation of performance rights, and \$4.41 for financial years 2012 and 2013 allocation of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during financial year 2014 was \$5.03 for the financial year 2009 allocation of options, \$4.92 for the financial years 2010 and 2011 allocations of performance rights, and \$5.11 for financial years 2012, 2013 and 2014 allocations of ESP restricted shares respectively. These share prices were based on the closing market price on the exercise dates.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(v) Fair value of equity instruments granted

The fair value of LTI instruments granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

| | Growthshare LTI FCF ROI performance rights Oct 2013 | Growthshare LTI RTSR performance rights Oct 2013 | Growthshare LTI FCF ROI performance rights Oct 2012 | Growthshare LTI RTSR performance rights Oct 2012 |
|--|--|---|---|--|
| Share price | \$4.96 | \$4.96 | \$4.03 | \$4.03 |
| Risk-free rate | 3.17% | 3.17% | 2.51% | 2.51% |
| Dividend yield | 7.0% | 7.0% | 8.0% | 8.0% |
| Expected stock volatility | 17.0% | 17.0% | 19.0% | 19.0% |
| Expected life..... | (*) | (*) | (*) | (*) |
| Expected rate of achievement of TSR performance hurdles..... | n/a | 39.4% | n/a | 44% |

(*) The date on which the instruments become exercisable.

For financial year 2014 LTI FCF ROI and RTSR performance rights, the fair value was measured at a grant date on 16 October 2013 and has been allocated over the period for which the service is received, which commenced on 1 July 2013.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

The fair value of financial year 2014 ESP restricted shares is based on the market value of Telstra shares at the allocation date of 28 February 2014 and has been allocated over the period for which the service is received, which commenced on 1 July 2013.

The fair value of financial year 2014 GE Telstra Wholesale restricted shares is based on the market value of Telstra shares at the allocation date of 15 August 2013.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(c) Telstra Directshare and Ownshare

(i) Nature of Telstra Directshare and Ownshare

Telstra Directshare

The Directshare plan, previously operated by the Company, was cancelled with effect from August 2012 as it is no longer in use. Under the Directshare plan, non-executive Directors could nominate to receive a percentage of their total remuneration package as Telstra shares (allocated to participating Directors at market price). As a result of its cancellation, no new grants may be made under the Directshare plan. Existing grants under the plan will remain on foot and, under the terms of the Directshare plan and the relevant trust deed, will continue to apply to such grants.

The restriction period on Directshares already allocated continues until the earliest of:

- 10 years from the date of allocation of the shares
- the time when the participating Director is no longer a Director of, or is no longer employed by, a company in the Telstra Group
- the time when the Trustee determines that an "event" under the terms of Directshare has occurred.

Telstra Ownshare

The Ownshare plan, previously operated by the Company, has not been offered since October 2013 and will not be offered in the future. Under the Ownshare plan, certain eligible employees could, at their election, be provided with part of their remuneration in Telstra shares. Shares were acquired by the trustee from time to time and allocated to these employees at the time when their application was accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at the expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation
- the time when the participant ceases employment with the Telstra Group
- the time when the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the Ownshare instruments will be transferred to the participant (unless the participant directs the trustee to sell the Ownshare instruments on the participant's behalf). The participant is not able to deal in the shares until this transfer has taken place.

Existing grants under the plan will remain on foot under the terms of the Ownshare plan and the relevant trust deed will continue to apply to such grants.

(ii) Instruments granted during the financial year

No instruments were granted under the Ownshare plan during financial year 2014, therefore the weighted average fair value of fully paid shares granted to participants as at 30 June 2014 was nil (2013: \$4.03) and the total fair value of shares granted was nil (2013: \$632,808).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(c) Telstra Directshare and Ownshare (continued)

(iii) Summary of movements

The table below provides information about our Directshare and Ownshare plans.

| | Number of equity instruments | | | | | Outstanding at 30 June 2014 |
|-----------------------------------|--------------------------------|----------------|-----------------|--------------------------------|-----------------|--------------------------------|
| | Outstanding at 30 June 2012 | Granted (*) | Distributed (^) | Outstanding at 30 June 2013 | Distributed (^) | |
| Directshares | | | | | | |
| 5 September 2003 allocation | 9,525 | - | (7,648) | 1,877 | (1,877) | - |
| 20 February 2004 allocation | 10,233 | - | (8,216) | 2,017 | (2,017) | - |
| 20 August 2004 allocation | 2,755 | - | (2,212) | 543 | - | 543 |
| 19 February 2005 allocation | 7,911 | - | (5,911) | 2,000 | - | 2,000 |
| 19 August 2005 allocation | 5,248 | - | (2,875) | 2,373 | - | 2,373 |
| 17 February 2006 allocation | 8,230 | - | (4,499) | 3,731 | - | 3,731 |
| 18 August 2006 allocation | 12,343 | - | (5,697) | 6,646 | - | 6,646 |
| 23 February 2007 allocation | 14,522 | - | (5,061) | 9,461 | - | 9,461 |
| 17 August 2007 allocation | 15,343 | - | (4,836) | 10,507 | - | 10,507 |
| 29 February 2008 allocation | 24,968 | - | (9,283) | 15,685 | - | 15,685 |
| 21 August 2008 allocation | 33,449 | - | (14,082) | 19,367 | - | 19,367 |
| 6 March 2009 allocation | 57,059 | - | (15,152) | 41,907 | - | 41,907 |
| 21 August 2009 allocation | 6,313 | - | - | 6,313 | - | 6,313 |
| 19 February 2010 allocation | 6,809 | - | - | 6,809 | - | 6,809 |
| | 214,708 | - | (85,472) | 129,236 | (3,894) | 125,342 |
| Ownshares | | | | | | |
| 24 December 2009 allocation | 110,122 | - | (110,122) | - | - | - |
| 5 November 2010 allocation | 146,065 | - | (7,683) | 138,382 | (138,382) | - |
| 21 October 2011 allocation | 175,836 | - | (10,923) | 164,913 | (20,945) | 143,968 |
| 23 October 2012 allocation | - | 157,149 | (2,356) | 154,793 | (13,691) | 141,102 |
| | 432,023 | 157,149 | (131,084) | 458,088 | (173,018) | 285,070 |

(*) The number of Ownshare instruments granted is based on the weighted average price of a Telstra share in the week ending on the day before the allocation date, in conjunction with the remuneration foregone.

(^) Directshares and Ownshare instruments are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period (unless an Ownshare participant directs the trustee to sell the Ownshare instruments on the participant's behalf).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

Telstra Growthshare Trust (continued)

(d) Other equity plans

In exceptional circumstances, Telstra has put in place structured retention incentive plans. These are designed to protect Telstra from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. Such retention plans are not restricted to senior executives. The plans are granted on an ad hoc basis and the participants receive Telstra shares subject to satisfaction of certain conditions.

As part of his service agreement negotiated upon appointment, the Chief Financial Officer (CFO) and GE, International was allocated 96,500 performance shares of which 50 per cent are eligible to vest after two years and the remaining 50 per cent are eligible to vest after three years from the date of commencement of his employment. Vesting is subject to an assessment of performance by the Board and performance shares are forfeited in the event of resignation before vesting. In the event of redundancy or termination of employment for no reason, a pro rata entitlement of the performance shares as at the time of cessation of employment vests. During financial year 2014, the first tranche of 48,250 performance shares vested on 14 December 2013.

TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in financial years 2000 and 1998, Telstra offered eligible employees the opportunity to buy ordinary shares of Telstra.

The applicable share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99)
- 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, Telstra offered employees interest free loans to acquire certain shares, and in some cases the employees became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of an entity within the Telstra Group or, in the case of TESOP97 only, the company that was their employer when the shares were acquired, there is no date by which the employee must repay the loan. However, a participant may, at any time:

- elect to repay the loan and have the shares transferred into their name or
- arrange through the trustee the sale of the shares where the proceeds of the sale (after deducting the costs of sale) will be enough to repay the loan.

The loan shares, extra shares and, in the case of TESOP99, the loyalty shares were subject to a restriction on the sale of the shares or transfer to the employee for three years or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participant ceases to be employed by an entity within the Telstra Group or, in the case of TESOP97 only, the company that was their employer when the shares were acquired, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the restriction period has ended because of the employee's death or disablement (in which case the loan must be repaid within 12 months).

If the employee has ceased employment and does not repay the loan when required, the trustee must sell the shares if the sale proceeds (after deducting the costs of sale) will be enough to repay the loan. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

27. EMPLOYEE SHARE PLANS (CONTINUED)

TESOP99 and TESOP97 (continued)

The Telstra ESOP Trust Trustee continues to hold loan shares where the employee ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs of sale. The Trustee is then required to sell the shares. As at 30 June 2014, there were 148,800 (2013: 73,000) shares held for this purpose.

The following table provides information about our TESOP99 and TESOP97 share plans.

| | TESOP97 | | | TESOP99 | | |
|--|---------|---------------------------------|----------------------|------------------|---------------------------------|----------------------|
| | Number | Weighted average fair value (*) | Total fair value \$m | Number | Weighted average fair value (*) | Total fair value \$m |
| Equity instruments outstanding and exercisable as at 30 June 2012 | 2,500 | \$3.69 | - | 13,754,400 | \$3.69 | 51 |
| Exercised (#) | (2,500) | \$3.85 | - | (77,500) | \$4.38 | - |
| Sold (^) | - | - | - | (9,527,100) | \$4.68 | 45 |
| Equity instruments outstanding and exercisable as at 30 June 2013 | - | - | - | 4,149,800 | \$4.77 | 20 |
| Exercised (#) | - | - | - | (96,000) | \$5.09 | - |
| Sold (^) | - | - | - | (236,400) | \$5.17 | 1 |
| Equity instruments outstanding and exercisable as at 30 June 2014 | - | - | - | 3,817,400 | \$5.21 | 20 |

(*) The fair value of these shares is based on the market value of Telstra shares at reporting date and exercise date.

(#) The amount exercised relates to the shares released from trust as a result of the interest free loan to employees being fully repaid during the year.

(^) The amount sold relates to loan shares disposed of to the Growthshare Trust and external third parties during year. For financial year 2013 only, 9,258,700 TESOP99 shares were sold in an off market transaction at market price to the Growthshare Trust.

The employee share loan balance as at 30 June 2014 is \$17 million (2013: \$20 million). For TESOP99, the weighted average loan still to be repaid is \$4.42 (2013: \$4.64) per instrument.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

28. KEY MANAGEMENT PERSONNEL COMPENSATION

In accordance with AASB 124: "Related Party Disclosures", key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Hence, KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO.

KMP aggregate compensation

During financial years 2014 and 2013, the aggregate compensation provided to our KMP was as follows:

| | Telstra Group | |
|------------------------------------|-------------------|-------------------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$ | \$ |
| Short term employee benefits | 20,991,753 | 23,215,153 |
| Post employment benefits | 322,011 | 385,612 |
| Other long term benefits | 4,845,292 | 261,494 |
| Termination benefits | 1,020,456 | - |
| Share-based payments | 9,161,751 | 8,919,444 |
| | 36,341,263 | 32,781,703 |

Refer to the Remuneration Report, which is part of the Directors' Report for further details regarding KMP's remuneration.

Other transactions with our KMP and their related parties

During financial year 2014, apart from transactions trivial and domestic in nature and on normal commercial terms and conditions, there were no other transactions with our KMP and their related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

29. RELATED PARTY DISCLOSURES

Transactions involving our controlled entities

Interests in controlled entities are set out in note 25. Our transactions with our controlled entities recorded in the income statement and statement of financial position are as follows.

| | Telstra Entity | |
|--|-------------------------|----------------|
| | Year ended/As at | |
| | 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Income from controlled entities | | |
| Sale of goods and services (a)..... | 541 | 789 |
| Dividend revenue (b) | 217 | 635 |
| Expenses to controlled entities | | |
| Purchase of goods and services (a) | 713 | 746 |
| Finance costs | 9 | 24 |
| Total amounts receivable at 30 June | | |
| Current | | |
| Controlled entities - receivables (d) | 60 | 1,119 |
| Controlled entities - loans (e)(f) | 3,466 | 3,387 |
| Allowance for amounts owed by controlled entities (e)..... | (3,074) | (3,163) |
| | 452 | 1,343 |
| Movement in allowance for amounts owed by controlled entities | | |
| Opening balance | (3,163) | (2,948) |
| Reversal of impairment loss (c) | 89 | - |
| Impairment loss (c) | - | (215) |
| Closing balance (e)..... | (3,074) | (3,163) |
| Total amounts payable at 30 June | | |
| Current | | |
| Controlled entities - payables (a)(d) | 77 | 250 |
| Controlled entities - loans (e) | 3,826 | 1,936 |
| | 3,903 | 2,186 |

(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.

On 28 February 2014, we divested 70 per cent of our directories business via disposal of our 100 per cent shareholding in the Sensis Pty Ltd and its controlled entities (Sensis Group) and acquisition of 30 per cent of Project Sunshine I Pty Ltd, the new holding company of the Sensis Group. Refer to notes 12, 25 and 26 for further details. As a result, transactions with our controlled entities include only eight months of transactions with the Sensis Group and any transactions subsequent to the date of disposal, have been included in transactions with our joint ventures and associated entities.

- 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 \$63 million to the date of the Sensis Group disposal (2013: \$263 million). As at 30 June 2014, the Telstra Entity recorded nil revenue received in advance (2013: \$136 million) for the use of these trademarks

- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to \$190 million to the date of the Sensis Group disposal (2013: \$329 million) for undertaking agency and contract management services for the national directory service.

Details of other significant transactions involving our controlled entities during financial year 2014 are as follows:

- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to \$367 million (2013: \$367 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network
- the Telstra Entity paid for international connectivity and management services to Telstra International Limited amounting to \$249 million (2013: \$221 million).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

29. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions involving our controlled entities (continued)

(b) During financial year 2014, the Telstra Entity recorded dividend revenue, including mainly:

- \$150 million (2013: \$114 million) from Telstra Media Pty Limited
- \$64 million (2013: \$518 million) from Telstra Holdings Pty Ltd.

(c) The profit before income tax expense of the Telstra Entity includes a reversal of impairment loss of \$89 million (2013: impairment loss of \$215 million) relating to a movement in allowance for amounts owed by controlled entities.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. Refer to note 9 for further details.

(e) The Telstra Entity operates a current account with some of its controlled entities, being an internal group bank account used to settle transactions with these controlled entities or between two controlled entities. Cash deposit balances in the current account owed to these controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. As at 30 June 2014, \$3,324 million (2013: \$3,244 million) related to loans owed by controlled entities, and \$3,826 million (2013: \$1,935 million) related to loans payable to controlled entities. We also have an allowance for amounts owed by controlled entities of \$3,074 million (2013: \$3,163 million) as at 30 June 2014.

(f) As at 30 June 2014, the Telstra Entity had a loan of \$142 million (2013: \$142 million) with Telstra OnAir Holdings Pty Ltd. This loan is an interest free loan.

Transactions involving our joint ventures and associated entities

Interests in our joint ventures and associated entities are set out in note 26. Our transactions with our joint ventures and associated entities recorded in the income statement and statement of financial position are as follows.

| | Telstra Group | |
|---|---------------------------------|------|
| | Year ended/As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Income from joint ventures and associated entities | | |
| Sale of goods and services (g)..... | 177 | 135 |
| Distribution from Foxtel Partnership (h) | 165 | 155 |
| Interest on loans to joint ventures and associated entities (i) | 54 | 53 |
| Expenses to joint ventures and associated entities | | |
| Purchase of goods and services (g) | 775 | 749 |
| Total amounts receivable at 30 June | | |
| Current | | |
| Joint ventures and associated entities - trade receivables (g) | 3 | 2 |
| | 3 | 2 |
| Non current | | |
| Joint ventures and associated entities - loans (i) | 457 | 457 |
| Allowance for amounts owed by joint ventures and associated entities (i) | (6) | (6) |
| | 451 | 451 |
| Movement in allowance for amounts owed by joint ventures and associated entities | | |
| Opening balance | (6) | (5) |
| Foreign currency exchange differences | - | (1) |
| Closing balance..... | (6) | (6) |
| Total amounts payable at 30 June | | |
| Current | | |
| Joint ventures and associated entities - payables (g) | 58 | 56 |

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

29. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions involving our joint ventures and associated entities (continued)

(g) We sold and purchased goods and services, and received interest from our joint ventures and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individually significant transactions involving our joint ventures and associated entities during financial year 2014 are as follows:

- we purchased pay television services amounting to \$668 million (2013: \$655 million) from our joint venture Foxtel. The purchases were to enable the resale of Foxtel services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales to Foxtel for our cost recoveries of \$119 million (2013: \$119 million)
- we made purchases of \$23 million (2013: \$27 million) from our joint venture Reach Ltd (Reach) in line with market prices. These were for the purchase of, and entitlement to, capacity and connectivity services.

(h) A \$165 million (2013: \$155 million) distribution was received from our joint venture Foxtel during the year.

(i) Loans provided to joint ventures and associated entities relate to loans provided to Reach of \$6 million (2013: \$6 million) and Foxtel Management Pty Ltd of \$451 million (2013: \$451 million).

The loan provided to Reach is an interest free loan and repayable upon the giving of 12 months' notice by both PCCW Limited and us. We have fully provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

In April 2012, Telstra Corporation Limited provided a loan to Foxtel Management Pty Ltd to fund the acquisition of shares in AUSTAR. The loan is interest bearing and it has a minimum term of just over 10 years and a maximum of 15 years.

Commitments to and from our joint ventures and associated entities

Our purchase commitments to Project Sunshine I Pty Ltd, primarily for advertising services, amount to \$69 million.

Project Sunshine I Pty Ltd commitments to Telstra, mainly for telecommunication services and property subleases amount to \$95 million.

Transactions involving other related entities

Post employment benefits

As at 30 June 2014, the Telstra Superannuation Scheme (Telstra Super) owned 38,774,394 shares in Telstra Corporation Limited (2013: 40,152,463) at a cost of \$135 million (2013: \$136 million) and a market value of \$202 million (2013: \$192 million). All of these shares were fully paid at 30 June 2014. In financial year 2013, we paid dividends to Telstra Super of \$11 million (2013: \$10 million). We own 100 per cent of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also holds bonds issued by Telstra Corporation Limited. These bonds had a cost of \$16 million (2013: \$6 million) and a market value of \$16 million (2013: \$6 million) at 30 June 2014.

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)

Refer to note 28 for further details on our KMP's remuneration and their other related parties transactions.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

30. PARENT ENTITY INFORMATION

| | Telstra Entity | |
|--|----------------|--------|
| | As at 30 June | |
| | 2014 | 2013 |
| | \$m | \$m |
| Statement of financial position | | |
| Total current assets | 10,137 | 8,145 |
| Total non current assets (a)..... | 31,896 | 31,870 |
| Total assets | 42,033 | 40,015 |
| Total current liabilities..... | 12,077 | 8,707 |
| Total non current liabilities | 16,586 | 17,857 |
| Total liabilities | 28,663 | 26,564 |
| Share capital | 5,719 | 5,711 |
| Cashflow hedging reserve | (122) | (92) |
| General reserve | 194 | 194 |
| Retained profits | 7,579 | 7,638 |
| Total equity | 13,370 | 13,451 |

| | Telstra Entity | |
|--|--------------------|------------------|
| | Year ended 30 June | |
| | 2014 | Restated 2013 |
| | \$m | \$m |
| Statement of comprehensive income | | |
| Profit for the year (a) | 3,407 | 3,760 |
| Total comprehensive income | 3,457 | 4,297 |

(a) Includes reversal of \$595 million of impairment losses (2013: \$722 million of impairment losses) relating to the value of our investments in, and amounts owed by, our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

Except for those noted below, our accounting policies for the Telstra Entity are consistent with those for the Telstra Group:

- under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our wholly owned entities are booked as current assets or liabilities
- investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.22. Refer to note 25 for details on our investments in controlled entities
- our interests in associated entities and joint ventures, including partnerships, are accounted for using the cost method of accounting and are included within non current assets in the table above.

Property, plant and equipment commitments

Total property, plant and equipment expenditure commitments contracted for at balance date but not recorded in the financial statements amounted to \$847 million (2013: \$1,222 million).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

30. PARENT ENTITY INFORMATION (CONTINUED)

Contingent liabilities and guarantees

Common law claims

Asbestos-related claims

For asbestos claims made under common law, we assess each claim on a case by case basis. Asbestos liabilities are inherently difficult to estimate due to the extremely long term nature of asbestos claims and the risk of significant changes in case law, legislation, litigation processes and medical developments. Therefore, arriving at any estimate will inevitably involve significant judgement about assumptions used and actual amounts could be considerably different from initial estimates.

In light of the significant uncertainty associated with asbestos claims, the associated costs of resolution are not able to be measured with sufficient reliability and, as required by accounting standards, no provision has been made to cover these liabilities as at 30 June 2014. These claims will continue to be assessed and where appropriate, settled on a case by case basis. We do not expect that the liability and costs associated with asbestos claims will have a material adverse effect on our financial position, results of operations or cash flows.

Other claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2014, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial results. The maximum amount of these contingent liabilities cannot be reliably estimated.

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity:

- indemnities to financial institutions to support bank guarantees to the value of \$483 million (2013: \$455 million) in respect of the performance of contracts
 - indemnities to financial institutions and other third parties in respect of performance and other obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose is \$130 million (2013: \$212 million)
 - indemnities to financial institutions in respect of the obligations of TelstraClear to third parties of \$27 million (2013: \$25 million). We have, however, received an indemnity for an equal amount from the acquirer as part of the TelstraClear disposal
 - financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions, including individual monetary limits totalling \$45 million (2013: \$134 million) and a requirement that the entity remains our controlled entity
- during financial year 1998 we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to \$210 million as a shareholder of IBMGSA. During financial year 2000 we issued a guarantee of \$68 million on behalf of IBMGSA. During financial year 2004, we sold our shareholding in this entity. The \$68 million guarantee, provided to support service contracts entered into by IBMGSA and third parties, was made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 2014, this guarantee remains unchanged and \$142 million (2013: \$142 million) of the \$210 million guarantee facility remains unused.

Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31. EVENTS AFTER REPORTING DATE

We are not aware of any matter or circumstance that has occurred since 30 June 2014 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 the following:

Final dividend

On 14 August 2014, the Directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 15 cents per ordinary share. The record date for the final dividend will be 29 August 2014, with payment being made on 26 September 2014. Shares will trade excluding the entitlement to the dividend on 27 August 2014.

A provision for dividend payable amounting to \$1,866 million has been raised as at the date of resolution.

The final dividend will be fully franked at a tax rate of 30 per cent. The financial effect of the dividend resolution was not brought to account as at 30 June 2014.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final ordinary dividend, except for \$800 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan continues to be suspended.

Acquisition of controlled entity

On 11 August 2014 Telstra entered into a legally binding agreement to acquire additional shares in Ooyala Inc., a provider of video streaming and analytics, for a total cash consideration of US\$270 million subject to any completion adjustments. As at 30 June 2014 we owned 27 per cent (undiluted) of equity in Ooyala Inc., which was accounted for as an available-for-sale investment because we did not meet the AASB 128: "Investments in Associates and Joint Ventures" criteria for equity accounting as an associate. This transaction will increase our equity ownership of Ooyala Inc. to 98 per cent on completion of the acquisition and, coupled with our existing investment of US\$61 million, the total cost of our investment will be US\$331 million. Completion is subject to conditions precedent, including regulatory approval and is expected in the next 60 days.

Capital management

On 14 August 2014, our Board resolved to undertake an off market share buy-back of up to approximately \$1 billion. The share buy-back will be available to eligible shareholders and implemented by way of a tender process and at a discount to market price. The shares bought back will be cancelled by the Company, reducing the number of shares the Company has on issue. The buy-back will be funded by accumulated cash surplus in the Company and will be made up of a capital and a dividend component. The dividend component will be fully franked and our estimate of the decrease in franking credits is \$243 million, based on the assumption of Telstra's ASX listed share price of \$5.30, buy-back discount of 10% and a non-resident shareholding of 21.8%.

DIRECTORS' DECLARATION

This Directors' Declaration is required by the Corporations Act 2001 of Australia.

The Directors of Telstra Corporation Limited have made a resolution that declared:

- (a) in the Directors' opinion, the financial statements and notes of the Telstra Group for the financial year ended 30 June 2014 set out on pages 66 to 193:
 - (i) comply with the Accounting Standards applicable in Australia, International Financial Reporting Standards and Interpretations (as disclosed in note 1.1 to the financial statements), and Corporations Regulations 2001
 - (ii) give a true and fair view of the financial position of Telstra Corporation Limited and the Telstra Group as at 30 June 2014 and of the performance of Telstra Corporation Limited and the Telstra Group, for the year ended 30 June 2014
 - (iii) have been made out in accordance with the Corporations Act 2001.
- (b) they have received declarations as required by section 295A of the Corporations Act 2001
- (c) at the date of this declaration, in the Directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable
- (d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 25(a) to the financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25(a).

For and on behalf of the board



Catherine B Livingstone AO
Chairman

David I Thodey
Chief Executive Officer and
Executive Director

14 August 2014
Sydney, Australia

Independent Auditor's report to the Members of Telstra Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Telstra Corporation Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 44 to 63 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Telstra Corporation Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



SJ Ferguson
Partner
Sydney
14 August 2014

SHAREHOLDER INFORMATION

Listing Information

Markets in which our shares are traded

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

Markets on which our debt securities are listed

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

Distribution of securities and security holdings

The following table shows the number of listed shares on issue at 14 July 2014:

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

Distribution of shares

The following table summarises the distribution of our listed shares as at 14 July 2014:

| Size of Holding | Number of Shareholders | % | Number of Shares | % |
|------------------|------------------------|----------------|-----------------------|----------------|
| 1-1,000 | 663,984 | 47.46% | 370,997,925 | 2.98% |
| 1,001-5,000 | 507,059 | 36.25% | 1,217,758,309 | 9.79% |
| 5,001-10,000 | 122,814 | 8.78% | 875,253,222 | 7.03% |
| 10,001-100,000 | 101,333 | 7.24% | 2,430,224,118 | 19.53% |
| 100,001 and over | 3,745 | 0.27% | 7,548,840,783 | 60.67% |
| Total | 1,398,935 | 100.00% | 12,443,074,357 | 100.00% |

The number of shareholders holding less than a marketable parcel of shares was 15,014 holding 659,660 shares (based on the closing market price on 14 July 2014).

SHAREHOLDER INFORMATION

Substantial shareholders

As at 14 July 2014, we are not aware of any substantial shareholders

Twenty largest shareholders as at 14 July 2014

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

| Shareholders | Number of Shares | % of Issued Capital |
|--|----------------------|---------------------|
| 1 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 1,879,141,905 | 15.10% |
| 2 J P MORGAN NOMINEES AUSTRALIA LTD | 1,642,592,458 | 13.20% |
| 3 NATIONAL NOMINEES LIMITED | 1,488,764,721 | 11.96% |
| 4 CITICORP NOMINEES PTY LIMITED | 574,279,904 | 4.62% |
| 5 BNP PARIBAS NOMS PTY LTD | 302,590,368 | 2.43% |
| 6 RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD | 120,399,393 | 0.97% |
| 7 AMP LIFE LIMITED | 95,608,702 | 0.77% |
| 8 UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD | 53,381,807 | 0.43% |
| 9 AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED | 52,445,000 | 0.42% |
| 10 UBS NOMINEES PTY LTD | 42,964,417 | 0.35% |
| 11 ARGO INVESTMENTS LIMITED | 41,504,800 | 0.33% |
| 12 NEWECONOMY COM AU NOMINEES PTY LIMITED | 36,418,851 | 0.29% |
| 13 QUESTOR FINANCIAL SERVICES LIMITED | 31,236,364 | 0.25% |
| 14 TELSTRA GROWTHSHARE PTY LTD | 28,546,744 | 0.23% |
| 15 NAVIGATOR AUSTRALIA LTD | 25,868,444 | 0.21% |
| 16 NULIS NOMINEES (AUSTRALIA) LIMITED | 23,579,363 | 0.19% |
| 17 SHARE DIRECT NOMINEES PTY LTD | 19,461,553 | 0.16% |
| 18 NETWORK INVESTMENT HOLDINGS PTY LTD | 17,309,017 | 0.14% |
| 19 EQUITAS NOMINEES PTY LTD | 16,018,179 | 0.13% |
| 20 MILTON CORPORATION LIMITED | 13,610,253 | 0.11% |
| Total for Top 20 | 6,505,722,243 | 52.28% |

Voting Rights

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

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

REFERENCE TABLES

Five Year Summary - Financial Results

| | FY14 (\$m) | FY13 ⁽ⁱⁱⁱ⁾ (\$m) | FY12 (\$m) | FY11 (\$m) | FY10 (\$m) |
|---|---------------|--------------------------------|---------------|---------------|---------------|
| Total income (excluding finance income) | 26,296 | 24,776 | 25,503 | 25,304 | 25,029 |
| EBITDA ⁽ⁱ⁾ | 11,135 | 10,168 | 10,234 | 10,151 | 10,847 |
| EBIT ⁽ⁱⁱ⁾ | 7,185 | 6,090 | 5,822 | 5,692 | 6,501 |
| Profit for the period from continuing operations | 4,549 | 3,640 | n/a | n/a | n/a |
| Gain/(loss) for the period from discontinued operations | (204) | 151 | n/a | n/a | n/a |
| Profit for the period | 4,345 | 3,791 | 3,424 | 3,250 | 3,940 |
| Dividends declared per share (cents) | 29.5 | 28.0 | 28 | 28 | 28 |
| Total assets | 39,360 | 38,527 | 39,525 | 37,913 | 39,282 |
| Gross debt | 16,048 | 15,628 | 17,222 | 16,232 | 16,031 |
| Net debt | 10,521 | 13,149 | 13,277 | 13,595 | 13,926 |
| Total equity | 13,960 | 12,875 | 11,689 | 12,292 | 13,008 |
| Capital expenditure | 3,661 | 3,689 | 3,591 | 3,410 | 3,471 |
| Free cash flow | 7,483 | 5,024 | 5,197 | 5,477 | 6,225 |
| Earnings per share (cents) | 34.4 | 30.1 | 27.5 | 26.1 | 31.4 |
| Dividend payout ratio (%) | 86 | 93 | 102 | 107 | 89 |

- (i) Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to us.
- (ii) EBITDA less depreciation and amortisation.
- (iii) Restated for the retrospective adoption of AASB:119 "Employee Entitlements".

Non-Financial Results

| Key performance indicator | FY14 | FY13 | FY12 |
|--|-------|-------|-------|
| Employee engagement ⁽ⁱ⁾ Score (%) | 82 | 80 | 77 |
| Health and safety ⁽ⁱⁱ⁾ Lost Time Injury Frequency Rate (LTIFR) | 1.12 | 1.36 | 1.32 |
| Gender equality ⁽ⁱⁱⁱ⁾ Women in executive management (%) | 26 | 25 | 25 |
| Volunteering during Telstra time ^(iv) Total (days) | 5,122 | 4,248 | 1,375 |
| Payroll giving Participation rate (%) | 5.3 | 3.6 | 1.6 |
| Social and community investment ^(iv) Value (\$m) | 217 | 231 | 240 |
| Everyone Connected Targeted community programs (people impacted)(⁰⁰⁰ s) | 143 | 146 | 102 |
| Carbon emissions ^(v) Tonnes of carbon dioxide equivalent (tCO ₂ e)(⁰⁰⁰ s) | 1,592 | 1,634 | 1,677 |
| Carbon emissions intensity ^(v) tCO ₂ e per terabyte of data | 0.58 | 0.83 | 1.24 |
| E-waste Mobile phones (tonnes collected) | 15.3 | 14.0 | 14.3 |

- (i) Telstra Group. 2013 results adjusted to exclude CSL and Sensis Group (79% was previously reported).
- (ii) This data relates to Telstra Corporation Limited only and does not include subsidiaries or contractors.
- (iii) Full time and part time staff in Telstra Corporation Limited and its wholly owned subsidiaries, excluding casual and agency staff.
- (iv) Sensis Group data included from 1 July 2013 until 28 February 2014.
- (v) Australian operations for Telstra Corporation Limited. This includes relevant Australian subsidiaries, joint ventures and partnerships. Sensis Group has been included from 1 July 2013 until 28 February 2014.

REFERENCE TABLES

Guidance versus Reported Results

This schedule details the adjustments made to the reported results for the current year to reflect the performance of the business on the basis which we provided guidance to the market. Our guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds or gain on the sale, and purchase of businesses.

| | REPORTED | | | ADJUSTMENTS FY14 | | | | | GUIDANCE BASIS | | |
|--|-------------|-------------|-------------|------------------------------|----------------------------|-----------------------------|-------------------------------|------------------------------|----------------|-------------|-------------|
| | FY14 \$m | FY13 \$m | Growth % | Sensis ⁽ⁱ⁾ \$m | M&A ⁽ⁱⁱ⁾ \$m | CSL ⁽ⁱⁱⁱ⁾ \$m | Octave ^(iv) \$m | Sequel ^(v) \$m | FY14 \$m | FY13 \$m | Growth % |
| Sales revenue | 25,119 | 24,298 | 3.4% | 0 | (101) | 0 | 0 | 0 | 25,018 | 24,298 | 3.0% |
| Total revenue | 25,320 | 24,474 | 3.5% | 0 | (101) | 0 | 0 | 0 | 25,219 | 24,474 | 3.0% |
| Total income (excl. finance income) | 26,296 | 24,776 | 6.1% | 0 | (101) | (561) | 0 | 0 | 25,634 | 24,776 | 3.5% |
| Labour | 4,732 | 4,527 | 4.5% | 0 | (32) | 0 | 0 | 0 | 4,700 | 4,527 | 3.8% |
| Goods and services purchased | 6,465 | 6,247 | 3.5% | 0 | (42) | 0 | 0 | 0 | 6,423 | 6,247 | 2.8% |
| Other expenses | 3,988 | 3,833 | 4.0% | 0 | (11) | 0 | (98) | (12) | 3,867 | 3,833 | 0.9% |
| Operating expenses | 15,185 | 14,607 | 4.0% | 0 | (85) | 0 | (98) | (12) | 14,990 | 14,607 | 2.6% |
| Share of net profit/(loss) from joint ventures and associated entities | 24 | (1) | n/a | (24) | 0 | 0 | 0 | 0 | 0 | (1) | n/a |
| EBITDA | 11,135 | 10,168 | 9.5% | (24) | (16) | (561) | 98 | 12 | 10,644 | 10,168 | 4.7% |
| Depreciation and amortisation | 3,950 | 4,078 | (3.1%) | 0 | (10) | 0 | 0 | 0 | 3,940 | 4,078 | (3.4%) |
| EBIT | 7,185 | 6,090 | 18.0% | (24) | (6) | (561) | 98 | 12 | 6,704 | 6,090 | 10.1% |
| Net finance costs | 957 | 933 | 2.6% | 0 | 0 | 0 | 0 | 0 | 957 | 933 | 2.6% |
| Profit before income tax expense | 6,228 | 5,157 | 20.8% | (24) | (6) | (561) | 98 | 12 | 5,747 | 5,157 | 11.4% |
| Income tax expense | 1,679 | 1,517 | 10.7% | 0 | 1 | 0 | 0 | 0 | 1,680 | 1,517 | 10.7% |
| Profit for the year from continuing operations | 4,549 | 3,640 | 25.0% | (24) | (7) | (561) | 98 | 12 | 4,067 | 3,640 | 11.7% |
| (Loss)/profit for the year from discontinued operation | (204) | 151 | n/a | 0 | 0 | 0 | 0 | 0 | (204) | 151 | n/a |
| Profit for the year from continuing and discontinued operations | 4,345 | 3,791 | 14.6% | (24) | (7) | (561) | 98 | 12 | 3,863 | 3,791 | 1.9% |
| Attributable to: | | | | | | | | | | | |
| Equity holders of the Telstra Entity | 4,275 | 3,739 | 14.3% | 0 | (7) | (561) | 98 | 12 | 3,817 | 3,739 | 2.1% |
| Non controlling interests | 70 | 52 | 34.6% | (24) | 0 | 0 | 0 | 0 | 46 | 52 | (11.5%) |
| Free cashflow | 7,483 | 5,024 | 48.9% | (454) | 205 | (2,107) | 0 | 0 | 5,127 | 5,024 | 2.1% |

This table was subject to review by our auditors.

Note:

There are a number of factors that have impacted our results this year. In the table, above, we have adjusted the results for:

(i) Sensis adjustments:

Adjustment for the equity share on the profit of our 30% interests in Project Sunshine I Pty Ltd as an associated entity, the new holding company of the Sensis Group from the reported Telstra Group results. Adjustment for the sale proceeds from the divestment of 70% of our Sensis directories business from the reported Telstra Group results.

(ii) Mergers & Acquisitions adjustments:

Adjustments for material mergers and acquisition activities from the reported Telstra Group results. This includes DCA eHealth Solutions Pty Ltd, Fred IT Group Pty Ltd, NSC Group Pty Ltd, O2 Networks Pty Ltd and Ooyala Inc.

(iii) CSL adjustment:

Adjustment for the net gain on disposal of the CSL Group from the reported Telstra Group results.

(iv) Octave adjustment:

Adjustment for the write off from the foreign currency translation reserve associated with the Octave investment from the reported Telstra Group results. We have commenced liquidation of the legal entities in the Octave Group in FY14.

(v) Sequel Media adjustment:

Adjustment for the impairment of Sequel Media Group from the reported Telstra Group results. The carrying value of Sequel Media Group goodwill was impaired by \$12m.

GLOSSARY

Technology Terms

4G (or 4G-LTE) – Fourth generation of wireless networks. It gives users faster download and upload speeds and better response times than previous generations. 4G lets customers do things like downloading files, sending large attachments, web browsing and online multi-tasking faster than previous generations. 4G-LTE also provides more network capacity and thus delivers benefits for network operators. The faster you can deliver data, the greater the capacity you make available for other users on the network.

4G dongle – A small device that plugs into a computer and allows internet access via a 4G wireless network.

ADSL – Asymmetric Digital Subscriber Line. A broadband technology that provides access to the internet at fast speeds. Data is carried over the copper network phone lines. These data speeds can enable the delivery of voice, data and video services.

ADSL 2+ – Extends the capability of basic ADSL by increasing the potential speeds that customers experience. Telstra's ADSL 2+ service can deliver a maximum download speed of 20Mbps. (The actual customer download speed can vary depending on line conditions. Typical download speeds are 10Mbps).

Cloud – Provision of services, software, storage and security over the internet, typically on a pay-for-use basis. In simple terms, it allows access to information/programs etc on multiple devices in multiple locations.

Cyber safety – The safe use of information and telecommunications technology (including mobile phones) and the internet.

eHealth – eHealth is the sharing of health resources and provision of health care by electronic means. It encompasses three main areas:

- the delivery of health information, for health professionals and health consumers, through the internet and telecommunications
- the use of IT and e-commerce to improve public health services (for example, the delivery of training services for health workers)
- the use of e-commerce and e-business practices in health systems management.

FTTN – Fibre to the Node. A broadband access solution that delivers fibre from a telco's exchange facility to a street cabinet (the "node"), with the final connections to a premises being the copper network phone lines.

FTTP – Fibre to the Premises. A broadband access solution that delivers fibre from a telco's exchange facility directly to the outside of a building. Because fibre can deliver faster data transfer speeds than copper, FTTP solutions, which do not depend on copper, offer potential internet speeds faster than FTTN solutions (see definition of FTTN).

HFC – Hybrid Fibre Coax. A way of delivering video, voice and data using both coaxial cables (like the ones used for connecting your television to an antenna) and fibre optic cables. Optical fibre connects a telco's facility (called a headend) to hubs in suburban streets, and then coaxial cables connect the hubs and customer premises. Telstra uses an HFC network to deliver Foxtel and Big Pond Cable Internet services. Telstra customers using HFC networks can receive download speeds of up to 100Mbps.

IPTV – Television, video signals or other multimedia services that are distributed to subscribers or viewers using Internet Protocol over a broadband connection. Examples include Telstra's T-Box and Foxtel on T-Box services.

Mobile broadband – Wireless internet access delivered over the mobile phone network to computers and other digital devices using portable modems.

NAS – Network Applications and Services. The NAS business has been identified as an area of strategic growth for Telstra and includes unified communications, video conferencing, cloud services, managed networks and contact centre solutions.

NBN – National Broadband Network.

Next IP™ – Telstra's high-performance national data network with coverage to over 95% of Australian businesses. It enjoys seamless integration with the wireless Next G® network, making it easier for staff and offices around the nation to work as one. It allows businesses access to the same networks and services as large enterprises, but without the same level of investment.

PSTN – Public switched telephone network. Generic term for public telephone networks. Often referred to as "fixed line", it is the standard home telephone service, delivered over copper wires.

Roaming – A service which allows customers to use their mobile phone while in a service area of another carrier, for example overseas.

Spectrum – All wireless communications signals travel through the air via radio frequency, known also as spectrum. The government grants telcos licences for dedicated use of portions (bands) of the spectrum. As people increase their use of wireless networks, more spectrum is required.

ULL – Unconditioned Local Loop. The local loop is the copper wire that connects the Telstra exchange in your area to your house. Telstra is required to provide access to this wire to other operators and they can use it to provide customers with their own services such as broadband and voice telephone services.

Unified Communications – An integrated hardware and software offering that combines enterprise communications on a single platform. It is any communications system that encompasses a broad range of technologies and applications that have been designed as a single

communications platform. A unified communications system generally enables companies to use integrated data, video and voice from multiple locations in one supported product.

Wi-Fi hotspot – A device that other devices can connect to wirelessly in order to access the Internet. (Wi-Fi refers to a set of wireless standards commonly used by devices for short-distance wireless communication).

Financial Terms

EBITDA – Earnings before interest, income tax expense, depreciation and amortisation. An indicator of a company's operational profitability.

NPAT – Net profit after tax.

EPS – Earnings per share. A company's profit divided by the number of shares on issue.

DPS – Dividend per share.

Capex – Capital expenditure. This is expenditure on assets such as property, equipment, intangible assets etc.

Free cashflow – Represents the cash that a company is able to generate from its operations after spending money required to maintain or expand its asset base.

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Online Shareholder Services

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

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

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

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

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

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

Keeping informed

You can keep up to date with the latest news about Telstra by:

- following us on Twitter @Telstra_news
- subscribing to our media releases on our website at www.telstra.com.au/aboutus/media/rss-feeds/.

Annual Report

Telstra's 2014 Annual Report is available to all shareholders on our Investor Website at www.telstra.com.au/annualreports.

To receive a hardcopy of the Annual Report (free of charge), you can call our Share Registry on 1300 88 66 77 and request that the Report be sent to you.

You may also update your communication preferences online to change the way you receive future copies of the Annual Report. Please refer to the Online Shareholder Services for instructions on how to do this at www.linkmarketservices.com.au/telstra.

Sustainability Reporting

Selected graphs and data presented in this Report are included in the Bigger Picture 2014 Sustainability Report, which is available online at www.telstra.com/sustainability/report. This Report provides more detailed information and analysis for our stakeholders on Telstra's sustainability approach and performance. You can also subscribe to our sustainability newsletter at www.telstra.com/sustainability/subscribe.

We develop our sustainability reporting with reference to industry and sustainability standards including the United Nations Global Compact Communication on Progress and the Global Reporting Initiative G3.1 Sustainability Reporting Guidelines and Telecommunications Sector Supplement (pilot). This financial year we have applied the GRI framework to application level B+. The full GRI Index can be found online at www.telstra.com/sustainability/report.

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

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Telstra is listed on Stock Exchanges in
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Websites

Telstra Investor Centre:
www.telstra.com.au/investor
Telstra's Sustainability home page:
www.telstra.com.au/sustainability

Indicative Financial Calendar ⁽ⁱ⁾

| | |
|-------------------------------------|----------------------------|
| Final dividend paid | Friday 26 September 2014 |
| Annual General Meeting | Tuesday 14 October 2014 |
| Half-Year Results announcement | Thursday 12 February 2015 |
| Ex-dividend share trading commences | Wednesday 25 February 2015 |
| Record date for interim dividend | Friday 27 February 2015 |
| Interim dividend paid | Friday 27 March 2015 |
| Annual Results announcement | Thursday 13 August 2015 |
| Ex-dividend share trading commences | Wednesday 26 August 2015 |
| Record date for final dividend | Friday 28 August 2015 |
| Final dividend paid | Friday 25 September 2015 |
| Annual General Meeting | Tuesday 13 October 2015 |

(i) Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).





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