IT'S HOW WE CONNECT
TELSTRA 2012 ANNUAL REPORT

ANNUAL REPORT

Becoming an e-Shareholder

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

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

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

Managing my Telstra Shareholding Online

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

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

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

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

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

Annual Report

Telstra's 2012 Annual Report is available to all shareholders on our Investor Website at www.telstra.com.au/annualreports. To receive a hardcopy of the statutory Annual Report (free of charge) you can call our Share Registry on 1300 88 66 77 and request the report be sent to you. You may also update your communication election online to receive future copies of the Annual Report. Please refer to the Managing my Telstra Shareholding online section for instructions on how to do this.

Communicating With Our Shareholders

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

Additional Sustainability Reporting

Selected graphs and data presented in this report are included in our Bigger Picture sustainability reporting series. This series provides detailed information and analysis for our stakeholders on Telstra's sustainability performance. We develop our reporting with reference to industry and sustainability standards including the United Nations Global Compact Communication on Progress, Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines and Telecommunications Sector Supplement (pilot). The GRI Index and Bigger Picture series can be found online at www.telstra.com.au/sustainability.

2012 KEY HIGHLIGHTS

1.6M NEW MOBILE CUSTOMERS IN AUSTRALIA

36% REDUCTION IN CARBON EMISSIONS INTENSITY

NBN AGREEMENTS FINALISED

28¢ FULLY-FRANKED DIVIDEND PER SHARE

$240M SOCIAL AND COMMUNITY INVESTMENT

7M CALLS HANDLED OUT OF HOURS

OVER **30%** GROWTH IN BUNDLED CUSTOMERS

FINANCIAL RESULTS

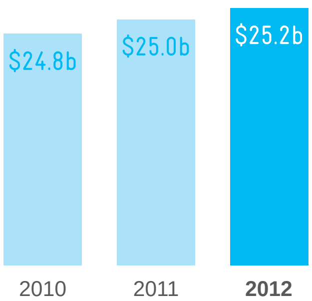
FIVE YEAR SUMMARY

	2012 $m	2011 $m	2010 $m	2009 $m	2008 $m
Sales revenue	25,232	24,983	24,813	25,371	24,657
EBITDA[1]	10,234	10,151	10,847	10,948	10,416
EBIT[2]	5,822	5,692	6,501	6,558	6,226
Profit after tax	3,424	3,250	3,940	4,076	3,711
Dividends declared per share (cents)	28	28	28	28	28
Total assets	39,525	37,913	39,282	39,962	37,922
Gross debt	17,222	16,232	16,031	17,036	16,285
Net debt	13,277	13,595	13,926	15,655	15,385
Total equity	11,689	12,292	13,008	12,681	12,245
Accrued capital expenditure	3,591	3,410	3,471	4,598	4,897
Free cashflow	5,197	5,477	6,225	4,365	3,855

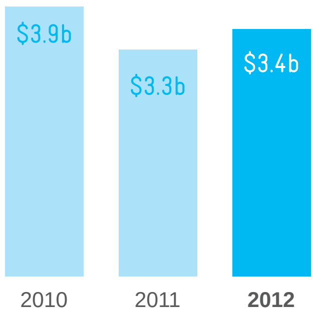
(1) Operating profit before interest, depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the company.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

(2) EBITDA less depreciation and amortisation.

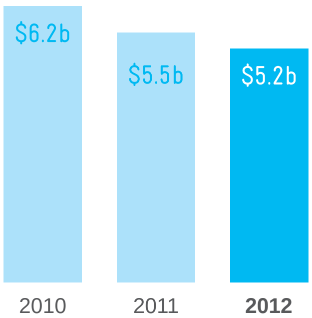
SALES REVENUE



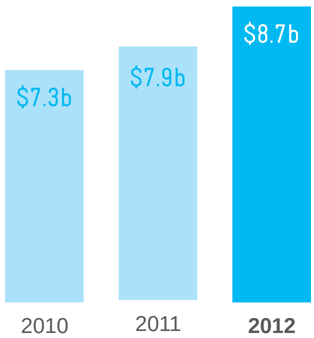
PROFIT FOR THE YEAR



FREE CASHFLOW



MOBILE REVENUE



NON-FINANCIAL RESULTS

KEY PERFORMANCE INDICATORS

OUR CUSTOMERS	2012 Objective	2012	2011	2010
Customer satisfaction *Score*	7.2	7.3	6.9	6.8
TIO complaints *Level 1 Complaints per month per 10,000 SIOs*	No more than 2.0	1.9	3.1	-
Disability Action Plan *Percentage of commitments completed*	66%	75%	-	-
OUR PEOPLE				
Employee engagement *Survey score*	77%	77%	75%	75%
Health and safety *Lost Time Injury Frequency Rate (LTIFR)*	1.5	1.32	1.30	2.32
Gender diversity *Women in executive management*	25%	25.0%	22.7%	22.4%
Volunteering during Telstra time *Number of days*	1,500	1,375	-	-
Payroll Giving *Participation rate*	3.0%	2.7%	3.5%	-
OUR COMMUNITY				
Social and community investment *Total (millions of dollars)*	Ongoing investment	$239.8m	$248.0m	$262.1m
Everyone Connected (targeted programmes) *People impacted*	Establish baseline	101,500	-	-
OUR ENVIRONMENT				
Carbon emissions *Tonnes of carbon dioxide equivalent (tCO_2e)*	Minimise our impact	1,676,925	1,659,714	1,687,777
Carbon emissions intensity *tCO_2e per terabyte of data*	15% reduction to 1.64	1.24	1.93	-
e-waste (MobileMuster) *Tonnes collected*	14.5 tonnes collected	14.3	17.3	18.9

OUR GOAL IS TO BRING THE SOCIAL AND THE ENVIRONMENTAL INTO THE HEART OF THE ORGANISATION IN WAYS THAT CREATE VALUE.

CHAIRMAN AND CEO MESSAGE

WE CONTINUE TO FOCUS ON THE STRATEGIC PRIORITIES OF IMPROVING CUSTOMER SATISFACTION; RETAINING AND GROWING CUSTOMER NUMBERS; SIMPLIFYING THE BUSINESS AND DEVELOPING NEW GROWTH BUSINESSES. THESE PRIORITIES ARE DELIVERING POSITIVE RESULTS.

Dear Shareholders,

We are pleased to present you with a review of Telstra's operations and sustainability initiatives over the 2012 fiscal year. This year we have brought together our annual and sustainability reports because we believe these two topics are interwoven. We believe that, as a business, our ability to prosper over the longer term hinges on our response to the changing social and environmental expectations of employees, customers, investors, regulators and the wider public.

KEY OUTCOMES

In fiscal year 2012, Telstra continued to deliver on its commitments to shareholders. Telstra achieved growth in sales and profit; increased market share and grew profitability in key growth products; and was able to offset declines in legacy products with growth in businesses such as mobiles and network applications and services.

This year we also announced a clear framework for capital management and how we will look at the use of cash and shareholder returns in the future. Telstra also paid a fully franked total dividend of 28 cents per share for the 2012 fiscal year which returned $3.4 billion to shareholders.

NATIONAL BROADBAND NETWORK (NBN)

The finalisation of the National Broadband Network Agreements with the Commonwealth and NBN Co was another highlight for the year.

This followed on from the shareholder vote at our 2011 Annual General Meeting which was overwhelmingly in favour of Telstra's participation in the roll out of the NBN. The NBN Agreements are now in place and we are working closely with NBN Co in implementing them. Telstra has also launched retail and wholesale services over the NBN following successful trials in the early release sites.

2012 HIGHLIGHTS

Total revenue for the 2012 fiscal year increased by 1.1 per cent to $25.4 billion while net profit after tax increased by 5.4 per cent to $3.4 billion. There are a number of highlights that contributed to this result:

We recorded one of our best ever years in mobiles. We added 1.6 million domestic mobile customers, and mobile revenue grew 8.5 per cent to $8.7 billion.

We are also changing the way that we interact with our customers. While there is more work to do in this area, the positive response to the many new customer service initiatives we have introduced shows we are making progress.

We have continued to look for ways to improve and simplify our business. Initiatives like our online and electronic bill services allow us to save costs while improving customer satisfaction.

Our growth initiatives of Network Application and Services, Media and International continue to build on our core business.

SUSTAINABILITY

This fiscal year, Telstra established a Chief Sustainability Office to support the company in responding to the community's changing expectations. We are pleased with the progress we have made on our sustainability agenda. Our ambition is to bring social and environmental considerations into the heart of our business in ways that create value for shareholders while benefitting all stakeholders.

Our Chief Sustainability Office is focussed on three key challenges: helping our most vulnerable customers and communities to interact safely and connect in the digital world; engaging and equipping our employees to build sustainability thinking, behaviour and practices into their everyday work; and developing an enterprise-wide environmental strategy and customer value proposition as part of our commitment to demonstrate environmental leadership.

This year we celebrated 10 years of the Telstra Foundation, with over $40 million donated in support of 7,000 projects across Australia over the past decade.

During 2012, through our *Access for Everyone* programme, we worked with over 2,000 community organisations across Australia to deliver $179.8 million of products and services that help disadvantaged Australians remain connected. We increased our Telstra Group employee engagement score from 75 per cent to 77 per cent, and we reduced our carbon emissions intensity by 36 per cent.

OUTLOOK*

Looking ahead, we expect the business will continue to grow in fiscal 2013. We are forecasting low single digit total income and EBITDA growth, with free cashflow between $4.75 and $5.25 billion.

Telstra expects capital expenditure to be around 15% of sales over the next two years as we plan to invest in our mobile network and in the delivery of infrastructure to NBN Co in order to bring forward benefits from the NBN agreements.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully franked dividend for fiscal 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

We are confident we have the right strategy in place and we are committed to delivering on it.

Catherine B Livingstone AO
Chairman

David Thodey
Chief Executive Officer

* Guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses and the cost of spectrum purchases. The foreign exchange impairment on TelstraClear expected on completion is also excluded.

BOARD OF DIRECTORS

CATHERINE B LIVINGSTONE

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

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

DAVID I THODEY

BA, FAICD

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

TIMOTHY Y CHEN

BSc (Applied Mathematics), MSc (Computer Science, Mathematics), MBA

Mr Chen joined the Telstra Board as a non-executive Director in April 2012. He is a member of the Audit Committee.

GEOFFREY A COUSINS

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

RUSSELL A HIGGINS

AO, BEc, FAICD

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

JOHN P MULLEN

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

NORA L SCHEINKESTEL

LLB(Hons), PhD, FAICD

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

MARGARET L SEALE

BA, GAICD

Ms Seale joined the Telstra Board as a non-executive Director in May 2012.

JOHN W STOCKER

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

Dr Stocker joined Telstra as a non-executive Director in October 1996. He is a member of the Audit and Technology Committees, and served as Chairman of the Audit Committee from December 2001 until June 2012. He was a member of the NBN Due Diligence Committee whilst it was operative.

STEVEN M VAMOS

BEng (Hons)

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

JOHN D ZEGLIS

BSc Finance, JD Law

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

Pictured left to right: Timothy Chen, John Mullen, Nora Scheinkestel, John Zeglis, John Stocker AO, Catherine Livingstone AO, David Thodey, Russell Higgins AO, Geoffrey Cousins, Margaret Seale, Steven Vamos.

OUR BUSINESS

WHO WE ARE

TELSTRA IS A COMPANY OF CONNECTIONS. EVERY DAY WE HELP MILLIONS OF AUSTRALIANS CONNECT TO THE PEOPLE AND THINGS THAT MATTER MOST TO THEM.

We believe the more connected people are the more opportunities they have. That's why we build technology and content solutions that are simple and easy to use – including Australia's largest fully integrated IP network and Australia's largest and fastest national mobile broadband network.

As Australia's leading telecommunications and information services company, Telstra is proud to be helping our customers improve the ways in which they live and work through connection.

INDUSTRY CONTEXT

CONNECTIVITY IS DRIVING AN EXPLOSION IN DEMAND ON OUR NETWORKS.

Trends such as the growth in the internet, digitisation of content and our insatiable need to communicate every day are changing our lives and the industry.

We will continue to build on the strengths of our network, offering new products and services and putting the needs of our customers first. We are confident we have the right strategy and we are delivering on that strategy.

OUR BUSINESS

STRATEGIC OVERVIEW AND PRIORITIES

OUR VISION IS TO IMPROVE THE WAY PEOPLE LIVE AND WORK.

We aim to be one of the most admired, respected and trusted telecommunication companies in the world. Telstra is changing. We are building a new company from the inside out based on four strategic priorities of improving customer satisfaction, retaining and growing our customer numbers, simplifying the business, and developing new growth businesses.

IMPROVE CUSTOMER SATISFACTION

RETAIN AND GROW CUSTOMER NUMBERS

SIMPLIFY THE BUSINESS

DEVELOP NEW GROWTH BUSINESSES

SUSTAINABILITY

SUSTAINABILITY IS EMBEDDED IN OUR APPROACH TO OUR CUSTOMERS, OUR PEOPLE, OUR COMMUNITIES, AND OUR ENVIRONMENT.

At Telstra, sustainability is a business approach that creates long-term value by embracing the opportunities and managing the risks derived from economic, environmental, social and technological developments. Sustainability is an important part of how we will achieve our vision to improve the way people live and work.

OUR APPROACH

OUR CUSTOMERS

OUR PEOPLE

OUR COMMUNITY

OUR ENVIRONMENT

IMPROVE CUSTOMER SATISFACTION

OUR GOAL: TO DELIVER OUR CUSTOMERS A GREAT SERVICE EXPERIENCE. TO CONTINUE TO WORK HARD TO MAKE SURE THAT OUR CUSTOMERS ARE AT THE CENTRE OF EVERYTHING WE DO

WE WANT OUR CUSTOMERS TO BECOME OUR GREATEST ADVOCATES. TO ACHIEVE THAT, WE HAVE TO WIN AND RETAIN THE TRUST OF OUR CUSTOMERS – ONE CUSTOMER AT A TIME.

Putting the customer at the centre of everything we do at Telstra has become critical to the way we work and the decisions we make. As part of this journey, we have been looking at ways we can make life better and simpler for our customers - and we are making progress.

Over the past twelve months, we have introduced usage alerts to help consumer customers better manage their mobile spend. Customers can now get online service support, 24 hours a day, seven days a week through the use of social media services including Facebook and LiveChat.

Customers can also connect with us online via one of thirteen applications we have developed for iPad^, iPhone^ and Android devices.

As a result of these and other service improvements, we have seen a 6 per cent improvement in customer satisfaction surveys, fewer calls are being made to our call centres and we have seen a reduction in Level 1 complaints to the Telecommunications Industry Ombudsman.

There still remains a lot to do but each day we continue to change how we interact with our customers.

TELSTRA HAS RECENTLY INTRODUCED THE NET PROMOTER SYSTEM (NPS) WHICH IS THE NEXT STAGE IN IMPROVING CUSTOMER SATISFACTION.

NPS will help drive innovation, continuous improvement and behaviour changes, all aimed at enhancing the customer experience. Our aim is to delight our customers and turn them into advocates.

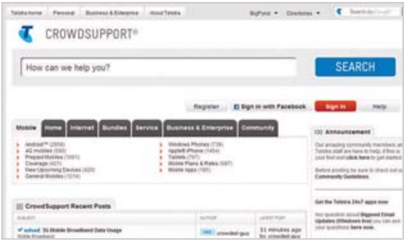
ONLINE SERVICES ARE NOW AVAILABLE TO OUR CUSTOMERS 24 HOURS A DAY, SEVEN DAYS A WEEK.

Last year, 30 per cent of Telstra's customer service transactions were completed online following the launch of several key online service capabilities.

FACEBOOK 24X7

Customers can interact with customer service consultants by posting on the Facebook wall or by using the LiveChat feature to chat to a consultant online. We aim to respond to all Facebook posts within the hour.

CROWDSUPPORT



We have launched CrowdSupport, an online community forum aimed at extending the range of customer service options.

Linking from telstra.com, it's a place where consumer and business customers can help each other with information about Telstra's products and services, share tips and experiences or discuss new and upcoming releases.

APPLICATIONS

iPad^, iPhone^ and Android customers now have the ability to monitor, control and modify their account from their device, a service which was previously only offered through a desktop computer.

www.telstra.com/apps

NET PROMOTER SYSTEM

Telstra has introduced the Net Promoter System as the next stage in improving customer satisfaction. We want to turn customers into advocates by giving them the best possible service. Every day we receive around 20,000 pieces of feedback from our customers that our staff and partners listen to and learn from.

This is one of the biggest change programmes ever undertaken by Telstra. We have asked every Telstra employee to treat our customers the way they would like to be treated themselves.

RETAIN AND GROW CUSTOMER NUMBERS

OUR GOAL: RETAIN AND GROW OUR CUSTOMER NUMBERS TO DRIVE REVENUE GROWTH AND LONG TERM VALUE FOR OUR SHAREHOLDERS

WE ARE GRATEFUL FOR THE MANY CUSTOMERS WHO CHOSE TELSTRA THIS YEAR. THE QUALITY OF OUR NETWORKS AND SERVICE IS A KEY DIFFERENTIATOR AND IS CONTINUING TO DRIVE GROWTH IN OUR BUSINESS.

Telstra's product offers and network investments continued to attract new customers during the year.

We recorded one of our best ever years in mobiles with 1.6 million domestic mobile customers added. Over the past two years we have acquired over three million domestic mobile customers.

The breadth and quality of service our customers enjoy when using our Next G® mobile network continues to provide us with an important competitive advantage. Our competitive bundled plans have also seen an increase in our fixed retail broadband customer base with 203,000 customers added last fiscal year. We now have more than 1.4 million customers on a bundled plan.

AUSTRALIANS NOW HAVE ACCESS TO ONE OF THE WORLD'S MOST ADVANCED MOBILE NETWORKS DELIVERING SOME OF THE FASTEST MOBILE SPEEDS AVAILABLE.

In September 2011, we were the first Australian company to launch a commercial 4G LTE mobile network. 4G mobile broadband provides super-fast, truly mobile internet access giving you the freedom to visit more places and keep in touch.

Our 4G network now covers more than 40 per cent of the Australian population. Over the next two years we will be making an additional investment to accelerate the roll out of our 4G network.

TELSTRA HAS ALSO STARTED TO PROVIDE SERVICES TO OUR CUSTOMERS ON THE NATIONAL BROADBAND NETWORK (NBN).

Townsville mum Julie Boxsell is completely sold on the high-speed fibre optic network.

"It's like the Wright brothers compared to the jumbo jet. It's so much better, so much more stable and so much faster. It's wonderful," said Julie.

Julie says she had become a prolific user of Telstra's services on the NBN ranging from downloading recipes on her T-Hub® to using the T-Box® as a video juke box for her husband's 50th birthday party.

"These days, I have three young children and two computers upstairs and a T-Box®. It's not uncommon for my husband to be watching a horse racing channel on T-Box®, for me surfing the net and for the kids to be on the computer watching Club Penguin and there's never a hitch. There was no way I could do that before," she said.

Julie uses the T-Box® as the primary entertainment remote control.

"It's absolutely brilliant. The TV gets turned on and it all comes through the T-Box®. The remote control is intuitive and it is so easy and simple. It has taken over my DVD, my hard drive and everything else.

"I love all the stuff I can do with it. I love being able to rent movies and a minute later I can be watching it. I love that I can get YouTube. In the old days when we had ADSL, I gave up on YouTube because I couldn't watch a video because of all the stops and starts. But now I can watch things instantly," she said.

When Julie and her family celebrated her husband's 50th birthday, they spent the evening downloading songs and watching live performances on YouTube via their T-Box®.

"It was so fast. There was never a hiccup. We didn't have to wait at all," she said.

Julie is also sold on Telstra's customer service and customer support.

"I've tried elsewhere but I have always come back to Telstra. I can trust the product. They stand behind it. If I have an issue with the hardware, they help me with it. It just seems natural to me to have that continue and just have one bill," she said.

Pictured: Julie Boxsell using Telstra's T-Hub®. Julie Boxsell received Telstra services on the NBN on Telstra's fastest plans for free during the trial.

SIMPLIFY THE BUSINESS

OUR GOAL: SIMPLIFY THE BUSINESS, IMPROVE CUSTOMER SERVICE AND SAVE UNNECESSARY COSTS

SIMPLIFYING THE BUSINESS IS A COMPANY-WIDE PROJECT THAT HAS HELPED CHANGE TELSTRA'S CULTURE.

We are creating a new Telstra – a Telstra that is about simplicity and service. If the business is simpler, then we are focusing on the right things, not wasting time on the things that do not matter to our customers.

Our people now understand the need to focus on simplifying the way we operate, improving the way that we serve our customers, and finding ways to save time and money.

We see significant opportunity to provide innovative support to our customers using new digital technology and services.

In addition to the improvements we have made online, we have centralised our marketing, pricing, product management and product innovation businesses. We have also rationalised and streamlined corporate centre functions.

The end result is greater efficiency for our company and our customers.

ONLINE

This year we revamped our website, enhancing navigation and search functions to deliver an overall improvement in the customer experience.

As part of this revamp we have launched a new online shopping experience. The cornerstone of this shop is the interactive mobile plan selector, which helps customers choose a plan that suits them and is one component of the overall strategy to make the online shopping experience as simple and user friendly as possible. Combined with an innovative design, the shop has been well received as an industry leading online experience. The online shop has exclusive offers, free delivery for mobiles, provides 24x7 support to customers and helps provide a safe and secure experience.

T-ANALYST

For our business and enterprise customers we have launched T-Analyst. T-Analyst is an online billing and reporting tool developed to make organising and managing Telstra invoices easier.

T-Analyst allows customers greater control while saving time as they can now review historical bill information (once accrued), generate reports that summarise billing data across multiple invoices and billing periods and view trend reports on historical telecommunication costs.

T-Analyst has been well received by customers and is an initiative aligned to our continued focus on simplification and customer satisfaction.

DIGITAL BILL

We now have over 1.6 million customers receiving their bill in a digital format.

Customers can receive their bill via an emailed PDF, online through My Account or using one of the Telstra apps through an iPad^, iPhone^ or Android device. From any of the digital bill formats customers are easily able to navigate through to payment.

We also offer a dual bill programme for those customers who are planning a move to digital bills so they can become familiar with receiving their bill digitally before switching off their paper bills.

DEVELOP NEW GROWTH BUSINESSES

OUR GOAL: TO DEVELOP GROWTH BUSINESSES IN THE AREAS OF NETWORK APPLICATIONS AND SERVICES, MEDIA AND INTERNATIONAL

WE ARE LOOKING TO GROW THE TELSTRA BUSINESS, NOT JUST PROTECT OUR CURRENT MARKET SHARE.

Developing the growth businesses of Network Applications and Services, Media and International is a key pillar of Telstra's strategy.

Network Applications and Services (NAS) is growing because it can make an enormous difference to businesses – increasing productivity, lowering costs, reducing risk and creating new platforms for innovation.

Telstra Media was established to drive growth from our media assets and manage the transition to digital at our Sensis directories business. This group is responsible for the management and growth of the domestic directories and advertising business and includes the management of leading information brands including Yellow Pages®, White Pages®, and our investment in Digital Media content and the FOXTEL partnership.

We recently announced an exclusive arrangement with MOG, a next generation music subscription service. MOG gives subscribers access to 16 million music tracks. The high-quality streaming music service is available through compatible PCs, digital music players, Apple and Android smartphones, tablets and wireless HiFi systems. Partnering with companies such as MOG allows us to offer customers compelling content to suit their needs.

Telstra International encompasses our international assets outside Australia and New Zealand. It includes leading Hong Kong mobile operator, CSL; our mainland China businesses which provide digital media services in auto, IT and consumer electronics; and Telstra Global, our global connectivity business.

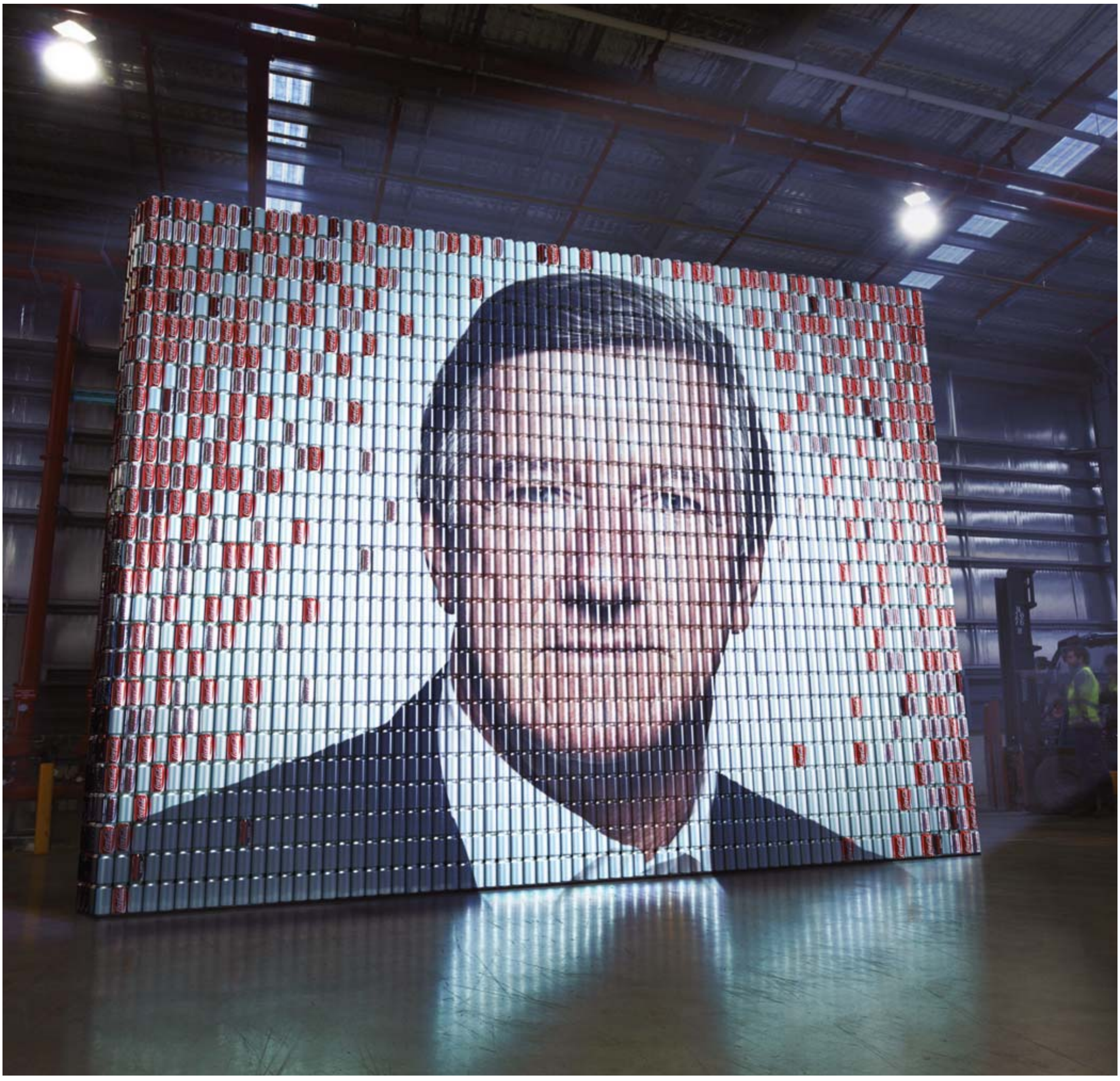
Our international businesses continue to perform well. Our Hong Kong subsidiary, CSL, added 475,000 new mobile customers last fiscal year and grew revenue by 10 per cent in local currency.

COCA-COLA AMATIL AND NAS

COCA-COLA AMATIL (CCA), ONE OF THE WORLD'S TOP FIVE COCA-COLA BOTTLERS, IS A TRUE NAS CUSTOMER.

Since signing a ten year agreement with Telstra in 2009, CCA has gone on to deploy such innovations as Cashless Payments via Telstra's Machine to Machine solution and, most recently, a Digital Media Strategy that has delivered revenue increases upwards of 50 per cent in some venues.

Underpinning this is the reliability of Telstra's network, as well as its end-to-end management. This combination of Network, Applications and Services has contributed much to CCA's goal of using ICT to become a more productive and thus more profitable business, whilst also delivering great customer service.



Terry Davis, Group Managing Director of Coca-Cola Amatil currently features in Telstra's *The Clever Australian* campaign. For more information, visit www.telstra.com/thecleveraustralian/cca

SUSTAINABILITY – CONDUCTING OUR BUSINESS RESPONSIBLY

OUR GOAL: TO BRING THE SOCIAL AND THE ENVIRONMENTAL INTO THE HEART OF THE ORGANISATION IN WAYS THAT CREATE VALUE

FOR TELSTRA, SUSTAINABILITY IS A BUSINESS APPROACH THAT CREATES LONG-TERM VALUE BY EMBRACING THE OPPORTUNITIES AND MANAGING THE RISKS DERIVED FROM ECONOMIC, ENVIRONMENTAL, SOCIAL AND TECHNOLOGICAL DEVELOPMENTS. SUSTAINABILITY IS AN IMPORTANT PART OF HOW WE WILL ACHIEVE OUR VISION TO IMPROVE THE WAY PEOPLE LIVE AND WORK.

Find out more:
www.telstra.com.au/sustainability

SUSTAINABILITY GOVERNANCE

The Telstra Sustainability Council is the key governing body for sustainability at Telstra. It is chaired by our Chief Executive Officer, David Thodey, and comprises the Group's Executive Leadership Team. The Council is responsible for the review and monitoring of Telstra's sustainability approach and performance, and normally meets three times a year. Regular reports on progress are provided to the Chief Executive Officer and the Telstra Board.

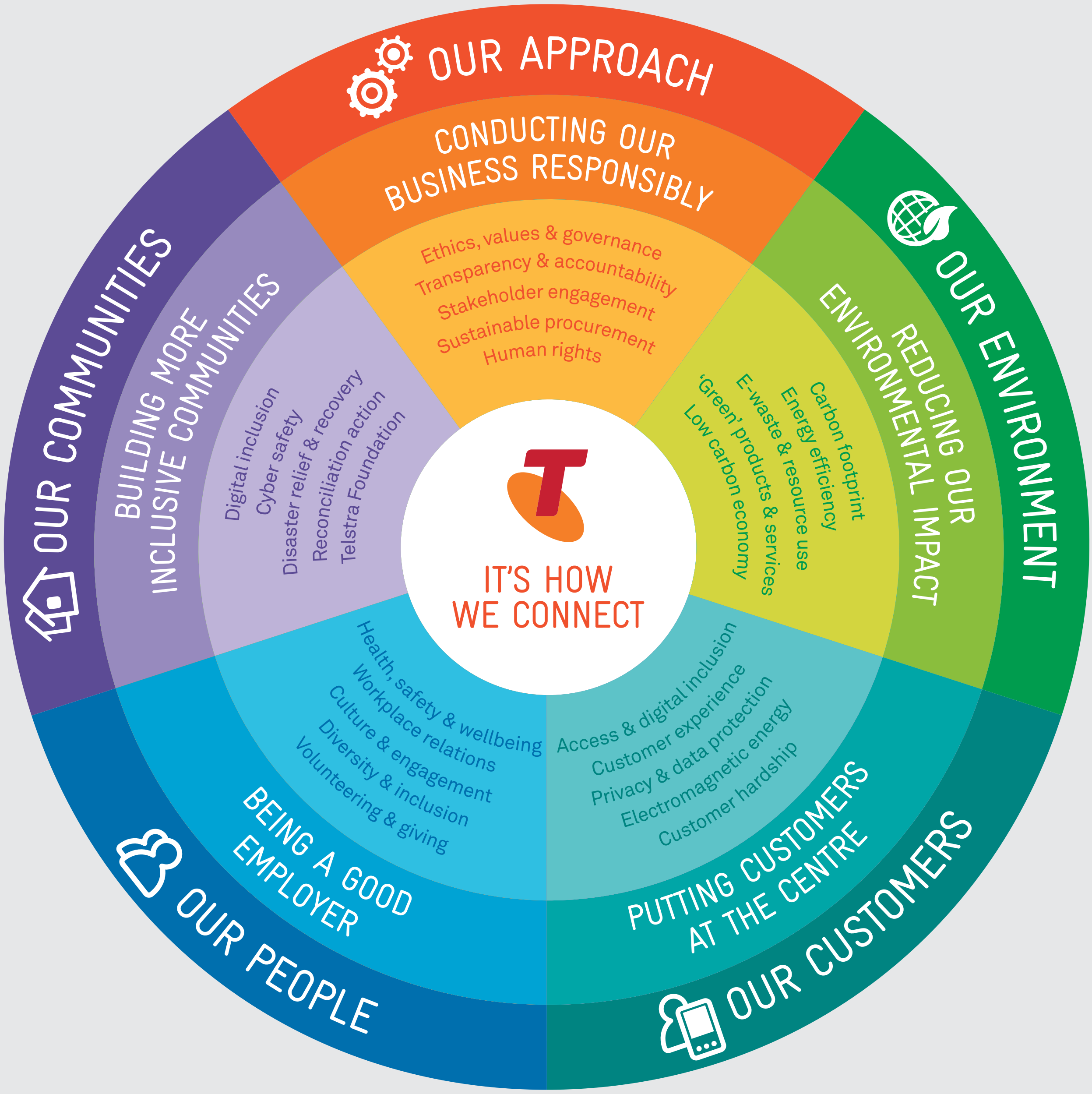
Telstra's Chief Sustainability Officer provides the strategic leadership for sustainability at Telstra, manages the Chief Sustainability Office (CSO), which was established in late 2011, and is responsible for the implementation of our approach and programmes. During 2012, we integrated key functions from across Telstra into the CSO, recruited and appointed key executives, and developed Telstra's first integrated sustainability approach and performance scorecard.

UNITED NATIONS GLOBAL COMPACT

In December 2011, Telstra became a signatory to the United Nations (UN) Global Compact, signalling our commitment to the highest levels of responsible business practice in the markets in which we operate. We are committed to aligning our operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. Our commitment to these principles and our communication on progress is reflected in our sustainability reporting.

TELSTRA SUSTAINABILITY FRAMEWORK

TELSTRA'S SUSTAINABILITY FRAMEWORK IS BUILT AROUND FIVE KEY PILLARS AND INDICATES OUR BROAD GOALS AND KEY SUSTAINABILITY ISSUES.



SUSTAINABILITY – PUTTING CUSTOMERS AT THE CENTRE

OUR GOAL: TO ENSURE THAT ALL AUSTRALIANS ENJOY THE EVERYDAY BENEFITS OF BEING CONNECTED TO MODERN COMMUNICATION TECHNOLOGIES

AS AUSTRALIA'S LARGEST TELCO, WE ARE COMMITED TO KEEPING THE CUSTOMER AT THE CENTRE OF EVERYTHING WE DO.

EVERYONE CONNECTED

We recognise the fundamental role Telstra plays in promoting economic and social inclusion. Our *Everyone Connected* customer programmes support around 1.3 million Australians each year and utilise Telstra's core capabilities, assets, expertise and national presence to support access, skills development and safety for those Australians and communities most in need. Programme effectiveness is enhanced through an independent advisory committee – The Low Income Measure Assessment Committee (LIMAC) – comprising representatives from national community organisations and the Federal Government. LIMAC annually assesses the effectiveness of Telstra's low income programmes and reports to the Minister for Communications.

Customers experiencing disadvantage

In 2012, the Centre for Social Impact conducted a social impact study of three of our *Access for Everyone* services. It showed that while emergency relief services such as *Bill Assistance* have a significant positive social impact, there is a gap in services for people on a low income who rely on a pre-paid mobile. Research conducted by LIMAC also identified the need for a pre-paid recharge emergency relief service and an affordable broadband internet service for low income families with children in school. Next year, we will respond to these findings by expanding our *Access for Everyone* offering.

Customers with disability

This year, we conducted a mid-term review of our fifth *Disability Action Plan 2010-2012*. The Plan recognises the benefits that modern information and communications technologies bring to people with disability and communications challenges, and incorporates actions to provide a better experience for our customers with disability and their carers.

Customers in remote Indigenous communities

In 2012, we completed the ADSL2+ (high speed internet) upgrades in four remote Indigenous communities and partnered with the Torres Strait Island Regional Council to deliver ADSL2+ to 15 islands in the Torres Strait. We developed simplified calling cards for use in payphones in remote communities, and calls to the hotline for Indigenous customers increased by six per cent from 2011.

CYBER SAFETY

We work with industry, government, law enforcement and community organisations to help our customers understand and manage the risks associated with the online world. This year, we released new research into the key cyber safety concerns for parents and provided advice on how to manage the risks through public announcements, our social media channels and on our website.

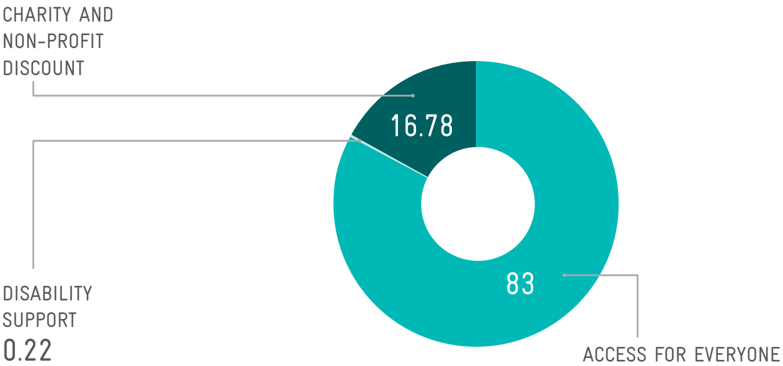
PRIVACY PROTECTION

Protecting our customers' privacy is a core priority, and we know that we have to do better. While this year's privacy complaints remained relatively stable, there were a number of regrettable privacy incidents involving customer data. Our response to these incidents was to immediately contain the breach, identify the source, notify impacted customers and put in place remedial actions.

We have since reviewed product and technology development and deployment processes, and committed to improving staff training to ensure that privacy and security controls are properly implemented. We continue to take a strong, proactive approach to prevent such incidents from happening again.

EVERYONE CONNECTED – CUSTOMER PROGRAMMES

% OF TOTAL INVESTMENT



- **Disability Equipment Hotline**: 32,000 calls
- **Disability Equipment programme**: supplied 9,600 products

- **Pensioner discounts**: 1.154m households
- **Free home phone service**: 80,000 customers
- **Rebate certificates for payment of Telstra bills**: 2,600 customers per month
- **Secure phone services**: 1,500 community crisis accommodation providers

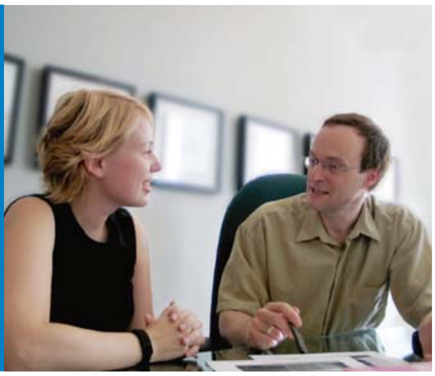
CELEBRATING TEN YEARS OF ACCESS FOR EVERYONE

This year marks the tenth anniversary of our *Access for Everyone* programmes, which assist people on a low income or facing financial hardship to stay connected. Since 2002, we have provided benefits to the value of two billion dollars as part of these programmes. To deliver *Access for Everyone,* Telstra works with over 2,000 community organisations across Australia – from large national organisations such as The Salvation Army to smaller local community agencies like the Tangentyere Council in Alice Springs (NT).

In 2012, we added the Cancer Council to the list of agencies we support, helping them to ease the financial burden experienced by many people after the news of a cancer diagnosis. Telstra's bill assistance certificates will increase the impact of the Cancer Council's Financial Assistance Programme, helping people affected by cancer stay connected and reducing their financial burdens during a time of need.

SUSTAINABILITY – BEING A GOOD EMPLOYER

OUR GOAL: TO ATTRACT AND BUILD A WORLD-CLASS TALENT BASE AND CREATE A HIGH-PERFORMING, CUSTOMER-CENTRIC CULTURE



OUR AIM IS TO CREATE A WORKPLACE CULTURE THAT SUPPORTS OUR TRANSFORMATION TO A MORE EFFICIENT, INNOVATIVE AND CUSTOMER-CENTRIC BUSINESS.

CULTURE & EMPLOYEE ENGAGEMENT

This year, we achieved an engagement score of 77 per cent, a two percentage point increase on the previous year. This score puts us two percentage points above the Australian National Norm and five percentage points below the Global High Performing Norm. Results show that employees now have more clarity and confidence in Telstra's vision and great belief in the quality of our customer service.

HEALTH, SAFETY & WELLBEING

This year, early intervention initiatives have helped us to meet our targets for lost time injury frequency rates (LTIFR) and serious injury rates. We also achieved significant reductions in the number of days lost due to workplace injury or illness, and in average days lost per 'lost time' injury.

GENDER DIVERSITY

In 2012, we increased female representation among Non-Executive Directors to 30 per cent and achieved our objective for 25 per cent representation of women in Executive management. We also saw positive trends in promotion rates for women in the majority of business units, and a rise in the engagement level of women compared to last year. Overall female representation across Telstra and Sensis remained steady at 31 per cent. In the coming year, we will continue a proactive company-wide education programme to improve the use and application of Telstra's flexible work and careers policies, and inclusion will remain a key priority for all Telstra leaders.

EMPLOYEE VOLUNTEERING & GIVING

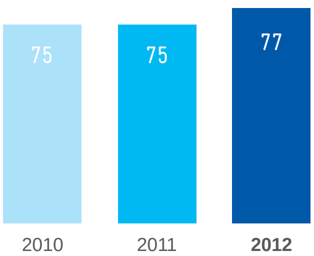
In December 2011, we introduced paid volunteer leave for Telstra employees and established a small number of strategic community partnerships to help drive high volume volunteering. We achieved a total of 1,375 employee volunteering days (including Sensis) for the year and have set a target of 5,000 days for next year.

This year, 2.7 per cent of Telstra employees made a donation through payroll giving, contributing more than $221,000 to 16 charities. At Sensis, 6.6 per cent of employees contributed around $59,000 to 20 charities via payroll giving donations, which were matched by Sensis dollar for dollar.

Next year, with funding support from the Telstra Foundation, we will introduce dollar for dollar matched payroll giving and enable employees to give to any registered charity in Australia, providing an additional incentive for our people to participate.

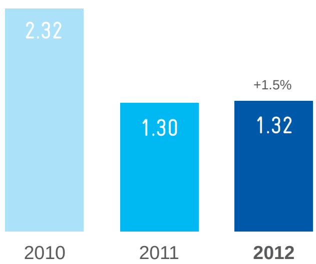
EMPLOYEE ENGAGEMENT

EMPLOYEE ENGAGEMENT SURVEY SCORE – TELSTRA GROUP (%)



LOST TIME INJURY FREQUENCY RATE

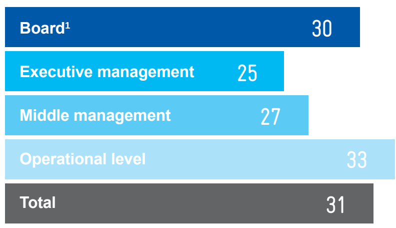
RATE OF OCCURRENCES OF LOST TIME (LTIFR)



NOTES:
An LTIFR is the reported number of occurrences of lost time arising from work-related injury or disease for each million hours worked.

REPRESENTATION OF WOMEN BY EMPLOYMENT LEVEL

TELSTRA-PAID AND SENSIS – BY % OF WORKFORCE



NOTES:
1 – Non-Executive Directors

TELSTRA VOLUNTEERS LEND A HAND TO THE RED CROSS

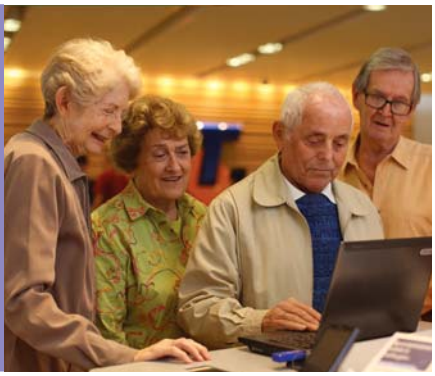
Lasily Thomas and his team from Telstra Operations took advantage of Telstra's new paid volunteer leave, heading to the Australian Red Cross distribution centre in Altona (VIC), to sort and pack donated clothing. Thanks to our volunteers, donated items were prepared for distribution to Australian Red Cross stores across the country.

The day provided an opportunity for the team to bond outside of its usual work environment, while contributing to a community cause. According to Telstra volunteer, Irene Law, "it was a humbling experience volunteering at Red Cross Australia. Understanding the contribution of the Red Cross in reaching out to those who are coping with really significant issues simply reinforced how fortunate most of us are, and how important it is to give back in some way to those doing it tough".

This year, almost 100 Telstra employees from 13 teams participated in volunteering opportunities with the Australian Red Cross.

SUSTAINABILITY – BUILDING MORE INCLUSIVE COMMUNITIES

OUR GOAL: TO ENSURE THAT EVERYONE IN OUR COMMUNITIES ENJOYS THE BENEFITS OF COMMUNICATION TECHNOLOGIES AND THE SOCIAL AND ECONOMIC BENEFITS THEY BRING



WE ARE TARGETING PROJECTS THAT CONNECT PEOPLE TO THE INTERNET, BUILD THEIR ONLINE SKILLS, AND PROMOTE CYBER SAFETY.

In 2012, our objective was to bring strategic alignment to our social and community investment, with a stronger focus on digital inclusion and a 'shared value' approach to community investment.

TELSTRA FOUNDATION

Over 2012, the Telstra Foundation invested more than $4 million into community organisations that share our vision of making a positive and lasting difference to the lives of Australia's children and young people. In May 2012, the Telstra Foundation launched the *Everyone Connected* grants programme, which provides one million dollars in the form of one hundred $10,000 grants to support the digital inclusion initiatives of local community organisations. We are targeting projects that connect disadvantaged children and young people to the internet, build their online skills or promote cyber safety. In addition to the grants, this year the Telstra Foundation supported eight ongoing community digital inclusion projects with more than $890,000 in funding.

The Telstra Foundation established a six-year partnership with The Alannah and Madeline Foundation to deliver eSmart Libraries to all public libraries in Australia. The initiative will assist 1,500 public libraries across the country to be safe and responsible in the online world. The program will commence next year.

TELSTRA CONNECTED SENIORS

Telstra Connected Seniors® helps to address the 'digital divide' experienced by many older Australians. It provides grants to community organisations to deliver training courses and hold events to help senior Australians master new mobile and internet technology. In 2012, almost 52,500 senior Australians received training through events, face-to-face sessions and DVDs loaned through libraries across Australia. Around 45,000 seniors accessed online content through our dedicated website.

RECONCILIATION ACTION

This year, the Telstra Foundation supported five Indigenous community projects with $1.4 million in funding. This included support for the Cathy Freeman Foundation's *Palm Island Early Learning Program*, which is making a positive impact on early childhood literacy. We also provided $300,000 to continue our support of One Laptop Per Child (OLPC) Australia, which provides remote primary school students with a purpose built XO laptop and connects them to the rest of the world. Since May 2009, OLPC Australia has deployed more than 6,000 laptops in more than 100 communities. This year also marks our 21st year as the major sponsor of the National Aboriginal and Torres Strait Islander Art Award, the longest running, most prestigious Indigenous art award in Australia.

DISASTER RELIEF & RECOVERY

In times of disaster, Telstra provides telecommunications services to evacuation centres, where we establish temporary internet services, and provide free loan handsets with SIM cards and free phone cards. We also provide relief assistance packages to affected residential and small business customers. In 2012, Telstra provided assistance packages following nine natural disasters across the country.

SOCIAL AND COMMUNITY INVESTMENT BY FOCUS

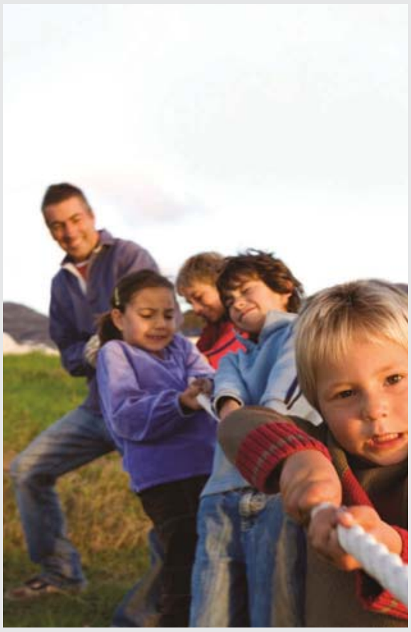
DOLLAR INVESTMENT (MILLIONS) AND PERCENTAGE OF TOTAL

Issue	Amount invested	% of total investment
Digital inclusion	$221.16	92.2%
Employee community involvement	$2.35	1.0%
Sponsorship	$13.02	5.4%
Environment	$0.61	0.3%
Disaster relief	$0.06	<0.1%
Management costs	$2.59	1.1%
TOTAL	**$239.8**	

DESCRIPTION:

Customer: *Everyone Connected* programmes: *Access for Everyone* package for low-income customers, charity discounts on fixed lines and disability support. $216.42m – 90.2%

Community: *Everyone Connected* programmes: sponsorships, education and training and long-term Telstra Foundation partnerships. $4.75m – 2.0%



TELSTRA FOUNDATION CELEBRATES A DECADE OF SUPPORTING COMMUNITIES

In 2012, we celebrate the tenth anniversary of the Telstra Foundation. With a mission to make a positive and lasting difference to the lives of children and young people, the Telstra Foundation has supported the Australian community with more than 7,000 grants and $40 million over the past decade.

The iModelling project is one example of the difference the Foundation's funding has made. Autism SA developed an application to assist children with Autism Spectrum Disorder to develop and improve social skills. The application makes particular use of videos to model constructive social interactions such as initiating a conversation or waiting in line.

The University of Adelaide conducted a "social skills score" assessment which showed that children using the application improved their social skills and established friendship groups - something that is very difficult for kids with autism to do.

The Telstra Foundation also provided funding support to the Orygen Youth Health Research Centre to develop HORYZONS, a world-first online platform that helps young psychosis sufferers stay connected and prevent relapse. Combining expert support, social networking with peers and individually tailored modules, HORYZONS will make currently limited psychosis treatment widely available.

These are just two terrific examples of the potential of modern communications technologies to transform lives.

SUSTAINABILITY – REDUCING OUR ENVIRONMENTAL IMPACT

OUR GOAL: TO DO MORE FOR OUR CUSTOMERS WHILE ACTIVELY MANAGING AND MINIMISING OUR ENVIRONMENTAL IMPACTS AND RESOURCE INTENSITY

WE ACTIVELY MINIMISE THE ENVIRONMENTAL IMPACTS OF OUR OPERATIONS AND SUPPORT OUR CUSTOMERS TO ENHANCE THEIR ENVIRONMENTAL PERFORMANCE.

This year, we developed an Environment White Paper to provide strategic direction for Telstra's environmental activities for the next three to five years. The paper identifies short, medium and long term environmental risks and opportunities for our business. In the coming year, we will use the insights provided by this paper to develop a whole of company environment strategy.

ENERGY EFFICIENCY & CARBON EMISSIONS

In 2012, we set a target for a 15 per cent reduction in emissions intensity – tonnes of carbon dioxide equivalent per terabyte (tCO_2e/TB). We surpassed this, reducing carbon emissions intensity by 36 per cent. We expect continued improvements in our carbon emissions efficiency due to better utilisation of network equipment and a continued dedicated investment in energy and carbon efficiency projects, and have set a 15 per cent reduction target for emissions intensity for next year.

Total energy consumption increased by 2.4 per cent, and total carbon emissions (Scope 1, 2 and 3) increased by one per cent since last year, driven primarily by increasing data loads carried over our networks. Since 2010, energy consumption and carbon emissions have remained relatively stable, despite this continued growth in data load. This is the result of better utilisation of infrastructure and the energy efficiency measures we have implemented. Next year, we have committed $14 million to improve the energy efficiency and carbon intensity of network facilities.

HELPING OUR CUSTOMERS TO REDUCE THEIR CARBON EMISSIONS

This year, we developed our first customer Green ICT Management Plan. It describes how we will identify, manage, monitor and minimise the environmental impacts of our services for one of our largest enterprise customers. The plan follows a life-cycle approach to environmental management and outlines specific actions from service design through to procurement, construction, operation and end-of-life management.

PAPER USE – SENSIS PRINT DIRECTORIES

Sensis has been a member of the Forest Stewardship Council (FSC) since June 2009. Since then we have been increasing the percentage of telephone directory paper (excluding coverboard) that is FSC certified. FSC certification offers a guarantee that paper comes from responsible sources that support the conservation of forests and wildlife, and help local communities lead better lives. From 2013, we will have 100 per cent of telephone directory paper FSC certified, and our coverboard will transition to FSC certified stock. We also have started to use biodegradable bags for the distribution of directories in place of plastic bags.

E-WASTE

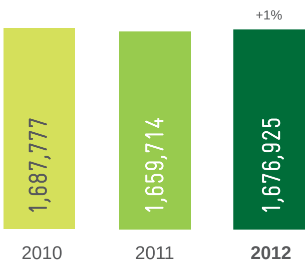
E-waste is a fast growing waste type in Australia and overseas. We define e-waste as any type of electronic components, rental telephones, payphone parts, batteries, telephone power supplies and other miscellaneous electronic items. In 2011/12, we reused or sent to recycling facilities approximately 99 per cent of our own e-waste, which is predominantly end-of-life network equipment and batteries.

We are also working to help our customers dispose of e-waste more effectively.

Throughout 2012, we collected 14.3 tonnes of mobile phone components from Telstra retail stores, offices and repair centres through the MobileMuster programme. This is a 17.5 per cent decrease from 2011, which we attribute to consumers recycling directly with MobileMuster and a decrease in the average weight of components that are being recycled. Our target for next year is to collect 14.3 tonnes.

TOTAL CARBON EMISSIONS AND INTENSITY (SCOPE 1, 2 & 3)

TONNES OF CARBON DIOXIDE EQUIVALENT (tCO_2e)



CARBON EMISSIONS INTENSITY

TONNES OF CARBON DIOXIDE EQUIVALENT PER TERABYTE (tCO_2e/TB)

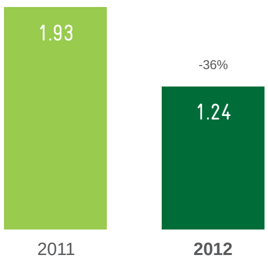



Photo source: Qantas

TELSTRA GETS QANTAS PILOTS OFF THE GROUND WITH IPADS^

Telstra is helping our customers reduce their environmental impacts and improve their productivity through the use of new communications technologies. In a partnership with Qantas, Telstra will be providing pilots with iPads^ for use on the flight deck. Beginning with Qantas' Boeing 737 fleet, pilots will be able to access a wide range of operational information via iPads^ rather than using bulky paper documents. Qantas currently prints 18,000 pages of paper for flight operations every day. The full introduction of iPads^ will see this reduced to just 3,000 pages. By the end of 2012, more than 2,000 64GB iPads^ will be distributed to all domestic and international Qantas pilots on all fleet types.

UNLOCK AMAZING
NATIONAL BROADBAND NETWORK

ON FEBRUARY 28 WE LAUNCHED TELSTRA'S POPULAR NATIONAL BUNDLES FOR CONSUMER CUSTOMERS ON THE NBN IN THE FIVE FIRST RELEASE SITES IN ARMIDALE AND KIAMA IN NSW, WILLUNGA IN SA, TOWNSVILLE AND MELBOURNE'S INNER CITY SUBURB OF BRUNSWICK. IN JUNE, WE WELCOMED OUR FIRST TASMANIAN CUSTOMERS ON THE NBN IN TRIABUNNA AND SORELL.

Customers have shown a lot of interest in our services on the NBN, and naturally they have many questions about the new service and the connection process. Our extensive customer education program provides information and reassurance to our customers, and we have made a special investment in giving people the chance to have their questions answered face to face, and see how the network operates first hand.

Our Telstra Fibre Experience Centre is visiting each site to provide a hands-on experience of Telstra services on the NBN, and answer locals' questions, and will continue round the country as the rollout progresses.

Telstra's team of 5,000 highly skilled technicians around the country take the time to help customers understand how Telstra products work on the NBN as part of our professional installation process.

We also have 24/7 technical support over the phone or online support on Twitter, the option of Telstra Plus which provides an extra level of help for customers who need a hand getting the most out of their new fibre service and we have opened our new "Store on Wheels" and other temporary retail outlets in areas where we don't have a permanent retail presence.

www.telstra.com/unlockamazing

Contents

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

Full year results and operations review - June 2012

SUMMARY FINANCIAL RESULTS

	FY 2012 ($m)	FY 2011 ($m)	YoY change
Sales Revenue	**25,232**	24,983	1.0%
Total Revenue	**25,368**	25,093	1.1%
Operating Expenses	**15,269**	15,154	0.8%
EBITDA	**10,234**	10,151	0.8%
Depreciation & Amortisation	**4,412**	4,459	-1.1%
EBIT	**5,822**	5,692	2.3%
Net finance costs	**888**	1,135	-21.8%
Tax	**1,510**	1,307	15.5%
Attributable NPAT	**3,424**	3,250	5.4%
Accrued capex	**3,591**	3,410	5.3%
Free cashflow	**5,197**	5,477	-5.1%

REPORTED RESULTS

- Total revenue increased by 1.1% to $25.4 billion
- EBITDA increased by 0.8% to $10.2 billion
- Net Profit After Tax increased by 5.4% to $3.4 billion
- Capex to sales ratio of 14.2%
- Free cashflow of $5.2 billion

RESULTS ON A GUIDANCE BASIS*

	FY 2012	FY 2012 Guidance
Total revenue	**1.3%**	Low single digit growth
EBITDA	**2.1%**	Low single digit growth
Capex/sales	**14.2%**	~14%
Free cashflow	**$5.3bn**	$4.5 - 5.0bn
Dividend	**28cps**	28cps fully franked

* Before impairments, Government NBN Definitive Agreement receipts and regulated wholesale price changes. The guidance basis has been reviewed by our auditors.

CEO MESSAGE

Telstra has announced results for fiscal year 2012 highlighting growth in revenue and profits in line with guidance, as well as adding 1.6 million Australian mobile customers.

Telstra's strategy continues to deliver benefits to customers and shareholders, with an increased focus on customer service leading to strong customer retention and acquisition in the 12 months to 30 June 2012.

During the year Telstra invested nearly $3.6 billion of capital, including significant investments in Australia's largest and fastest national mobile network, extending Australia's largest 4G LTE coverage to more than 1,000 base stations serving more than 375,000 customers.

Telstra also confirmed a fully franked 14 cent final dividend, bringing the total dividend to 28 cents per share for fiscal year 2012, returning $3.4 billion to shareholders.

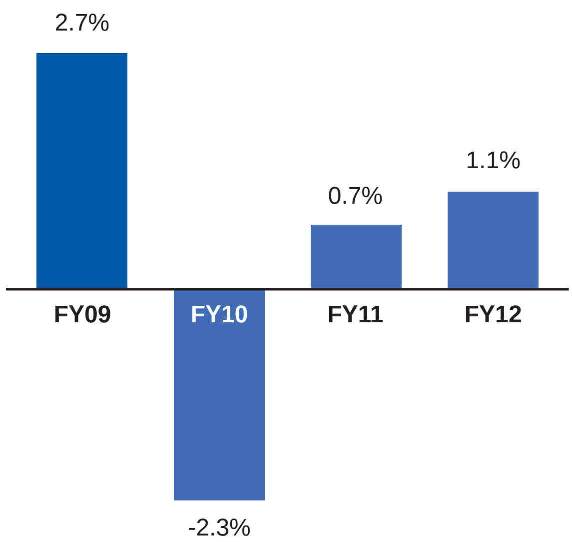
"We have seen two years of significant customer growth as our strategy continues to bear fruit. This has translated into strong financial results despite tough domestic and international economic conditions," Chief Executive Officer David Thodey said today.

"The results of our focus on our customers and simplifying our business can be seen in improved customer feedback.

We delivered on our commitments, met guidance and demonstrated greater resilience than other sectors in a challenging market environment.

"We have achieved top and bottom line growth and expect to do so again in the 2013 financial year."

TOTAL REVENUE GROWTH



Full year results and operations review - June 2012

HALF YEARLY REPORTED RESULTS

	H2 2012 YoY change	H1 2012 YoY change	H2 2011 YoY change	H1 2011 YoY change	H2 2010 YoY change
Sales revenue	**0.8%**	1.2%	1.8%	-0.5%	-1.9%
Total revenue	**1.1%**	1.1%	1.9%	-0.5%	-1.7%
Operating expenses	**2.6%**	-1.0%	3.0%	10.7%	-1.8%
EBITDA	**-1.6%**	3.7%	0.7%	-13.9%	-1.5%
Profit for the period	**-4.8%**	22.5%	-0.5%	-36.0%	-4.7%

KEY OUTCOMES AGAINST STRATEGIC PRIORITIES

Customer satisfaction

TIO level 1 complaints relating to Telstra reduced by 26% and consumer call volumes by 21%. Customer service improvements introduced over the last year include a new consumer bill format, making it simpler and clearer for customers to understand charges, the introduction of an application which enables customers to access their account via an Apple iPad^ and Facebook and many other operational improvements.

Growth in number of customers

Telstra's product offers and network investments continued to attract new customers during the year, adding:

- 1.6 million domestic mobile customers, to a total of 13.8 million;
- 203,000 retail fixed broadband customers, to a total of 2.6 million;
- 336,000 customers on bundled plans, to a total of 1.4 million;
- 475,000 Hong Kong mobile customers, to a total of 3.5 million.

Telstra's 4G network build accelerated during the year and now covers approximately 40% of Australia's population. Customers have activated more than 375,000 4G devices since launch.

Telstra's domestic mobile business generated more than one third of revenue. Telstra has added more than three million new mobile customers over the past two years. Mobile revenue growth of 8.5% was achieved while margins increased by three percentage points to 36%.

Growth in retail broadband partly offset declines in wholesale revenues, which included the impact of regulatory access determinations. Fixed line revenue decline was steady at 6.1%.

Simplification

Telstra's business improvement programme remained on track and delivered benefits in fiscal 2012 of $1.1 billion, enabling reinvestment in customer service initiatives. These benefits included improvements in labour productivity, reduced customer call volumes and growth in online customer interactions.

Growth opportunities

Network Application and Services (NAS) revenue grew by 10.5% to $1,263 million, with several significant contracts signed providing a strong foundation for 2013. Major customers signed within the NAS portfolio included the Department of Human Services, Australia Post and NAB.

Across the Media portfolio, Foxtel's acquisition of Austar was an important milestone. Sensis revenue declined by 17.7% as the move to online accelerated. Customer response to Sensis' digital offers improved in recent months across metro and non-metro regions. Excluding Sensis and advertising, digital media product revenue increased 4.7% over the year.

In the Telstra International Group, which incorporates Telstra's investments in Asia, revenue grew by 7% driven by growth in the Hong Kong mobile services (CSL) business and global connectivity and international NAS products (Telstra Global), as the company benefited from integrating assets acquired from Reach.

NATIONAL BROADBAND NETWORK (NBN)

In March 2012, Telstra finalised the NBN agreements with the Commonwealth and NBN Co, including ACCC acceptance of Telstra's Structural Separation Undertaking, and commenced providing long term infrastructure access under the Infrastructure Services Agreement (ISA). Telstra recently handed over stage one of the transit network (dark fibre and exchange rack spaces) to NBN Co. The company continues to work collaboratively with NBN Co on the building of its access network. Telstra has also launched retail and wholesale services over the NBN following successful trials in the early release sites.

Full year results and operations review - June 2012

CAPITAL MANAGEMENT

Telstra ended the year with strong liquidity and excess cash of $1.0 billion, at the top end of company projections. This positions the company well, ahead of expected spectrum acquisition commitments and $3 billion of debt refinancing due in 2013. In addition, over the next two years, Telstra plans to invest around $500 million of excess cash into its mobile network, including LTE, to maintain and extend our network advantage, and into the NBN transit network to bring forward benefits from the NBN agreements.

Telstra is not contemplating capital management initiatives at this time.

FINANCIAL OUTLOOK

Telstra expects growth to continue in fiscal year 2013 and forecasts low single digit total income and EBITDA growth, with free cashflow between $4.75 and $5.25 billion. Telstra expects capital expenditure to be around 15% of sales over the next two years.

Guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses and the cost of spectrum purchases. The foreign exchange impairment on TelstraClear expected on completion is also excluded.

“Our strategy is working and we continue to focus on our priorities of improving customer satisfaction, profitably increasing the number of customers, simplifying the business and finding new growth opportunities.” Mr Thodey said.

As announced in October 2011, it is the company’s intention to maintain a 28 cent fully franked dividend for fiscal 2013. This is subject to the Board’s normal approval process for dividend declaration and there being no unexpected material events.

FY 2013 GUIDANCE SUMMARY*

Measure	Fiscal 2013 Guidance
Total income	low single digit growth
EBITDA	low single digit growth
Capex/sales	Around 15%
Free cashflow	$4.75-$5.25 billion
Dividend	28c fully franked

* Guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses and the cost of spectrum purchases. The foreign exchange impairment on TelstraClear expected on completion is also excluded.

REPORTED RESULTS

In fiscal year 2012 sales revenue increased by 1.0% or $249 million to $25,232 million and total revenue increased by 1.1% or $275 million to $25,368 million.

Operating Expenses (before depreciation and amortisation) increased by 0.8% or $115 million to $15,269 million as the company continues to deliver improved productivity.

Labour expense increased by 3.5% to $4,061 million. Labour and labour substitution expense increased by 0.3% to $4,967 million. An increase in salary and associated costs, largely a result of the impact of a movement in the government bond rate on employee provisions and increased short term incentive costs, was offset by lower redundancies and labour substitution expense. Excluding the impact of the bond rate movement, labour and labour substitution expense decreased by 1.8%.

Directly variable costs (DVCs) or goods and services purchased decreased by 0.1% to $6,179 million, the first year-on-year decline in five years.

Other expenses decreased by 0.4% or $18 million to $5,029 million with a reduction in service contracts as we continue to simplify the business.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 0.8% to $10,234 million, with EBITDA margins flat at 40.6%. Earnings before interest and tax (EBIT) increased by 2.3% to $5,822 million.

Net finance costs decreased by 21.8% to $888 million driven by a reduction in the level of average net debt from active management of the company’s debt portfolio and fair value adjustments.

Reported profit after tax and non-controlling interests increased by 5.4% to $3,405 million. Basic earnings per share (EPS) increased by 5.4% from 26.1 cents to 27.5 cents.

Free cash flow of $5,197 million was generated in the year. Accrued capital expenditure was $3,591 million or 14.2% of sales.

On 9 August 2012, the Directors of Telstra resolved to pay a fully franked final dividend of 14 cents per share. Shares will trade excluding entitlement to the dividend on 20 August 2012 with payment on 21 September 2012.

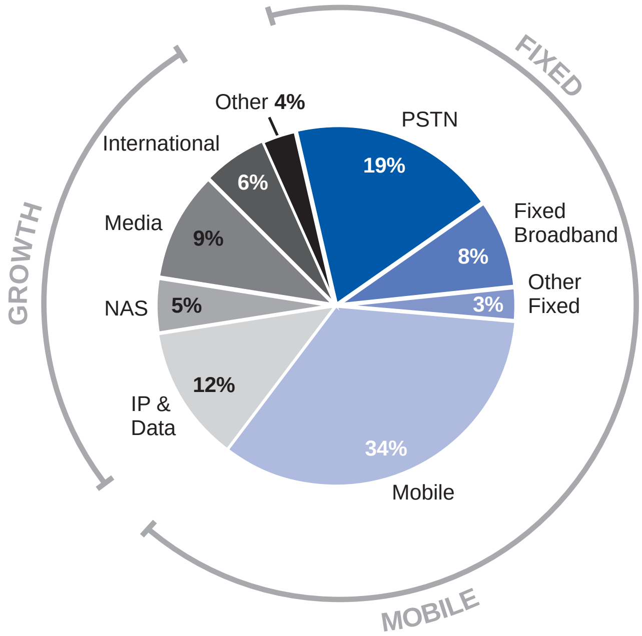
PRODUCT PERFORMANCE

KEY PRODUCT REVENUE

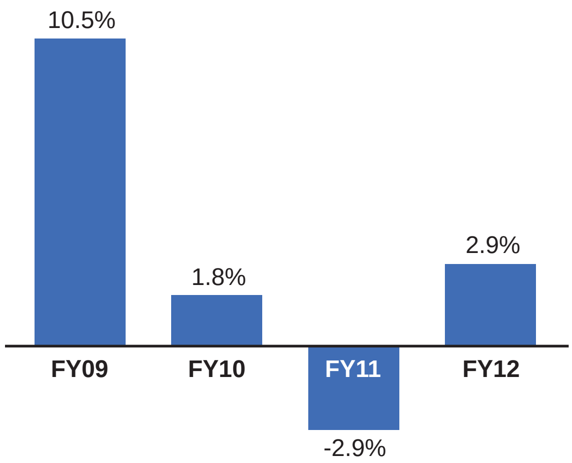
	FY 2012 ($m)	FY 2011 ($m)	YoY change
Fixed	**7,488**	7,972	-6.1%
Mobile	**8,668**	7,989	8.5%
Data and IP	**3,122**	3,147	-0.8%
NAS	**1,263**	1,143	10.5%
International	**1,496**	1,398	7.0%
Digital Media	**2,377**	2,629	-9.6%

Full year results and operations review - June 2012

FY12 PRODUCT SALES REVENUE BREAKDOWN



FIXED BROADBAND REVENUE GROWTH



FIXED

Revenue from our fixed portfolio decreased by 6.1% to $7,488 million with growth in fixed broadband partly offsetting the continued PSTN revenue decline.

Fixed retail broadband revenue (including hardware) grew by 8.5% to $1,608 million in the year, a significant improvement from the 0.3% growth in fiscal 2011. Total fixed broadband revenue (including wholesale) increased by 2.9% to $2,013 million.

Our fixed broadband portfolio continues to grow as a result of the popularity of our competitive and broad range of bundled offers which include a fixed broadband and PSTN service. Fixed retail broadband customers grew by 203,000 during the year and there are now 1.4 million customers on a bundled plan, an increase of 336,000 on the prior year.

Fixed retail broadband ARPU increased by 0.6% to $52.76, a strong result given the intense competitive landscape, and a turnaround from last fiscal year where ARPU declined by 3.9%. ARPU in the second half also grew by 4.1% on the prior year.

Wholesale broadband revenue fell by 13.1% or $53 million to $352 million, mainly as a result of 102,000 wholesale broadband lines which were lost during the year as wholesale customers continue to build their own infrastructure and migrate their services to Telstra's Unconditioned Local Loop (ULL) product.

PSTN revenue declined by 10.0% to $4,818 million as a result of lower call revenue and a continued decrease in basic access lines. PSTN is now less than 20% of our sales revenue.

PSTN basic access lines declined 313,000 during the year, slightly higher than the 290,000 line decline in fiscal year 2011.

The decline in basic access revenue was consistent with prior periods. Calling revenue deteriorated further as customer usage patterns continue to change driven by substitution to mobile voice, mobile data and fixed data alternatives. Call revenue has also been impacted by the increased take up of bundled plans where customers have calls included as part of their plan.

PSTN EBITDA margins increased one percentage point to 60% and fixed broadband margins increased six percentage points to 37%.

The impact of the NBN on our fixed business in this fiscal year was not significant.

MOBILE

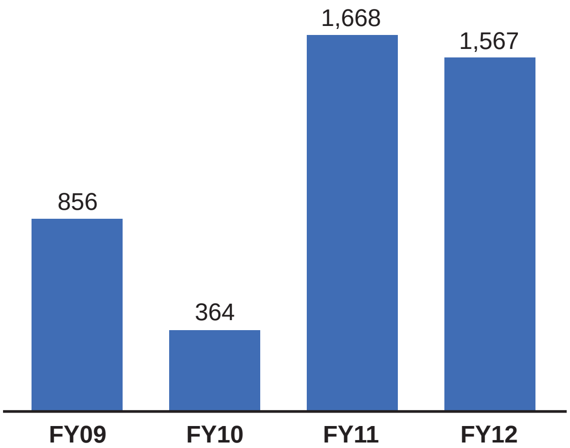
We recorded one of our best ever years in mobile with 1.6 million domestic mobile customers added. The breadth and quality of service customers enjoy when using our Next G® network remains an important competitive advantage for us. Total mobile revenue grew by 8.5% to $8,668 million.

Over the past two years, we have acquired over three million mobile customers by providing better value plans, improving our customer service, focusing our brand and product marketing and continuing to invest in network superiority. Last year we became the first operator in Australia to offer ultra-fast 4G LTE devices (smartphones, tablets and mobile broadband). Since launching 4G services in September, we have sold over 375,000 4G devices including 113,000 handsets, with coverage now in 89 regional areas,16 major cities and airports.

We now have 13.8 million mobile customers, including 6.6 million postpaid handheld and 3.1 million mobile broadband customers. In fiscal year 2012, 88% of our postpaid handset sales were smartphones.

Postpaid handheld revenue of $4,672 million grew by 6.0%. Customer number growth in this category was a strong 8.8% while ARPUs declined 3.8% in the year largely due the impact of Mobile Repayment Option (MRO) accounting. Excluding the impact of MRO, postpaid handheld ARPUs increased marginally over the year.

MOBILE CUSTOMER ADDS ('000)



Most postpaid customers are now taking up MRO plans. As a result, hardware revenue growth remains strong at 15.3%. The growth in MRO plans drives significant non-cash amortisation of customer debt which is reported as negative service revenue. This revenue was -$297 million in fiscal year 2012 (FY2011: -$97 million) and has resulted in close to a $4 reduction in reported postpaid handheld ARPU in the current fiscal year and approximately $1.50 in the prior year.

Mobile broadband revenue grew by 10.8% to $1,018 million driven by strong customer number growth of 808,000. Mobile broadband ARPU decline of 22.3% was driven by both the increased penetration of lower value prepaid plans including tablets, and lower priced postpaid offers. Importantly, in the second half of the year the rate of ARPU decline has reduced significantly. Machine to machine (M2M) revenue grew by 15.9% and is an emerging opportunity for Telstra in the mobile category. Mobile interconnection revenue increased by 18.3% to $769 million. The growth in interconnection revenue has been driven by SMS volumes and is attributable, in part, to an increase in the number of postpaid handheld plans which include an unlimited SMS bundle. A reduction in mobile termination rates from 9 cents to 6 cents, which became effective 1 January 2012, had a $75 million negative impact on interconnection revenue. A larger positive impact from the reduction in mobile termination rates is captured in network payments.

Churn continues to be well managed with the postpaid handheld deactivation rate improving to 12.2%.

Strong cost control has had a positive impact on mobile EBITDA margins which increased by three percentage points from last fiscal year to 36%, with EBITDA growth of 21% in the fiscal year.

DATA & IP

ISDN is now included in our Data and IP portfolio. Data and IP revenue declined by 0.8% to $3,122 million. IP Access revenue continues to grow as the penetration of IP-based solutions increases in both the Enterprise and Small Business markets and this is now a $1 billion business.

However, the increase in revenue of 8.9% or $86 million was not enough to offset the decline in ISDN and traditional data product revenues.

Data and IP EBITDA margins were 64%, steady compared to the prior year.

NETWORK APPLICATIONS & SERVICES

Network applications and services (NAS) revenue increased by 10.5% to $1,263 million with several important long-term contracts won during the year. Major contracts include the Department of Human Services, NAB and Australia Post. Telstra is focused on delivering the best network services for large organisations. These contracts are a testament to the trust corporations are placing in us to design, build and manage their telecommunication and network services.

The NAS sales pipeline remains strong. We are encouraged by the growth in our NAS business, especially with products generating recurring revenue. This includes unified communications and cloud services which grew 14.4% and 42.2% respectively. Commercial and industrial works declined due to the inclusion of one-off projects in the prior year such as our participation in the rollout of NBN trial sites.

INTERNATIONAL

Telstra International Group product revenue grew by 7.0% or $98 million to $1,496 million. This portfolio comprises the Hong Kong mobile services (CSL) business, the Telstra Global business and a number of digital media businesses in China.

CSL revenue grew 5.7% to $860 million, adding 475,000 new customers during the year. In local currency, CSL revenue grew 10.0% to HK$6,890 million.

Global Connectivity and NAS products, which includes the network assets acquired from Reach in March 2011, grew by 24.5% to $508 million.

DIGITAL MEDIA

Digital media product portfolio revenue declined by 9.6% or $252 million to $2,377 million. This portfolio includes our domestic media assets and our Sensis directories business. Digital media revenue, excluding the Sensis and advertising products, increased by 4.7% to $864 million. This was the result of revenue growth across TV, content and cable products. TV revenue growth of 3.5% to $646 million is driven by pay TV bundling revenue. Pay TV ARPU has improved by 3.6% following pricing reviews and strong sales of premium packages. Pay TV bundled customers declined by 1.4% to 501,000. Content revenue growth of 1.0% to $100 million reflects increased movie consumption and sales of 193,000 T-Box® devices since June 2011. Cable revenue increased by 15.7% to $118 million primarily due to the lease of the HFC cable for FOXTEL services.

Total revenue for Sensis and advertising declined by 16.1% to $1,513 million in the current year. The decrease primarily relates to the migration of the Sensis customer base from traditional print products to digital offerings, with the market's shift to digital marketing occurring faster than expected.

Full year results and operations review - June 2012

Yellow Pages print revenue declined by 31.8%, partially offset by growth in Yellow Pages digital of 4.5%. White Pages revenue increased by 1.4% to $442 million. This was driven by an increase of 33.5% in White Pages online revenue due to growth in the number of customers taking the online package product. White Pages print revenue declined by 1.4%.

PRODUCT PROFITABILITY - EBITDA MARGINS

	FY 2012	FY 2011	H2 2012	H1 2012	H2 2011
Mobile	**36%**	33%	**39%**	34%	36%
Fixed Broadband	**37%**	31%	**38%**	35%	31%
PSTN	**60%**	59%	**60%**	60%	59%
Data and IP	**64%**	64%	**64%**	63%	64%
Sensis	**47%**	56%	**60%**	25%	65%
Telstra Group	**40.6%**	40.6%	**40.6%**	38.3%	43.8%

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

EXPENSE PERFORMANCE

LABOUR

Total labour and labour substitution expenses increased by 0.3% or $13 million in the year with increased salary and associated costs being offset by a decrease in labour substitution and redundancy expense. With total revenue growth in the year of 1.1%, this result shows that we are continuing to improve underlying productivity in the business.

Labour expenses increased by 3.5% to $4,061 million in the year.

Within this category, salary and associated costs increased by 5.4% or $179 million. This included $104 million from bond rate movements impacting our long service leave and workers compensation provisions. Short term incentive provisions also increased due to a better performance against targets. Additional costs were incurred to support expansion in our NAS business as well as the impacts from acquisitions of Reach (March 2011) and iVision (April 2011).

Redundancy expenses decreased by 27.7% or $62 million to $162 million after significant restructuring in the prior year.

Labour substitution costs decreased by 12.0% or $124 million to $906 million driven mainly by service contracts, which decreased, due to an overall reduction in our domestic inbound call volumes. IT professional services costs also decreased following a review and renegotiation with our external suppliers.

OPERATING EXPENSES

	FY 2012 ($m)	FY 2011 ($m)	YoY change
Labour	**4,061**	3,924	3.5%
Goods and services purchased	**6,179**	6,183	-0.1%
Other expenses	**5,029**	5,047	-0.4%
Total operating expenses	**15,269**	15,154	0.8%

Total workforce numbers decreased by 940 in the year. Reductions were driven by the restructuring of our China businesses, continuing productivity initiatives in Sensis and the rationalisation of our contact centre activities. These reductions were partially offset by increases in our workforce to support our growth in NAS and NBN related activities.

GOODS AND SERVICES PURCHASED

Goods and services purchased have reduced by 0.1% or $4 million in fiscal 2012.

Our cost of goods sold (which includes mobile handsets, wireless devices and fixed/digital products) decreased by 3.5% or $93 million. This was driven by a small decline in total mobile activity. Pleasingly, this has coincided with continued high levels of mobile customer growth and low churn.

Network payments were substantially flat year on year, driven by growth in our domestic carrier network outpayments. Higher offnet volumes were partially offset by a reduced mobile terminating access (MTA) rate which dropped from nine cents to six cents per minute in January 2012. Payments to overseas carriers increased due to growth in outbound mobile roaming traffic and revenue. External network payments to Reach decreased due to the change in funding model following the acquisition of network assets from Reach in March 2011.

OTHER EXPENSES

Total other expenses decreased by 0.4% or $18 million primarily driven by the lower labour substitution costs discussed above and other service contracts and agreements. These reductions were partially offset by increased impairment charges and general and administration expenses.

Service contracts and agreements (excluding labour substitution)decreased by 7.5% or $100 million driven by reviews and renegotiation of contracts with external suppliers.

Impairment and diminution expenses increased by 22.0% or $98 million driven by an increase in goodwill impairment charges. This financial year included an impairment of $130 million against goodwill relating to our investment in TelstraClear. This impairment is associated with the planned sale of TelstraClear to Vodafone New Zealand. There was also an impairment in the LMobile Group of $56 million announced in February 2012.

Offsetting this was an improvement in bad and doubtful debts expense which declined by 12.9% or $44 million due to lower levels of consumer debt defaults and an improved remediation of long outstanding debt. General and administration expenses increased by 9.1% or $82 million driven mainly by increased power costs.

FINANCE COSTS

Net finance costs decreased by 21.8% or $247 million from the prior corresponding period.

The decrease in net interest on borrowings of $61 million is due to a reduction in the volume of average net debt and a reduction in the average interest cost (from 7.22% to 7.01%). The reduction in rate arose principally from a reduction in market base rates in the year, resulting in lower costs on the floating rate debt component of our debt portfolio. This was partially offset by an increase in refinancing margins on term debt issued during the year.

The decrease in other finance costs of $186 million includes $157 million relating to debt re-valuation impacts together with a decrease of $24 million relating to capitalised interest.

FINANCIAL POSITION

CAPITAL EXPENDITURE AND CASH FLOW

Accrued capital expenditure increased by 5.3% to $3,591 million for the full year. The increase was predominantly driven by investments in our mobile network and expansion of our ADSL 2+ broadband network, improvements in our mobile and online self-serve channels, and order management for complex products. We have also increased our investment in initiatives to prepare us for the transition to NBN including remediation activities.

Free cashflow for the year of $5,197 million includes NBN cash receipts of $300 million (net of tax) relating to the Information Campaign and Migration Deed and $100 million related to the Retraining Deed. The decline in free cashflow of 5.1% from fiscal year 2011 was driven by an improvement in cash generated from operations being more than offset by an increase in our cash used in investing activities. The increase in investing activities is attributable to lower net proceeds from the sale of investments after the sale of Soufun in the prior year and a loan made this fiscal year to Foxtel for the acquisition of Austar and higher cash capital expenditure.

DEBT POSITION

Our gross debt position at 30 June 2012 was $17,222 million, an increase of $990 million from 30 June 2011. The increase is mainly due to a net financing increase of $773 million as we prepare for the significant borrowing required over the next year. The net financing cash inflow of $773 million mainly comprises $2,801 million debt issuance for refinancing purposes partly offset by $2,036 million outflow for long-term debt maturities.

Net debt at 30 June 2012 was $13,277 million which reflects a decrease of $318 million from 30 June 2011. The net debt decrease reflects the increase in gross debt of $990 million offset by the net increase in cash and cash equivalents of $1,308 million. Our net debt gearing ratio (net debt to capitalisation) increased slightly from 52.5% as at 30 June 2011 to 53.2% as at 30 June 2012 and is within our target range for net debt gearing ratio.

STATEMENT OF FINANCIAL POSITION

Our balance sheet remains strong with net assets of $11,689 million. During the period we have refinanced several borrowings in various debt markets including two Euro public bond issues totalling A$2,250 million (€1,750 million) with maturity dates in 2022 and a Swiss Franc borrowing of A$252 million (CHF 225 million) maturing in 2018. Some pre-funding of our fiscal year 2013 borrowing requirements was undertaken in the second half of the year in the order of A$750 million. The decision to pre-fund was made with regard to the high financing demands in fiscal year 2013 and the prevaling market conditions.

Current assets increased by $2,497 million. Cash and cash equivalents increased due to the pre-funding of refinancing requirements and cash generated by the business. Customer acquisition has also resulted in an increase to trade and other receivables. Assets classified as Held for Sale relate to the carrying value of TelstraClear assets, after the sale of this entity was announced subsequent to balance date. Current tax receivables increased by $359 million as prior year tax ammendments were reclassified from non-current tax receivables.

Non-current assets decreased by $885 million. Property, plant and equipment and intangible assets declined as ongoing depreciation and retirements exceed the level of additions. This was partly offset by increased trade and other receivables as a result of a shareholder loan to Foxtel and higher mobile and fixed repayment option debt associated with increased sales activity. Derivative financial assets increased mainly due to net foreign currency and other valuation impacts arising from measuring to fair value.

Current liabilities increased by $1,694 million largely a result of an increase in borrowings of $1,316 million. Revenue received in advance increased by $152 million, including receipt of NBN related payments for transit network infrastructure works and staff retraining.

Non-current liabilities increased by $521 million due to higher defined benefit pension liabilities as a result of bond rate movements and lower than expected returns, higher derivative financial liabilities and an increase in revenue received in advance due to the receipt of NBN payments.

This was partly offset by a decrease in deferred tax liabilities associated with timing differences on depreciation.

FINANCIAL SETTINGS

	Actual	Target range
Debt Servicing	**1.3x**	1.5x to 1.9x
Gearing	**53.2%**	50% to 70%
Interest cover	**10.3x**	>7x

Full year results and operations review - June 2012

SEGMENT PERFORMANCE

SEGMENT REVENUE

	FY 2012 ($m)	FY 2011 ($m)	YoY change
Telstra Consumer and Country Wide	**10,267**	9,915	3.6%
Telstra Business	**4,676**	4,720	-0.9%
Telstra Enterprise and Government	**4,325**	4,142	4.4%
Telstra Wholesale	**2,101**	2,194	-4.2%
Telstra Media Group	**1,741**	1,978	-12.0%
Telstra International Group	**1,643**	1,336	23.0%
TelstraClear	**502**	514	-2.3%
Telstra Operations	**73**	113	-35.4%
Other	**79**	231	-65.8%
Total Telstra segments	**25,407**	25,143	1.0%
Other items excluded from segment results	**96**	161	-40.4%
Total Telstra Group (reported)	**25,503**	25,304	0.8%

SEGMENT EBITDA CONTRIBUTION

	FY 2012 ($m)	FY 2011 ($m)	YoY change
Telstra Consumer and Country Wide	**5,467**	5,075	7.7%
Telstra Business	**3,523**	3,554	-0.9%
Telstra Enterprise and Government	**3,453**	3,331	3.7%
Telstra Wholesale	**1,933**	2,031	-4.8%
Telstra Media Group	**764**	999	-23.5%
Telstra International Group	**312**	230	35.7%
TelstraClear	**99**	84	17.9%
Telstra Operations	**-3,679**	-3,744	-1.7%
Other	**-1,544**	-1,506	2.5%
Total Telstra segments	**10,328**	10,054	2.7%
Other items excluded from segment results	**-94**	97	-196.9%
Total Telstra Group (reported)	**10,234**	10,151	0.8%

We report our segment information on the same basis as our internal management reporting structure which reflects how our company is organised and managed. The performance of each segment is measured based on its “underlying EBITDA contribution” to the Telstra Group. Underlying EBITDA contribution excludes the effects of inter-segment balances and transactions, with the exception of network revenues and costs associated with the assets acquired from the Reach business. In addition, certain items are recorded within our Corporate areas, rather than being allocated to each segment. Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

Further details about the performance of our business segments follow:

TELSTRA CONSUMER AND COUNTRY WIDE

Telstra Consumer and Country Wide is responsible for providing a full range of telecommunication products and services to consumer customers in metropolitan, regional, rural and remote areas of Australia.

Telstra Consumer and Country Wide has benefited from our strategic investment to retain and grow customer numbers. Customer numbers increased by 6.6% across the fixed and mobility portfolios in fiscal year 2012, and customer satisfaction has increased by 3.3%.

This customer number growth has stimulated revenue growth with income increasing by 3.6 % to $10,267 million. Mobile service revenue grew by 10.3%, with growth in the mobile customer base of 12.8%, or 1.017 million. The success of our bundling strategy has contributed to growth in fixed broadband and Pay TV. Revenue in fixed broadband increased by 10.8% and Pay TV revenue grew by 3.7%. We also saw an increase in fixed broadband ARPU which increased by 3.1% to $51.25. In fiscal year 2012, labour and labour substitution costs reduced by 12.5% and EBITDA contribution increased by 7.7% to $5,467 million as we realised benefits from last year’s strategic investments in productivity and simplification.

TELSTRA BUSINESS

Telstra Business is a business partner and one-stop shop providing communications solutions to small and medium enterprises. Income for the full year was $4,676 million, a decline of 0.9%. EBITDA contribution declined by 0.9% to $3,523 million. The rate of EBITDA decline has improved significantly from the 3.1% decline reported at December, through reduced expenditure in the second half of the year. PSTN revenue declined by 9.2% as a result of customer disconnections and lower usage. Mobile services revenue increased by 2.8%. The mobile customer base increased by 233,000 over the year, more than offsetting ARPU declines. Network Applications and Services revenue also grew strongly, increasing by 19.9% to $223 million. Expenses decreased by 1.2%.

Full year results and operations review - June 2012

TELSTRA ENTERPRISE AND GOVERNMENT

Telstra Enterprise and Government (TE&G) is a leading provider of network based solutions and services to enterprise and government organisations in Australia and New Zealand. Income in this segment grew by 4.4% to $4,325 million while underlying EBITDA contribution increased by 3.7% to $3,453 million. TE&G has delivered another strong mobile services revenue result with growth accelerating to 11.2% and the mobile customer base increasing by 316,000 over the year. IP access and data services revenue grew by 4.1%. Network Application and Services revenue growth of 9.9% was driven by strong managed data networks revenue, including the contribution from our iVision acquisition and project activity. Expenses grew by 7.4% due to increased customer acquisition and NAS costs.

TELSTRA WHOLESALE

Telstra Wholesale is responsible for the provision 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.

Income generated from our Wholesale business declined by 4.2% to $2,101 million. Declining fixed usage and adverse regulatory pricing determinations for a number of products all contributed to this result. These significant price impacts compounded the ongoing loss of resale revenue, as customers migrated to lower ARPU Unconditioned Local Loop (ULL) services, with ULL services growing by 159,000 customers. Spectrum Sharing (LSS) services declined by 30,000 as carriers migrated to ULL services. Wholesale Line Rental revenue declined by 12.7% driven by a reduction of 32,000 wholesale PSTN services, a continued decline in usage and regulatory price changes. Wholesale fixed broadband revenue fell by 13.0% led by a reduction of 102,000 Wholesale DSL lines. External expenses increased by 1.8% driven by higher labour costs, particularly those associated with NBN readiness. As a result, underlying EBITDA contribution fell by 4.8% to $1,933 million.

TELSTRA OPERATIONS

Telstra Operations is primarily a cost centre supporting the revenue generating activities of our other segments. The underlying EBITDA contribution of -1.7% improved on the prior year with significant reductions in total service contract and agreement expenses. This result was achieved after increased investment in our strategic growth area of Network Application and Services.

TELSTRA MEDIA GROUP

As announced at the half year, the Telstra Media Group (TMG) was established to drive growth from our media assets and manage the transition to digital at our Sensis directories business. This group is responsible for the management and growth of the domestic directories and advertising business and includes the management of leading information brands including Yellow Pages®, White Pages®, and our investment in Digital Media content and the FOXTEL partnership.

On a segment reporting basis, TMG external income aligns with the product portfolio sales revenue, excluding Pay TV and Content revenues, both of which are predominantly in the Consumer segment, and also includes distributions from FOXTEL, recognised in Other Revenue. The TMG EBITDA decline of 23.5% was mainly driven by the decline in Sensis revenue, partially offset by the decrease in Sensis expenditure due to the continued streamlining of the business.

Further commentary on the performance of products in the TMG is provided in the Digital Media products section of this document.

TELSTRACLEAR

TelstraClear is our New Zealand subsidiary providing full service telecommunications, products and services to the business, government, wholesale and residential sectors. On 12 July 2012, we announced the sale of TelstraClear to Vodafone New Zealand. The sale is contingent on New Zealand regulatory approvals which is expected to take a number of months.

Total Income declined by 2.3% to $502 million, with an EBITDA contribution of $99 million. This was a 17.9% increase from the prior corresponding period. This result excludes the $130 million impairment charge relating to the goodwill of TelstraClear.

TELSTRA INTERNATIONAL GROUP

Telstra International Group encompasses our international assets outside Australia and New Zealand. It includes Hong Kong mobile operator, CSL; our mainland China businesses which provide digital media services in auto, IT and consumer electronics; and Telstra Global, our global connectivity business. Telstra Global provides managed network services, international data and voice, and satellite across Asia Pacific, China, India, Europe and Africa, and has a total of 14 carrier licenses worldwide. It also manages Telstra's submarine cable networks and the assets acquired from Reach in March 2011.

Overall, Telstra International Group Income grew by 23.0% to $1,643 million. CSL contributed income of $860 million with an improved EBITDA margin of 25.9%. Adjusting predominantly for intercompany revenue consolidated into the Telstra International Group as a result of the Reach transaction, Telstra International Group income reconciles with Telstra's International product revenue of $1,496 million. Further commentary on the performance of products in the Telstra International Group is provided in the International product section of this document.

OTHER

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

Full year results and operations review - June 2012

Results of operations

	Year ended 30 June 2012 $m	2011 $m	Change $m	Change %
Sales revenue	**25,232**	24,983	249	**1.0**
Other revenue (i)	**136**	110	26	**23.6**
Total revenue	**25,368**	25,093	275	**1.1**
Other income (ii)	**135**	211	(76)	**(36.0)**
Total income (excl. finance income)	**25,503**	25,304	199	**0.8**
Labour	**4,061**	3,924	137	**3.5**
Goods and services purchased	**6,179**	6,183	(4)	**(0.1)**
Other expenses	**5,029**	5,047	(18)	**(0.4)**
Operating expenses	**15,269**	15,154	115	**0.8**
Share of net profit from jointly controlled and associated entities	**0**	(1)	1	**100.0**
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**10,234**	10,151	83	**0.8**
Depreciation and amortisation	**4,412**	4,459	(47)	**(1.1)**
Earnings before interest and income tax expense (EBIT)	**5,822**	5,692	130	**2.3**
Net finance costs	**888**	1,135	(247)	**(21.8)**
Profit before income tax expense	**4,934**	4,557	377	**8.3**
Income tax expense	**1,510**	1,307	203	**15.5**
Profit for the period	**3,424**	3,250	174	**5.4**
Attributable to:				
Equity holders of the Telstra Entity	**3,405**	3,231	174	**5.4**
Non-controlling interests	**19**	19	0	**0.0**
	3,424	3,250	174	**5.4**
Effective tax rate	**30.6%**	28.7%		**1.9 pp**
EBITDA margin on sales revenue	**40.6%**	40.6%		**0.0 pp**
EBIT margin on sales revenue	**23.1%**	22.8%		**0.3 pp**
	cents	cents	Change cents	**Change %**
Basic earnings per share (iii)	**27.5**	26.1	1.4	**5.4%**
Diluted earnings per share (iii)	**27.4**	26.1	1.3	**5.0%**
Dividends per ordinary share:				
Interim dividend	**14.0**	14.0		
Final dividend	**14.0**	14.0		
Total	**28.0**	28.0		

(i) Other revenue primarily consists of distributions received from FOXTEL and rental income.
(ii) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.
(iii) Basic and diluted earnings per share are impacted by the effect of shares held in trust for employee share plans and instruments held under executive remuneration plans.

Full year results and operations review - June 2012

Statement of financial position

	As at 30 June			
	2012 $m	2011 $m	Change $m	Change %
Current assets				
Cash and cash equivalents	**3,945**	2,630	1,315	**50.0**
Trade and other receivables	**4,346**	4,137	209	**5.1**
Inventories	**260**	283	(23)	**(8.1)**
Derivative financial assets	**32**	83	(51)	**(61.4)**
Current tax receivables	**363**	4	359	**n/m**
Prepayments	**250**	275	(25)	**(9.1)**
Assets classified as held for sale	**754**	41	713	**n/m**
Total current assets	**9,950**	7,453	2,497	**33.5**
Non current assets				
Trade and other receivables	**851**	340	511	**150.3**
Inventories	**24**	22	2	**9.1**
Investments - accounted for using the equity method	**12**	2	10	**500.0**
Investments - other	**19**	1	18	**n/m**
Property, plant and equipment	**20,504**	21,790	(1,286)	**(5.9)**
Intangible assets	**7,421**	7,627	(206)	**(2.7)**
Derivative financial assets	**658**	285	373	**130.9**
Non current tax receivables	**80**	382	(302)	**(79.1)**
Deferred tax assets	**6**	-	6	**100.0**
Defined benefit assets	**-**	11	(11)	**(100.0)**
Total non current assets	**29,575**	30,460	(885)	**(2.9)**
Total assets	**39,525**	37,913	1,612	**4.3**
Current liabilities				
Trade and other payables	**4,131**	4,093	38	**0.9**
Provisions	**942**	846	96	**11.3**
Borrowings	**3,306**	1,990	1,316	**66.1**
Derivative financial liabilities	**299**	634	(335)	**(52.8)**
Current tax payables	**731**	404	327	**80.9**
Revenue received in advance	**1,170**	1,018	152	**14.9**
Liabilities classified as held for sale	**105**	5	100	**n/m**
Total current liabilities	**10,684**	8,990	1,694	**18.8**
Non current liabilities				
Other payables	**174**	177	(3)	**(1.7)**
Provisions	**264**	244	20	**8.2**
Borrowings	**11,958**	12,178	(220)	**(1.8)**
Derivative financial liabilities	**2,349**	1,799	550	**30.6**
Deferred tax liabilities	**1,107**	1,730	(623)	**(36.0)**
Defined benefit liability	**831**	205	626	**305.4**
Revenue received in advance	**469**	298	171	**57.4**
Total non current liabilities	**17,152**	16,631	521	**3.1**
Total liabilities	**27,836**	25,621	2,215	**8.6**
Net assets	**11,689**	12,292	(603)	**(4.9)**
Equity				
Equity available to Telstra Entity shareholders	**11,480**	12,074	(594)	**(4.9)**
Non-controlling interests	**209**	218	(9)	**(4.1)**
Total equity	**11,689**	12,292	(603)	**(4.9)**
Gross debt	**17,222**	16,232	990	**6.1**
Net debt	**13,277**	13,595	(318)	**(2.3)**
EBITDA interest cover (times)	**10.3**	9.6	1	**7.3**
Net debt to EBITDA	**1.3**	1.3	0	**0.0**
Return on average assets	**16.7%**	15.9%		**0.8 pp**
Return on average equity	**28.9%**	26.1%		**2.8 pp**
Return on average investment	**22.9%**	21.6%		**1.3 pp**
Gearing ratio (net debt to capitalisation)	**53.2%**	52.5%		**0.7 pp**

n/m = not meaningful

Full year results and operations review - June 2012

Statement of cash flows

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax (GST))	**28,364**	27,389	975	**3.6**
Payments to suppliers and to employees (inclusive of GST)	**(17,491)**	(17,860)	369	**(2.1)**
Net cash generated by operations	**10,873**	9,529	1,344	**14.1**
Income taxes paid	**(1,597)**	(1,511)	(86)	**5.7**
Net cash provided by operating activities	**9,276**	8,018	1,258	**15.7**
Cash flows from investing activities				
Payments for:				
- property, plant and equipment	**(3,006)**	(2,342)	(664)	**28.4**
- intangible assets	**(942)**	(909)	(33)	**3.6**
Capital expenditure (before investments)	**(3,948)**	(3,251)	(697)	**21.4**
- shares in controlled entities (net of cash acquired)	**0**	(36)	36	**(100.0)**
- payments for associates	**(9)**	0	(9)	**(100.0)**
- payments for other investments	**(18)**	0	(18)	**(100.0)**
Total capital expenditure	**(3,975)**	(3,287)	(688)	**20.9**
Proceeds from:				
- sale of property, plant and equipment	**17**	16	1	**6.3**
- sale of intangible assets	**2**	0	2	**100.0**
- sale of shares in controlled entities (net of cash disposed)	**(9)**	288	(297)	**(103.1)**
- sale of businesses (net of cash disposed)	**(2)**	14	(16)	**(114.3)**
- sale of associates	**0**	23	(23)	**(100.0)**
Proceeds from finance lease principal amounts	**54**	74	(20)	**(27.0)**
Repayments of loans to jointly controlled and associated entities	**3**	2	1	**50.0**
Loans to jointly controlled and associated entities	**(443)**	0	(443)	**n/m**
Interest received	**117**	122	(5)	**(4.1)**
Settlement of hedges of net investments	**49**	96	(47)	**(49.0)**
Dividends received	**0**	41	(41)	**(100.0)**
Distributions received from FOXTEL Partnership	**108**	70	38	**54.3**
Net cash used in investing activities	**(4,079)**	(2,541)	(1,538)	**60.5**
Operating cash flows less investing cash flows	**5,197**	5,477	(280)	**(5.1)**
Cash flows from financing activities				
Proceeds from borrowings	**3,049**	2,340	709	**30.3**
Repayment of borrowings	**(2,224)**	(2,536)	312	**(12.3)**
Repayment of finance lease principal amounts	**(52)**	(61)	9	**(14.8)**
Staff repayments of share loans	**3**	8	(5)	**(62.5)**
Finance costs paid	**(1,154)**	(1,135)	(19)	**1.7**
Acquisition of non-controlling interests	**(37)**	0	(37)	**n/m**
Dividends paid to equity holders of Telstra Entity	**(3,475)**	(3,475)	0	**0.0**
Dividends paid to non-controlling interests	**(16)**	(14)	(2)	**14.3**
Net cash used in financing activities	**(3,906)**	(4,873)	967	**(19.8)**
Net increase in cash and cash equivalents	**1,291**	604	687	**113.7**
Cash and cash equivalents at the beginning of the year	**2,637**	2,105	532	**25.3**
Effects of exchange rate changes on cash and cash equivalents	**17**	(72)	89	**(123.6)**
Cash and cash equivalents at the end of the year	**3,945**	2,637	1,308	**49.6**

n/m = not meaningful

Full year results and operations review - June 2012

Revenue

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
Fixed products				
PSTN products	**4,818**	5,356	(538)	**(10.0)**
Fixed broadband	**2,013**	1,957	56	**2.9**
Other fixed revenue (i)	**657**	659	(2)	**(0.3)**
Total fixed revenue	**7,488**	7,972	(484)	**(6.1)**
Mobiles				
Postpaid handheld	**4,672**	4,409	263	**6.0**
Prepaid handheld	**654**	637	17	**2.7**
Mobile broadband	**1,018**	919	99	**10.8**
Machine to Machine (M2M)	**80**	69	11	**15.9**
Mobiles interconnection	**769**	650	119	**18.3**
Mobile services revenue - wholesale resale	**137**	145	(8)	**(5.5)**
Total mobile services revenue	**7,330**	6,829	501	**7.3**
Mobile hardware	**1,338**	1,160	178	**15.3**
Total mobile revenue	**8,668**	7,989	679	**8.5**
Data & IP				
ISDN products	**826**	877	(51)	**(5.8)**
IP Access	**1,056**	970	86	**8.9**
Other data and calling products	**1,240**	1,300	(60)	**(4.6)**
Total Data & IP	**3,122**	3,147	(25)	**(0.8)**
Network applications and services	**1,263**	1,143	120	**10.5**
Digital media				
TV	**646**	624	22	**3.5**
Content	**100**	99	1	**1.0**
Sensis and advertising	**1,513**	1,804	(291)	**(16.1)**
Cable	**118**	102	16	**15.7**
Total digital media	**2,377**	2,629	(252)	**(9.6)**
International				
Hong Kong mobile services (CSL)	**860**	814	46	**5.7**
China digital media	**128**	176	(48)	**(27.3)**
Global connectivity and NAS	**508**	408	100	**24.5**
Total International	**1,496**	1,398	98	**7.0**
TelstraClear	**501**	516	(15)	**(2.9)**
Other sales revenue (ii)	**317**	189	128	**67.7**
Sales revenue	**25,232**	24,983	249	**1.0**
Other revenue (iii)	**136**	110	26	**23.6**
Total revenue	**25,368**	25,093	275	**1.1**
Other income (iv)	**135**	211	(76)	**(36.0)**
Total income	**25,503**	25,304	199	**0.8**

(i) Other fixed revenue primarily includes intercarrier services, payphones, customer premises equipment and narrowband.
(ii) Other sales revenue includes revenue for the build of NBN infrastructure ($67 million) and late payment and miscellaneous fee revenue.
(iii) Other revenue primarily consists of distributions received from FOXTEL and rental income.
(iv) Other income includes gains and losses on asset and investment sales, USO levy receipts, subsidies and other miscellaneous items.

Full year results and operations review - June 2012

Expenses

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
Salary and associated costs	**3,505**	3,326	179	**5.4**
Redundancy	**162**	224	(62)	**(27.7)**
Other labour expenses	**394**	374	20	**5.3**
Total labour	**4,061**	3,924	137	**3.5**
Cost of goods sold	**2,551**	2,644	(93)	**(3.5)**
Network payments	**1,948**	1,943	5	**0.3**
Other	**1,680**	1,596	84	**5.3**
Total goods and services purchased	**6,179**	6,183	(4)	**(0.1)**
Service contracts and other agreements	**2,135**	2,359	(224)	**(9.5)**
Labour substitution (incl. in service contracts and other agreements)	**906**	1,030	(124)	**(12.0)**
Impairment and diminution expenses	**544**	446	98	**22.0**
Other operating expenses	**2,350**	2,242	108	**4.8**
Total other expenses	**5,029**	5,047	(18)	**(0.4)**
Total Operating expenses	**15,269**	15,154	115	**0.8**
Salary and associated costs	**3,505**	3,326	179	**5.4**
Redundancy	**162**	224	(62)	**(27.7)**
Other labour expenses	**394**	374	20	**5.3**
Labour substitution (incl. in other expenses)	**906**	1,030	(124)	**(12.0)**
Total labour and labour substitution	**4,967**	4,954	13	**0.3**
Depreciation	**3,305**	3,454	(149)	**(4.3)**
Amortisation	**1,107**	1,005	102	**10.1**
Total depreciation and amortisation	**4,412**	4,459	(47)	**(1.1)**

Net Finance Costs

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
Borrowing costs	**1,120**	1,174	(54)	**(4.6)**
Finance leases	**12**	12	0	**n/m**
Finance income	**(134)**	(127)	(7)	**5.5**
Net Borrowing Costs	**998**	1,059	(61)	**(5.8)**
Other	**(110)**	76	(186)	**(244.7)**
Net Finance Costs	**888**	1,135	(247)	**(21.8)**

n/m = not meaningful

Accrued capex

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
New revenue/growth	**313**	318	(5)	**(1.6)**
Business improvement	**639**	574	65	**11.3**
Customer demand and experience	**1,971**	1,554	417	**26.8**
Lifecycle maintenance	**299**	545	(246)	**(45.1)**
Legal and regulatory compliance	**5**	6	(1)	**(16.7)**
Sensis	**106**	134	(28)	**(20.9)**
International	**258**	279	(21)	**(7.5)**
Accrued capital expenditure	**3,591**	3,410	181	**5.3**

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

Full year results and operations review - June 2012

Segment Information

	Total external income			Year ended 30 June		
	Year ended 30 June					
	2012 $m	2011 $m	Change %	2012 $m	2011 $m	Change %
Telstra Consumer and Country Wide	**10,267**	9,915	**3.6**	**5,467**	5,075	**7.7**
Telstra Business	**4,676**	4,720	**(0.9)**	**3,523**	3,554	**(0.9)**
Telstra Enterprise and Government	**4,325**	4,142	**4.4**	**3,453**	3,331	**3.7**
Telstra Wholesale	**2,101**	2,194	**(4.2)**	**1,933**	2,031	**(4.8)**
Telstra Media Group	**1,741**	1,978	**(12.0)**	**764**	999	**(23.5)**
Telstra International Group (i)	**1,643**	1,336	**23.0**	**312**	230	**35.7**
TelstraClear	**502**	514	**(2.3)**	**99**	84	**17.9**
Telstra Operations	**73**	113	**(35.4)**	**(3,679)**	(3,744)	**(1.7)**
Other	**79**	231	**(65.8)**	**(1,544)**	(1,506)	**2.5**
Total Telstra segments (ii)	**25,407**	25,143	**1.0**	**10,328**	10,054	**2.7**
Other items excluded from segment results (iii)	**96**	161	**(40.4)**	**(94)**	97	**(196.9)**
Total Telstra Group (reported)	**25,503**	25,304	**0.8**	**10,234**	10,151	**0.8**

(i) In fiscal 2012, we have changed our approach to the recognition of Reach transactions for internal management purposes and have not restated the prior year results. Income from external customers for the Telstra International Group includes $136 million of inter-segment income treated as external cost in our Retail units and is eliminated in the Other segment. External expenses in the Telstra International Group includes $33 million of inter-segment expenses treated as external income in Wholesale and is eliminated in the Other segment. In 2011, $12 million of inter-segment costs from Telstra Wholesale were treated as negative revenue and $34 million of inter-segment revenue with our Retail units was treated as negative expense in the Telstra International Group results.
(ii) Internally, we monitor our segment performance excluding the impact of certain revenue and expense items such as sales of major businesses and investments, sales of land and buildings and impairment write-offs.
(iii) Other items excluded from the segment results for the full year ended 30 June 2012 include the write back of deferred consideration relating to LMobile, revenue for the build of NBN infrastructure ($67 million), impairment expenses relating to our investments and the profit/loss on sale of businesses during the year.

Revenue by Business Segment

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	Change %
Telstra Consumer and Country Wide				
PSTN products	**2,746**	3,025	(279)	**(9.2)**
Fixed broadband	**1,305**	1,178	127	**10.8**
Mobile services revenue	**3,995**	3,622	373	**10.3**
Telstra Business				
PSTN products	**1,211**	1,333	(122)	**(9.2)**
Fixed broadband	**302**	315	(13)	**(4.1)**
Mobile services revenue	**2,155**	2,097	58	**2.8**
Network applications and services	**223**	186	37	**19.9**
Telstra Enterprise and Government				
Mobile services revenue	**1,031**	927	104	**11.2**
IP access and data services	**1,114**	1,070	44	**4.1**
Network applications and services	**1,017**	925	92	**9.9**

Full year results and operations review - June 2012

Sensis financial summary

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
Sales revenue	**1,471**	1,787	(316)	**(17.7)**
Total income	**1,471**	1,787	(316)	**(17.7)**
Operating expenses (excl. depreciation & amortisation)	**781**	793	(12)	**(1.5)**
EBITDA contribution	**690**	994	(304)	**(30.6)**
Depreciation and amortisation	**140**	123	17	**13.8**
EBIT contribution	**550**	871	(321)	**(36.9)**
Capital expenditure	**106**	134	(28)	**(20.9)**
EBITDA margin on sales revenue	**46.9%**	55.6%		**(8.7) pp**

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

Sensis total income is split into the following categories:

	Year ended 30 June			
	2012 $m	2011 $m	Change $m	**Change %**
- Yellow Pages revenue	**861**	1,119	(258)	**(23.1)**
- White Pages revenue	**442**	436	6	**1.4**
- Voice	**124**	131	(7)	**(5.3)**
- Other revenue.	**44**	101	(57)	**(56.4)**
Sensis total income	**1,471**	1,787	(316)	**(17.7)**

Full year results and operations review - June 2012

CSL New World financial summary

	Year ended 30 June			Year ended 30 June		
	2012 A$m	2011 A$m	**Change %**	**2012 HK$m**	2011 HK$m	**Change %**
Sales revenue	**860**	814	**5.7**	**6,890**	6,262	**10.0**
Total income	**860**	819	**5.0**	**6,890**	6,297	**9.4**
Operating expenses (excl. depreciation & amortisation)	**637**	643	**(0.9)**	**5,100**	4,927	**3.5**
EBITDA contribution	**223**	176	**26.7**	**1,790**	1,370	**30.7**
Depreciation and amortisation	**80**	84	**(4.8)**	**595**	601	**(1.0)**
EBIT contribution	**143**	92	**55.4**	**1,195**	769	**55.4**
Capital expenditure	**76**	73	**4.1**	**601**	609	**(1.3)**
EBITDA margin on sales revenue	**25.9%**	21.6%	**4.3 pp**	**26.0%**	21.9%	**4.1 pp**
Mobile SIOs ('000)	**3,468**	2,993	**15.9**	**3,468**	2,993	**15.9**

Amounts presented in HK$ have been prepared in accordance with IFRS.
Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from the consolidation of fair value adjustments.
Note: Statistical data represents management's best estimates.

TelstraClear financial summary

	Year ended 30 June			Year ended 30 June		
	2012 A$m	2011 A$m	**Change %**	**2012 NZ$m**	2011 NZ$m	**Change %**
Sales revenue	**502**	516	**(2.7)**	**644**	673	**(4.3)**
Total income	**502**	514	**(2.3)**	**644**	670	**(3.9)**
Operating expenses (excl. depreciation & amortisation)	**532**	430	**23.7**	**682**	562	**21.4**
EBITDA contribution	**(30)**	84	**(135.7)**	**(38)**	108	**(135.2)**
Depreciation and amortisation	**109**	112	**(2.7)**	**133**	138	**(3.6)**
EBIT contribution	**(139)**	(28)	**396.4**	**(171)**	(30)	**470.0**
Capital expenditure	**61**	66	**(7.6)**	**78**	85	**(8.2)**
EBITDA margin on sales revenue	**(6.0%)**	16.3%	**(22.3) pp**	**(5.9%)**	16.0%	**(21.9) pp**

Amounts presented in NZ$ represent the New Zealand business excluding intercompany transactions and have been prepared in accordance with IFRS.
Amounts presented in A$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from the consolidation of fair value adjustments.
Fiscal 2012 results include a A$130 million (NZ$165 million) impairment charge to goodwill arising on the pending sale of TelstraClear (upon consolidation).

Full year results and operations review - June 2012

Billable traffic data

	Year ended 30 June				Half-year ended 30 June			
	2012	2011	Change	**Change**	**2012**	2011	Change	**Change**
	m	m	m	**%**	**m**	m	m	**%**
Fixed telephony								
Number of local calls	**2,994**	3,570	(576)	(16.1)	1,418	1,698	(280)	(16.5)
National long distance minutes	**4,691**	5,408	(717)	(13.3)	2,271	2,638	(367)	(13.9)
Fixed to mobile minutes	**2,953**	3,122	(169)	(5.4)	1,450	1,560	(110)	(7.1)
International direct minutes	**469**	510	(41)	(8.0)	228	250	(22)	(8.8)
Mobiles								
Mobile voice telephone minutes	**16,926**	13,512	3,414	25.3	8,863	7,096	1,767	24.9
Number of SMS sent	**12,047**	9,905	2,142	21.6	6,165	5,095	1,070	21.0

ARPU ($)

	Year ended 30 June				Half-year ended 30 June			
	2012	2011	Change	**Change**	**2012**	2011	Change	**Change**
	($)	($)	($)	%	**($)**	($)	($)	**%**
PSTN	**48.88**	52.41	(3.53)	(6.7)	47.65	51.66	(4.01)	(7.8)
Fixed retail Broadband (incl h/ware)	**53.64**	53.34	0.30	0.6	53.72	52.05	1.67	3.2
Fixed retail Broadband (excl h/ware)	**52.76**	52.47	0.29	0.6	52.99	50.92	2.07	4.1
Mobile Services Retail (incl. Interconnect and MRO)	**46.09**	48.90	(2.81)	(5.7)	43.96	47.71	(3.75)	(7.9)
Postpaid handheld (excl. MRO)	**65.42**	65.36	0.06	0.1	63.69	65.33	(1.64)	(2.5)
Postpaid handheld (incl. MRO)	**61.51**	63.95	(2.44)	(3.8)	59.04	63.32	(4.28)	(6.8)
Prepaid handheld	**16.87**	16.89	(0.02)	(0.1)	16.67	15.94	0.73	4.6
Mobile broadband	**31.26**	40.22	(8.96)	(22.3)	29.84	36.37	(6.53)	(17.9)

Services in operation

	As at			Jun 12 vs Jun 11		Jun 12 vs Dec 11	
				Change	**Change**	Change	**Change**
	Jun 2012	Dec 2011	Jun 2011		**%**		**%**
Fixed products ('000)							
Basic access lines in service							
Retail	**6,877**	7,034	7,158	(281)	(3.9)	(157)	(2.2)
Wholesale	**1,180**	1,200	1,212	(32)	(2.6)	(20)	(1.7)
Total basic access lines in service	**8,057**	8,234	8,370	(313)	(3.7)	(177)	(2.1)
Fixed broadband SIOs - retail (i)	**2,599**	2,504	2,396	203	8.5	95	3.8
Fixed broadband SIOs - wholesale	**767**	815	869	(102)	(11.7)	(48)	(5.9)
ISDN access (basic line equivalents)	**1,306**	1,313	1,315	(9)	(0.7)	(7)	(0.5)
T-Hub Sales (ii)	**360**	293	212	148	69.8	67	22.9
T-Box Sales (ii)	**388**	289	195	193	99.0	99	34.2
Unconditioned local loop SIOs	**1,160**	1,061	1,001	159	15.9	99	9.3
Spectrum sharing services (iii)	**696**	717	725	(29)	(4.0)	(21)	(2.9)
Mobiles SIOs ('000)							
Postpaid handheld retail mobile	**6,596**	6,400	6,062	534	8.8	196	3.1
Total mobile broadband (data card)	**3,118**	2,746	2,310	808	35.0	372	13.5
Total wholesale mobile	**57**	65	74	(17)	(23.0)	(8)	(12.3)
Prepaid handheld unique users (iv)	**2,029**	1,988	1,921	108	5.6	41	2.1
Prepaid handheld retail mobile	**3,267**	3,291	3,193	74	2.3	(24)	(0.7)
M2M	**809**	744	658	151	22.9	65	8.8
Total pay TV bundling SIOs ('000)	**501**	504	508	(7)	(1.4)	(3)	(0.6)

(i) Telstra internet direct SIOs have been excluded following the move of the product category from fixed broadband retail to the Data and IP product category.
(ii) T-Hub and T-Box sales up to December 2011 have been adjusted to include outright device sales through our retail stores not previously recognised in our reported results. Units sold are life to date.
(iii) Excluded from wholesale broadband SIOs.
(iv) Prepaid unique users defined as the three month rolling average of monthly active prepaid users.

Note: Statistical data represents management's best estimates.

Full year results and operations review - June 2012

Workforce (v)

		As at		Jun 12 vs Jun 11		Jun 12 vs Dec 11	
	Jun 2012	Dec 2011	Jun 2011	Change	**Change %**	Change	**Change %**
Employee data							
Domestic full time staff (v)	**30,203**	30,405	30,229	(26)	(0.1)	(202)	(0.7)
Full time staff and equivalents (v)	**36,039**	36,472	36,072	(33)	(0.1)	(433)	(1.2)
Total workforce (v)	**39,972**	41,183	40,912	(940)	(2.3)	(1211)	(2.9)

(v) June 2011 Full Time Equivalents (FTEs) have been adjusted to reflect an additional 282 staff within the Reach business not previously recognised in our reported results including 108 Domestic Full Time staff.

Note: Statistical data represents management's best estimates.

Product profitability - EBITDA margins

	Year ended 30 June			Half-year ended		
	2012	2011	Change	Jun 2012	Dec 2011	Jun 2011
Mobile	**36%**	33%	3 pp	39%	34%	36%
Fixed Broadband	**37%**	31%	6 pp	38%	35%	31%
PSTN	**60%**	59%	1 pp	60%	60%	59%
Data and IP	**64%**	64%	0 pp	64%	63%	64%
Sensis	**47%**	56%	(9) pp	60%	25%	65%
Telstra Group	**40.6%**	40.6%	(0) pp	42.8%	38.3%	43.8%

Note: Product EBITDA margins are for selected portfolios which are reflective of Telstra's domestic business. These EBITDA margins are based on management estimates and are calculated in accordance with AASB 8 and reconcile with segment information. The data includes minor adjustment to historic numbers to reflect changes in product hierarchy

Full year results and operations review - June 2012

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.
(Assumes wholesale product price stability, no fiscal 2012 impairments to investments and excludes any proceeds on the sale of businesses)

	REPORTED			ADJUSTMENT Jun-12						GUIDANCE BASIS		
	Jun-12 $m	Jun-11 $m	Growth %	LMobile (i) $m	ACCC FAD (ii) $m	MTA (iii) $m	NBN (iv) $m	TClear (v) $m	FOXTEL (vi) $m	Jun-12 $m	Jun-11 $m	Growth %
Sales Revenue	**25,232**	24,983	**1.0%**		48	75	(67)			**25,288**	24,983	**1.2%**
Total Revenue	**25,368**	25,093	**1.1%**		48	75	(67)			**25,424**	25,093	**1.3%**
Total income (excl. finance income)	**25,503**	25,304	**0.8%**	16	48	75	(67)			**25,543**	25,304	**0.9%**
Labour	**4,061**	3,924	**3.5%**			0				**4,061**	3,924	**3.5%**
Goods and services purchased	**6,179**	6,183	**(0.1%)**			93				**6,272**	6,183	**1.4%**
Other expenses	**5,029**	5,047	**(0.4%)**	(56)		0		(130)		**4,843**	5,047	**(4.0%)**
Operating expenses	**15,269**	15,154	**0.8%**	(56)	0	93	0	(130)		**15,176**	15,154	**0.1%**
Share of net profit from jointly controlled and associated entities	**0**	(1)	**(100.0%)**							**0**	(1)	**(100.0%)**
EBITDA	**10,234**	10,151	**0.8%**	40	48	(18)	(67)	130		**10,367**	10,151	**2.1%**
Depreciation and amortisation	**4,412**	4,459	**(1.1%)**							**4,412**	4,459	**(1.1%)**
EBIT	**5,822**	5,692	**2.3%**	40	48	(18)	(67)	130		**5,955**	5,692	**4.6%**
Net finance costs	**888**	1,135	**(21.8%)**							**888**	1,135	**(21.8%)**
Profit before income tax expense	**4,934**	4,557	**8.3%**	40	48	(18)	(67)	130		**5,067**	4,557	**11.2%**
Income tax expense	**1,510**	1,307	**15.5%**	2	14	(5)	(20)	0		**1,501**	1,307	**14.8%**
Profit for the period	**3,424**	3,250	**5.4%**	38	34	(13)	(47)	130		**3,566**	3,250	**9.7%**
Attributable to:												
Equity holders of the Telstra Entity	**3,405**	3,231	**5.4%**	38	34	(13)	(47)	130		**3,547**	3,231	**9.8%**
Non controlling interests	**19**	19	**0.0%**							**19**	19	**0.0%**
Free cashflow	**5,197**	5,477	**(5.1%)**		48	(18)	(385)		443	**5,285**	5,447	**(3.5%)**

This table has been 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) LMobile Group impairment, writeback of deferred consideration and loss on sale adjustment:
Adjustments relating to the LMobile Group reflect a review of future cashflows including the writeback of non current deferred consideration of $33m and impairment of goodwill $49m and other intangible assets $7m (total $56m) undertaken during the year. Adjustments include a $17m loss on sale on the divestment of Lmobile subsequent to the previous cashflow review undertaken.
(ii) ACCC Final Access Determination adjustment:
Adjustments for ACCC Final Access Determination (FAD) pricing for fixed services.
(iii) Mobile Terminating Agreement (MTA) adjustment:
Adjustments for the re-pricing of mobile terminating rates from 9 cents to 6 cents.
(iv) NBN related adjustment:
Adjustments impacting the Income statement are associated with revenue for the build of NBN related infrastructure.
Adjustments impacting free cashflow relate to net $300m cash received ($321m net of cash impact of tax paid) related to the build of NBN infrastructure and $85m cash received ($100m less $15m expected in year cash receipts) under the Retraining Funding Deed to establish a retraining arrangement for employees impacted by the rollout of NBN.
(v) TelstraClear impairment adjustment:
Adjustments relating to an impairment of goodwill of $130m arising from the TelstraClear sale to Vodafone New Zealand.
(vi) FOXTEL loan:
Adjustment to reflect $443m loan provided to FOXTEL for AUSTAR acquisition. The provision of this loan is excluded from Telstra's cashflow guidance purpose.

Corporate Governance Statement

Corporate Governance & Board Practices 2012

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

Telstra's Board is committed to excellence in corporate governance and enhancing shareholders' interests. Telstra regularly reviews its corporate governance systems with the aim of ensuring that it continues its commitment to good corporate governance, having regard to developments in market practice expectations and regulation.

Telstra complies with the ASX Corporate Governance Principles and Recommendations as amended in 2010 (ASX Principles and Recommendations), and the disclosures set out in this statement reflect the current content of the Board and Board Committee Charters and key company policies.

Further information regarding Telstra's corporate governance and Board practices, including copies of Telstra's Charters and key policies, can be found on its website at www.telstra.com/abouttelstra/corp/governance/index.cfm.

Corporate Governance Statement

THE BOARD OF DIRECTORS

Role and responsibilities of the Board

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

- authorising all matters which are within the reserved powers of the Board and responsibility for which has not been delegated to management;
- approving Telstra's strategy and monitoring its performance;
- annually approving Telstra's corporate plan and monitoring the implementation of Telstra's strategy and performance against the corporate plan;
- appointing, assessing the performance of, and determining the remuneration of, the CEO;
- approving the appointment and remuneration, and overseeing the performance of, the executives who report directly to the CEO and any other members of the senior management team that the Board or the Remuneration Committee determines should be subject to its supervision;
- approving Telstra's overall remuneration framework, including any employee equity plans;
- overseeing Telstra's financial position and approving decisions concerning the capital management policy of Telstra, including capital restructures, capital returns and share buy backs, dividend policy and the payment of dividends;
- overseeing Telstra's external and internal audit activities, internal control framework and reporting systems and strategic risk management systems;
- monitoring and influencing Telstra's culture, reputation, ethical standards and legal compliance, and overseeing Telstra's corporate governance framework and the key supporting policies governing the operations of Telstra;
- monitoring Telstra's work health and safety performance; and
- approving Telstra's policies in relation to diversity at all levels of the Company (including the Board), and setting and assessing annually measurable objectives in relation to diversity and progress in achieving them.

The Board has adopted a Charter that details its role and responsibilities, and which is available in the Corporate Governance section of the Telstra website at www.telstra.com.au/abouttelstra/company-overview/governance/documents/.

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

Board membership and size

Telstra's Constitution requires a minimum of three Directors. Subject to the Corporations Act, the maximum number of Directors may not be more than 11 unless Telstra's shareholders, in a general meeting, resolve otherwise. The Directors must not determine a maximum which is less than the number of Directors in office at the time the determination takes effect.

The Directors may appoint an individual to be a Director, either as an addition to the existing Directors or to fill a casual vacancy up to the maximum number. Any decision on the appointment of a new Director is made by the Board on the basis of advice received from the Nomination Committee. Any new Director appointed by the Board during the year is required to stand for election at the next annual general meeting (AGM). Individuals may also nominate themselves (prior to the AGM and in accordance with the process outlined in the Constitution) for election as a Director at the AGM.

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

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

Board composition

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

The Board has developed a Board Skills Matrix which it utilises continuously to identify areas of focus to maintain the appropriate mix of diversity, skills, experience and expertise. The skills, experience and expertise which the Board considers to be particularly relevant include those in the areas of telecommunications, information technology, multimedia, advertising, retail and sales, infrastructure, Government relations, Australian and international business, finance and legal.

Two new non-executive Directors were appointed to the Telstra Board during fiscal 2012: Mr Timothy Y. Chen and Ms Margaret Seale. Details regarding these appointments can be found below in the section entitled "Diversity and Inclusion at Telstra".

Corporate Governance Statement

In respect of both appointments, the Board undertook a formal selection process and engaged an executive search firm to assist in the process. The Board established criteria regarding the general qualifications and experience, as well as the specific qualifications a candidate should possess to ensure the Telstra Board maintained the appropriate mix of diversity, skills, experience and expertise. Formal letters of appointment are provided to all new Directors setting out the key terms and conditions of their appointment.

All new Directors participate in a formal induction process co-ordinated by the Company Secretary. This induction process includes briefings on the Company's financial, strategic, operational and risk management position, the Company's governance framework, culture and values and key developments in the Company and the industry and environment in which it operates. Telstra also has in place a continuing education program for Directors which is incorporated in the annual Board cycle, with specific sessions scheduled around Board meeting dates.

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

Role of the Chairman

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

The Chairman's overarching responsibilities are to provide appropriate leadership to the Board and Telstra and to ensure the Board fulfils its obligations under its Charter. The Chairman also has specific responsibilities to:

- chair Board meetings, non-executive Directors' meetings and shareholders' meetings, and facilitate discussion within each meeting;
- represent the views of the Board and Telstra to shareholders and the public and to ensure the Board understands the views of the major shareholders;
- maintain a regular dialogue and mentoring relationship with the CEO and senior management, serving as a primary link between the Board and management and providing continuity between Board meetings; and
- work with the CEO in relation to the Board's requirements for information to contribute effectively to the Board decision making process and to monitor the effective implementation of Board decisions.

Director Independence

The Board recognises the important contribution independent Directors make to good corporate governance. All Directors, whether independent or not, are required to act in the best interests of the Company and to exercise unfettered and independent judgment. The Board intends that the CEO is to be the only executive Director and that all non-executive Directors should also be independent Directors.

The Board assesses, at least annually, the independence of each Director. Telstra considers that an independent Director is a non-executive Director who is free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of his or her unfettered and independent judgement and ability to act in the best interests of Telstra. Materiality is assessed on a case-by-case basis from the perspective of both Telstra and the relevant Director and consideration is given to both qualitative and quantitative factors.

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

With the exception of the CEO, all Directors are non-executive Directors and have been determined by the Board to be independent. During fiscal 2012, no non-executive Director had any relationship that could materially interfere with, or be perceived to materially interfere with, his or her unfettered and independent judgement and ability to act in the best interests of the Company.

If at any time during the year a Director ceases or may have ceased to be independent he/she is required to advise the Chairman immediately. Where the Board determines a Director is no longer independent an announcement will be made to the market.

Board Meetings

The Board meets regularly to discuss matters relating to, among other things, strategy and performance, financial position, risk management, people, sustainability and governance. It has routinely scheduled meetings and meets on other occasions to deal with specific matters that need attention as required. The Board liaises with senior management outside Board meetings where appropriate, and may consult with other Telstra employees and advisers and seek additional information.

Details regarding the number of meetings held by the Board during fiscal 2012, and attendance by Board members, are set out in the Directors' Report.

Corporate Governance Statement

The Board and the Company Secretary

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

Board access to management and independent professional advice

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

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

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

Performance Evaluation

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

In recent years, these performance reviews have been conducted both internally and externally, generally on an alternating basis. In line with this approach and on the basis that the fiscal 2011 review was conducted internally, led by the Chairman, the fiscal 2012 review was facilitated by an external consultant. The process incorporated a number of components, including:

- a document review (such as Board agendas and Charters);
- a Board performance survey of Directors and key members of senior management;
- an in-depth structured interview with each Director and key members of senior management in relation to Board, Committee and individual Director/Chairman performance;
- overall Board performance feedback;
- individual feedback to Directors relating to their performance from the external consultant; and
- a separate consideration by the Board of the performance review findings in relation to the Chairman, in the absence of the Chairman, with feedback provided to the Chairman in the presence of non-executive Directors.

The review included consideration of matters relating to:

- the effectiveness of discussions and debate at Board and Committee meetings;
- the relationship between the Board and management, including the level of engagement and flow of information; and
- Board processes, including level and timeliness of information provided to the Board.

The findings and recommendations of the external consultant's review were provided to the Board. The external consultant also met separately with each Director to review individual feedback. As noted above, the Board makes recommendations to shareholders regarding the re-election of Directors having regard to the outcome of these reviews.

The overall conclusion of the review was positive and the recommendations arising from it will be implemented during fiscal 2013 to support the continued effectiveness of the Board's performance.

During fiscal 2012, the Board also implemented the recommendations arising from the fiscal 2011 performance reviews.

Declaration of interests

Directors are required to take all reasonable steps to avoid actual, potential or perceived conflicts of interest. The Corporations Act, Telstra's Constitution and Telstra's Directors' Interests Policy require the Directors to disclose any conflicts of interest and, in certain circumstances, to abstain from participating in any discussion or voting on matters in which they have a material personal interest.

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

BOARD COMMITTEES

Four standing Committees assisted the Board during fiscal 2012:

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

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

Corporate Governance Statement

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

The role, Charter, performance and membership of each Committee are reviewed each year. Copies of the current Charters of Telstra's Board Committees are available in the Corporate Governance section of Telstra's website at www.telstra.com.au/abouttelstra/company-overview/governance/documents/index.htm.

In addition, the NBN Due Diligence Committee was established during fiscal 2011. The role of the Committee was to assist the Board in discharging its responsibilities by co-ordinating and overseeing the due diligence process required in connection with the NBN related resolution put to shareholders at Telstra's 2011 AGM. The Committee ceased operation during the second half of fiscal 2012.

Audit Committee

Role and responsibilities of the Audit Committee

The Audit Committee:

- assists the Board in discharging its responsibilities by monitoring and advising on matters relating to financial reporting, risk management, internal control, internal and external audit, corporate governance, compliance and matters that may significantly impact the financial condition or affairs of the business;
- provides a forum for communication between the Board, management and both the internal and external auditors; and
- provides a conduit to the Board for external advice on audit, risk management and compliance matters.

Composition and membership of the Audit Committee

The Audit Committee comprises at least three Board members, all of whom must be independent non-executive Directors. Each member shall:

- be financially literate (i.e. able to read and understand financial statements) and have sufficient financial knowledge to allow them to discharge their duties and actively challenge information presented by management, internal and external auditors;
- have reasonable knowledge of Telstra, the industries in which it operates and its risks and controls;
- not serve on more than two other public company audit committees (unless the Board determines that such responsibilities will not impair the Director's ability to serve on the Telstra Audit Committee); and
- have the capacity to devote the required time and attention to prepare for and attend Committee meetings.

The Chairman of the Audit Committee is an independent Director who is not Chairman of the Board. In addition, at least one member is a qualified accountant or other finance professional with experience of financial and accounting matters.

Meetings of the Audit Committee

Audit Committee meetings are held on a regular basis, as determined annually in advance by the Board, and scheduled to correspond with Telstra's financial reporting cycle. Special meetings may be convened as required. Other members of the Board may attend Audit Committee meetings and the Audit Committee may ask management, the external auditor and others to attend meetings and provide any required advice.

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

Relationship with external auditor

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

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

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

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

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

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

Corporate Governance Statement

Nomination Committee

Role and responsibilities of the Nomination Committee

The Nomination Committee monitors and advises on:

- composition and performance of the Board, including Board diversity;
- Director independence;
- appointment of the CEO and CEO succession planning;
- CEO and Company Secretary performance; and
- outside directorship requests from executives in relation to publicly listed companies or managers of listed managed investment schemes.

Composition and membership of the Nomination Committee

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

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

Meetings of the Nomination Committee

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

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

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

Remuneration Committee

Role and responsibilities of the Remuneration Committee

The Remuneration Committee monitors and advises on:

- remuneration of the Board, CEO and Company Secretary;
- performance and remuneration of senior management;
- remuneration strategies, practices and disclosures generally;
- work health and safety;
- diversity (excluding Board diversity);
- employee equity plans; and
- management succession, capability and talent development.

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

Composition and membership of the Remuneration Committee

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

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

Telstra's Remuneration Committee structure complies with the ASX Listing Rules.

Meetings of the Remuneration Committee

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

Other members of the Board may attend Remuneration Committee meetings and the Remuneration Committee may invite other people, including any Telstra employees, to attend all or part of its meetings, as it deems necessary or appropriate. However, if a person has a material personal interest in a matter that is being considered at a meeting, that person must not be present for consideration of that matter. This ensures that no senior executive is directly involved in deciding their own remuneration.

Telstra's Remuneration Framework

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

- Board members; and
- senior executives who were the key management personnel of the Company during fiscal 2012.

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

Corporate Governance Statement

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

Each year, the Board reviews the CEO's performance against agreed measures, broader expectations and other relevant factors. The CEO undertakes a similar exercise in relation to senior management. The results of the CEO's annual performance review of senior management are considered by the Board. The process for evaluating the performance of the CEO and senior executives is discussed in greater detail in Telstra's Remuneration Report (particularly in the context of determining levels of compensation and awards). In fiscal 2012, the performance of the CEO and key management personnel was reviewed in the manner set out in the Remuneration Report.

Technology Committee

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

SHAREHOLDER COMMUNICATIONS

Telstra is committed to:

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

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

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

- maintaining an investor relations website;
- writing directly to shareholders on significant issues that affect their investment;
- placing all announcements made to the market, including transcripts of investor briefings and related information, on its website after this information has been released to ASX;
- webcasting important events such as briefings and the AGM; and
- using electronic communications to advise those shareholders who have provided their email address, of significant matters.

RISK OVERSIGHT AND MANAGEMENT

Management of risks

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

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

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

Risk management roles and responsibilities

Risk management occurs at all levels of the Company. The Board has ultimate responsibility for reviewing Telstra's actual and potential material business risks, approving the risk management framework policy and overseeing Telstra's strategic risk management and internal control framework and reporting system.

The Audit Committee assists the Board in discharging these responsibilities by monitoring and advising on matters relating to risk management including:

- overseeing management's design and implementation of Telstra's risk management systems; and
- reviewing and monitoring the adequacy and effectiveness of management's reporting and risk management responses and internal control systems.

The CEO, supported by the CEO Leadership Team, is accountable for ensuring that Telstra management implements an effective risk management and internal control framework to identify, manage and monitor the company's risks and reports to the Board on whether those risks are being managed effectively.

Corporate Governance Statement

For the financial year ended 30 June 2012, the CEO and CFO have provided the Board with the certifications required by the Corporations Act and the ASX Principles and Recommendations. Specifically, the Board has received:

- reports from management as to the effectiveness of the Company's management of its material business risks;
- the declaration from the CEO and CFO required in accordance with section 295A of the Corporations Act; and
- assurance from the CEO and CFO that the section 295A declaration was founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

LEGAL AND REGULATORY COMPLIANCE

Telstra conducts its activities in accordance with the law and its regulatory obligations. This is achieved through, among other things, the Compliance & Corporate Ethics Framework (C&CEF) which brings together Telstra's business units and the individual subject matter specific compliance programs in an integrated, consistent and collaborative way.

Telstra maintains a comprehensive program-based approach to compliance, which is a key element of the C&CEF. Every Compliance Program is managed by a subject matter expert, who works with the business units to help them understand the various legal and regulatory obligations and responsibilities of the Company and translate them into appropriate practice. Currently there are 15 programs under the C&CEF, including Health, Safety and Wellbeing, Environment, Privacy, Competition and Consumer, Diversity and Inclusion, Disability Services, Fraud, Regulatory, Information Security, Structural Separation Undertaking, Financial Reporting Framework, Records Management, Whistleblowing, Policy Governance, and Continuous Disclosure.

This program-based approach at a corporate level is supported by a network of senior personnel appointed to perform the functions of Business Unit Compliance Manager. They are supported by business unit personnel who implement the compliance programs within their business unit.

The Audit Committee assists the Board in discharging its responsibilities by overseeing Telstra's approach to achieving compliance with applicable laws and obligations. This oversight is facilitated by the preparation of regular compliance reports which are presented to the Audit Committee, highlighting aspects of the C&CEF.

TELSTRA VALUES, THE TELSTRA GROUP CODE OF CONDUCT & BUSINESS PRINCIPLES AND OTHER COMPANY POLICIES

Telstra Values, the Telstra Group Code of Conduct & Business Principles (TGCoC&BPs) and Telstra's company policies promote and provide guidance on ethical and responsible decision making and behaviour. The TGCoC&BPs underpins the Telstra Values and sets out Telstra's commitments to good corporate governance, responsible business practice, its customers, its workforce, society and the environment. Telstra's company policies give effect to the principles embodied in the TGCoC&BP. A mandatory training program for all employees is also in place to reinforce Telstra's legal, regulatory and compliance responsibilities.

The Telstra Values, TGCoC&BPs and some of Telstra's key Company Policies (or summaries of them) are available on the Telstra website at www.telstra.com.au/abouttelstra /company-overview/governance/.

Privacy at Telstra

Telstra is serious about its commitment to protect the privacy of its customers, including the information that they provide to Telstra. Telstra has adopted a policy and a set of privacy principles in accordance with the Commonwealth Privacy Act 1988 and Telecommunication Act 1997, which set out Telstra's commitment to the protection of its customers' personal information. They outline the ways Telstra protects customer personal information, how and why Telstra collects it, how Telstra may use and disclose it, how Telstra keeps it secure and accurate, as well as how customers may access it. Telstra's Privacy Statement, which it gives to its customers, also describes how Telstra collects, uses, discloses and secures the personal information it collects from individuals.

Further information on Privacy at Telstra is available in the sustainability reporting included in this Annual Report and at www.telstra.com.au/privacy/privacy-at-telstra/index.htm (including copies of Telstra's Privacy Policy, Privacy Principles and Privacy Statement).

Whistleblowing

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

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

Corporate Governance Statement

Anti Bribery & Anti Corruption

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

In addition, Telstra's policy on gifts, prizes and hospitality provides a process for employees and contractors to obtain approval for, and notify details of, certain gifts, prizes and hospitality that they are offered as a result of, or in connection with, their employment or engagement by Telstra.

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

Securities Trading

Telstra's securities trading policy sets out the procedure relating to buying, selling and otherwise dealing in Telstra securities by Directors, the CEO, senior management and certain other designated employees (Designated Persons), through a trading windows approach.

Under the policy, Designated Persons must not buy, sell or otherwise deal in Telstra securities if they possess non-public, price-sensitive information and may generally only deal during a period of one month commencing 24 hours following the release of the annual results, the release of the half-yearly results or the close of the AGM.

Designated Persons are also prohibited from using Telstra shares as collateral in any financial transaction (including margin loan arrangements), engaging in any stock lending arrangements in relation to Telstra shares, and buying, selling or otherwise dealing in Telstra shares on a short-term trading basis. Further, Designated Persons are prohibited from entering into arrangements which effectively operate to limit the economic risk of their security holdings in Telstra allocated under Telstra's equity plans during the period the shares are held in trust on their behalf by the trustee or prior to the exercise of any security.

Market Disclosure

Telstra has policies and procedures in place which are intended to ensure that it complies with its continuous disclosure obligations and releases price-sensitive information in a timely fashion to the various stock exchanges on which its shares and debt securities are listed. In particular, a continuous disclosure policy is in place and is reviewed and updated on a regular basis. The policy outlines responsibilities and sets out the process for the approval of ASX announcements, including where Board approval is required in respect of announcements that relate to certain significant matters. The policy also outlines the role of the CEO, CFO and Continuous Disclosure Committee in relation to disclosure matters.

The Continuous Disclosure Committee (consisting of the Company Secretary, the General Counsel - Finance & Strategy, the Deputy CFO, the Director - Investor Relations and a representative of Corporate Affairs, or their delegates) is responsible for monitoring potentially disclosable information provided by management and overseeing systems to ensure that material information is identified and reported to the ASX as required. Telstra has implemented several practices internally to keep the Continuous Disclosure Committee informed about potentially disclosable matters and to reinforce the importance of its continuous disclosure obligations.

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

Telstra provides advance notification of significant group briefings, such as its results announcements, and makes them widely accessible through the use of webcasting and placing all announcements made to the market on its website.

Telstra's 3Rs of Social Media Engagement

Social media offers opportunities for people to gather online to share, connect and engage with like-minded people and communities. Telstra embraces social media as an important tool to engage with staff, customers and the public every day. With the rapid growth and application of social media, Telstra recognises the need to have a policy that ensures employees and contractors who use social media, either as part of their job or in a personal capacity, have guidance. They need to understand Telstra's expectations as a staff member when they talk online about Telstra, its products and services, its people, its competitors and/or other business related individuals or organisations.

Corporate Governance Statement

Telstra's 3Rs of Social Media Engagement policy requires employees and contractors to be aware of the guidelines when engaging in social media, stipulating that they be clear about who they are representing, that they take responsibility for ensuring any references to Telstra are factually correct, accurate and do not breach confidentiality requirements, and that they show respect for the individuals and communities they interact with.

Approval and accreditation is required before employees or contractors can become authorised to use social media for business purposes on behalf of Telstra. The 3Rs policy also covers the requirements for the personal use of social media if references are made to Telstra, its people, products or services, business partners or its competitors.

SUSTAINABILITY AT TELSTRA

As a large telecommunications company with a presence across Australia and an international footprint, Telstra's responsibility is to manage its business ethically to produce an overall positive impact on its customers, employees, shareholders and other stakeholders, as well as the wider community and the natural environment.

Telstra's primary corporate responsibilities are to:

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

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

Political Donations

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

Other Donations

Telstra makes donations and contributes funds to community and non-profit organisations as part of its approach to community investment and sustainability.

Further information on Telstra's approach and progress in relation to sustainability, including the work of the Telstra Foundation and Telstra's support of community and non-profit organisations, can be found in the sustainability reporting included in this Annual Report and on Telstra's website at www.telstra.com.au/sustainability.

DIVERSITY AND INCLUSION AT TELSTRA

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

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

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

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

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

Diversity and inclusion at Telstra is led by Telstra's CEO Leadership Team, who convene as the Telstra Diversity Council on a quarterly basis. This group is chaired by the CEO.

On 30 June 2010, the ASX Corporate Governance Council released the Amended ASX Principles and Recommendations, which included amendments in relation to diversity. While the changes did not apply to Telstra until this financial year, the Company had already taken steps to adopt key provisions of the ASX Principles and Recommendations as disclosed in previous annual reports. These steps included:

- establishing measurable objectives for achieving diversity at all levels of the Company in respect of fiscal 2012;
- formally adopting policies in relation to diversity at Board level and at all levels below the Board, reflecting the principles and practices Telstra has had in place for a number of years – this provided the framework for measurable objectives to be set by the Board. These policies are available on Telstra's website at www.telstra.com.au/abouttelstra/company-overview/governance/; and
- including responsibility for diversity in the Board Charter, the Nomination Committee Charter (Board diversity) and the Remuneration Committee Charter (diversity at all levels of the Company below Board level).

Corporate Governance Statement

Measurable Objectives

The Board has assessed the Company's performance against the measurable objectives for achieving diversity at all levels of the Company established by the Board in respect of fiscal 2012. Details on the Company's progress in achieving those objectives, and the measurable objectives which have been set by the Board in respect of fiscal 2013, are outlined below:

Measure	Objective and Progress/Result in respect of FY 2012	Objective in respect of FY 2013
Women on the Board	**Objective** - By the end of fiscal 2013, there will be three women on the Board, representing a female gender representation among non-executive Directors of at least 30%. **Progress** - As at 30 June 2012, there were three female Directors on the Board (including the Chairman of the Board), representing a female gender representation among non-executive Directors of 30%.	There will be three women on the Board, representing a female gender representation among non-executive Directors of at least 30%.
Female representation in graduate intake	**Objective** - 50% female representation in 2013 graduate intake. **Result** - 29% female representation.	35% female representation in 2014 graduate intake, with an aspiration of 50% female representation by 2020.
Promotion rates for women	**Objective** - To exceed their representation at Business Unit level. **Result** – Promotion rates for women exceeded representation in majority of Business Units.	To exceed their representation at Business Unit level.
Engagement of identified groups* *Identified Groups are female employees, Indigenous employees, other culturally and linguistically diverse employees (CALD), employees with a disability, and gay, lesbian, bisexual, transgender and intersex employees (GLBTI).	**Objective** - Equal to or greater than national benchmarks. **Result** - Engagement of identified groups was higher than national benchmarks (the Telstra-wide engagement score) in most cases (females, other CALD, GLBTI employees) and equal to or greater than fiscal 2011 scores in those cases. No identified group showed a lower engagement level than in fiscal 2011.	Equal to or greater than Telstra-wide engagement score, with any negative differences not statistically significant.
Female representation for 30 June	**Objective** – 32% (Telstra) and 25% (Executive Management). **Result** - 31% (Telstra) and 25% (Executive Management).	32% (Telstra) and 25% (Executive Management).

Telstra has in place a range of initiatives to achieve its diversity measurable objectives, and diversity and inclusion at Telstra in general, including in the areas of Board diversity, gender equality, flexible working, Indigenous, disability, sexual orientation and gender identity, as outlined below.

Board Diversity

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

Since 1 July 2011, two new non-executive Directors have been appointed to the Telstra Board:

- Mr Timothy Y. Chen was appointed to the Board as a non-executive Director effective 1 April 2012. Mr Chen is an internationally recognised technology executive with experience in major global firms in China and the United States. Mr Chen's career experience aligns well with Telstra's strategic growth areas, particularly in the Asian and Network Applications and Services business.
- Ms Margaret Seale was appointed to the Board as a non-executive Director effective 7 May 2012. Ms Seale has served in senior executive roles in Australia and overseas, primarily in the global publishing industry, during a career spanning more than 30 years. Ms Seale has experience in the transition of traditional business models to adapt and thrive in a digital environment.

Both of these appointments are important from a diversity perspective, as the Board considers that diversity is not limited to gender. As part of the Board's routine considerations regarding Board renewal, it will continue its focus on diversity as it has in recent years, to ensure that there is an appropriate mix of diversity, skills, experience and expertise represented on the Telstra Board.

Corporate Governance Statement

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

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

Gender equality

At Telstra, it is critical that gender is not a barrier to participation, success and opportunity. The Company’s approach to gender equality is to involve both women and men in creating an inclusive environment. The achievements of Telstra Corporation Limited in fiscal 2012 include:

- Telstra was a winner of the 2011 Australian HR Award for Best Workplace Diversity Strategy and Winner of the 2012 Australian HR Institute Award for Gender Equity, with individual recognition as winner in the CEO and HR Champion categories;
- Telstra’s CEO continued his involvement in the “Male Champions of Change” group, convened by Australia’s Sex Discrimination Commissioner, Elizabeth Broderick. This group models effective leadership by male executives in relation to gender equality in some of Australia’s largest corporate and government organisations;
- ongoing implementation of a specific employment brand and website to increase the attraction of women into roles at Telstra;
- further closure of the gender pay equity gap through close analysis and deliberate action to correct differences in pay that cannot be explained by differences in length of service or levels of performance when comparing people doing the same jobs;
- embedding of inclusive practice across the employee life-cycle, into the responsibilities of middle and senior managers;
- Telstra’s continued support of its women and men participating in development events and programs, and partnering with organisations such as Catalyst, Sustaining Women in Business, Business Chicks, Women in Engineering, Chief Executive Women and Females in Information Technology and Telecommunications; and
- Telstra men continued as ambassadors and supporters of the White Ribbon Foundation campaign to eliminate violence against women; and
- Telstra was included on the 2012 Women on Boards Traffic Light Index on gender diversity with a “green” rating. The index evaluates companies’ responses to the revised Principle 3 of the ASX Corporate Governance Principles and Recommendations.

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Women at Telstra– as at 30 June 2012*

	As at 30 June 2012		As at 30 June 2011	
Role	**By Number**	**By Percentage**	**By Number**	**By Percentage**
Executive Management	63	25%	56	23%
Middle Management	2,198	27%	2,064	27%
Operational	8,083	33%	8,256	33%
TOTAL	10,343	31%	10,385	31%

* Includes full time and part time staff paid by Telstra Corporation Limited and Sensis Pty Ltd, excluding casual staff and agency staff.

Representation of Women in the Telstra Group– as at 30 June 2012*

	As at 30 June 2012	
Women	11,857	31%

*Includes full time and part time staff in entities within the Telstra Group, excluding casual staff and agency staff. For a list of the entities in the Telstra Group, please refer to Note 25 of the Financial Statements.

Corporate Governance Statement

Flexible Work and Careers

New policies covering Flexible Working and Working outside the Office were launched within the Company in December 2011. These policies provide a platform for further promotion of flexible work and careers and active practice of inclusion, particularly for women and men with caring responsibilities. Wide consultations were conducted throughout the Company, and companywide education and awareness sessions were commenced on flexible working, to continue to bring the Company's policies into practice.

Other Initiatives

The Company's commitment to, and work in, other areas of Diversity and Inclusion during fiscal 2012 has also resulted in achievements in each of the following areas:

Indigenous Australians – The Company commenced developing its specific Indigenous employment brand and completed an Indigenous Employment Plan which was endorsed by the Australian Government Department of Education, Employment and Workplace Relations. As part of this Plan, Telstra completed a feasibility study that identifies the opportunities it has to increase Indigenous career pathways and job readiness. Telstra's Employment Plan outlines how it will achieve this through traineeships, cadetships and graduate recruitment, among other approaches.

The intake of Indigenous trainees in Telstra Operations and Customer Sales and Service increased in fiscal 2012 as a result of targeted recruitment initiatives and candidate care, meeting the targets Telstra set for this year. 17 of the 20 Indigenous employees who joined Telstra during fiscal 2012 remain employed at Telstra as at 30 June 2012. Voluntary separation of Indigenous employees remains consistently below representation.

Disability – Telstra employs people at all levels in the Company who identify as living with a disability, in a variety of roles and Business Units, from operational to Executive levels. In fiscal 2012, Telstra continued its partnership with the National Disability Recruitment Coordinator (NDRC) to support candidates with a disability to have great careers at Telstra. Between 1 July 2010 and 30 June 2012, 52 new Telstra employees have identified as living with a disability, representing a 14% increase on initial numbers. Telstra's voluntary separation rates of employees with a disability are consistently lower than their representation rates and the engagement of this group increased over the past year. Telstra has also continued the employment of people with a disability working in a supported program to help in the maintenance of Telstra Exchanges. Its work on employment of people with a disability was recognised as Finalists in the 2012 AHRI Diversity Awards in the "Disability Employment" category.

GLBTI Inclusion – Telstra supported the Aids Trust of Australia with its Red Ribbon SMS service for World Aids Day 2011, its GLBTI employees contributed their stories by video to the global "It Gets Better" campaign to support GLBTI youth and Telstra continued its support of the Midsumma Festival in Melbourne. Engagement of GLBTI employees at Telstra remains very high.

Telstra believes that the benefits of its activities and initiatives around Diversity and Inclusion accrue in many ways in its business. Most importantly, improving diversity and flexibility within its workforce has seen increased employee engagement, which is a key driver for productivity and providing great customer service. It also helps Telstra remain innovative in the ever-changing markets in which it operates. In addition, improving the diversity of its workforce and being an inclusive place to work has meant that Telstra has been able to build stronger connections in the communities it serves and in which its employees live, and has been able to effect beneficial changes for them. Telstra's plans in these areas are focussed on continuing to connect with its diverse customer base, contribute within the community and be a place where diverse people can be engaged and productive in delivering against Telstra's strategy.

Further information regarding Telstra's customer and community diversity and inclusion initiatives can be found in the sustainability reporting included in this Annual Report and on Telstra's website at www.telstra.com.au/sustainability.

Corporate Governance Statement

Compliance with the ASX Principles and Recommendations

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

Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	✓	See "Role and responsibilities of the Board". See also the Board Charter which is available on Telstra's website.
Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.	✓	See the Remuneration Report (in particular, page 55) which forms part of the Directors' Report.
Recommendation 2.1: A majority of the board should be independent directors.	✓	See "Director Independence".
Recommendation 2.2: The chair should be an independent director.	✓	See "Role of the Chairman".
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	✓	See "Role of the Chairman".
Recommendation 2.4: The board should establish a nomination committee.	✓	See "Nomination Committee". See also the Nomination Committee Charter which is available on Telstra's website.
Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓	See "Performance Evaluation".
Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity; • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓	See "Telstra Values, the Telstra Group Code of Conduct & Business Principles, and other Company Policies". See also the Telstra Group Code of Conduct & Business Principles which are available on Telstra's website.
Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and assess annually both the objectives and progress in achieving them.	✓	See "Diversity and Inclusion at Telstra". See also Telstra's diversity policies which are available on its website.
Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✓	See "Diversity and Inclusion at Telstra".
Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✓	See "Diversity and Inclusion at Telstra".
Recommendation 4.1: The board should establish an audit committee.	✓	See "Audit Committee".

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

Corporate Governance Statement

Recommendation		Please refer to the following sections of the Corporate Governance Statement
Recommendation 4.2: The audit committee should be structured so that it: • consists only of non-executive directors; • consists of a majority of independent directors; • is chaired by an independent chair, who is not chair of the board; and • has at least three members.	✓	See “Audit Committee”.
Recommendation 4.3 The audit committee should have a formal charter.	✓	See “Audit Committee”. See also the Audit Committee Charter which is available on Telstra’s website.
Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	✓	See the “Market Disclosure” section in “Telstra Values, the Telstra Group Code of Conduct & Business Principles, and other Company Policies”.
Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	✓	See “Shareholder Communications”. See also the Telstra Group Code of Conduct & Business Principles which are available on Telstra’s website.
Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	✓	See “Risk Oversight and Management”. See also the Telstra Group Code of Conduct & Business Principles which are available on Telstra’s website.
Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company’s material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company’s management of its material business risks.	✓	See “Risk Oversight and Management”.
Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	✓	See “Risk Oversight and Management”.
Recommendation 8.1: The board should establish a remuneration committee.	✓	See “Remuneration Committee”. See also the Remuneration Committee Charter which is available on Telstra’s website.
Recommendation 8.2: The remuneration committee should be structured so that it: • consists of a majority of independent directors • is chaired by an independent chair • has at least three members.	✓	See “Remuneration Committee”. See also the Remuneration Committee Charter which is available on Telstra’s website.
Recommendation 8.3: Companies should clearly distinguish the structure of non-executive directors’ remuneration from that of executive directors and senior executives.	✓	See the Remuneration Report (in particular pages 57 and 61) which forms part of the Directors’ Report.

Shareholder Information

Listing Information

Markets in which our shares are traded

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

Markets on which our debt securities are listed

We also have debt securities listed on the ASX, the London Stock Exchange, 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 6 August 2012:

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

Distribution of shares

The following table summaries the distribution of our listed shares as at 6 August 2012:

Size of Holding	Number of Shareholders	%	Number of Shares	%
1-1,000	662,973	48.09	382,345,595	3.07
1,001-2,000	241,573	17.52	352,304,426	2.83
2,001-5,000	264,097	19.16	847,119,295	6.81
5,001-10,000	116,692	8.46	823,315,196	6.62
10,001-100,000	89,777	6.51	2,125,093,751	17.08
100,001 and over	3,490	0.25	7,912,896,094	63.59
Total	**1,378,602**	**100.00**	**12,443,074,357**	**100.00**

The number of shareholders holding less than a marketable parcel of shares was 12,620 holding 840,491 shares.

Shareholder Information

Substantial shareholders

As at 6 August 2012, we are not aware of any substantial shareholders.

Twenty largest shareholders as at 6 August 2012

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	2,051,414,797	16.49
2	NATIONAL NOMINEES LIMITED	1,731,941,580	13.92
3	J P MORGAN NOMINEES AUSTRALIA LTD	1,430,229,877	11.49
4	COGENT NOMINEES PTY LIMITED	305,846,874	2.46
5	CITICORP NOMINEES PTY LIMITED	286,557,842	2.30
6	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD	193,921,065	1.56
7	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	169,401,819	1.36
8	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	125,819,768	1.01
9	AMP LIFE LIMITED	115,005,150	0.92
10	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	64,482,443	0.52
11	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	53,695,000	0.43
12	UBS NOMINEES PTY LTD	49,882,459	0.40
13	NEWECONOMY COM AU NOMINEES PTY LIMITED	36,418,851	0.29
14	TELSTRA GROWTHSHARE PTY LTD	29,272,227	0.24
15	ARGO INVESTMENTS LIMITED	29,204,800	0.23
16	QUESTOR FINANCIAL SERVICES LIMITED	25,665,758	0.21
17	QUEENSLAND INVESTMENT CORPORATION	25,479,545	0.20
18	NAVIGATOR AUSTRALIA LTD	21,384,639	0.17
19	SHARE DIRECT NOMINEES PTY LTD	20,127,287	0.16
20	NULIS NOMINEES (AUSTRALIA) LIMITED	18,532,139	0.15
Total for Top 20		**6,784,283,920**	**54.52**

Voting Rights

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

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

Directors' Report

In accordance with a resolution of the Board, the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of, or during the year ended, 30 June 2012. Financial comparisons used in this report are of results for the year ended 30 June 2012 compared with the year ended 30 June 2011.

The historical financial information included in this Directors' Report that has been extracted from the Annual Report accompanying this Directors' Report has been subject to review by our Auditors.

Principal activity

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

Strategy Update

Telstra continues to implement its strategy to improve customer satisfaction, increase our customer base, simplify the business and invest in new growth businesses. The strategic initiatives commenced almost two years ago continue to deliver financial benefits with growth in revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), net profit and strong growth in the number of customers.

Customer satisfaction

TIO level 1 complaints relating to Telstra reduced by 26% and consumer call volumes by 21%. Customer service improvements introduced over the last year include a new consumer bill format, making it simpler and clearer for customers to understand charges, the introduction of an application which enables customers to access their account via an Apple iPad^ and Facebook and many other operational improvements.

Growth in number of customers

Telstra's product offers and network investments continued to attract new customers during the year, adding:

- 1.6 million domestic mobile customers, to a total of 13.8 million;
- 203,000 retail fixed broadband customers, to a total of 2.6 million;
- 336,000 customers on bundled plans, to a total of 1.4 million;
- 475,000 Hong Kong mobile customers, to a total of 3.5 million.

Telstra's 4G network build accelerated during the year and now covers approximately 40% of Australia's population. Customers have activated more than 375,000 4G devices since launch.

Telstra's domestic mobile business generated more than one third of revenue. Telstra has added more than three million new mobile customers over the past two years. Mobile revenue growth of 8.5% was achieved while margins increased by three percentage points to 36%.

Growth in retail broadband partly offset declines in wholesale revenues, which included the impact of regulatory access determinations. Fixed line revenue decline was steady at 6.1%.

Simplification

Telstra's business improvement programme remained on track and delivered benefits in fiscal 2012 of $1.1 billion, enabling reinvestment in customer service initiatives. These benefits included improvements in labour productivity, reduced customer call volumes and growth in online customer interactions.

Growth opportunities

Network Application and Services (NAS) revenue grew by 10.5% to $1,263 million, with several significant contracts signed providing a strong foundation for 2013. Major customers signed within the NAS portfolio included the Department of Human Services, Australia Post and NAB.

Across the Media portfolio, Foxtel's acquisition of Austar was an important milestone. Sensis revenue declined by 17.7% as the move to online accelerated. Customer response to Sensis' digital offers improved in recent months across metro and non-metro regions. Excluding Sensis and advertising, digital media product revenue increased 4.7% over the year.

In the Telstra International Group, which incorporates Telstra's investments in Asia, revenue grew by 7% driven by growth in the Hong Kong mobile services (CSL) business and global connectivity and international NAS products (Telstra Global), as the company benefited from integrating assets acquired from Reach.

National Broadband Network (NBN)

In March 2012, Telstra finalised the NBN agreements with the Commonwealth and NBN Co, including ACCC acceptance of Telstra's Structural Separation Undertaking, and commenced providing long term infrastructure access under the Infrastructure Services Agreement (ISA). Telstra recently handed over stage one of the transit network (dark fibre and exchange rack spaces) to NBN Co. The company continues to work collaboratively with NBN Co on the building of its access network. Telstra has also launched retail and wholesale services over the NBN following successful trials in the early release sites.

Review and results of operations

Information on the operations, financial position and outlook for the Telstra Group is set out on pages 3 to 22 of the Financial Highlights accompanying this Directors' Report.

Directors' Report

Financial Outlook

Telstra expects growth to continue in fiscal year 2013 and forecasts low single digit total income and EBITDA growth, with free cashflow between $4.75 and $5.25 billion. Telstra expects capital expenditure to be around 15% of sales over the next two years.

Guidance assumes wholesale product price stability, no impairments to investments and excludes any proceeds on the sale of businesses and the cost of spectrum purchases. The foreign exchange impairment on TelstraClear expected on completion is also excluded.

The company expects to incur significant costs in fiscal year 2013 for the renewal of existing spectrum and potential licensing of new spectrum.

As announced in October 2011, it is the company's intention to maintain a 28 cent fully franked dividend for fiscal 2013. This is subject to the Board's normal approval process for dividend declaration and there being no unexpected material events.

Dividends, investor returns and other key ratios

Our basic earnings per share increased 5.4% from 26.1 cents per share to 27.5 cents per share in fiscal 2012. Other relevant measures of return include the following:

- return on average assets - 16.7% (2011: 15.9%); and
- return on average equity - 28.9% (2011: 26.1%).

Return on average assets and return on average equity are higher in fiscal 2012 primarily due to the increase in profit.

On 9 August 2012, the Directors resolved to pay a final fully franked dividend of 14 cents per ordinary share ($1,738 million), bringing dividends per share for fiscal 2012 to 28 cents per share. The record date for the final dividend will be 24 August 2012 with payment being made on 21 September 2012. Shares will trade excluding entitlement to the dividend on 20 August 2012.

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 2011	11 Aug 2011	23 Sep 2011	14 cents	1,738
Interim dividend for the year ended 30 June 2012	9 Feb 2012	23 March 2012	14 cents	1,737

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 2012.

Business strategies, likely developments and prospects

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

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

Events occurring after the end of the financial year

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

- On 12 July 2012, we signed an agreement to dispose of our 100% shareholding in TelstraClear Limited and its controlled entity (TelstraClear). In accordance with AASB 5: "Non-current Assets Held for Sale and Discontinued Operations" as at 30 June 2012 the carrying value of assets and liabilities of TelstraClear have been classified as held for sale, with the exception of cash balances which are excluded from the sale agreement, and measured at the lower of carrying amount and fair value less costs to sell.

Details of Directors and executives

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

- John V Stanhope retired as an executive Director, Chief Financial Officer and Group Managing Director, Finance effective 30 December 2011;
- John M Stewart retired as a non-executive Director effective 18 October 2011;
- Timothy Y Chen was appointed as a non-executive Director effective 1 April 2012; and
- Margaret L Seale was appointed as a non-executive Director effective 7 May 2012.

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

- names of Directors and details of their qualifications, experience, special responsibilities and directorships of other listed companies are given on pages 44 to 48;
- number of Board and Committee meetings and attendance by Directors at these meetings is provided on page 49;

Directors' Report

- details of Director shareholdings in Telstra are shown on page 49; and
- details of Director and senior executive remuneration is detailed in the Remuneration Report on pages 51 to 70.

Company Secretary

The qualifications and experience of our Company Secretary are detailed on page 48 and form part of this report.

Directors' and officers' indemnity

Constitution

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

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

Deeds of indemnity in favour of Directors, officers and employees

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

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

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

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

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

Directors' and officers' insurance

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

Environmental regulation and performance

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

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

Telstra is subject to the Energy Efficiency Opportunities Act 2006 (Cwlth). Telstra registered on 31 March 2007 and has submitted annual public and bi-annual government reports to the Department of Resource Energy and Tourism, meeting all legislative requirements. Telstra completed its first 5 year cycle in 2011 and will transition into the second 5 year cycle with the Assessment and Reporting Schedule due by 31 December 2012.

Telstra is required to report on its greenhouse gas emissions, energy consumption and energy production under the National Greenhouse and Energy Reporting Act 2007 (Cwlth). Telstra registered by 31 August 2009 and has reported to the Department of Climate Change and Energy Efficiency annually. The next report is due on 31 October 2012.

Directors' Report

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

The Australian Government's Clean Energy Legislation introduced a carbon pricing mechanism from 1 July 2012. The carbon pricing mechanism requires companies with operations that emit greenhouse gas emissions above a certain threshold to purchase carbon emissions permits, at an initial price of $23 for each tonne of carbon dioxide equivalent greenhouse gas they emit. Telstra is not directly liable to purchase emission permits, but the position will continue to be monitored. Telstra will, however, experience an indirect cost impact as a result of the impacts on electricity prices, and may experience other cost impacts associated with the Telstra supply chain.

Non-audit services

During fiscal 2012,Telstra's auditor Ernst & Young has been employed on assignments additional to its statutory audit duties. Details of the amounts paid or payable to Ernst & Young for audit and non-audit services provided during the year are detailed in note 8 to the financial statements.

The Directors are satisfied that the provision of non-audit services during fiscal 2012 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (the Act), and that the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all recurring audit engagements are approved by the Audit Committee each year through the Audit Committee's approval of the annual audit plan;
- additional audit and non-audit services up to $100,000 require approval from the Chief Financial Officer which is communicated to the Audit Committee at the next meeting;
- additional audit and non-audit services between $100,000 and $250,000 require approval from the Chairman of the Audit Committee and services greater than $250,000 require approval from the Audit Committee;
- where the nature or scope of an external engagement changes such that the prior approval obtained is insufficient, subsequent approval of the revised engagement must be obtained. The same approval levels noted above apply;
- all additional engagements approved as per the above points are reported to the Audit Committee at the next meeting;
- fees earned from non-audit work undertaken by Ernst & Young are capped at 1.0 times the total audit fee; and
- the provision of non-audit services by Ernst & Young is monitored by the Audit Committee via quarterly reports to the Audit Committee.

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

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

A copy of the auditors' independence declaration is set out on page 50 and forms part of this report.

Rounding of amounts

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

This report is made on 9 August 2012 in accordance with a resolution of the Directors.

C B Livingstone

Catherine B Livingstone AO

Chairman

9 August 2012

David Thodey

David I Thodey

Chief Executive Officer and Executive Director

9 August 2012

Directors' Report

Directors' profiles

As at 9 August 2012, our Directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected (1)
Catherine B Livingstone	56	Chairman, Non-executive Director	2000	2011
David I Thodey	58	Chief Executive Officer, Executive Director	2009	-
Timothy Y Chen.	56	Non-executive Director	2012	-
Geoffrey A Cousins	69	Non-executive Director	2006	2009
Russell A Higgins	62	Non-executive Director	2009	-
John P Mullen.	57	Non-executive Director	2008	2011
Nora L Scheinkestel	52	Non-executive Director	2010	-
Margaret L Seale	51	Non-executive Director	2012	-
John W Stocker	67	Non-executive Director	1996	2009
Steven M Vamos	54	Non-executive Director	2009	-
John D Zeglis	65	Non-executive Director	2006	2009

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

A brief biography for each of the Directors as at 9 August 2012 is presented below:

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

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

Experience:

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

Directorships of other listed companies - current:

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

Directorships of listed companies - past three years:

Nil

Other:

Current: Member, New South Wales Innovation Council (2007 -), President of the Australian Museum Trust (2012 -) and Director, The George Institute (2012 -).

Former: Chairman, CSIRO (2001 - 2006); Chairman and Director, Australian Business Foundation (2000 - 2005); Director, Future Directions International Pty Ltd (2007 - 2011), Goodman Fielder Ltd (2000 - 2003), Rural Press Limited (2000 - 2003), Macquarie Graduate School of Management Pty Ltd (2007 - 2008) and Sydney Institute (1998 - 2005). Previously, also Member, Department of Accounting and Finance Advisory Board Macquarie University, Business/Industry/Higher Education Collaboration Committee (BIHECC), Federal Government's National Innovation System Review Panel and The Royal Institution of Australia Council.

David I Thodey - BA, FAICD

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

Experience:

Mr Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobiles. He was appointed to the position of Group Managing Director Telstra Enterprise and Government in December 2002 and was responsible for the company's corporate, government and large business customers in Australia, TelstraClear in New Zealand and Telstra's International sales division. Before joining Telstra, Mr Thodey was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive positions in marketing and sales with IBM across Asia Pacific. He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. Mr Thodey attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

Directorships of other listed companies - current:

Nil

Directors' Report

Directorships of listed companies - past three years:

Nil

Other:

Current: Nil

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

Timothy Y Chen - BSc (Applied Mathematics), MSc (Computer Science, Mathematics), MBA

Mr Chen joined the Telstra Board as a non-executive Director in April 2012. He is also a member of the Audit Committee.

Experience:

Mr Chen has over 20 years experience as a technology executive with major global firms in China and the United States. He is currently a Beijing based partner with private equity firm GL Capital Group.

Previously, he was Chief Executive Officer for the National Basketball Association China from 2007 to 2010. Mr Chen was Corporate Vice President of Microsoft and CEO of the Greater China region from 2003 to 2007. From 2001 to 2003, he was Corporate Vice President of Motorola Inc as well as Chairman and President of Motorola (China) Electronics. Prior to 2001, Mr Chen was CEO of 21 CN Cybernet, a listed company in Hong Kong and also spent 8 years in China, also with Motorola, including serving as general manager responsible for marketing and sales operations for the Greater China Cellular Infrastructure Division. Before that, Mr Chen spent 9 years at AT&T Bell Laboratories in the United States.

Directorships of Other Listed Companies - current:

Sinopac Financial Holdings Co. Ltd, Taiwan (2008 -), E-Link Holdings Inc., Taiwan (2011 -), Longmaster Information and Technology Co. Ltd, PRC (2011 -).

Directorships of Listed Companies - past three years:

Nil

Other:

Current: Director, E-silicon Corporation, USA (2011-).

Former: Chief Executive Officer, 21 CN Cybernet (2000 -2001); Corporate Vice President, Motorola, China President and Chairman of Motorola China Electronics Ltd (2001 - 2003); Corporate Vice President, Microsoft, CEO of Greater China Region (2003 - 2007) and Chief Executive Officer, NBA China (2007 - 2010); Director LSI Corporation, USA (2006 - 2008).

Geoffrey A Cousins

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

Experience:

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

Directorships of other listed companies - current:

Nil

Directorships of listed companies - past three years:

Nil

Other:

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

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

Mr Cousins was previously a consultant to the Prime Minister.

Russell A Higgins - AO, BEc, FAICD

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

Experience:

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

Directors' Report

Directorships of other listed companies - current:

Director, APA Group (2004 -), Ricegrowers Limited (SunRice) (2005 -) and Argo Investments Limited (2011 -).

Directorships of listed companies - past three years:

Nil

Other:

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

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

John P Mullen

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

Experience:

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

Directorships of other listed companies - current:

Director, Asciano Ltd (2011 -).

Directorships of listed companies - past three years:

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

Other:

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

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

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

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

Experience:

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

Directorships of other listed companies - current:

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

Directorships of listed companies - past three years:

Director, PaperlinX Ltd (2000 - 2009).

Other:

Current: Director, AMP Capital Holdings Limited (2005 -).

Former: Chairman, South East Water Limited (2002 - 2005) and Energy21 and Stratus Networks Gas Group (1997 - 1999); Director, IOOF Funds Management (1998 - 2001), Medical Benefits Fund of Australia Ltd (1997 - 2001), Hydro Tasmania (2001 - 2004), City West Water Ltd (1995 - 2002), Docklands Authority (1998 - 2003), Newcrest Mining Limited (2000 - 2007), Mayne Pharma Limited (2005 - 2007), Mayne Group Limited (2005), North Limited (1996 - 2000), AMP Capital Investors Limited (2004 - 2011) and AMP Bank Limited (2006 - 2012).

Margaret L Seale - BA, GAICD

Ms Seale joined the Telstra Board as a non-executive Director in May 2012.

Directors' Report

Experience:

Ms Seale has over 20 years experience in senior executive roles in Australia and overseas. She is currently the Managing Director of Random House, Australia and NZ 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 1997-1999. Ms Seale was the Chief Executive Officer for the Juvenile Diabetes Research Foundation from 1994 to 1997.

Directorships of Other Listed Companies - current:

Nil

Directorships of Listed Companies - past three years:

Nil

Other:

Current: Director, Sydney Writers Festival (2011 -).

Former: Director, then Vice President, Australian Publishers Association (2004 - 2012); Trustee, Powerhouse Museum (2004 - 2011) and Chair, Scholarship Committee, Chief Executive Women (2011- 2012).

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

Dr Stocker joined Telstra as a non-executive Director in October 1996. He is a member of the Audit and Technology Committees, and served as Chairman of the Audit Committee from December 2001 until June 2012. He was a member of the NBN Due Diligence Committee whilst it was operative.

Experience:

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

Directorships of other listed companies - current:

Nil

Directorships of listed companies - past three years:

Chairman, Sigma Pharmaceuticals Ltd (2005 - 2010) and Director, Nufarm Limited (1998 - 2011).

Other:

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

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

Steven M Vamos - BEng (Hons)

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

Experience:

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

Directorships of other listed companies - current:

Director, David Jones (2012 -).

Directorships of listed companies - past three years:

Nil

Other:

Current: President, Society for Knowledge Economics (2005 -); Director, eGeneration Investments Pty Limited (1999 -), Medibank Private Limited (2011 -), Australian Health Management Group Pty Limited (2011 -) and BDB Soti Pty Ltd (2012 -).

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

John D Zeglis - BSc Finance, JD Law

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

Experience:

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

Directors' Report

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

Directorships of other listed companies - current:

Director, Helmerich & Payne Corporation (1989 -).

Directorships of listed companies - past three years:

Nil

Other:

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

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

Former Directors

Brief biographies of the former directors are presented below:

John V Stanhope

Mr Stanhope joined Telstra in 1967. He was appointed as an executive Director on 8 May 2009. He was appointed to the role of Chief Financial Officer (CFO) and Group Managing Director, Finance and Administration in October 2003. Mr Stanhope ceased as executive Director, Chief Financial Officer and Group Managing Director, Finance on 30 December 2011.

John M Stewart

Mr Stewart joined Telstra as a non-executive Director in April 2008. He was a member of the Audit Committee. Mr Stewart ceased as director on 18 October 2011.

Company Secretary

Damien Coleman - BEc, LLB (Hons)

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

Directors' Report

Directors' meetings

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

	Board		Committees (1)									
			Audit		Nomination		Remuner-ation		Technology		NBN DDC(4)	
	a	b	a	b	a	b	a	b	a	b	a	b
C B Livingstone	15	15	6	6	4	4	5	5	3	3	17	17
D I Thodey	15	15	-	-	-	-	-	-	-	-	-	-
J V Stanhope(5)	10	10	-	-	-	-	-	-	-	-	15	15
T Y Chen(7)	3	3	2	1	-	-	-	-	-	-	-	-
G A Cousins	15	14	-	-	4	4	5	5	-	-	-	-
R A Higgins	15	15	6	6	-	-	-	-	-	-	17	17
J P Mullen	15	14	-	-	4	3	5	5	-	-	-	-
N L Scheinkestel(2)	15	15	6	6	-	-	-	-	-	-	17	17
M L Seale(8)	2	2	-	-	-	-	-	-	-	-	-	-
J M Stewart(6)	6	6	2	2	-	-	-	-	-	-	-	-
J W Stocker(3)	15	15	6	6	-	-	-	-	3	3	17	17
S M Vamos	15	15	-	-	4	4	5	5	-	-	-	-
J D Zeglis	15	15	-	-	-	-	-	-	3	3	-	-

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

(1) Committee meetings are open to all non-executive Directors to attend in an ex officio capacity.
(2) Appointed as Audit Committee Chairman effective 14 June 2012.
(3) Retired as Audit Committee Chairman and continuing as Audit Committee member effective 14 June 2012.
(4) The NBN Due Diligence Committee which ceased operation on 7 March 2012.
(5) Retired effective 30 December 2011.
(6) Retired effective 18 October 2011.
(7) Appointed as non-executive Director effective 1 April 2012.
(8) Appointed as non-executive Director effective 7 May 2012.

Director shareholdings in Telstra

As at 9 August 2012:

	Number of shares held(1)
Catherine B Livingstone	140,000
David I Thodey	785,717
Timothy Y Chen	-
Geoffrey A Cousins	31,765
Russell A Higgins	88,404
John P Mullen	26,159
Nora L Scheinkestel	57,100
Margaret L Seale	30,000
John W Stocker	181,728
Steven M Vamos	40,000
John D Zeglis	103,993

(1) Shares in which the director does not have a relevant interest, including shares held by the directors' related parties (including relatives), are excluded.

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

In relation to our audit of the financial report of Telstra Corporation Limited for the financial year ended 30 June 2012, 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
Melbourne, Australia
9 August 2012

Remuneration Report

Dear Shareholder,

Telstra is pleased to present its remuneration report for FY 2012, which we believe again demonstrates that executive remuneration in Telstra is closely aligned to the company's performance and to the interests of its shareholders.

The Telstra Board has ensured that senior executive remuneration at Telstra reflects our financial and customer achievements, whilst at the same time enabling us to attract and keep global senior executives, thus creating sustainable value for the company and for its shareholders.

Telstra executed its strategy with consistency in FY 2012 and delivered strong results in line with its guidance to the market. These positive outcomes for shareholders are reflected – as they should be – in improved remuneration outcomes for the company's executives.

As well as full-year results showing growth in both revenue and earnings, the company finalised the NBN agreements with NBN Co and the Commonwealth. Shareholders also saw the company's share price increase from $2.89 to $3.69 during FY 2012, delivering a total shareholder return of 37% for the year. Furthermore, our focus on customer satisfaction and simplifying our business can be seen in improved customer feedback.

While there have been no fundamental changes in remuneration structure and only modest fixed remuneration increases, as a result of this significantly improved performance, the short term incentive payout is higher than the prior year and two of the long term incentive plans have partially vested.

Effective governance is important and the provision of clear and concise reporting is essential to keeping you informed on how we compensate and retain our senior executives. To this end, we have further refined our remuneration report this year to more clearly describe remuneration strategies, and have included tables to highlight the difference between total remuneration entitlements for the year as defined by the accounting standards and actual remuneration received, as these differences can be confusing.

On behalf of the Board, I invite you to review the full report, and thank you for your interest.

John Mullen
Chairman, Remuneration Committee

Remuneration Report

About this 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 2012 (FY 2012), and is prepared in accordance with section 300A of the Corporations Act 2001. The information in this report has been audited as required by section 308(3C) of the Corporations Act 2001.

The report is presented in five sections:

Remuneration Report

1. Remuneration Snapshot

1.1 Key Points

Total Shareholder Return of 37.4%	Over FY 2012, Telstra's share price increased and the company paid a 28c dividend for a total shareholder return of 37.4%
Chief Executive Officer (CEO) Remuneration	The Total Fixed Remuneration (TFR) increase of 6% was effective 1 October 2011 bringing the TFR to \$2,438,000. The increase brought the TFR closer to the median for ASX 20 CEO positions and reflected the performance of Mr Thodey. Total Remuneration increased from \$5.1m to \$7.6m primarily due to higher STI and LTI results based on stronger performance on the plan measures.
Short Term Incentive Outcomes	STI payout for Senior Executives was an average of 65.6% of the maximum opportunity due to the achievement of financial, customer and individual performance measures, which reflects Telstra's strong results in line with market guidance and increased customer satisfaction.
Long Term Incentive Outcomes	22.1% of the FY 2009 LTI plan vested in the form of options with a \$4.36 exercise price. 66% of the FY 2010 LTI Plan vested in the form of Restricted Shares subject to a further one year restriction period. This reflects the total shareholder return increase during the year and the achievement of the 17.1% Free Cashflow Return On Investment target over the three year plan period.
Non-Executive Director Remuneration	Board and Committee fees did not change during FY 2012.

1.2 Changes during FY 2012

The overall structure and philosophy of Telstra's approach to remuneration has remained consistent through FY 2012.

Some minor changes have however been made to improve the operation of Telstra's remuneration policies:

- The Executive Share Ownership Policy requiring Senior Executives to hold Telstra shares to the value of 100 per cent of their fixed remuneration has been amended. Section 2.3.4 explains the Policy in further detail.
- Under the STI Deferral Plan, retirement no longer results in the forfeiture of deferred shares but the shares remain subject to the original deferral period. This change takes effect for the portion of the FY 2012 STI payment to be deferred as shares in September 2012. Section 2.2.2 provides further information on the STI deferral plan.

Proposed changes to Telstra's remuneration policy for FY 2013 are set out in section 1.5.

1.3 Key Management Personnel (KMP)

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

Key changes to the Senior Executive structure this year included the introduction of the Chief Customer Officer role (Gordon Ballantyne) and a new position of GMD Telstra Media (Rick Ellis).

The Senior Executives disclosed in this Report are:

Name	Most Recent KMP Position Title
David Thodey	Chief Executive Officer
Gordon Ballantyne	Chief Customer Officer
Rick Ellis	GMD Telstra Media
Stuart Lee	GMD Telstra Wholesale
Kate McKenzie	GMD Telstra Innovation, Products and Marketing
Andrew Penn	Chief Financial Officer and GMD Finance and Strategy
Brendon Riley	Chief Operations Officer
Former Senior Executives:	
Bruce Akhurst	Former GMD Sensis
John Stanhope	Former Chief Financial Officer and GMD Finance

Remuneration Report

1.4 Actual Pay and Benefits Crystallised in FY2012 for Senior Executives Employed at 30 June 2012

This table has not been prepared in accordance with Australian Accounting Standards. Refer to Section 5 for tables prepared in accordance with Australian Accounting Standards.

Name	Fixed Remuneration (1)	Non-monetary Benefits (2) ($)	Sign-on Bonus (3) ($)	Short Term Incentive Payable as Cash (4) ($)	$ Value of STI Deferred Shares that Vested in FY 2012 (5) ($)	$ Value of LTI Equity that Vested in FY 2012 (6) ($)	FY 2012 Total ($)
David Thodey	2,403,311	6,582	-	2,415,449	-	-	4,825,342
Gordon Ballantyne	1,212,295	12,918	-	1,294,688	-	-	2,519,901
Rick Ellis	399,249	4,641	-	395,556	-	-	799,446
Stuart Lee	941,677	19,070	-	623,492	-	-	1,584,239
Kate McKenzie	935,546	12,199	-	955,463	-	-	1,903,208
Andrew Penn	466,666	3,823	-	591,202	-	-	1,061,691
Brendon Riley	1,212,295	18,984	1,000,000	1,257,188	-	-	3,488,467

(1) The sum of Salary and Fees and Superannuation as detailed in table 5.1.
(2) Includes the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra.
(3) The second and final tranche of a sign on bonus for Brendon Riley.
(4) Amount relates to the STI earned for FY 2012, which will be paid in cash in September 2012.
(5) Amount relates to the value of STI earned in prior fiscal years which has been deferred as shares and which has vested in FY 2012.
(6) Options which vested in FY 2012 relate to the FY 2008 LTI plan (that plan had a final test date of 30 June 2011, and those options became exerciseable inAugust 2012) and are valued at zero as the exercise price of $4.34 is greater than Telstra's share price of $3.69 on 30 June 2012. These options will lapse if not exercised by 30 June 2014.

Reporting remuneration values is complicated because accounting values required by the accounting standards and statutory requirements may not always reflect what a Senior Executive has actually received or which has crystallised in the year from prior periods, particularly due to the valuation of share based payments.

As a general principle, the accounting standards require the value of share based payments to be calculated at the time of grant, that is, before Restricted Shares or options vest (and even if they do not ultimately vest because the performance hurdles are not met).

We have sought to clarify this by providing a table that reflects the actual remuneration that our Senior Executives have received or became entitled to in FY 2012 with full beneficial ownership and with no further restriction during that year. This includes fixed remuneration, STI payable as cash for the FY 2012 STI plan, as well as any deferred STI or LTI that has vested in the year ended 30 June 2012 with no further restrictions.

The crystallised value of share based payments, that are currently subject to performance conditions or a restriction period, will be displayed in this table in future years once those performance conditions have been satisfied or the restriction period has expired.

1.5 Looking Forward

For FY 2013, the Board has approved an increase of 8.7% in Mr Thodey's fixed remuneration taking it to the ASX 20 CEO market median. The new fixed remuneration of $2,650,000 will be effective 1 October 2012.

The STI and LTI potential opportunity for the CEO as a percentage of fixed remuneration remains unchanged.

In response to feedback from shareholders and common market practice for CEO LTI equity allocations, shareholder approval will be sought for Mr Thodey's FY 2013 LTI allocation at the AGM. Details will be set out in the 2012 AGM Notice of Meeting.

We are also committed to ensuring that there is no windfall gain or loss to Senior Executive remuneration due to the impact of the NBN Transaction. Our approach is detailed in section 2.3.6.

An increase in the Non-executive Director fee pool from $3m to $3.5m will be recommended for approval by shareholders at the AGM. Further details may be found in section 4.1 of this report.

Remuneration Report

2. Setting Senior Executive Remuneration

2.1 Remuneration Decisions

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

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

Our remuneration policy and strategy is to:

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

Telstra has adopted a protocol that requires external consultants to engage directly with the Remuneration Committee Chairman as the first point of contact whenever market data for Senior Executive positions is scoped or supplied to Telstra. To assess market competitiveness in FY 2012, the Committee engaged Guerdon Associates for the provision of ASX 20 market data but did not require a remuneration recommendation and, as such, no disclosures are required under the Corporations Act 2001.

The Committee reviews CEO and Senior Executive remuneration packages to ensure there is a balance between fixed and incentive pay, and that they reflect short and long-term performance objectives appropriate to Telstra's circumstances and goals.

Each year, the Board reviews the CEO's remuneration based on market practice, performance against agreed measures and other relevant factors.

The CEO undertakes a similar exercise in relation to Senior Executives. The results of the CEO's annual performance and remuneration review of senior management are approved by the Board.

The Committee oversees the process of setting robust performance measures and targets that encourage strong Senior Executive performance and ethical behaviour. STI and LTI performance measures are set at the beginning of each year. At the end of each fiscal 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 of the STI that is payable, and the portion of the LTI plan and, when relevant, the CFO's performance shares that may vest. The Board considers that it is best positioned to assess whether the applicable measures have been met.

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

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 occurs, it is disclosed 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	DEFERRED	EQUITY
Base salary including superannuation. Set based on market and internal relativities, performance, qualifications and experience.	75% of STI outcome paid in September after the financial year end for the STI plan. STI outcome based on Telstra's financial, customer satisfaction and individual performance measures.	25% of the STI outcome is deferred into Telstra shares. Half of the shares are deferred for 1 year & the other half for 2 years. The shares are forfeited unless departure is for a permitted reason. The shares are subject to clawback at the discretion of the Board.	Restricted shares subject to performance conditions and restriction period over 4 years. Performance is measured over 3 years with an additional 1 year restriction period before vesting and full ownership. 50% subject to Relative Total Shareholder Return 50% subject to Free Cashflow Return on Investment.
Base level of reward competitive with the market	**Encourages sustainable performance in the medium to longer term and provides a retention element**		

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

Remuneration Report

2.2.1 Short Term Incentive (STI)

For all Senior Executives, the FY 2012 performance measures of the STI Plan were Free Cashflow, EBITDA, Total Income, Customer Satisfaction and Individual performance measures.

These performance measures were selected for the STI Plan as they are seen as a critical link between achieving the outcomes of the business strategy and increasing shareholder value. The performance measures of the STI plan operate independently of each other:

- Financial measures for FY 2012 were set in accordance with Telstra's financial plan and strategy.
- The inclusion of a Customer Satisfaction measure supports Telstra's strategy of improving customer service and the goal of delivering outstanding customer satisfaction. It helps drive a company wide focus on Telstra's customer strategy of improving customer satisfaction.
- Individual performance measures are set at the beginning of the fiscal year and are based on individual contribution to the achievement of Telstra strategy.

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

2.2.2 STI Deferral

Twenty five per cent of Senior Executives actual STI payment is deferred into Telstra shares.

During the deferral period, Senior Executives earn dividends on their deferred shares, because they have satisfied the performance hurdles of the STI plan, however they cannot sell or trade the deferred shares during the deferral period.

If a Senior Executive leaves Telstra for any reason, other than a Permitted Reason, prior to the end of the deferral period, the deferred shares are forfeited. A Permitted Reason is defined as death, total and permanent disablement, redundancy or retirement (if notice of retirement is given more than six months after the effective date of allocation).

Deferred shares may be forfeited if a clawback event occurs. A clawback event includes circumstances where a Senior Executive has engaged in fraud or gross misconduct, or where the financial results that led to the STI being earned or awarded are subsequently shown to be materially misstated. No clawback event occurred in FY 2012.

2.2.3 FY 2012 LTI Plan

Participation

All Senior Executives participated in the FY 2012 LTI plan with the exception of the Chief Customer Officer and the GMD Telstra Wholesale.

As previously disclosed in the FY 2011 Remuneration Report, the Chief Customer Officer is on a fixed term contract however his cash LTI plan is aligned to the FY 2011 LTI plan. Refer to Table 5.1 for further information.

The Structural Separation Undertaking (SSU) given by Telstra as part of the NBN Transaction requires the GMD Telstra Wholesale to participate only in plans that relate to Wholesale and non-retail objectives and performance. Alternative equity arrangements that are compliant with the SSU will be granted in the FY 2013 year for the GMD Wholesale and be disclosed in the 2013 Remuneration Report.

For all other Senior Executives, Restricted Shares form the basis of the reward. Senior Executives are not required to pay for the Restricted Shares. However, for any Restricted Shares to vest, threshold performance against the relevant measure must be satisfied. Section 5 provides further details of the Restricted Shares granted to Senior Executives in FY 2012.

Plan Structure

Plan Component	Detail
Performance Measure Weighting	50% to RTSR 50% to FCF ROI (These operate independently of each other)
Performance Period	1 July 2011 to 30 June 2014
Restriction Period	4 years after 19th August 2011 (19th August 2015)
Minimum Threshold for RTSR Vesting	50th percentile of peer group
RTSR Vesting Schedule	25% vests at 50th percentile, straight line vesting to 75th percentile where 100% vests
Minimum Threshold for FCF ROI Vesting	17.1%
FCF ROI Vesting Schedule	50% vests at target of 17.1%, straight line vesting to stretch of 18.7% where 100% vests
Retesting	No

Remuneration Report

Relative Total Shareholder Return (RTSR)

RTSR measures the performance of an ordinary Telstra share (including the value of any cash dividends and other shareholder benefits paid during the period) relative to the other companies in the 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 FY 2012 LTI Plan includes the following large market capitalisation telecommunication firms: AT&T Inc; Belgacom Group; Bell Canada Enterprises Inc; BT Group plc; Deutsche Telekom AG; France Telecom SA; Koninklijke KPN N.V.; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Singapore Telecommunications Ltd; SK Telecom Co Ltd;

Sprint Nextel Corporation; Swisscom AG; Telekom Austria AG; Telecom Italia Sp.A.; Telecom Corporation of New Zealand Ltd; Telefonica S.A.; Telenor ASA; TeliaSonera AB; Verizon Communications Inc and Vodafone Group plc.

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

No amendments were made to the comparator group in FY 2012. Telecom NZ has been adjusted for the demerger of Chorus in December 2011 and remains in the comparator group.

Free Cashflow Return On Investment (FCF ROI)

FCF ROI as determined by the Board is calculated by dividing the average annual free cashflow over the three year performance period by Telstra's average investment over the same period.

The Board chose 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 Restricted Shares

At the end of FY 2014, the Board will review the Company's audited financial results for FCF ROI and RTSR to determine the percentage of Restricted Shares that vest.

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

Any Restricted Shares that vest are subject to a further one year restriction period which prevents a Senior Executive from trading or disposing of their vested Restricted Shares.

In the event of cessation of employment for reasons of death, total and permanent disablement, medical related retirement or separation by mutual agreement, a pro rata number of unvested restricted shares will lapse based on the proportion of time remaining in the performance and restriction period. The portion relating to the Senior Executive's completed service may still vest subject to achieving the performance measures of the Plan at the end of the applicable performance period.

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

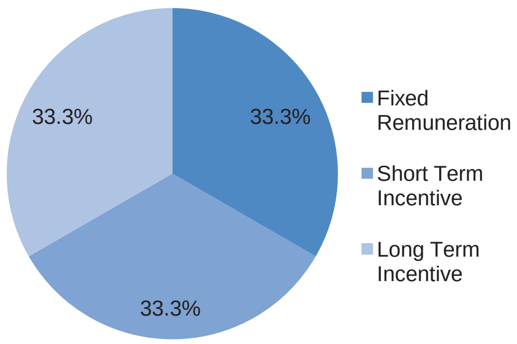
2.3 Putting Policy into Practice

2.3.1 Remuneration Mix of Senior Executives

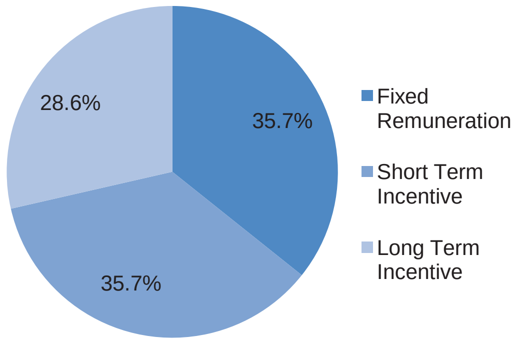
The graphs below show the FY 2012 remuneration mix for Senior Executives as at 30 June 2012. The variable components of STI and LTI are expressed at target. At target is fifty per cent of the maximum opportunity.

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

Chief Executive Officer:

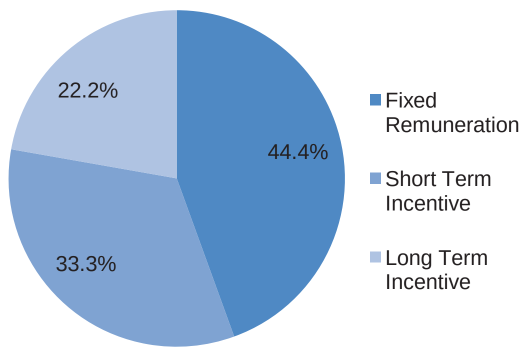


Other Senior Executives: (Chief Financial Officer and GMD Finance and Strategy, GMD Telstra Innovation, Products and Marketing, GMD Telstra Media, Chief Customer Officer, GMD Chief Operations Office



Remuneration Report

GMD Telstra Wholesale:



2.3.2 Variation Guidelines

The Board may, in its absolute discretion, vary or amend the terms of the LTI plan or the targets of the STI plan where an unexpected event occurs that means the targets of the relevant plan are no longer appropriate. The application of such discretion is limited to:

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

Adjustments made in relation to the FY 2012 STI are outlined in section 2.3.6.

2.3.3 Other Remuneration Arrangements

As part of his Service Agreement negotiated upon appointment, Mr Andrew Penn, Chief Financial Officer and GMD Finance and Strategy, was allocated 96,500 Performance Shares where 50 per cent vest after two years and the remaining 50 per cent vest after three years from the date of commencement. Mr Penn is not required to pay for the Performance Shares, and each Performance Share entitles Mr Penn to one Telstra Share on vesting. Vesting is subject to satisfactory performance as determined by the Board at the end of the relevant performance period. This performance measure has been selected in the context of achieving outcomes of the business strategy and increasing shareholder value. Mr Penn is not entitled to any dividends on unvested Performance Shares. The Performance Shares are forfeited in the event of resignation before vesting. In certain circumstances such as redundancy, a pro rata number of Performance Shares would vest. Refer to Table 5.3 for further information.

2.3.4 Executive Share Ownership Policy

Telstra's Executive Share Ownership Policy requires Senior Executives to hold Telstra shares to the value of 100 per cent of their fixed remuneration by 30 June 2015 or within five years of first appointment to Senior Executive level.

In FY 2012 the policy was amended so that Senior Executives are not required to purchase additional shares to meet the ownership targets. The ownership target may now be met by deferred shares and vested LTI equity, however Board permission must now be sought before the executive can sell vested shares if the ownership target has not been achieved. This change has been implemented as a result of the re-introduction in FY 2011 of the mandatory deferral of 25% of STI into Telstra shares which contributes to the original Policy objective of aligning a significant portion of executive remuneration to the creation of longer term shareholder value.

2.3.5 Restrictions and Governance

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

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

KMPs are also required to confirm on an annual basis that they comply with this policy restriction which enables Telstra to monitor and enforce the policy.

2.3.6 NBN and Remuneration

The NBN Transaction is being incorporated into Telstra's established corporate planning processes which will continue to require Senior Executives to be accountable for achieving planned outcomes, including NBN cashflows. The approximate $11 billion value of the NBN Transaction is a post tax net present value[1] of cashflows to be received over the next 30 years subject to a range of dependencies and assumptions.

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

Subject to the actual impact of the NBN physical roll-out, the Board may adjust financial outcomes for testing against prior plans that have not incorporated the NBN Transaction Furthermore, adjustment may be necessary 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.

If historical STI and LTI performance measures are affected by the NBN Transaction, the Board may use its discretion to amend incentive plans based on Telstra's Variation Guidelines to ensure there are no unintended windfall gains or losses for Senior Executives.

The Board adjusted the STI for FY 2012 and the FCF ROI results for the FY 2010 LTI Plan to ensure that there was no windfall gains or losses for Senior Executives as a result of the NBN Transaction. See section 3.2.2 and 3.3.2 respectively.

1. As at 30 June 2010. Refer to Explanatory Memorandum dated 1 September 2011.

Remuneration Report

3. 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 Group performance, share price, and dividends over the past five years are summarised in the table below:

Performance Measure	FY 2012 $m	FY 2011 $m	FY 2010 $m	FY 2009 $m	FY 2008 $m
Earnings					
Total Income	25,503	25,304	25,029	25,614	25,002
EBITDA	10,234	10,151	10,847	10,948	10,416
Net profit	3,405	3,231	3,883	4,073	3,692
Shareholder value					
Share price ($) (1)(2)	3.69	2.89	3.25	3.39	4.24
Total dividends paid/ declared per share (cents)	28.0	28.0	28.0	28.0	28.0

(1) Share prices are as at 30 June for the respective year.
(2) The closing share price for FY 2007 was $4.59.

3.2 Short Term Incentive outcomes

3.2.1 Average STI Payment as a Percentage of Maximum STI opportunity

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

Performance Measure	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008
STI Received	65.6%	48.4%	22.7%	50.9%	81.9%

3.2.2 STI FY 2012 Outcomes

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

Customer Satisfaction is based on asking Telstra's customers to rate their level of satisfaction with Telstra out of a score of ten. The overall customer satisfaction result is the average of the surveys from Telstra's Consumer, Business, Enterprise and Government customers. The surveys are undertaken by third party research companies. The measurement period for the FY 2012 results is based on the three month average across 1 April 2012 to 30 June 2012. The final result is audited by Telstra's internal Audit team.

Wholesale Customer Satisfaction is based on a survey of Wholesale customers only, undertaken by a 3rd party research company during February to April each year. This result is applied to the customer component of all Wholesale employees including the GMD Wholesale.

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

The Remuneration Committee exercised its discretion to amend STI targets in accordance with the Variation Guidelines (as outlined in 2.3.2) during the final assessment of the results on 1 August 2012. The amendments were required to ensure that there was no windfall gain due to the NBN, to provide relief for the impacts of regulatory changes imposed by the ACCC, to reflect material changes in Telstra's strategic portfolio management plan and the settlement of an outstanding historical litigation.

The adjustment for the NBN affected the financial results negatively but the other adjustments had an overall positive effect on the financial results. There was no change to the customer satisfaction measure.

Overall the STI outcome increased from 58.9% to 66% of the maximum opportunity as a result of the adjustment. Section 3.2.3 provides a summary of STI payments as a percentage of maximum for each individual Senior Executive.

Measure	Outcome (% of maximum)
Total Income	47.0%
EBITDA	81.5%
Free Cashflow	50.5%
Telstra Customer Satisfaction	75.0%
Telstra Wholesale Customer Satisfaction	50.0%

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.

Remuneration Report

3.2.3 STI Payment results for FY 2012

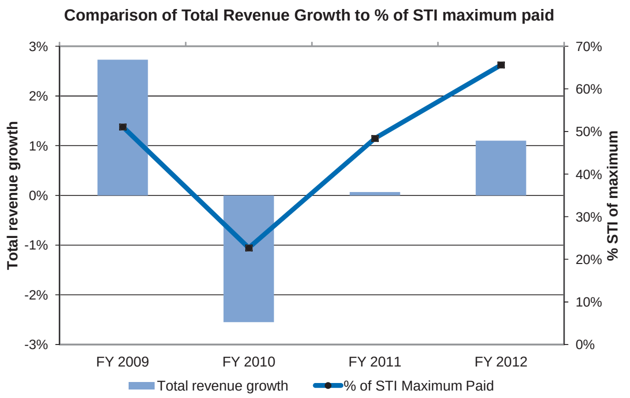
STI payments for FY 2012, compared to FY 2011, as a percentage of the maximum STI opportunity were as follows:

Name	FY 2012	FY 2011 (1)
David Thodey	66.1%	49.0%
Gordon Ballantyne	69.1%	49.0%
Rick Ellis	66.1%	n/a
Stuart Lee	58.1%	n/a
Kate McKenzie	67.1%	46.5%
Andrew Penn	66.1%	n/a
Brendon Riley	67.1%	46.5%
Average Total:	**65.6%**	**48.4%**

(1) The FY 2011 average total of 48.4% reflects the total disclosed in the 2011 Remuneration Report. Not all Senior Executives in FY 2011 qualified as Senior Executives in FY 2012.

The graph below demonstrates the link between actual STI payments and Total Revenue growth. For FY 2012, STI payments as a percentage of the maximum STI opportunity continues to broadly align with Telstra's total revenue percentage growth over the previous four fiscal years.

Telstra believes that the strong customer satisfaction outcomes for FY 2012 will result in increased revenue growth over time and further strengthen the alignment of revenue growth and STI outcomes.



3.3 Long Term Incentive outcomes

Both the FY 2009 and FY 2010 LTI plans reached their final testing points on 30 June 2012. Options (with an exercise price of $4.36) that vest under the FY 2009 plan will expire 30 June 2014 if not exercised prior to that date. Vested shares under the FY 2010 LTI plan are subject to a further one year restriction period.

The following tables show the results of each plan against each measure and the percentage of options and restricted shares that have vested as a result. The results of Telstra's TSR relative to the other companies in the peer group was calculated by an external provider and audited by Telstra's internal Risk Management and Assurance team. The calculation of the FCF ROI result, as well as the adjustments referred to in section 2.3.6, were reviewed by Telstra's Auditors Ernst & Young. The Board has determined that the vesting outcomes are in accordance with the results and the Plan rules.

3.3.1 FY 2009 LTI Plan Final Testing as at 30 June 2012

Sixty per cent of the FY 2009 LTI plan was tested in equal tranches as at the end of FY 2010 and FY 2011. The remaining forty per cent of the Plan was tested as at 30 June 2012.

As disclosed in Telstra's 2009 Remuneration Report, the FY 2009 LTI plan is the last of Telstra's LTI plans with a re-test provision. Under the re-test provision, 75% of the options that did not meet the RTSR performance hurdles at 30 June 2009 and 30 June 2010 may vest if Telstra exceeds the 50th percentile of the RTSR comparator group in the final plan test at 30 June 2012 and where the final test has exceeded the rank achieved in the relevant earlier performance periods. There is no re-test provision in relation to the ROI component of the Plan.

The vesting table for the entire FY 2009 plan including the re-test provisions is detailed in the following table. For the performance periods ending 30 June 2010 and 30 June 2011, the vested RTSR components of 5.85% reflects the portion that vested as a result of the RTSR result in FY 2012.

The RTSR vesting result was based on Telstra ranking at the 59th percentile of the global peer group.

FY 2009 LTI plan outcomes

Test Date	Measure	% of Plan tested	% of plan vested
30-June-2010	RTSR	15.00%	5.85%
	ROI	15.00%	0.00%
30-June-2011	RTSR	15.00%	5.85%
	ROI	15.00%	0.00%
30-June-2012	RTSR	20.00%	10.40%
	ROI	20.00%	0.00%
Total		100.00%	22.10%

The 22.1% of the Plan that has vested is in the form of options with an exercise price of $4.36 that will lapse by 30 June 2014 if not exercised before that date. Senior Executives will only benefit from these options if Telstra's share price is greater than $4.36 before 30 June 2014.

3.3.2 FY 2010 LTI Plan Final Testing as at 30 June 2012

One hundred per cent of the FY 2010 LTI plan was tested as at 30 June 2012.

FY 2010 LTI plan outcomes

Test Date	Measure	% of Plan tested	% of plan vested
30-June-2012	RTSR	50.0%	41.0%
	FCF ROI	50.0%	25.0%
Total		100.0%	66.0%

Remuneration Report

For the RTSR measure, Telstra ranked at the 69th percentile of the global peer group, which resulted in 41% of the plan vesting due to the RTSR performance measure.

The FCF ROI was calculated and adjusted for the costs and revenues in relation to the NBN Transaction, to ensure there are no unintended windfall gains or losses for Senior Executives. This adjustment impacted the FCF ROI calculation positively and the target of 17.1% was achieved resulting in 25% of the plan vesting.

Therefore in total 66% of the FY 2010 plan vested.

Restricted Shares earned under this Plan are subject to a further restriction period that ends on 21 August 2013. Refer to section 5.3 for further details of Telstra's Long Term Incentive Plans.

3.4 Senior Executive Contract Details

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

Upon notice being given, Telstra can require a Senior Executive to work through the notice period or may terminate employment immediately by providing payment in lieu of notice. Any termination payment is calculated on fixed remuneration as at 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 the service contract.

Name	Fixed Remuneration at end of FY 2012	Notice Period	Termination Payment
David Thodey	$2,438,000	6 months	12 months (1)
Gordon Ballantyne	$1,250,000	6 months	footnote (2)
Rick Ellis	$875,000	6 months	6 months
Stuart Lee	$954,720	6 months	12 months
Kate McKenzie	$950,000	6 months	6 months
Andrew Penn	$1,400,000	6 months	6 months
Brendon Riley	$1,250,000	6 months	12 months

(1) In relation to David Thodey's contract, if the Board forms the view that the CEO is not performing to the standard required of a CEO, Telstra may terminate by providing four months' written notice.
(2) If Telstra terminates Gordon Ballantyne's employment, his contract allows for a termination payment that is the lesser of 12 months fixed remuneration or the period from the termination date to the original completion date of his contract.

John Stanhope retired as the Chief Financial Officer and GMD Finance on 30 December 2011. To ensure a seamless transition on NBN related matters, he entered into a consultancy agreement with Telstra for a term of 12 months for a fee of $50,000 per month.

Remuneration Report

4. Non-executive Director Remuneration

4.1 Remuneration Structure

FY 2012 Board and Committee fees are set out in the table below. Committee fees are not paid to the Chairman of the Telstra Board.

Board Fees	Chairman	Non-executive Director
Board (FY 2012)	$679,800	$226,600
Committee Fees	**Committee Chair**	**Committee Member**
Audit Committee	$70,000	$35,000
Remuneration Committee	$50,000	$25,000
Nomination Committee	-	$7,000
Technology Committee	$7,000	$7,000

In FY 2012, several non-executive Directors provided services to the Telstra Board NBN Due Diligence Committee which was constituted for the period of the NBN negotiations with the Government and the ACCC. Table 5.7 provides details on fees paid for the NBN Due Diligence Committee.

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 total of Board and Committee fees, including superannuation, paid to non-executive Directors in FY 2012 remained within the approved fee pool.

The current annual fee pool of $3 million was approved by shareholders at the AGM in 2007. A recommendation to increase the fee pool to $3.5 million will be put to shareholders at the 2012 AGM. This will provide the capacity for an additional non-executive Director to be appointed following the retirement of an executive Director, as well as for market based reviews for Directors' fees in future years.

Effective 1 July 2012, the annual Board fee for non-executive Directors was increased to $235,000, and to $705,000 for the Chairman. There was no increase in Committee fees.

In June 2011, the Board approved an arms-length consulting agreement between Telstra and eGeneration Investments Pty Limited, of which Steven Vamos, a non-executive Director, is a director and shareholder.

Services were provided under this agreement in FY 2012 in relation to aspects of the Company's media strategy. From the commencement of the contract in June 2011 until the agreement expired in the ordinary course in December 2011, Telstra paid $19,800, of which $8,550 related to services provided in FY 2012.

4.2 Remuneration Policy and Strategy

Telstra's non-executive Directors are remunerated with set fees. Non-executive Director fee levels do not, therefore, incorporate an at-risk component. This enables Directors to maintain independence and impartiality when making decisions affecting the future direction of the Company.

To align the 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. Details of Directors shareholdings as at 9 August 2012 are set out on page 49 of the Directors' Report.

4.3 Remuneration Components

Each year, non-executive Directors allocate their total remuneration between cash and superannuation components.

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

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

The DirectShare Plan, previously operated by the Company, has been cancelled with effect from August 2012 as it is no longer in use. As disclosed in previous Remuneration Reports, 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.

Table 5.7 provides full details of non-executive Director remuneration for FY 2012.

Section 2.3.5 of this Report provides details on Restrictions and Governance as they apply to KMP (including non-executive Directors).

Remuneration Report

5. Remuneration Tables and Data

5.1 Senior Executives remuneration (main table)

The table below has been prepared in accordance with the requirements of the Corporations Act 2001 and the relevant accounting standards. The figures provided under the columns Short Term Incentive Shares and Accounting value of other equity for share based payments were not actually received by KMP in FY 2012. See section 1.4 for values of actual remuneration crystallised in FY 2012.

		Short Term Employee Benefits				Post-employment Benefits	Termination Benefits	Other Long Term Benefits	Equity Settled Share-based Payments		
Name and Period of FY 2012 as a KMP	Year	Salary and Fees (1) ($)	Short Term Incentives (cash) (2) ($)	Non-monetary Benefits (3) ($)	Other (4) ($)	Superannuation (5) ($)	Termination Benefits ($)	Accrued Long Service Leave ($)	Short Term Incentive Shares (6) ($)	Accounting Value of Other Equity (at risk) (7) (8) ($)	Total ($)
David Thodey	2012	2,387,536	2,415,449	6,582	-	15,775	-	60,083	805,150	2,006,135	7,696,710
	2011	2,058,875	1,688,775	7,609	-	39,755	-	52,466	562,925	694,516	5,104,921
Gordon Ballantyne (9)	2012	1,196,520	1,294,688	12,918	-	15,775	-	30,307	431,563	-	2,981,771
	2011	1,084,801	807,675	42,765	600,000	15,199	-	27,500	269,225	-	2,847,165
Rick Ellis (16 January 2012 - 30 June 2012)	2012	392,051	395,556	4,641	-	7,198	-	9,981	131,852	61,620	1,002,899
	2011	-	-	-	-	-	-	-	-	-	-
Stuart Lee (6 July 2011 - 30 June 2012)	2012	926,118	623,492	19,070	-	15,559	-	23,542	207,831	207,954	2,023,566
	2011	-	-	-	-	-	-	-	-	-	-
Kate McKenzie	2012	874,271	955,463	12,199	-	61,275	-	23,389	318,488	525,549	2,770,634
	2011	827,426	466,387	9,372	-	60,699	-	22,203	155,462	147,923	1,689,472
Andrew Penn (31 December 2011 - 30 June 2012)	2012	461,408	591,202	3,823	-	5,258	-	11,667	197,067	53,879	1,324,304
	2011	-	-	-	-	-	-	-	-	-	-
Brendon Riley	2012	1,196,520	1,257,188	18,984	1,000,000	15,775	-	30,307	419,063	385,852	4,323,689
	2011	365,563	258,275	17,281	1,000,000	5,122	-	9,267	86,092	-	1,741,600
Bruce Akhurst (1 July 2011 - 15 January 2012)	2012	589,839	-	17,730	-	150,539	-	18,509	-	517,210	1,293,827
	2011	1,055,979	880,099	11,029	-	273,271	-	33,231	293,366	387,479	2,934,454
John Stanhope (10) (1 July 2011 - 30 December 2011)	2012	734,829	-	15,825	-	7,888	744,751	18,568	-	49,661	1,571,522
	2011	1,401,026	1,048,729	14,318	-	15,199	-	35,406	349,576	410,001	3,274,255
TOTAL CURRENT & FORMER KMP	2012	8,759,092	7,533,038	111,772	1,000,000	295,042	744,751	226,353	2,511,014	3,807,860	24,988,922
	2011	6,793,670	5,149,940	102,374	1,600,000	409,245	-	180,073	1,716,646	1,639,919	17,591,867

The total of the KMP in FY 2011 (as per the 2011 Remuneration Report) was $26,442,671. The FY 2011 total displayed in the main table above ($17,591,867) does not include KMP who had nil remuneration levels in FY 2012 or the top 5 paid executives which were previously required to be disclosed.

Comparison of Total of FY 2012 to FY 2011 Remuneration Report	2012	8,759,092	7,533,038	111,772	1,000,000	295,042	744,751	226,353	2,511,014	3,807,860	24,988,922
	2011	9,816,684	6,436,259	156,120	1,600,000	900,842	2,561,158	267,939	2,145,419	2,558,250	26,442,671

Footnotes to Table 5.1

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

(2) *Short term incentive relates to performance in FY 2011 and FY 2012 respectively and is based on actual performance for Telstra and the individual.*

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

(4) *Includes the second and final tranche of a sign-on bonus for Brendon Riley.*

(5) *Represents company contributions to superannuation as well as any additional superannuation contributions made through salary sacrifice by Senior Executives.*

(6) *This includes the value of STI shares allocated under the FY 2012 STI plan whereby 25 per cent of the STI payment was provided as restricted shares to be distributed over 2 years at 12 month intervals.*

(7) *In accordance with AASB 2, the accounting value represents a portion of the fair value of options, 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 options, 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 options become exercisable or the restricted shares become restricted trust shares. The accounting value includes the negative amount for options and restricted shares forfeited or lapsed during the year that failed to satisfy non-market (i.e. non-RTSR) performance targets. Refer to Table 5.4 for further information.*

(8) *As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY 2012 and FY 2011. For FY 2012, this has occurred for the FY 2009 and FY 2010 LTI plans that failed to satisfy non-market (i.e. non-RTSR) performance targets, resulting in equity instruments lapsing. For market based hurdles (i.e. RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.*

(9) *Gordon Ballantyne was not granted any LTI in FY 2012 and due to the fixed term nature (four years) of Gordon Ballantyne's employment, he was granted a cash based LTI on 7 March 2011 (details of which are included in Telstra's 2011 Remuneration report). The maximum value of his grant is $4,579,548 if the plan measures of FCF ROI and RTSR are significantly exceeded. This plan is in lieu of participation in Telstra equity LTI plans. Any payment under this plan is subject to the same terms and performance criteria as Telstra's FY 2011 LTI plan that applies to other Senior Executives as detailed in the 2011 Remuneration Report. If the Performance criteria for FCF ROI and RTSR are not met, then there is nil payment under this plan. Prior to 1 August 2011 when he became Chief Customer Officer, Gordon Ballantyne was Group Managing Director Telstra Consumer and Country Wide for the period of FY 2012 1 July 2011 to 31 July 2011.*

(10) *Termination Benefits for John Stanhope includes a pro rata at target STI payment of $744,751 under Telstra's Short Term Incentive Policy.*

Remuneration Report

5.2 STI payments (cash and shares)

Name	Year	Maximum Potential STI (1) ($)	Current Year Grant of STI (2) (3)(4) ($)	% of the Maximum Potential	% Forfeited	Total Grant of STI ($)
David Thodey	**2012**	**4,876,000**	**3,220,599**	**66.1%**	**33.9%**	**3,220,599**
	2011	4,600,000	2,251,700	49.0%	51.0%	2,251,700
Gordon Ballantyne	**2012**	**2,500,000**	**1,726,251**	**69.1%**	**30.9%**	**1,726,251**
	2011	2,200,000	1,076,900	49.0%	51.0%	1,076,900
Rick Ellis	**2012**	**798,497**	**527,408**	**66.1%**	**33.9%**	**527,408**
	2011	-	-	-	-	-
Stuart Lee	**2012**	**1,432,080**	**831,323**	**58.1%**	**41.9%**	**831,323**
	2011	-	-	-	-	-
Kate McKenzie	**2012**	**1,900,000**	**1,273,951**	**67.1%**	**32.9%**	**1,273,951**
	2011	1,338,750	621,849	46.5%	53.5%	621,849
Andrew Penn	**2012**	**1,193,443**	**788,269**	**66.1%**	**33.9%**	**788,269**
	2011	-	-	-	-	-
Brendon Riley	**2012**	**2,500,000**	**1,676,251**	**67.1%**	**32.9%**	**1,676,251**
	2011	741,370	344,367	46.5%	53.5%	344,367
Bruce Akhurst	**2012**	**-**	**-**	**-**	**-**	**-**
	2011	2,670,000	1,173,465	44.0%	56.0%	1,173,465
John Stanhope	**2012**	**-**	**-**	**-**	**-**	**-**
	2011	2,856,600	1,398,305	48.9%	51.1%	1,398,305

(1) The maximum potential STI refers to the maximum potential STI specific to FY 2012 and FY 2011 respectively, where the Senior Executive was a KMP, adjusted for any variation in fixed remuneration throughout FY 2012 and FY 2011 that impacts the maximum potential STI available.

(2) The current year grant of STI is pro rata adjusted to reflect the STI component that relates to the Senior Executive's tenure as a KMP. Accordingly any STI component awarded that relates to a period of time where the Senior Executive was not a KMP is excluded from this table. If the minimum threshold performance is not met the minimum possible STI payment is nil.

(3) The STI for FY 2012 and FY 2011 was approved by the Board on 8 August 2012 and 11 August 2011 respectively. The restricted shares, which represent 25% of the STI award, vest in equal parts over one and two years on the anniversary of their allocation date, subject to the Senior Executive's continued employment. Refer to Note 27 of the financial statements for further details.

(4) The grant date for both the cash and the equity component of the FY 2012 STI will be subsequent to the date of this Report.

Remuneration Report

5.3 Summary of LTI Plans and Other Equity Plans as at 30 June 2012:

Name	Plan	Type of Instrument Granted	Performance Period	% of Total Plan Tested at 30/06/2012 (1)	% of Grant Forfeited/ Expired in Current Year (2)	Future Financial Years in which Grants May Vest	Accounting Value Yet to Vest (3) (^)	
							Min ($)	Max ($)
David Thodey	Fiscal 2009	Options	1/07/2008 - 30/06/2012	85%	47%	n/a	n/a	n/a
	Fiscal 2009	Restricted Shares	1/07/2009 - 30/06/2012	40%	100%	n/a	n/a	n/a
	Fiscal 2010	Restricted Shares	1/07/2009 - 30/06/2012	100%	34%	30/06/2013	nil	318,681
	Fiscal 2011	Restricted Shares	1/07/2010 - 30/06/2013	n/a	n/a	30/06/2014	nil	1,183,051
	Fiscal 2012	Restricted Shares	1/07/2011 - 30/06/2014	n/a	n/a	30/06/2015	nil	2,822,123
Gordon Ballantyne (*)	-	-	-	-	-	-	-	-
Rick Ellis	Fiscal 2012	Restricted Shares	1/07/2011 - 30/06/2014	n/a	n/a	30/06/2015	nil	405,144
Stuart Lee	Fiscal 2009	Options	1/07/2008 - 30/06/2012	85%	47%	n/a	n/a	n/a
	Fiscal 2009	Restricted Shares	1/07/2009 - 30/06/2012	40%	100%	n/a	n/a	n/a
	Fiscal 2010	Restricted Shares	1/07/2009 - 30/06/2012	100%	34%	30/06/2013	nil	55,769
	Fiscal 2011	Restricted Shares	1/07/2010 - 30/06/2013	n/a	n/a	30/06/2014	nil	271,512
Kate McKenzie	Fiscal 2009	Options	1/07/2008 - 30/06/2012	85%	47%	n/a	n/a	n/a
	Fiscal 2009	Restricted Shares	1/07/2009 - 30/06/2012	40%	100%	n/a	n/a	n/a
	Fiscal 2010	Restricted Shares	1/07/2009 - 30/06/2012	100%	34%	30/06/2013	nil	83,654
	Fiscal 2011	Restricted Shares	1/07/2010 - 30/06/2013	n/a	n/a	30/06/2014	nil	263,970
	Fiscal 2012	Restricted Shares	1/07/2011 - 30/06/2014	n/a	n/a	30/06/2015	nil	879,743
Andrew Penn (#) (*)	Fiscal 2012	Performance Shares	14/12/2011 - 14/12/2014	n/a	n/a	3/12/2014	nil	202,329
Brendon Riley	Fiscal 2012	Restricted Shares	1/07/2011 - 30/06/2014	n/a	n/a	30/06/2015	nil	1,157,555
Total								**7,643,531**

(1) The 85% tested is represented by 40% for the 3rd performance period test and a retest of 75% of the original 30% available for testing for each of the 1st and 2nd performance periods.
(2) Represents the percentage of the grant that was forfeited/expired by the person, as service or performance criteria were not satisfied in the financial year.
(3) The values included in the above table have been calculated by applying option valuation methodologies as described in Note 27 of the financial statements.
(*) These KMP did not participate in equity settled LTI share based payment plans for FY 2012.
(#) Andrew Penn was allocated 96,500 Performance Shares on 18 January 2012 as part of his service agreement.
(^) For Bruce Akhurst, the maximum and minimum possible value yet to vest in future years for the Restricted Shares granted in FY 2012 is nil due to his separation from Telstra before 30 June 2012.

Remuneration Report

5.4 Accounting value of all LTI instruments

Name	Year	Accounting Value of LTI Equity Allocations (1) (2) (3)			Total	Accounting Value as a % of Total Remuneration (4)
		Options ($)	Restricted shares ($)	Performance shares ($)	($)	(%)
David Thodey	**2012**	**35,253**	**1,970,882**	**-**	**2,006,135**	**26.1%**
	2011	49,113	645,403	-	694,516	13.6%
Gordon Ballantyne	**2012**	**-**	**-**	**-**	**-**	-
	2011	-	-	-	-	-
Rick Ellis	**2012**	**-**	**61,620**	**-**	**61,620**	**6.1%**
	2011	-	-	-	-	-
Stuart Lee	**2012**	**7,280**	**200,674**	**-**	**207,954**	**10.3%**
	2011	-	-	-	-	-
Kate McKenzie	**2012**	**13,459**	**512,090**	**-**	**525,549**	**19.0%**
	2011	6,510	141,413	-	147,923	8.8%
Andrew Penn	**2012**	**-**	**-**	**53,879**	**53,879**	**4.1%**
	2011	-	-	-	-	-
Brendon Riley	**2012**	**-**	**385,852**	**-**	**385,852**	**8.9%**
	2011	-	-	-	-	-
Bruce Akhurst	**2012**	**20,647**	**496,563**	**-**	**517,210**	**17.0%**
	2011	52,909	334,570	-	387,479	13.2%
John Stanhope	**2012**	**8,972**	**40,689**	**-**	**49,661**	**3.2%**
	2011	38,951	371,050	-	410,001	12.5%

(1) The value of each instrument is calculated by applying valuation methodologies as described in Note 27 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed in the Equity Settled Share Based Payments section in the remuneration Table 5.1. Refer to Note 27 to the financial statements for details on employee share plans.

(2) When a vesting scale is used, the table reflects the maximum achievable allocation.

(3) As required under AASB 2, accounting expense that was previously recognised as remuneration has been reversed in FY 2012 and FY 2011. For FY 2012, this has occurred for the FY 2009 and FY 2010 LTI plans that failed to satisfy non-market (i.e. non-RTSR) performance targets, resulting in equity instruments lapsing. For market based hurdles, (i.e. RTSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.

(4) Total Remuneration is the sum of short term employee benefits, post employment benefits, termination benefits, other long term benefits and equity settled share based payments as detailed in Table 5.1 of this Report.

Remuneration Report

5.5 Number of equity instruments granted, vested and exercised during FY 2012

Name	Restricted Shares		Options	Deferred Incentive Shares	Incentive Shares	Performance Shares
	Granted (1)	Vested (2)	Vested (3)	Granted (4)	Exercised (5)	Granted
David Thodey	1,567,846	725,274	337,990	181,004	-	-
Gordon Ballantyne	-	-	-	86,568	-	-
Rick Ellis	225,080	-	-	-	-	-
Stuart Lee	-	126,923	70,762	51,416	-	-
Kate McKenzie	488,746	190,385	129,036	49,988	-	-
Andrew Penn	-	-	-	-	-	96,500
Brendon Riley	643,086	-	-	27,682	-	-
Bruce Akhurst	700,552	-	-	94,330	-	-
John Stanhope	-	-	-	112,404	165,291	-

(1) Restricted shares granted during FY 2012 relate to the FY 2012 LTI plan.
(2) Restricted shares vested during FY 2012 relate to the FY 2010 LTI plan.
(3) Options vested during FY 2012 relate to the FY 2009 LTI plan.
(4) Deferred Incentive shares granted during FY 2012 relate to the FY 2011 STI plan which were allocated on 19 August 2011. However, the allocation of incentive shares under the FY 2012 STI plan will be made subsequent to the reporting date of 30 June 2012, therefore they have not been included in the table above.
(5) Incentive shares exercised during FY 2012 relate to the FY 2007 and FY 2008 STI plans which were released from restriction due to John Stanhope's retirement.

5.6 Value of options, performance rights and restricted shares granted, exercised and lapsed/forfeited in FY 2012

Name	Granted during period (1) ($)		Exercised (2) ($)	Expired/Forfeited Value Foregone (3) (4) ($)	
	Restricted Shares	Performance Shares	Incentive Shares	Restricted Shares	Options
David Thodey	3,762,830	-	-	1,321,640	-
Gordon Ballantyne	-	-	-	-	-
Rick Ellis	540,192	-	-	-	-
Stuart Lee	-	-	-	241,000	-
Kate McKenzie	1,172,990	-	-	380,652	-
Andrew Penn	-	256,208	-	-	-
Brendon Riley	1,543,406	-	-	-	-
Bruce Akhurst	1,681,325	-	-	-	-
John Stanhope	-	-	550,419	-	-

(1) The grant date of the FY 2012 LTI plan was 31 December 2011. The fair value of the RTSR and FCF ROI restricted shares granted in FY 2012 at the grant date is $2.12 and $2.68 respectively. The fair value reflects the valuation approach required by AASB 2 using a Monte Carlo simulation option pricing model, as explained in Note 27 to the financial statements.
(2) The value of the equity instruments exercised reflects the market value at the date of exercise after deducting any exercise price paid. John Stanhope exercised 165,291 Incentive Shares at a market value of $3.33 on 30 December 2011.
(3) The value of equity instruments that have lapsed during the year represents the value foregone and is calculated at the date the equity instruments lapsed using an option pricing model and after deducting any exercise price that would have been payable. The expiry date of the restricted shares that expired during FY 2012 was 30 June 2012.
(4) As the options granted under the FY 2009 LTI plans had an exercise price that was greater than the market price of Telstra shares (i.e. were out of the money), there was no value associated with these lapsed options.
(5) The grant date of Mr Penn's Performance Shares was 18 January 2012. The fair value of the Performance Shares at the grant date was $2.78 for 50% which vest after two years and $2.53 for the remaining 50% which vest after three years from the date of commencement. The fair value reflects the valuation approach required by AASB 2 using a Monte Carlo simulation option pricing model.

Remuneration Report

5.7 Non-executive Director Remuneration

		Short Term Employee Benefits		Post-employment Benefits	Equity Settled Share-based Payments	
Name	Year	Salary and Fees (1) ($)	Non-monetary Benefits (2) ($)	Superannuation ($)	Directshare ($)	Total ($)
Catherine B Livingstone Chairman	**2012**	**664,025**	**4,641**	**15,775**	**-**	**684,441**
	2011	662,323	5,870	15,199	-	683,392
Timothy Y Chen (3) Director	**2012**	**61,120**	**-**	**3,922**	**-**	**65,042**
	2011	-	-	-	-	-
Geoffrey A Cousins Director	**2012**	**242,825**	**-**	**15,775**	**-**	**258,600**
	2011	242,066	-	15,199	-	257,265
Russell A Higgins Director	**2012**	**265,400**	**333**	**15,775**	**-**	**281,508**
	2011	249,692	367	15,199	-	265,258
John P Mullen Director	**2012**	**272,911**	**1,153**	**10,689**	**-**	**284,753**
	2011	281,690	1,028	-	-	282,718
Nora L Scheinkestel Director	**2012**	**301,400**	**-**	**15,775**	**-**	**317,175**
	2011	218,048	-	13,450	-	231,498
Margaret L Seale (4) Director	**2012**	**31,681**	**-**	**2,371**	**-**	**34,052**
	2011	-	-	-	-	-
John W Stocker Director	**2012**	**310,100**	**164**	**15,775**	**-**	**326,039**
	2011	291,692	150	15,199	-	307,041
Steven M Vamos Director	**2012**	**231,906**	**1,692**	**26,694**	**-**	**260,292**
	2011	241,290	1,955	26,118	-	269,363
John D Zeglis Director	**2012**	**232,566**	**-**	**1,034**	**-**	**233,600**
	2011	232,841	-	-	-	232,841
John M Stewart (5) Director	**2012**	**78,623**	**-**	**-**	**-**	**78,623**
	2011	258,259	-	2,582	-	260,841
Total	**2012**	**2,692,557**	**7,983**	**123,585**	**-**	**2,824,125**
	2011	2,677,901	9,370	102,946	-	2,790,217

(1) Includes fees for membership on Board Committees. In FY 2012, the fees also includes additional fees for services provided in relation to the NBN Due Diligence Committee. This amount includes $22,275 for John Stocker, $19,575 for Russell Higgins and $55,575 for Nora Scheinkestel. In FY 2011, the fees included additional fees for services provided in relation to the NBN Committee and the NBN Due Diligence Committee. This included an amount of $4,050 each for John Stocker, Russell Higgins and Steve Vamos.

(2) These payments refer to telecommunications and other services and equipment provided to non-executive Directors to assist them in performing their duties. From time to time Telstra may also make products and services available to non-executive Directors without charge to allow them to familiarise themselves with Telstra's products and services and with recent technological developments.

(3) Timothy Chen qualifies as a KMP for period 1 April 2012 to 30 June 2012.

(4) Margaret Seale qualifies as a KMP for the period 7 May 2012 to 30 June 2012.

(5) John Stewart qualifies as a KMP for the period 1 July 2011 to 18 October 2011.

Remuneration Report

Glossary and abbreviations used in report

Average Investment for LTI	Average investment over the period is the average of the sum of net debt and shareholders' funds over the entire three year performance period.
Customer Satisfaction	A non financial measure in Telstra's STI plans. Refer to section 3.2.2 for further information.
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).
Fixed Remuneration	Base salary plus company and private salary sacrificed superannuation contributions
Free Cashflow (FCF)	Cashflow from operating and investing activities
Free Cashflow for STI	Free Cashflow (excluding CAPEX for Investment and Spectrum; and proceeds from Land & Building disposals)
FCF for LTI	FCF for these purposes is annual free cash flow less interest paid and adjusting for non-recurring factors such as 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.
GMD	Group Managing Director
Growthshare	A wholly owned entity of Telstra that administers employee equity plans
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.
Restricted Shares	A right to a share subject to the achievement of the performance hurdle
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
STI	Short Term Incentive
STI Deferral	A program that requires executives to defer part of their cash incentive into shares
Straightline Vesting	Describes the vesting calculation between target and stretch of an LTI plan
SSU	Structural Separation Undertaking
Total Fixed Remuneration	Identical to Fixed Remuneration – specifically defined this way in the CEO's contract.
Total Remuneration	The sum of all the fixed and variable components of remuneration as detailed in Table 5.1
Total Income	Total Telstra Income excluding profit/loss on Land & Building disposals

Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2012

Page Number

Income Statement

for the year ended 30 June 2012

	Note	Telstra Group Year ended 30 June 2012 $m	2011 $m
Income			
Revenue (excluding finance income)	6	**25,368**	25,093
Other income	6	**135**	211
		25,503	25,304
Expenses			
Labour		**4,061**	3,924
Goods and services purchased		**6,179**	6,183
Other expenses	7	**5,029**	5,047
		15,269	15,154
Share of net (profit) from jointly controlled and associated entities	26	**-**	(1)
		15,269	15,153
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		**10,234**	10,151
Depreciation and amortisation	7	**4,412**	4,459
Earnings before interest and income tax expense (EBIT)		**5,822**	5,692
Finance income	6	**134**	127
Finance costs	7	**1,022**	1,262
Net finance costs		**888**	1,135
Profit before income tax expense		**4,934**	4,557
Income tax expense	9	**1,510**	1,307
Profit for the year		**3,424**	3,250
Attributable to:			
Equity holders of Telstra Entity		**3,405**	3,231
Non-controlling interests		**19**	19
		3,424	3,250
Earnings per share (cents per share)		**cents**	cents
Basic	3	**27.5**	26.1
Diluted	3	**27.4**	26.1

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

Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	Telstra Group Year ended 30 June 2012 $m	2011 $m
Profit for the year			
Attributable to equity holders of Telstra Entity		**3,405**	3,231
Attributable to non-controlling interests		**19**	19
		3,424	3,250
Items that will not be reclassified subsequently to profit or loss			
Retained profits:			
- actuarial (loss)/gain on defined benefit plans attributable to equity holders of Telstra Entity	24	**(752)**	182
- income tax on actuarial gain/(loss) on defined benefit plans		**222**	(54)
- actuarial (loss)/gain on defined benefit plans attributable to non-controlling interests	24	**(3)**	1
		(533)	129
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation reserve:			
- translation differences of foreign operations attributable to equity holders of Telstra Entity		**68**	(328)
- income tax on movements in the foreign currency translation reserve		**9**	(42)
- translation differences transferred to income statement on disposal of controlled entities		**9**	11
- income tax on translation differences transferred to income statement on disposal of controlled entities		**-**	4
- translation differences of foreign operations attributable to non-controlling interests		**11**	(49)
Cash flow hedging reserve:			
- changes in fair value of cash flow hedges		**(587)**	(845)
- changes in fair value transferred to other expenses		**204**	238
- changes in fair value transferred to goods and services purchased		**7**	93
- changes in fair value transferred to finance costs		**263**	267
- changes in fair value transferred to property, plant and equipment		**9**	3
- income tax on movements in the cash flow hedging reserve		**31**	73
		24	(575)
Total other comprehensive income		**(509)**	(446)
Total comprehensive income for the year		**2,915**	2,804
Total comprehensive income attributable to equity holders of Telstra Entity		**2,888**	2,833
Total comprehensive income attributable to non-controlling interests		**27**	(29)

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

Statement of Financial Position

as at 30 June 2012

		Telstra Group	
		As at 30 June	
		2012	2011
	Note	**$m**	$m
Current assets			
Cash and cash equivalents	20	**3,945**	2,630
Trade and other receivables	10	**4,346**	4,137
Inventories	11	**260**	283
Derivative financial assets	17(f)	**32**	83
Current tax receivables		**363**	4
Prepayments		**250**	275
Assets classified as held for sale	12	**754**	41
Total current assets		**9,950**	7,453
Non current assets			
Trade and other receivables	10	**851**	340
Inventories	11	**24**	22
Investments - accounted for using the equity method	26	**12**	2
Investments - other		**19**	1
Property, plant and equipment	13	**20,504**	21,790
Intangible assets	14	**7,421**	7,627
Derivative financial assets	17(f)	**658**	285
Non current tax receivables		**80**	382
Deferred tax assets	9	**6**	-
Defined benefit assets	24	**-**	11
Total non current assets		**29,575**	30,460
Total assets		**39,525**	37,913
Current liabilities			
Trade and other payables	15	**4,131**	4,093
Provisions	16	**942**	846
Borrowings	17(a)	**3,306**	1,990
Derivative financial liabilities	17(f)	**299**	634
Current tax payables		**731**	404
Revenue received in advance		**1,170**	1,018
Liabilities classified as held for sale	12	**105**	5
Total current liabilities		**10,684**	8,990
Non current liabilities			
Other payables	15	**174**	177
Provisions	16	**264**	244
Borrowings	17(a)	**11,958**	12,178
Derivative financial liabilities	17(f)	**2,349**	1,799
Deferred tax liabilities	9	**1,107**	1,730
Defined benefit liability	24	**831**	205
Revenue received in advance		**469**	298
Total non current liabilities		**17,152**	16,631
Total liabilities		**27,836**	25,621
Net assets		**11,689**	12,292
Equity			
Share capital	19	**5,635**	5,610
Reserves		**(867)**	(843)
Retained profits		**6,712**	7,307
Equity available to Telstra Entity shareholders		**11,480**	12,074
Non-controlling interests		**209**	218
Total equity		**11,689**	12,292

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

Statement of Cash Flows

for the year ended 30 June 2012

	Note	Telstra Group Year ended 30 June 2012 $m	2011 $m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		**28,364**	27,389
Payments to suppliers and to employees (inclusive of GST)		**(17,491)**	(17,860)
Net cash generated by operations		**10,873**	9,529
Income taxes paid		**(1,597)**	(1,511)
Net cash provided by operating activities	20	**9,276**	8,018
Cash flows from investing activities			
Payments for:			
- property, plant and equipment		**(3,006)**	(2,342)
- intangible assets		**(942)**	(909)
Capital expenditure (before investments)		**(3,948)**	(3,251)
- shares in controlled entities (net of cash acquired)		**-**	(36)
- payments for associates		**(9)**	-
- payments for other investments		**(18)**	-
Total capital expenditure		**(3,975)**	(3,287)
Proceeds from:			
- sale of property, plant and equipment		**17**	16
- sale of intangible assets		**2**	-
- sale of shares in controlled entities (net of cash disposed)		**(9)**	288
- sale of businesses (net of cash disposed)		**(2)**	14
- sale of associates		**-**	23
Proceeds from finance lease principal amounts		**54**	74
Repayment of loans to jointly controlled and associated entities		**3**	2
Loans to jointly controlled and associated entities		**(443)**	-
Interest received		**117**	122
Settlement of hedges in net investments		**49**	96
Dividends received		**-**	41
Distributions received from FOXTEL Partnership	6	**108**	70
Net cash used in investing activities		**(4,079)**	(2,541)
Operating cash flows less investing cash flows		**5,197**	5,477
Cash flows from financing activities			
Proceeds from borrowings		**3,049**	2,340
Repayment of borrowings		**(2,224)**	(2,536)
Repayment of finance lease principal amounts		**(52)**	(61)
Staff repayments of share loans		**3**	8
Finance costs paid		**(1,154)**	(1,135)
Acquisition of non-controlling interests		**(37)**	-
Dividends paid to equity holders of Telstra Entity	4	**(3,475)**	(3,475)
Dividends paid to non-controlling interests		**(16)**	(14)
Net cash used in financing activities		**(3,906)**	(4,873)
Net increase in cash and cash equivalents		**1,291**	604
Cash and cash equivalents at the beginning of the year		**2,637**	2,105
Effects of exchange rate changes on cash and cash equivalents		**17**	(72)
Cash and cash equivalents at the end of the year	20	**3,945**	2,637

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

Statement of Changes in Equity

for the year ended 30 June 2012

Telstra Group

		Reserves							
	Share capital $m	Foreign currency transla-tion (a) $m	Cash flow hedging (b) $m	Consolid-ation fair value (c) $m	General reserve (d) $m	Retained profits $m	Total $m	Non-controll-ing interests $m	Total Equity $m
Balance at 1 July 2010 .	5,590	(482)	157	9	4	7,418	12,696	312	13,008
Profit for the year	-	-	-	-	-	3,231	3,231	19	3,250
Other comprehensive income	-	(355)	(171)	-	-	128	(398)	(48)	(446)
Total comprehensive income for the year	-	(355)	(171)	-	-	3,359	2,833	(29)	2,804
Dividends.	-	-	-	-	-	(3,475)	(3,475)	(14)	(3,489)
Non-controlling interests on disposals	-	-	-	-	-	-	-	(51)	(51)
Transfers to retained profits	-	-	-	(5)	-	5	-	-	-
Amounts repaid on share loans provided to employees	8	-	-	-	-	-	8	-	8
Share based payments. .	12	-	-	-	-	-	12	-	12
Balance at 30 June 2011	5,610	(837)	(14)	4	4	7,307	12,074	218	12,292
Profit for the year	**-**	**-**	**-**	**-**	**-**	**3,405**	**3,405**	**19**	**3,424**
Other comprehensive income	**-**	**86**	**(73)**	**-**	**-**	**(530)**	**(517)**	**8**	**(509)**
Total comprehensive income for the year	**-**	**86**	**(73)**	**-**	**-**	**2,875**	**2,888**	**27**	**2,915**
Dividends.	**-**	**-**	**-**	**-**	**-**	**(3,475)**	**(3,475)**	**(16)**	**(3,491)**
Transactions with non-controlling interests. . . .	**-**	**-**	**-**	**-**	**(32)**	**-**	**(32)**	**(5)**	**(37)**
Non-controlling interests on disposals	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(24)**	**(24)**
Transfers to retained profits	**-**	**-**	**-**	**(4)**	**(1)**	**5**	**-**	**-**	**-**
Amounts repaid on share loans provided to employees	**3**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Share based payments. .	**22**	**-**	**-**	**-**	**-**	**-**	**22**	**9**	**31**
Balance at 30 June 2012	**5,635**	**(751)**	**(87)**	**-**	**(29)**	**6,712**	**11,480**	**209**	**11,689**

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

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

(c) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited's net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

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

Notes to the Financial Statements

1. Basis of preparation

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

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

- year, fiscal year or financial year means the year ended 30 June;
- reporting date means the date 30 June; and
- 2012 means fiscal 2012 and similarly for other fiscal years.

The financial report of the Telstra Group for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 9 August 2012.

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

1.1 Basis of preparation of the financial report

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

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

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

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

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

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

1.2 Clarification of terminology used in our income statement

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

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. 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 costs, income tax and non-cash capital related expenses.

In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net profit in understanding cash flows generated from operations that are available for payment of income taxes, debt servicing and capital expenditure. In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

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

1.3 Rounding

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements

2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2012.

(a) Presentation of items of Other Comprehensive Income (OCI)

We have elected to early adopt and apply AASB 2011-9: "Amendments to Australian Accounting Standards - Presentation of items of Other Comprehensive Income" in our 30 June 2012 financial report.

AASB 2011-9 was issued by the AASB in September 2011 and amends AASB 101: "Presentation of Financial Statements" to require entities to group items presented in OCI on the basis of whether they are subsequently expected to be reclassified to profit or loss.

The amendments from this standard have resulted in a change in the presentation of Telstra's Statement of Comprehensive Income so that items of OCI that may be reclassified to profit or loss in subsequent periods are grouped separately from items of OCI that will not. This standard impacts disclosure requirements only and does not change the way we recognise or measure items of OCI.

(b) Other

Other accounting standards that are applicable for the year ended 30 June 2012.

- AASB 124: "Related Party Disclosures (Revised)";
- AASB 2009-12: "Amendments to Australian Accounting Standards";
- AASB 2009-14: "Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement";
- AASB 2010-4: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2010-5: "Amendments to Australian Accounting Standards";
- AASB 2010-6: "Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets";
- AASB 2011-5: "Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation";
- AASB 1048: "Interpretation of Standards (Revised)"; and
- AASB 1053: "The Application of Tiers of Australian Accounting Standards".

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

2.2 Principles of consolidation

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

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity so as to obtain benefits from its activities.

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

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

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

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

2.3 Foreign currency translation

(a) Transactions and balances

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.3 Foreign currency translation (continued)

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

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

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

Refer to note 18 for details regarding our accounting policy for derivative financial instruments and foreign currency monetary items that are used to hedge our net investment in entities which have a functional currency that is not in Australian dollars.

2.4 Cash and cash equivalents

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

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

2.5 Trade and other receivables

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

An allowance for doubtful debts is raised to reduce the carrying amount of trade receivables, based on a review of outstanding amounts at reporting date. The allowance for doubtful debts is based on historical trends and management's assessment of general economic conditions. An allowance for doubtful debts is raised when management considers there is a credit risk, insolvency risk or incapacity to pay a legally recoverable debt. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

For the majority of inventory items, we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell. We calculate net realisable value of inventories by making certain price assumptions to project selling prices into the future and assumptions about technologies at reporting date.

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

2.7 Construction contracts

(a) Valuation

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

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.7 Construction contracts (continued)

(b) Recognition of revenue and profit

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

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

2.8 Investments

(a) Jointly controlled and associated entities

(i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses after tax for the year since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- dividends or distributions received; and
- deferred profit brought to account.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years' share of losses and reserve reductions.

Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of the investment falls below zero, we reduce the value of these long term assets in proportion with our cumulative losses.

(ii) Associated entities

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

(b) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record income and expenses based on our percentage ownership interest of the jointly controlled asset.

(c) Listed securities and investments in other corporations

Our investments in listed securities and in other corporations are classified as 'available-for-sale' financial assets and are measured at fair value at each reporting date. Fair values are calculated on the following basis:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at reporting date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving instruments that are substantially the same.

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

2.9 Impairment

(a) Non-financial assets

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.9 Impairment (continued)

(a) Non-financial assets (continued)

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

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

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

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. 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 which form part of our ubiquitous telecommunications network work together to generate net cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve the delivery of products and services. As a result, we have determined that the ubiquitous telecommunications network is a single CGU. We have referred to this CGU as the Telstra Entity CGU in our financial report.

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

(b) Financial assets

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

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

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

2.10 Property, plant and equipment

(a) Acquisition

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

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.10 Property, plant and equipment (continued)

(b) Depreciation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated on a straight line basis to the income statement over their estimated service lives. We start depreciating assets when they are installed and ready for use. The service lives of our significant items of property, plant and equipment are as follows:

	Telstra Group	
	As at 30 June	
	2012	2011
Property, plant and equipment	**Service life (years)**	Service life (years)
Buildings		
Buildings	**52 - 53**	52 - 53
Fitouts	**10 - 20**	10 - 20
Leasehold improvements	**4 - 40**	5 - 40
Communication assets		
Network land and buildings	**10 - 58**	10 - 58
Network support infrastructure	**3 - 52**	3 - 52
Access fixed	**4 - 30**	3 - 30
Access mobile	**3 - 16**	3 - 17
Content/IP products - core	**4 - 10**	4 - 10
Core network - data	**3 - 10**	3 - 8
Core network - switch	**2 - 26**	2 - 25
Core network - transport	**5 - 30**	5 - 30
Specialised premise equipment	**3 - 8**	3 - 8
International connect	**11 - 21**	11 - 21
Managed service	**4 - 13**	3 - 12
Network control layer	**2 - 13**	2 - 13
Network product	**2 - 9**	2 - 9
Other plant and equipment		
IT equipment	**3 - 5**	3 - 5
Motor vehicles/trailer/caravan/huts	**5 - 15**	5 - 15
Other plant and equipment	**3 - 20**	2 - 20

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

Based on our assessments at 30 June 2011 and the fact that no significant changes have occurred since then, there are no measurement implications on service lives resulting from the National Broadband Network (NBN) transaction for the year ended 30 June 2012. Our assessment continues to show that the weighted average remaining service life (WARSL) for the existing network assets impacted by the disconnection obligations that will apply under the Definitive Agreements, falls within the anticipated rollout period of 10 years. As such, we have concluded that no further adjustments for fiscal 2012 are required, in addition to the annual service life reassessment, the results of which are noted below. Refer to note 21 for further discussion on the NBN.

The net effect of the reassessment of service lives for fiscal 2012 was a decrease in our depreciation expense of $248 million (2011: $79 million increase) for the Telstra Group.

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

2.11 Leased plant and equipment

We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains substantially all such risks and benefits.

(a) Telstra as a lessee

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

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.11 Leased plant and equipment (continued)

(b) Telstra as a lessor

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

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

2.12 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

(a) Goodwill

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

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.9 on an annual basis, or when an indication of impairment exists.

(b) Internally generated intangible assets

Research costs are recorded as an expense as incurred.

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

Software assets

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

Costs included in software assets developed for internal use are:

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

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

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

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

(c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.9 on an annual basis, or where an indication of impairment exists.

(d) Deferred expenditure

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

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.12 Intangible assets (continued)

(e) Amortisation

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

	Telstra Group	
	As at 30 June	
	2012	2011
Identifiable intangible assets	Expected benefit (years)	Expected benefit (years)
Software assets	9	9
Patents and trademarks	6	9
Mastheads	5	5
Licences	14	13
Brand names	18	18
Customer bases	13	13
Deferred expenditure	4	4

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

The net effect of the reassessment for fiscal 2012 was a decrease in our amortisation expense of $32 million (2011: $105 million) for the Telstra Group.

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

2.13 Trade and other payables

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

2.14 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related on costs.

Certain employees who have been employed by Telstra for at least 10 years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of reporting date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

We apply management judgement in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries; and
- discount rate.

As at 30 June 2012 we have used a State and Commonwealth blended (2011: Commonwealth) 10-year Australian government bond rate to determine the discount rate. This change resulted in a $35 million decrease of our long service leave expenses and long service leave liabilities.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

(b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.14 Provisions (continued)

(b) Workers' compensation (continued)

As at 30 June 2012 we have used a State and Commonwealth blended (2011: Commonwealth) 10-year Australian government bond rate to determine the discount rate. This change resulted in a $5 million decrease of our workers' compensation expenses and workers' compensation provision.

(c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation to those affected by the restructuring that the restructuring will be carried out.

2.15 Borrowings

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

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

We recognise borrowings initially on the trade date, which is the date 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 which are designated as hedged items are subject to either fair value or cash flow hedges. The method by which they are hedged determines their accounting treatment.

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

Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument. When using a discounted cashflow analysis, our assumptions are based on market conditions existing at reporting date.

Borrowings subject to cash flow hedges are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost and translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

When currency gains or losses on the borrowings are recognised in the income statement, the associated gains or losses on the hedging instrument are also transferred from the cash flow hedging reserve to the income statement.

(b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include offshore loans, Telstra bonds and domestic loans.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

(c) Statement of cash flows presentation

Where our short term borrowings are held for the purposes of meeting short term cash commitments, we report the cash receipts and subsequent repayments on a net basis in the statement of cash flows.

2.16 Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.16 Share capital (continued)

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

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

Refer to note 2.21 for further details regarding our accounting for employee share plans.

2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

(a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12(d). In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life. Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2011: 5 years).

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

Generally we record the full gross amount of sales proceeds as revenue, however if we are acting as an agent under a sales arrangement, we record the revenue on a net basis, being the gross amount billed less the amount paid to the supplier. We review the facts and circumstances of each sales arrangement to determine if we are an agent or principal under the sale arrangement.

(c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue and profit on a percentage of contract completion basis. The percentage of completion is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are two types of construction contracts, these being material intensive and short duration. Revenue and profit are recognised on a percentage of completion basis using the appropriate measures as follows:

- for material intensive projects (actual costs/planned costs) x planned revenue, including profit; and
- for short duration projects (which are those that are expected to be completed within a month), revenues, profit and costs are recognised on completion.

(e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages® and White Pages® directory print revenues are recognised on delivery of the published directories to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

(f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

(h) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.17 Revenue recognition (continued)

(h) Revenue arrangements with multiple deliverables (continued)

We allocate the consideration from the revenue arrangement to its separate units based on the relative selling prices of each unit. If neither vendor specific objective evidence nor third party evidence exists for the selling price, then the item is measured based on the best estimate of the selling price of that unit. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above. For eligible mobile repayment option (MRO) and mobile cap plans, MRO bonus credits are credited to customer accounts on a monthly basis. MRO bonus credits are considered sales incentives and therefore are recorded as a reduction to revenue. Where they form part of a bundled arrangement, the reduction in revenue is allocated to both the handset and services revenue based on their relative selling prices, where they both contribute towards the customer earning the MRO bonus credits.

(i) Government grants

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

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

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

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.

During the year, we received a government grant under the Retraining Funding Deed with the Commonwealth Government as part of the NBN agreements. The grant will be used to retrain certain employees over a period of eight to ten years. The grant is recognised as income based on actual costs of training incurred.

2.18 Taxation

(a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to other comprehensive income or equity, in which case our current and deferred tax is also recognised directly in other comprehensive income or equity.

We apply the balance sheet liability method for calculating our deferred tax. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined with reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit nor taxable income at the time of the transaction.

In respect of our investments in subsidiaries, jointly controlled and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

Management judgement is required to determine the amount of deferred tax assets that can be recognised. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax losses and tax credits, can be utilised.

The carrying amount of our deferred tax assets is reviewed at each reporting date. We reduce the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.18 Taxation (continued)

(a) Income taxes (continued)

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

(b) Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

2.19 Earnings per share

Basic earnings per share is determined by dividing the profit attributable to ordinary shareholders after tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders after tax by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

2.20 Post employment benefits

(a) Defined contribution plans

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable. We recognise a liability when we are required to make future payments as a result of employee services provided.

(b) Defined benefit plans

We currently sponsor a number of post employment benefit plans. As these plans have elements of both defined contribution and defined benefit, these hybrid plans are treated as defined benefit plans.

At reporting date, where the fair value of the plan assets is less than the present value of the defined benefit obligations, the net deficit is recognised as a liability. If the fair value of the plan assets exceeds the present value of the defined benefit obligations, the net surplus is recognised as an asset. We recognise the asset as we have the ability to control this surplus to generate future funds that are available to us in the form of reductions in future contributions or as a cash refund. Fair value is used to determine the value of the plan assets at reporting date and is calculated by reference to the net market values of the plan assets.

Defined benefit obligations are based on the expected future payments required to settle the obligations arising from current and past employee services. This obligation is influenced by many factors, including final salaries and employee turnover. We engage qualified actuaries to calculate the present value of the defined benefit obligations. These obligations are measured gross of tax.

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement with the exception of actuarial gains and losses that are recognised directly in other comprehensive income via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

Actuarial gains and losses are based on an actuarial valuation of each defined benefit plan at reporting date. Actuarial gains and losses represent the differences between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

We apply judgement in estimating the following key assumptions used in the calculation of our defined benefit liabilities and assets at reporting date:

- discount rates;
- salary inflation rate; and
- expected return on plan assets.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.20 Post employment benefits (continued)

(b) Defined benefit plans (continued)

The estimates applied in the actuarial calculation have a significant impact on the reported amount of our defined benefit plan liabilities and assets. If the estimates prove to be incorrect, the carrying value may be materially impacted in the next reporting period. Additional volatility may also potentially be recorded in other comprehensive income to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

As at 30 June 2012 we have used a State and Commonwealth blended (2011: Commonwealth) 10-year Australian government bond rate to determine the discount rate. This change resulted in a $219 million decrease in actuarial loss on defined benefit plans recognised in the other comprehensive income and the defined benefit liability.

Refer to note 24 for details on the key estimates used in the calculation of our defined benefit liabilities and assets.

2.21 Employee Share Plans

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We consolidate the results, position and cash flows of TESOP97 and TESOP99.

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

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit or loss over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

2.22 Derivative financial instruments

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

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

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. Refer to note 17 for details on the basis used for estimated fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

Derivative assets are derecognised when the rights to receive cash flows from the derivative assets have expired or have been transferred and we have transferred substantially all the risks and rewards of ownership.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. We do not offset the receivable or payable with the underlying financial asset or financial liability being hedged, as the transactions are usually with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to set off the derivative asset and the derivative liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. For all of our hedging instruments, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective, are recognised directly in the income statement in the period in which they occur. The extent to which gains or losses on the hedged item and the hedge instrument do not offset represents ineffectiveness which may result in significant volatility in the income statement.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions, together with the methods that will be used to assess the effectiveness of the hedge relationship. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.22 Derivative financial instruments (continued)

Purchases and sales of derivative instruments are recognised on the date on which we commit to purchase or sell an asset.

(a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised within finance costs in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

(b) Cash flow hedges

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

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognised directly in other comprehensive income in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, property, plant and equipment), the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

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

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

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

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

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

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

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

Derivatives associated with borrowings de-designated from fair value hedge relationships or not in a designated hedge relationship for hedge accounting purposes are classified as ‘held for trading’.

For borrowings de-designated from fair value hedge relationships, from the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are accounted for on an amortised cost basis consistent with a revised effective interest rate as at the de-designation date. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates and the discounting impact of future cash flows on the derivatives. The cumulative gains or losses previously recognised from the 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.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

2.23 Contingent Liabilities

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

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

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

2.24 Recently issued accounting standards to be applied in future reporting periods

The accounting standards that have not been early adopted for the year ended 30 June 2012, but will be applicable to the Telstra Group in future reporting periods, are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future periods, however they been considered insignificant to Telstra.

(a) Financial Instruments - Classification, Measurement and Derecognition

AASB 9: "Financial Instruments" was re-issued in December 2010 to include the accounting requirements for classifying and measuring financial liabilities and the derecognition requirements for financial assets and liabilities. Two related omnibus standards AASB 2010-7: "Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)" and AASB 2009-11: "Amendments to Australian Accounting Standards arising from AASB 9" make a number of amendments to other accounting standards as a result of the amendments to AASB 9 and must be adopted at the same time.

Most of the added requirements on the classification and measurement of financial liabilities and all of the added requirements on the derecognition of financial instruments have been carried forward unchanged from the existing standard AASB 139: "Financial Instruments - Classification and Measurement". The only change made relates to the requirements for the fair value option for financial liabilities, to address the issue of own credit risk. For financial liabilities designated at fair value, the portion of the change in fair value due to changes in own credit risk now generally must be presented in other comprehensive income, rather than within profit or loss.

The amendments to AASB 9 are applicable to annual reporting periods beginning on or after 1 January 2015 with early adoption permitted (previous effective date of 1 January 2013 was amended by the International Accounting Standards Board (IASB) via the issue of "Amendments to IFRS 9 and IFRS 7: Mandatory Effective Date and Transition Disclosures". The related AASB exposure draft ED 215 Mandatory Effective Date of IFRS 9 [proposed amendment to AASB 9] is in pending status at reporting date.

It is anticipated that this change will have minimal impact on Telstra as all of our financial liabilities are either classified at amortised cost or in a hedge relationship.

(b) Consolidated Financial Statements

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

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

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

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

(c) Joint Arrangements

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

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

(c) Joint Arrangements (continued)

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

(d) Disclosures of Interests in Other Entities

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

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

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

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

(e) Separate Financial Statements

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

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

(f) Investments in Associates and Joint Ventures

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

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

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

(g) Fair Value Measurement

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

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

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

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

(h) Employee Benefits

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

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies, estimates, assumptions and judgements (continued)

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

(h) Employee Benefits (continued)

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

- the defined benefit expense will no longer contain the component of expected returns on planned assets, instead this will be replaced by a net interest income or expense calculated using a discount rate (based on government bonds) that is applied to the net defined benefit asset or liability;
- presentation of the defined benefit cost will be disaggregated into three components; service cost to be presented in profit or loss, net interest on the net defined benefit asset or liability in the profit or loss as part of finance costs and remeasurements to be presented in other comprehensive income; and
- additional disclosures about the characteristics and risks arising from our defined benefit plans.

(i) Other

In addition to the above recently issued accounting standards that are applicable in future years, we note the following new accounting standards that are applicable in future years:

- AASB 2010-8: "Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets";
- AASB 2011-4: "Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements";
- AASB 2012-2: "Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities";
- AASB 2012-3: "Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities"; and
- AASB 2012-5 "Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle".

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

Notes to the Financial Statements (continued)

3. Earnings per share

	Telstra Group	
	Year ended 30 June	
	2012	2011
	cents	cents
Basic earnings per share	**27.5**	26.1
Diluted earnings per share	**27.4**	26.1
	$m	$m
Earnings used in the calculation of basic and diluted earnings per share		
Profit for the year attributable to equity holders of Telstra Entity	**3,405**	3,231
	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)	**(45)**	(61)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**12,398**	12,382
Effect of dilutive employee share instruments (c)	**8**	15
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**12,406**	12,397

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

(c) In fiscal 2012 and fiscal 2011, the following equity instruments are considered dilutive to earnings per share:

- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights and restricted shares granted under the Growthshare long term incentive scheme; and
- share options issued under TESOP97.

In fiscal 2012 and fiscal 2011, the following equity instruments are not considered dilutive to earnings per share:

- certain performance rights, restricted shares and options issued under Growthshare; and
- share options issued under TESOP99.

Refer to note 27 for details regarding equity instruments issued under the Growthshare and TESOP share plans.

Notes to the Financial Statements (continued)

4. Dividends

	Telstra Entity	
	Year ended 30 June	
	2012	2011
	$m	$m
Dividends paid		
Previous year final dividend paid	**1,738**	1,737
Interim dividend paid	**1,737**	1,738
Total dividends paid	**3,475**	3,475
Dividends paid per ordinary share	**cents**	cents
Previous year final dividend paid	**14.0**	14.0
Interim dividend paid	**14.0**	14.0
Total dividends paid	**28.0**	28.0

Dividends paid are fully franked at a tax rate of 30%.

Dividends per share in respect of each fiscal year are detailed below:

	Telstra Entity	
	Year ended 30 June	
	2012	2011
	cents	cents
Dividends per ordinary share		
Interim dividend paid	**14.0**	14.0
Final dividend to be paid (a)	**14.0**	14.0
Total dividends	**28.0**	28.0

	Telstra Entity	
	Year ended 30 June	
	2012	2011
	$m	$m
The combined amount of exempting and franking credits available to us for the next fiscal year are:		
Franking account balance	**(54)**	(141)
Exempting account (b)	**24**	24
Franking credits that will arise from the payment of income tax payable as at 30 June (c)	**674**	369
Exempting credits that we may be prevented from distributing in the next fiscal year (b)	**(24)**	(24)
	620	228

(a) As the final dividend for fiscal 2012 was not determined or publicly recommended by the Board as at 30 June 2012, no provision for dividend has been raised in the statement of financial position. The final dividend has been reported as an event subsequent to reporting date. Refer to note 31 for further details.

(b) In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

(c) Franking credits that will arise from the payment of income tax are expressed at the 30% tax rate on a tax paid basis.

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, adjusted for franking debits arising from income tax refunds, will be sufficient to fully frank our final 2012 dividend.

Notes to the Financial Statements (continued)

5. Segment information

Operating segments

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

During the year ended 30 June 2012, the following changes were made to our operating segments:

- a new business unit "Telstra Customer Sales and Service" (TCS&S) was created, headed by the Chief Customer Officer. It consolidates the results of all domestic retail business units, i.e. Telstra Business (TB), Telstra Consumer and Country Wide (TC&CW) and Telstra Enterprise and Government (TE&G), which all continue to be disclosed as separate reportable segments. The Chief Customer Officer has also assumed the responsibility for our New Zealand retail unit, TelstraClear (TClear) which also continues to be disclosed as a separate reportable segment. The TCS&S head office function (excluding the domestic retail business units and TClear results) has been included in the "All Other" category;
- a new business unit "Telstra Applications and Ventures Group" (TAVG) was created to invest and partner with other companies and government agencies at the forefront of innovation to provide a new range of digital services for business and consumers, including in health and education. TAVG has been included in the "All Other" category;
- Telstra's media businesses have been consolidated into a single division, "Telstra Media Group" (TMG) and reported as a separate segment. The new division is responsible for managing Telstra's end-to-end media capabilities including Sensis®, BigPond®, Trading Post®, IPTV, FOXTEL and other content arrangements. TMG includes Sensis which was reported as a separate segment in fiscal 2011. It also includes Telstra Digital Media (new business unit), Telstra Cable and Media Applications and Experience (both previously reported in "All Other" category) and FOXTEL (reported in the prior year as a reconciling item between the underlying EBITDA contribution and profit before tax);
- Telstra International changed its name to Telstra International Group (TIG);
- the financial results of the Reach operations acquired in fiscal 2011 and previously reported as a reconciling item to underlying results, are now included in the Telstra International Group (TIG) reportable segment; and
- SouFun's financial results, previously included in the "All Other" category, are now excluded from underlying results (following its disposal in fiscal 2011).

Segment results are reported according to the internal management reporting structure at the reporting date. Segment comparatives are restated (with the exception of Reach transactions as disclosed in footnote (a) in the segment results table) to reflect the changes described above as well as any organisational changes which have occurred since the prior reporting period to present a like-for-like view.

The Telstra Group for fiscal 2012 is organised into the following operating segments for internal management reporting purposes:

Telstra Consumer and Country Wide (TC&CW) is responsible for providing the full range of telecommunication products, services and solutions (across Mobiles, Fixed and Mobile Broadband, Telephony and Pay TV) to consumer customers in metropolitan, regional, rural and remote areas of Australia. This is achieved through inbound and outbound call centres, Telstra Shops (owned and licensed), Telstra Dealers and Telstra Digital. Telstra Digital is responsible for delivering self service capabilities for all Telstra customers, across all phases of the customer experience from browsing to buying and bill and service requests.

Telstra Business (TB) is responsible for providing Australia's small to medium enterprises with a full range of telecommunications products, services and solutions, including the latest in cloud computing.

Telstra Enterprise and Government (TE&G) is responsible for the provision of network services and applications and integrated voice, data and mobile solutions via Telstra Next Generation Services® to enterprise and government customers.

Telstra Operations (TOps) is responsible for:

- overall planning, design, engineering and architecture of Telstra networks, technology and information technology;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks;
- delivery of customer services across these networks;
- operation, assurance and maintenance, including activation and restoration of these networks;
- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs; and
- delivery of network-centric professional services, managed services and outsourcing services for Telstra customers.

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

Notes to the Financial Statements (continued)

5. Segment information (continued)

Operating segments (continued)

Telstra Media Group (TMG) is responsible for:

- the management and growth of the domestic directories and advertising business, including print, voice and digital directories, digital mapping and satellite navigation, digital display advertising and business information services. This includes the management of leading information brands including Yellow Pages, White Pages, Whereis®, Citysearch®, 1234 and Quotify®; and
- the management of our investment in Digital Media content, services and applications, including Trading Post, Telstra Advertising Network, BigPond content including music, movies, sport and games, IPTV, online portals and the FOXTEL partnership.

The majority of TMG non-advertising revenue is reported in the domestic retail segments, i.e. TC&CW, TB and TE&G.

Telstra International Group (TIG) is responsible for managing Telstra's assets outside Australia and New Zealand, including:

- CSL New World Mobility Limited, our 76.4% owned subsidiary in Hong Kong, responsible for providing full mobile services including handset sales, voice, and data product to the Hong Kong market. These services are delivered over CSL's 3G and 4G LTE networks;
- Telstra China, our mainland China business providing digital media services in auto, IT and consumer electronics (this includes the Autohome and Sequel IT businesses); and
- Telstra Global, our managed services and international connectivity business, providing managed network services, international data and voice, and satellite across Asia Pacific, China, India, Europe, and Africa. Telstra Global has carrier licenses in 11 countries in Asia, with a total of 14 carrier licenses worldwide, and also manages our submarine cable networks and the assets acquired from Reach.

TelstraClear (TClear), our New Zealand subsidiary, is responsible for providing full telecommunications services to the New Zealand market. As at 30 June 2012 the carrying value of TClear assets and liabilities have been classified as assets held for sale. For further details refer to note 12.

Telstra Innovation, Products and Marketing (TIPM) is responsible for innovation, product, promotion and pricing across Telstra. TIPM is also responsible for the overall brand, sponsorship, promotion and advertising direction of Telstra, as well as maintaining good industry analyst relations and embedding marketing excellence across the company. This is done by delivering data-driven customer insights that put the customer at the centre of everything Telstra does.

Corporate areas include:

- Legal Services - provides operational and strategic legal support and advice across the Company;
- Corporate Affairs - manages Telstra's public policy and communications. This includes responsibility for government relations at every level, regulatory positioning and negotiation, and corporate social responsibility (including the Telstra Foundation);
- Finance and Strategy - encompasses the functions of corporate planning, accounting and administration, treasury, risk management and assurance, investor relations, mergers and acquisitions and corporate strategy. It also provides financial support to all business units and financial management of the majority of Telstra Entity's fixed assets (including network assets);
- the Telstra Board and the Office of the Company Secretary;
- Human Resources - supports Telstra in organisational design and change, implementation of people and culture initiatives, leadership development, talent and succession management, health, safety and wellbeing, professional development, workplace relations and all employment and remuneration policies;
- the Office of the CEO; and
- Business Support and Improvement - encompasses the functions of credit management, billing and procurement, as well as being responsible for driving change that improves the customer experience and delivering Telstra-wide productivity improvements.

In our segment financial results, the "All Other" category consists of various business units that do not qualify as reportable segments in their own right. These include:

- TIPM;
- TCS&S head office function;
- TAVG; and
- our Corporate areas.

Finance and Strategy in the Corporate area is the main contributor to the result for the "All Other" category, which is primarily depreciation and amortisation charges as well as impairment of property, plant and equipment and software.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment results

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on its "underlying earnings before interest, income tax expense, depreciation and amortisation (EBITDA) contribution" to the Telstra Group. The underlying EBITDA contribution excludes the effects of all inter-segment balances and transactions (with the exception of fiscal 2011 and 2012 Reach transactions). As such, only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance, such as gains/losses on disposal of non-current assets, controlled entities, associated entities, and businesses, the impairment of goodwill and intangibles, and revenue for the build of NBN related infrastructure. These are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBITDA, EBIT and profit before income tax expense in the financial statements.

Certain items of income and expense are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- rental costs associated with printers and other related equipment for the Telstra Entity.

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

- sales revenue associated with mobile handsets for TC&CW, TB and TE&G are mainly allocated to the TC&CW segment along with the associated costs of goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&CW, TB and TE&G depending on the type of customer serviced;
- TOps recognise certain expenses in relation to the installation and running of the hybrid fibre coaxial (HFC) cable network;
- domestic promotion and advertising expense for the Telstra Entity is recorded centrally in TIPM; and
- call centre costs associated with TB and TE&G are included in the TC&CW segment.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment results (continued)

The following tables detail the underlying results of our business segments, based on the reporting structure as at 30 June 2012:

Telstra Group

Year ended 30 June 2012	**TC&CW $m**	**TB $m**	**TE&G $m**	**TOps $m**	**TW $m**	**TMG $m**	**TIG $m**	**TClear $m**	**All Other $m**	**Total $m**
Revenue from external customers for operating segments (a)(g)	**10,211**	**4,670**	**4,332**	**62**	**2,100**	**1,741**	**1,635**	**502**	**(135)**	**25,118**
Other non-operating segment revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183**	**183**
Other income	**56**	**6**	**(7)**	**11**	**1**	**-**	**8**	**-**	**31**	**106**
Total income	**10,267**	**4,676**	**4,325**	**73**	**2,101**	**1,741**	**1,643**	**502**	**79**	**25,407**
Labour expenses	**535**	**124**	**228**	**1,439**	**70**	**443**	**247**	**100**	**875**	**4,061**
Goods and services purchased (a)	**3,316**	**960**	**606**	**202**	**74**	**174**	**790**	**226**	**(169)**	**6,179**
Other expenses	**949**	**69**	**38**	**2,111**	**24**	**360**	**294**	**77**	**917**	**4,839**
Share of equity accounted profits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Underlying EBITDA contribution	**5,467**	**3,523**	**3,453**	**(3,679)**	**1,933**	**764**	**312**	**99**	**(1,544)**	**10,328**

Telstra Group

Year ended 30 June 2011	**TC&CW $m**	**TB $m**	**TE&G $m**	**TOps $m**	**TW $m**	**TMG $m**	**TIG $m**	**TClear $m**	**All Other $m**	**Total $m**
Revenue from external customers for operating segments (a)	9,854	4,715	4,143	105	2,194	1,978	1,330	516	8	24,843
Other non-operating segment revenue	-	-	-	-	-	-	-	-	193	193
Other income	61	5	(1)	8	-	-	6	(2)	30	107
Total income	9,915	4,720	4,142	113	2,194	1,978	1,336	514	231	25,143
Labour expenses	569	121	213	1,382	68	454	192	94	802	3,895
Goods and services purchased (a)	3,205	976	567	228	74	181	688	256	29	6,204
Other expenses	1,066	69	32	2,247	21	344	226	80	906	4,991
Share of equity accounted profits	-	-	(1)	-	-	-	-	-	-	(1)
Underlying EBITDA contribution	5,075	3,554	3,331	(3,744)	2,031	999	230	84	(1,506)	10,054

(a) Revenue from external customers in TIG includes $136 million (2011: $12 million reduction in revenue) of inter-segment revenue treated as external expenses in Retail units (2011: $12 million treated as revenue in TW) which is eliminated in the “All Other” category. No eliminations were required in 2011.

External expenses in TIG also include $33 million (2011: $34 million reduction in expenses) of inter-segment expenses treated as external revenue in TW (2011: $34 million treated as expenses in Retail units) which is eliminated in the "All Other" category. No eliminations were required in 2011.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment results (continued)

A reconciliation of underlying EBITDA contribution for reportable segments to Telstra Group reported EBITDA, EBIT and profit before income tax expense is provided below:

		Telstra Group	
		Year ended 30 June	
		2012	2011
	Note	$m	$m
Underlying EBITDA contribution for reportable segments		**11,872**	11,560
All other		**(1,544)**	(1,506)
Total all segments		**10,328**	10,054
Amounts excluded from underlying results:			
- net gain on disposal of non current assets		**15**	12
- net (loss)/gain on disposal of controlled entities (b)		**(17)**	69
- net gain on disposal of associated entities (c)		**-**	8
- net loss on the disposal of businesses (d)		**(1)**	(16)
- impairment in value of goodwill and intangibles (e)	14	**(189)**	(160)
- gain from derecognition of contingent consideration (f)	6	**33**	30
- revenue for the build of NBN related infrastructure (g)		**67**	-
- EBIT contribution from SouFun operations (h)		**-**	6
- reversal of impairment in value of amount owed by joint ventures (i)	7	**-**	147
- other		**(2)**	1
Telstra Group EBITDA (reported)		**10,234**	10,151
- Depreciation and amortisation	7	**(4,412)**	(4,459)
Telstra Group EBIT (reported)		**5,822**	5,692
- Net finance costs		**(888)**	(1,135)
Telstra Group profit before income tax expense (reported)		**4,934**	4,557

(b) On 27 March 2012, we sold our 67% shareholding in LMobile for a total consideration of $3 million, resulting in a net loss of $17 million on disposal. Refer to note 20 for further details.

On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million, resulting in a nil profit or loss on disposal. Refer to note 20 for further details.

On 17 September 2010, our controlled entity Telstra International Holdings sold its 50.6% shareholding in SouFun, resulting in a net gain of $69 million.

(c) We sold our 48.2% holding in Keycorp Limited on 8 December 2010 for a total consideration of $23 million, resulting in a gain on sale of $8 million.

(d) On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million resulting in a loss on disposal of $1 million. Refer to note 20 for further details.

On 22 September 2010, our controlled entity Telstra Limited sold its UK voice customer business for a total consideration of $14 million, resulting in a loss on disposal of $16 million.

(e) The impairment of goodwill and intangibles of $189 million mainly relates to the TelstraClear Group (impairment of goodwill of $130 million) and LMobile Group (impairment of goodwill and other intangible assets of $56 million). Refer to note 21 for further details.

The 2011 impairment of goodwill and intangibles relates to the Octave Group (impairment of goodwill and customer base of $133 million) and the LMobile Group (impairment of goodwill of $27 million). Refer to note 21 for further details.

(f) The $33 million (2011: $30 million) gain from derecognition of contingent consideration relates to the fiscal 2010 acquisition of the LMobile Group. Refer to note 20 for further details.

(g) The $67 million (2011: nil) for the build of NBN related infrastructure has been recognised as revenue in the income statement, but excluded from reportable segment revenue.

(h) Revenue of $58 million and EBIT contribution of $6 million related to SouFun, which was disposed of on 17 September 2010, have been recorded in the income statement but excluded from reportable segments results.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Segment results (continued)

(i) In 2011 as part of the restructure of Reach, Telstra's joint venture with PCCW, Telstra acquired a number of assets from Reach. The purchase price of $147 million was paid by an offset against the shareholder loan due from Reach, which was fully provided for by Telstra. As such, $147 million of the provision for the loan was reversed as it was no longer required.

	Telstra Group Year ended 30 June 2012 $m	Telstra Group Year ended 30 June 2011 $m
Information about our geographic operations (j)		
Revenue from external customers		
Australian customers	**23,231**	23,188
Offshore customers	**2,137**	1,905
	25,368	25,093
Carrying amount of non current assets (k)		
Located in Australia	**26,875**	27,607
Located offshore	**2,036**	2,557
	28,911	30,164

(j) Our geographical operations are split between our Australian and offshore operations. Our offshore operations include CSL New World (Hong Kong), Autohome, Norstar Media and PCPop, Sharp Point and our international business, including Telstra Europe (UK), which are all part of the TIG segment, and TClear (New Zealand). No individual geographical area forms a significant part of our operations apart from our Australian operations.

(k) The carrying amount of our segment non current assets excludes derivative assets, defined benefit assets and deferred tax assets.

	Note	Telstra Group Year ended 30 June 2012 $m	Telstra Group Year ended 30 June 2011 $m
Information about our products and services			
Fixed products		**7,488**	7,972
Mobile services		**7,330**	6,829
Mobile hardware		**1,338**	1,160
Data and IP access		**3,122**	3,147
Network applications and services		**1,263**	1,143
Digital media		**2,377**	2,629
International		**1,496**	1,398
TelstraClear		**501**	516
Other sales revenue (l)		**317**	189
Other revenue (m)	6	**136**	110
Other income (n)	6	**135**	211
Total income (excluding finance income)	6	**25,503**	25,304

(l) Other sales revenue includes revenue for the build of NBN related infrastructure ($67 million), and late payment and miscellaneous fee revenue.

(m) Other revenue primarily consists of distributions from our FOXTEL Partnership and rental income.

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

Notes to the Financial Statements (continued)

6. Income

		Telstra Group	
		Year ended 30 June	
		2012	2011
	Note	$m	$m
Sales revenue			
Rendering of services		**11,410**	11,539
Sale of goods		**1,854**	1,690
Rent of network facilities and access		**10,120**	9,572
Construction contracts		**229**	273
Advertising and directory services		**1,619**	1,909
		25,232	24,983
Other revenue (excluding finance income)			
Distribution from FOXTEL Partnership	29	**108**	70
Rent from property		**28**	40
		136	110
Total revenue (excluding finance income)		**25,368**	25,093
Other income			
Net gain on disposal of non current assets (a)		**5**	75
Gain from derecognition of contingent consideration	20	**33**	30
Other miscellaneous income		**97**	106
		135	211
Total income (excluding finance income)		**25,503**	25,304
Finance income			
Interest on cash and cash equivalents	17(e)	**111**	117
Interest on finance lease receivable		**11**	10
Interest on loans to jointly controlled and associated entities	29	**12**	-
		134	127
Total income		**25,637**	25,431

(a) Non current assets includes property, plant and equipment, intangibles and investments.

Notes to the Financial Statements (continued)

7. Expenses

	Note	Telstra Group Year ended 30 June 2012 $m	2011 $m
Labour			
Included in our labour expenses are the following:			
Employee redundancy		**162**	224
Share based payments		**31**	12
Defined benefit plan expense	24	**223**	268
Cost of goods sold		**2,551**	2,644
Other expenses			
Impairment losses:			
- impairment in value of inventories		**37**	43
- impairment in value of trade and other receivables		**370**	421
- impairment in value of property, plant and equipment	13	**21**	38
- impairment in value of intangibles (a)	14	**8**	51
- impairment in value of goodwill (a)	14	**182**	121
		618	674
Reversal of impairment losses:			
- reversal of impairment in value of trade and other receivables	10	**(74)**	(80)
- reversal of impairment in value of amount owed by joint ventures		**-**	(147)
		(74)	(227)
Rental expense on operating leases		**583**	561
Net foreign currency translation losses/(gains)		**5**	(1)
Service contracts and other agreements		**2,135**	2,359
Promotion and advertising		**327**	334
General and administration		**985**	902
Other operating expenses		**450**	445
		5,029	5,047
Depreciation of property, plant and equipment	13	**3,305**	3,454
Amortisation of intangible assets		**1,107**	1,005
		4,412	4,459
Finance costs			
Interest on borrowings	17(e)	**1,132**	1,186
Unwinding of discount on liabilities recognised at present value		**18**	20
Loss on fair value hedges - effective (b)		**9**	27
Gain on cash flow hedges - ineffective		**(2)**	(6)
(Gain)/loss on transactions not in a designated hedge relationship/de-designated from fair value hedge relationships (c)		**(14)**	125
Other		**7**	14
		1,150	1,366
Less: interest on borrowings capitalised (d)		**(128)**	(104)
		1,022	1,262
Research and development expenses		**5**	6

Notes to the Financial Statements (continued)

7. Expenses (continued)

(a) We have recognised an impairment loss of $190 million (2011: $172 million) relating to impairment of goodwill ($182 million) and other intangible assets ($8 million) in Telstra Group financial statements. Refer to note 14 and note 21 for further details regarding impairment.

(b) We use our cross currency and interest rate swaps as fair value hedges to convert our foreign currency borrowings into Australian dollar floating rate borrowings.

The $9 million unrealised loss for the current year (2011: $27 million) reflects the following valuation impacts:

- movement in base market rates and Telstra's borrowing margins between valuation dates;
- reduction in the number of future interest flows as we approach maturity of the financial instruments; and
- discount factor unwinding as borrowings move closer to maturity.

It is important to note that in general, it is our intention to hold our borrowings and associated derivative instruments to maturity. Accordingly, unrealised revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and for each transaction will progressively unwind to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(c) A combination of the following factors has resulted in a net unrealised gain of $14 million (2011: loss of $125 million) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting:

- the valuation impacts described at (b) above for fair value hedges;
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value); and
- a net loss of $21 million (2011: $21 million) for the amortisation impact of unwinding previously recognised unrealised gains on those borrowings that were de-designated from hedge relationships.

Although these borrowings and the related derivative instruments do not satisfy the requirements for hedge accounting, they are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

(d) Interest on borrowings has been capitalised using a capitalisation rate of 7.0% (2011: 7.2%). We applied the revised accounting standard AASB 123: "Borrowing Costs" prospectively for any new capital expenditure on qualifying assets incurred from 1 July 2009. The $24 million net increase from prior year (reduction in finance costs) is due to the progressive increase in the value of the qualifying asset base for which borrowing costs are capitalised.

Notes to the Financial Statements (continued)

8. Remuneration of auditors

	Telstra Group	
	Year ended 30 June	
	2012	2011
	$m	$m
Audit fees		
Ernst & Young has charged the following amounts for auditing and reviewing the financial reports	**8.632**	8.309
Other services		
Other services provided by Ernst & Young in their own right	**1.686**	7.113

Other services

Other services comprise audit related fees and non-audit services.

Audit related fees charged by Ernst & Young (EY) amounted to $0.840 million (2011: $0.396 million) and are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include assurance services over debt raising prospectuses, additional control assessments, various accounting advice and additional audit services related to our controlled entities.

Non-audit services of $0.846 million (2011: $6.717 million) comprise the following:

- tax fees charged by EY which mainly relate to tax advisory and income tax return services; and
- other services that relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial reports, audit related and tax. These services include various reviews and non assurance services across the Group, including risk assessments and IT environment related projects.

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. EY also has specific internal processes in place to ensure auditor independence.

The Audit Committee approves the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by either the Chief Financial Officer (CFO), the Chairman of the Audit Committee or the Audit Committee, depending upon the fees involved, if not covered by the Audit Committee pre-approval, subject to confirmation by both management and EY that the provision of these services does not compromise auditor independence. Our auditor independence guidelines clearly identify prohibited services. All additional EY engagements approved are reported to the Audit Committee at the next meeting.

Notes to the Financial Statements (continued)

9. Income taxes

	Telstra Group As at 30 June 2012 $m	Telstra Group As at 30 June 2011 $m
Major components of income tax expense		
Current tax expense	**1,826**	1,519
Deferred tax resulting from the origination and reversal of temporary differences	**(337)**	(209)
Under/(over) provision of tax in prior years	**21**	(3)
	1,510	1,307
Notional income tax expense on profit differs from actual income tax expense recorded as follows:		
Profit before income tax expense	**4,934**	4,557
Notional income tax expense calculated at the Australian tax rate of 30%	**1,480**	1,367
Which is adjusted by the tax effect of:		
Different rates of tax on overseas income	**(15)**	(17)
Non assessable and non deductible items	**63**	(16)
Amended assessments	**(39)**	(24)
Under/(over) provision of tax in prior years	**21**	(3)
Income tax expense on profit	**1,510**	1,307
Income tax recognised directly in other comprehensive income or equity during the year	**(262)**	19

	Telstra Group As at 30 June 2012 $m	Telstra Group As at 30 June 2011 $m
(Deferred tax liability)/deferred tax asset		
Deferred tax items recognised in the income statement (*)		
Property, plant and equipment	**(1,241)**	(1,434)
Intangible assets	**(830)**	(876)
Borrowings and derivative financial instruments	**(59)**	(90)
Provision for employee entitlements	**292**	252
Revenue received in advance	**194**	52
Provision for workers' compensation	**20**	21
Allowance for doubtful debts	**57**	64
Defined benefit liability/asset (a)	**98**	138
Trade and other payables	**111**	135
Other provisions	**49**	52
Income tax losses (b)	**39**	46
Other	**(32)**	(29)
	(1,302)	(1,669)
Deferred tax items recognised in other comprehensive income or equity (c)		
Defined benefit liability/asset (a)	**148**	(74)
Derivative financial instruments	**53**	13
	201	(61)
Net deferred tax liability	**(1,101)**	(1,730)
Our net deferred tax liability is split as follows:		
Deferred tax assets recognised in the statement of financial position	**6**	-
Deferred tax liabilities recognised in the statement of financial position	**(1,107)**	(1,730)
	(1,101)	(1,730)

(*) This includes the impact of foreign exchange movements in the deferred tax items recognised in the income statement.

Notes to the Financial Statements (continued)

9. Income taxes (continued)

	Telstra Group As at 30 June 2012 $m	2011 $m
Deferred tax assets not recognised (d)		
Income tax losses	**46**	55
Capital tax losses	**161**	172
Deductible temporary differences	**307**	308
	514	535

(a) Our net deferred tax asset on our defined benefit liability for the Telstra Group is $246 million (2011: $64 million).

(b) We have recognised a deferred tax asset for the unused tax losses of our offshore controlled entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. We have prepared a management budget in line with our current knowledge of future events to support our view of sufficient future taxable profits being available to offset our unused tax losses.

(c) When the underlying transactions to which our deferred tax relates are recognised directly in other comprehensive income or equity, the temporary differences associated with these adjustments are also recognised directly in other comprehensive income or equity.

(d) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit;
- we have sufficient future capital gains to be offset against those capital losses;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

Tax consolidation

The Telstra Entity and its Australian resident wholly owned entities previously elected to form a tax consolidated group. As a consequence of the election to enter tax consolidation, the tax consolidated group is treated as a single entity for income tax purposes.

The Telstra Entity, as the head entity in the tax consolidated group, recognises, in addition to its own transactions, the current tax liabilities and the deferred tax assets arising from unused tax losses and tax credits for all entities in the group. However, the Telstra Entity and its Australian resident wholly owned entities account for their own current tax expense and deferred tax amounts.

Upon tax consolidation, the entities within the tax consolidated group entered into a tax sharing agreement. The terms of this agreement specified the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity for tax purposes.

A tax funding arrangement is also in place for entities within the tax consolidated group under which:

- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any current tax receivable assumed;
- the Telstra Entity compensates its Australian resident wholly owned controlled entities for any deferred tax assets relating to unused tax losses and tax credits; and
- Australian resident wholly owned entities compensate the Telstra Entity for any current tax payable assumed.

The funding amounts are based on the amounts recorded in the financial statements of the wholly owned entities.

Amounts receivable of $11 million (2011: $14 million) to the Telstra Entity and amounts payable by the Telstra Entity of $211 million (2011: $206 million) under the tax funding arrangements are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group.

Notes to the Financial Statements (continued)

10. Trade and other receivables

	Note	Telstra Group As at 30 June 2012 $m	2011 $m
Current			
Trade receivables (a)		**3,377**	3,341
Allowance for doubtful debts (a)		**(210)**	(230)
		3,167	3,111
Amounts owed by jointly controlled and associated entities - loans	29	**33**	35
Finance lease receivable (b)		**51**	52
Accrued revenue		**1,001**	864
Bank deposits with maturity greater than 90 days		**-**	1
Other receivables		**94**	74
		1,146	991
		4,346	4,137
Non current			
Trade receivables (a)		**280**	233
Amounts owed by jointly controlled and associated entities	29	**448**	5
Allowance for amounts owed by jointly controlled and associated entities - loans	29	**(5)**	(5)
		443	-
Finance lease receivable (b)		**91**	92
Other receivables		**37**	15
		128	107
		851	340

(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 2012 Gross $m	2012 Allowance $m	2011 Gross $m	2011 Allowance $m
Not past due	**2,498**	**(21)**	2,063	(24)
Past due 0 - 30 days	**647**	**(20)**	830	(30)
Past due 31 - 60 days	**166**	**(13)**	187	(20)
Past due 61 - 90 days	**75**	**(13)**	96	(21)
Past due 91 - 120 days	**56**	**(15)**	79	(21)
Past 120 days	**215**	**(128)**	319	(114)
	3,657	**(210)**	3,574	(230)

Notes to the Financial Statements (continued)

10. Trade and other receivables (continued)

(a) Trade receivables and allowance for doubtful debts (continued)

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

	Telstra Group	
	Year ended 30 June	
	2012	2011
	$m	$m
Opening balance	**(230)**	(231)
- additional allowance	**(61)**	(84)
- addition due to acquisition	**-**	(2)
- amount used	**4**	5
- amount reversed	**74**	80
- foreign currency exchange differences	**(1)**	2
- transfer of TelstraClear's balance to assets held for sale	**4**	-
Closing balance	**(210)**	(230)

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position.

Our trade receivables include our customer deferred debt and White Pages® directory charges. Our customer deferred debt allows eligible customers the opportunity to repay the cost of their mobile handset, other hardware and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated.

We hold security for a number of trade receivables, including past due or impaired receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2012, the securities we called upon were insignificant.

We have used the following basis to assess the allowance loss for trade receivables:

- a statistical approach to apply risk segmentation to the debt, and applying the historical impairment rate to each segment at the end of the reporting period;
- an individual account by account assessment based on past credit history; and
- any prior knowledge of debtor insolvency or other credit risk.

As at 30 June 2012, trade receivables with a carrying amount of $970 million (2011: $1,305 million) for the Telstra Group were past due but not impaired.

These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

(b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 to 5 years (2011: 2 to 5 years).

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Amounts receivable under finance leases		
Within 1 year	**59**	59
Within 1 to 5 years	**96**	99
After 5 years	**5**	1
Total minimum lease payments	**160**	159
Less unearned finance income	**(18)**	(15)
Present value of minimum lease payments	**142**	144
Included in the financial statements as:		
Current finance lease receivables	**51**	52
Non current finance lease receivables	**91**	92
	142	144

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is 7.8% (2011: 7.5%) per annum.

Notes to the Financial Statements (continued)

11. Inventories

	Telstra Group As at 30 June	
	2012 $m	2011 $m
Current		
Finished goods recorded at cost	**144**	169
Finished goods recorded at net realisable value	**60**	48
Total finished goods	**204**	217
Raw materials and stores recorded at cost	**9**	15
Construction contracts (a)	**47**	51
	260	283
Non current		
Finished goods recorded at net realisable value	**24**	22
	24	22
(a) Construction contract disclosures are shown as follows:		
Contract costs incurred and recognised profits	**478**	353
Progress billings	**(432)**	(302)
	46	51

Notes to the Financial Statements (continued)

12. Non current assets held for sale

On 12 July 2012, we signed an agreement to dispose of our 100% shareholding in TelstraClear Limited and its controlled entity (TelstraClear). In accordance with AASB 5: "Non-current Assets Held for Sale and Discontinued Operations" as at 30 June 2012 the carrying value of assets and liabilities of TelstraClear have been classified as held for sale, with the exception of cash balances which are excluded from the sale agreement, and measured at the lower of carrying amount and fair value less costs to sell.

Based on the sale price of $658 million (NZ$840 million), estimated completion adjustments and subject to final completion adjustments, the carrying value of the TelstraClear goodwill was impaired by $130 million. Refer to note 21 for further details.

The conditions precedent to completion of the disposal include approval from the New Zealand Commerce Commission, Overseas Investment Office and Ministry of Business, Innovation and Employment.

If the conditions precedent are satisfied and the disposal of TelstraClear occurs, in fiscal 2013 the foreign currency translation reserve arising from our investment in TelstraClear will be reclassified to the Telstra Group income statement increasing our loss on disposal. The foreign currency translation reserve balance at 30 June 2012 was $130 million. Refer to note 31 for further details.

TelstraClear's operating and investing cash flows were $107 million inflow (2011: $108 million) and an outflow of $51 million (2011: $57 million) respectively. The investing cash outflows exclude the related party transactions disclosed in note 29.

At 30 June 2011, we were committed to dispose of our 64.4% shareholding in Adstream (Aust) Pty Ltd (Adstream). The disposal was subsequently completed on 21 July 2011. Refer to note 20 for further details.

TelstraClear is included in the TelstraClear reportable segment and Adstream is included in the Telstra Media Group reportable segment in our segment information disclosures in note 5.

		Telstra Group	
		As at 30 June	
	Note	**2012 $m**	2011 $m
Current assets			
Cash and cash equivalents	20	**-**	7
Trade and other receivables		**73**	3
Inventories		**2**	-
Prepayments		**8**	-
Total current assets		**83**	10
Non current assets			
Property, plant and equipment	13	**516**	1
Intangible assets	14	**155**	29
Deferred tax assets		**-**	1
Total non current assets		**671**	31
Total assets		**754**	41
Current liabilities			
Trade and other payables		**70**	2
Provisions		**6**	1
Revenue received in advance		**26**	1
Total current liabilities		**102**	4
Non current liabilities			
Provisions		**3**	-
Deferred tax liabilities		**-**	1
Total non current liabilities		**3**	1
Total liabilities		**105**	5
Net assets		**649**	36

Notes to the Financial Statements (continued)

13. Property, plant and equipment

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Land and site improvements		
At cost	**38**	40
Buildings (including leasehold improvements)		
At cost	**1,077**	1,040
Accumulated depreciation and impairment	**(536)**	(541)
	541	499
Communication assets (including leasehold improvements)		
At cost	**56,353**	56,025
Accumulated depreciation and impairment	**(36,921)**	(35,397)
	19,432	20,628
Communication assets under finance lease		
At cost	**266**	287
Accumulated depreciation and impairment	**(257)**	(272)
	9	15
Other plant, equipment and motor vehicles		
At cost	**1,604**	1,667
Accumulated depreciation and impairment	**(1,120)**	(1,059)
	484	608
Equipment under finance lease		
At cost	**1**	1
Accumulated depreciation and impairment	**(1)**	(1)
	-	-
Total property, plant and equipment		
At cost	**59,339**	59,060
Accumulated depreciation and impairment	**(38,835)**	(37,270)
	20,504	21,790

Notes to the Financial Statements (continued)

13. Property, plant and equipment (continued)

Telstra Group

	Land and site improve-ments $m	Buildings (a) $m	Comm-unication assets (a)(b) $m	Comm-unication assets under finance lease $m	Other plant, equipment and motor vehicles $m	Equipment under finance lease $m	Total property, plant and equipment (c) $m
Written down value at 1 July 2010	41	467	21,677	88	621	-	22,894
- additions	-	97	2,167	-	197	1	2,462
- acquisitions through business combinations	-	-	-	-	38	-	38
- disposals	(1)	(1)	(4)	-	(2)	-	(8)
- impairment losses	-	-	(36)	-	(2)	-	(38)
- depreciation expense	-	(55)	(3,155)	(9)	(234)	(1)	(3,454)
- transfer to assets held for sale	-	-	-	-	(1)	-	(1)
- net foreign currency exchange differences	-	(9)	(85)	-	(9)	-	(103)
- other	-	-	64	(64)	-	-	-
Written down value at 30 June 2011	40	499	20,628	15	608	-	21,790
- additions	**-**	**117**	**2,293**	**-**	**139**	**-**	**2,549**
- disposals	**(1)**	**(3)**	**(3)**	**-**	**(6)**	**-**	**(13)**
- disposals through sale of controlled entities	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
- disposals through sale of businesses	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
- impairment losses	**-**	**(2)**	**(18)**	**-**	**(1)**	**-**	**(21)**
- depreciation expense	**-**	**(64)**	**(3,043)**	**(6)**	**(192)**	**-**	**(3,305)**
- transfer to assets held for sale	**(1)**	**(7)**	**(477)**	**-**	**(31)**	**-**	**(516)**
- net foreign currency exchange differences	**-**	**3**	**23**	**-**	**2**	**-**	**28**
- other	**-**	**(1)**	**29**	**-**	**(34)**	**-**	**(6)**
Written down value at 30 June 2012	**38**	**541**	**19,432**	**9**	**484**	**-**	**20,504**

(a) Includes leasehold improvements.

(b) Includes certain network land and buildings which are essential to the operation of our communication assets.

(c) Includes $86 million of capitalised borrowing costs (2011: $72 million) directly attributable to qualifying assets.

Work in progress

As at 30 June 2012, the Telstra Group has property, plant and equipment under construction amounting to $1,076 million (2011: $1,333 million). As these assets are not installed and ready for use, there is no depreciation being charged on these amounts.

Notes to the Financial Statements (continued)

14. Intangible assets

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Goodwill	**1,289**	1,415
Internally generated intangible assets		
Software assets developed for internal use (a)	**8,201**	7,499
Accumulated amortisation and impairment	**(3,388)**	(2,843)
	4,813	4,656
Acquired intangible assets		
Mastheads	**337**	337
Accumulated amortisation and impairment	**(202)**	(135)
	135	202
Patents and trademarks	**34**	36
Accumulated amortisation and impairment	**(12)**	(11)
	22	25
Licences	**770**	810
Accumulated amortisation and impairment	**(491)**	(459)
	279	351
Customer bases	**157**	643
Accumulated amortisation and impairment	**(142)**	(485)
	15	158
Brand names	**161**	193
Accumulated amortisation and impairment	**(82)**	(87)
	79	106
Total acquired intangible assets	**530**	842
Deferred expenditure		
Deferred expenditure	**1,286**	1,494
Accumulated amortisation and impairment	**(497)**	(780)
	789	714
Total intangible assets		
At cost	**12,235**	12,427
Accumulated amortisation and impairment	**(4,814)**	(4,800)
	7,421	7,627

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

Telstra Group

	Goodwill $m	Software assets developed $m	Mastheads $m	Patents and trademarks $m	Licences $m	Customer bases $m	Brand names $m	Deferred expenditure (b) (c) $m	Total intangible assets (d) $m
Written down value at 1 July 2010	1,802	4,447	270	27	445	272	140	625	8,028
- additions	-	1,050	-	-	2	-	-	665	1,717
- acquisition through business combinations	40	1	-	-	-	9	-	-	50
- disposals through sale of businesses	(15)	-	-	-	-	(11)	-	-	(26)
- impairment losses (e)	(121)	(12)	-	-	-	(39)	-	-	(172)
- amortisation expense	-	(819)	(68)	(2)	(60)	(42)	(12)	(576)	(1,579)
- net foreign currency exchange differences	(267)	(11)	-	-	(36)	(26)	(22)	-	(362)
- transfers to non current assets held for sale	(24)	-	-	-	-	(5)	-	-	(29)
Written down value at 30 June 2011	1,415	4,656	202	25	351	158	106	714	7,627
- additions	**-**	**1,087**	**-**	**-**	**1**	**-**	**-**	**746**	**1,834**
- acquisition through business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- disposals through sale of a controlled entity	**-**	**(1)**	**-**	**(2)**	**-**	**(4)**	**(1)**	**-**	**(8)**
- disposals through sale of business	**-**	-	**-**	**-**	**(1)**	-	-	**-**	**(1)**
- impairment losses (e)	**(182)**	**(1)**	**-**	**-**	**-**	**(7)**	-	**-**	**(190)**
- amortisation expense	**-**	**(896)**	**(67)**	**(2)**	**(62)**	**(64)**	**(13)**	**(667)**	**(1,771)**
- net foreign currency exchange differences	**57**	**2**	**-**	**1**	**8**	**5**	**6**	**-**	**79**
- transfers to non current assets held for sale (f)	**(1)**	**(36)**	-	-	**(18)**	**(73)**	**(19)**	**(8)**	**(155)**
- other	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**4**	**6**
Written down value at 30 June 2012	**1,289**	**4,813**	**135**	**22**	**279**	**15**	**79**	**789**	**7,421**

Notes to the Financial Statements (continued)

14. Intangible assets (continued)

(a) As at June 2012, we had software assets under development amounting to $509 million (2011: $593 million). As these assets were not installed and ready for use, there is no amortisation being charged on the amounts.

(b) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 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.

(c) The majority of the deferred expenditure relates to the deferral of basic access installation costs, which are amortised to goods and services purchased in the income statement. In addition, the deferred expenditure also includes direct incremental costs of establishing a customer contract.

(d) Includes $42 million (2011: $32 million) of capitalised borrowing costs directly attributable to qualifying assets.

(e) We have recognised an impairment charge of $189 million against goodwill ($182 million) and customer bases ($7 million) for the TelstraClear, LMobile Group and CitySearch CGUs (2011: $160 million against goodwill ($121 million) and customer bases ($39 million) for the Octave and LMobile Group CGUs). Refer to note 21 for further details regarding these impairments.

(f) As at 30 June 2012 assets and liabilities of TelstraClear Limited have been classified as held for sale. Refer to note 12 for further details.

Notes to the Financial Statements (continued)

15. Trade and other payables

	Telstra Group As at 30 June 2012 $m	Telstra Group As at 30 June 2011 $m
Current		
Trade creditors (a)	**1,228**	970
Accrued expenses	**1,656**	1,751
Accrued capital expenditure	**343**	583
Accrued interest	**347**	365
Deferred consideration for capital expenditure	**31**	48
Other creditors (a)	**526**	376
	4,131	4,093
Non current		
Deferred consideration for capital expenditure	**112**	123
Other creditors	**62**	54
	174	177

(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	
	2012	2011
	$m	$m
Current		
Employee benefits (a)	**862**	754
Workers' compensation (b)	**24**	25
Other (b)	**56**	67
	942	846
Non current		
Employee benefits (a)	**110**	87
Workers' compensation (b)	**131**	127
Other (b)	**23**	30
	264	244

(a) Aggregate employee benefits

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Current provision for employee benefits	**862**	754
Non current provision for employee benefits	**110**	87
Accrued labour and on-costs (i)	**456**	376
	1,428	1,217

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount (refer to note 2.14 for further information):

	Telstra Group	
	As at 30 June	
	2012	2011
Weighted average projected increase in salaries, wages and associated on-costs	**4.7%**	4.8%
Discount rates	**3.6%**	5.2%

Notes to the Financial Statements (continued)

16. Provisions (continued)

(b) Movement in provisions, other than employee benefits

	Telstra Group Year ended 30 June	
	2012 $m	2011 $m
Workers' compensation (i)		
Opening balance	**152**	165
- additional provisions	**4**	7
- amount used	**(23)**	(27)
- unwinding of discount on liabilities recognised at present value	**7**	8
- effect of any change in the discount rate	**16**	(1)
- reversal of amounts unused	**(1)**	-
Closing balance	**155**	152
Redundancy		
Opening balance	**-**	-
- additional provisions	**6**	-
Closing balance	**6**	-
Other (ii)		
Opening balance	**97**	106
- additional provisions	**39**	54
- amount used	**(53)**	(60)
- effect of any change on discount rate	**1**	1
- reversal of amounts unused	**-**	(1)
- foreign currency exchange differences	**1**	(4)
- transfer to non current assets held for sale	**(5)**	-
- other	**(1)**	1
Closing balance	**79**	97

(i) Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 9 years (2011: 9 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

(ii) Other

Other provisions include provisions for ACCC customer determinations and disputes, provision for non current lease incentives, provision for committed capital expenditure, provision for reinstatement costs, and other provisions.

Notes to the Financial Statements (continued)

16. Provisions (continued)

(c) Comparative information

Current and non current provision balances reported as at 30 June 2011 have been restated to reflect that for some of our long service leave balances, we do not have an unconditional right to defer the settlement of these long service leave liabilities for more than 12 months. The reclassification has no impact on profit, equity or earnings per share calculations.

If the reclassification had been performed as at 30 June 2010 our non current provisions and non current liabilities would have reduced by $424 million and our current provisions and current liabilities would have increased by $424 million.

The table below provides further details regarding the opening and closing balances of the prior period:

Statement of Financial Position item	Telstra Group		
	30 June 2011		
	Reported	Adjustment	Restated
	$m	$m	$m
Current provisions	394	452	846
Non current provisions	696	(452)	244
	30 June 2010 (1 July 2010)		
	Reported	Adjustment	Restated
	$m	$m	$m
Current provisions	389	424	813
Non current provisions	727	(424)	303

The restated current provision includes accrued annual leave, vesting sick leave and long service leave. For long service leave it covers 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. These amounts are presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does 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 2012	30 June 2011
	$m	$m
Leave obligations expected to be settled after 12 months	**527**	452

Notes to the Financial Statements (continued)

17. Capital management and financial instruments

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial instruments.

Section (a) includes details on our gearing.

Section (b) sets out the carrying values, fair values and contractual face values of our financial instruments. The amounts provided in this section are prior to netting offsetting risk positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we generally hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Section (d) includes a reconciliation of movements in gross and net debt positions.

Section (e) includes details on our interest expense and interest rate yields.

Section (f) provides further details on our derivative financial instruments.

Section (g) provides information on the method for estimating fair value of our financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 18.

(a) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During 2012, we paid dividends of $3,475 million (2011: $3,475 million). Refer to note 4 for further details.

Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

Gearing and net debt

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities, derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our comfort range for the net debt gearing ratio is currently 50 to 70 percent (2011: 50 to 70 percent). The gearing ratios and carrying value of our net debt are shown in Table A below:

Table A		Telstra Group	
		As at 30 June	
		2012	2011
	Note	**$m**	$m
Current			
Short term debt			
Promissory notes		**563**	508
		563	508
Long term debt-current portion			
Offshore loans (i)		**1,198**	998
Telstra bonds and domestic loans (ii)		**1,500**	439
Finance leases	22	**45**	45
		2,743	1,482
		3,306	1,990
Non current			
Long term debt			
Offshore loans (i)		**9,836**	8,569
Telstra bonds and domestic loans (ii)		**2,028**	3,515
Finance leases	22	**94**	94
		11,958	12,178
		15,264	14,168
Short term debt		**563**	508
Long term debt (including current portion)		**14,701**	13,660
Total debt		**15,264**	14,168
Net derivative financial liability	17(f)	**1,958**	2,065
Bank deposits with maturity greater than 90 days	10	**-**	(1)
Gross debt		**17,222**	16,232
Cash and cash equivalents	20	**(3,945)**	(2,637)
Net debt		**13,277**	13,595
Total equity		**11,689**	12,292
Total capital		**24,966**	25,887
		%	%
Gearing ratio		**53.2**	52.5

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. We have no assets pledged as security for our borrowings. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities. Details of interest rates and maturity profiles are included in note 18.

We are not subject to any externally imposed capital requirements.

(i) Offshore loans

Offshore loans comprise debt raised overseas. Our policy is to swap foreign currency borrowings into Australian dollars, except for a small proportion of foreign currency borrowings/cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments, and some cash balances/finance leases held in foreign currencies by our foreign controlled entities. The carrying amounts of offshore loans are denominated in the following currencies.

Refer to Table E for details on debt issuance and maturities.

Table B	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Australian dollar	**190**	249
Euro	**7,193**	5,242
United States dollar	**1,701**	2,280
British pounds sterling	**306**	299
Japanese yen	**595**	558
New Zealand dollar	**198**	272
Swiss francs	**804**	627
Hong Kong dollar	**45**	40
Indian rupee	**2**	-
	11,034	9,567

(ii) Telstra bonds and domestic loans

Telstra bonds currently on issue total $236 million and relate to wholesale investors and mature up until the year 2020. Domestic borrowings as at 30 June 2012 total $3,292 million with various maturity dates up until the year 2020. Refer to Table E for details on debt issuance and maturities.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(b) Financial instruments

The carrying amounts, fair values and face values of each category of our financial instruments are shown in Table C. The amounts disclosed are prior to netting offsetting risk positions of financial instruments in a hedge relationship.

We also have potential financial liabilities not included in the tables below which may arise from certain contingencies disclosed in note 23 and note 30.

Table C

	Telstra Group					
	As at 30 June 2012			As at 30 June 2011		
	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	**362**	**362**	**362**	363	363	363
Available for sale - at fair value						
Bank deposits, bills of exchange and promissory notes (i)	**3,583**	**3,583**	**3,634**	2,275	2,275	2,304
In designated hedge relationships - at fair value						
Net derivative liability - hedging instrument	**(1,381)**	**(1,381)**	**(1,349)**	(1,551)	(1,551)	(1,510)
Promissory notes - hedged item (ii)	**(101)**	**(101)**	**(101)**	(279)	(279)	(279)
Offshore loans - hedged item (ii)	**(3,615)**	**(3,615)**	**(3,529)**	(1,423)	(1,423)	(1,451)
In designated hedge relationships - at amortised cost						
Offshore loans - hedged item	**(4,749)**	**(5,211)**	**(4,781)**	(5,519)	(5,675)	(5,557)
Telstra bonds and domestic loans - hedged item	**(274)**	**(264)**	**(275)**	(274)	(266)	(275)
Promissory notes - hedging instrument	**(275)**	**(276)**	**(277)**	(194)	(195)	(196)
Offshore loans - hedging instrument	**(198)**	**(217)**	**(200)**	(272)	(288)	(274)
Not in designated hedge relationship - at fair value						
Net derivative liability	**(577)**	**(577)**	**(703)**	(514)	(514)	(607)
De-designated from hedge relationship - at amortised cost						
Offshore loans	**(1,663)**	**(1,810)**	**(1,731)**	(1,680)	(1,818)	(1,772)
Other financial liabilities - at amortised cost						
Finance lease payable	**(139)**	**(139)**	**(186)**	(139)	(139)	(165)
Promissory notes	**(187)**	**(188)**	**(189)**	(35)	(35)	(35)
Offshore loans	**(809)**	**(835)**	**(810)**	(673)	(714)	(675)
Telstra bonds and domestic loans	**(3,254)**	**(3,396)**	**(3,272)**	(3,680)	(3,714)	(3,699)
Telstra Group net debt	**(13,277)**	**(14,065)**	**(13,407)**	(13,595)	(13,973)	(13,828)
Other financial instruments						
Interest bearing financial assets						
Finance lease receivable	**142**	**142**	**160**	144	144	159
Amounts owed by jointly controlled and associated entities	**443**	**443**	**443**	-	-	-
Other receivables	**24**	**24**	**24**	-	-	-
Net interest bearing financial liabilities	**(12,668)**	**(13,456)**	**(12,780)**	(13,451)	(13,829)	(13,669)
Equity investments classified as available-for-sale						
Listed and unlisted securities	**19**	**19**	**19**	1	1	1
Loans and receivables at amortised cost						
Trade/other receivables and accrued revenue (i)	**4,555**	**4,555**	**4,765**	4,297	4,297	4,527
Amounts owed by jointly controlled and associated entities	**33**	**33**	**38**	35	35	40
Financial liabilities at amortised cost						
Trade/other creditors and accrued expenses (i)	**(4,162)**	**(4,162)**	**(4,162)**	(4,099)	(4,099)	(4,099)
Deferred consideration for capital expenditure	**(143)**	**(143)**	**(205)**	(171)	(171)	(239)
Net financial liabilities	**(12,366)**	**(13,154)**	**(12,325)**	(13,388)	(13,766)	(13,439)

(i) For financial assets and financial liabilities with a short-term to maturity, the carrying amount is considered to approximate fair value.

(ii) These borrowings are in fair value hedges. The carrying amount of our borrowings in fair value hedges is adjusted for fair value movements attributable to the hedged risk.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(b) Financial instruments (continued)

As shown in Table C, the carrying amount of net debt is lower than that based on contractual face values. This is primarily due to the impact of revaluation gains on our debt portfolio as a result of having locked in lower debt margins on our borrowings as compared to market rates applicable as at 30 June.

(c) Net position on a contractual face value basis

The amounts disclosed in Table D represent the net contractual face values of our financial instruments on a post hedge basis.

Table D

			Telstra Group	
			As at 30 June	
			Face value	
			2012	2011
		Currency	**$m**	$m
Interest bearing financial assets included in net debt				
Cash and cash equivalents	Floating	Australian dollar	**3,591**	2,278
Cash and cash equivalents held in foreign currencies	Floating	Various	**338**	239
Bank deposits with maturity greater than 90 days	Floating	Foreign	**-**	1
			3,929	2,518
Interest bearing financial liabilities included in net debt				
Cross currency and interest rate swap liability (i)	Fixed	Australian dollar	**(5,841)**	(6,169)
Borrowings	Fixed	Australian dollar	**(2,549)**	(2,392)
Borrowings (ii)	Fixed	Foreign	**(251)**	(229)
Borrowings (ii)	Floating	Foreign	**-**	(77)
Cross currency and interest rate swap liability (i)	Floating	Australian dollar	**(6,950)**	(5,256)
Borrowings	Floating	Australian dollar	**(1,189)**	(1,475)
Forward contract liability - net (iii)	Floating	Australian dollar	**(113)**	(318)
Cross currency swap liability - net	Floating	Foreign	**(233)**	(383)
Borrowings (iv)	Floating	Foreign	**(277)**	(196)
			(17,403)	(16,495)
Net interest bearing debt			**(13,474)**	(13,977)
Non-interest bearing cash included in net debt		Various	**67**	149
Net debt - based on contractual face values			**(13,407)**	(13,828)
Other interest bearing financial assets	Fixed	Australian dollar	**627**	159
Net interest bearing financial liabilities - based on contractual face values			**(12,780)**	(13,669)

(i) These amounts represent the end hedge position as described in our hedge relationships in note 18 Table H.

(ii) Includes offshore loans of $200 million (2011: $274 million) used to hedge our investment in TelstraClear Limited as described in note 18 Table K. The balance also includes $49 million (2011: $32 million) relating to finance leases and $2 million (2011: nil) other loans.

(iii) Includes final pay legs $638 million (2011: $1,029 million) as described in note 18 Table J. The balance also includes receive legs relating to hedges of forecast purchases, trade and other non interest bearing liabilities of $525 million (2011: $711 million).

(iv) Comprises promissory notes used to hedge our investment in TelstraClear Limited as described in note 18 Table K.

The above table represents our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship.

Accordingly, consistent with our policy to swap foreign currency borrowings into Australian dollars, only our Australian dollar end positions are included in the table above, except for a small proportion of foreign currency borrowings/cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments, loans from wholly owned controlled entities, and some cash balances/finance leases held in foreign currencies by our foreign controlled entities. These foreign currency amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June.

Total net debt in Table D agrees to the face value of our financial instruments included in net debt in Table C. The face values differ from the statement of financial position carrying amounts. The carrying amounts reflect a part of our borrowing portfolio at fair value with the remaining part at amortised cost, whereas the face values represent the undiscounted contractual liability at maturity date.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

d) Movements in net debt

The decrease in the carrying amount (including net cash movements) of our net debt during the year of $318 million for the Telstra Group (30 June 2011: decrease of $331 million) is represented by the movements shown in Table E below:

Table E	Telstra Group Year ended 30 June 2012 $m	2011 $m
Debt issuance - offshore and domestic loans	**2,801**	2,086
Net short term borrowings and bank deposits greater than 90 days	**60**	254
Repayment of offshore and domestic loans	**(2,036)**	(2,536)
Finance lease repayments	**(52)**	(61)
Net cash inflow/(outflow)	**773**	(257)
Non-cash movements in gross debt before tax		
Revaluation losses affecting cash flow hedging reserve	**103**	244
Revaluation losses/(gains) affecting foreign currency translation reserve	**89**	(32)
Revaluation (gains)/losses affecting other expenses in the income statement	**(9)**	21
Revaluation (gains)/losses affecting finance costs in the income statement (i)	**(18)**	153
Finance lease additions	**52**	72
	217	458
Total increase in gross debt	**990**	201
Net increase in cash and cash equivalents (including foreign currency exchange differences)	**(1,308)**	(532)
Total decrease in net debt	**(318)**	(331)

(i) The net revaluation gain of $18 million includes:

- gain of $6 million (2011: loss of $156 million) affecting other finance costs comprising a loss of $9 million (2011: $27 million) from fair value hedges; a gain of $14 million (2011: loss of $125 million) from transactions either not designated or de-designated from fair value hedge relationships; and a gain of $1 million (2011: loss of $4 million) relating to other hedge accounting adjustments; and
- gain of $12 million (2011: $3 million) affecting interest on borrowings comprising a gain of $27 million (2011: $21 million) relating to cross currency swap discounts on new borrowings which will be amortised to interest in the income statement over the life of the borrowing; and a loss of $15 million (2011: $18 million) comprising the amortisation of discounts.

We have issued the following long term debt during the year for refinancing purposes:

- $1,002 million offshore Euro public bond in November 2011, matures 16 May 2022;
- $98 million offshore Euro private placement bond in December 2011, matures 20 December 2023;
- $252 million offshore Swiss franc public bond in December 2011, matures 14 December 2018;
- $50 million offshore Australian dollar private placement bond in December 2011, matures 19 December 2023;
- $9 million domestic private placement loan in December 11 and February 12, matures 30 July 2018;
- $1,248 million offshore Euro public bond in March 2012, matures 21 September 2022;
- $2 million offshore Indian rupee bank loan in December 2011, matures 22 December 2016; and
- $140 million offshore Australian dollar private placement bond in May 2012; matures 25 May 2022.

Our unsecured promissory notes are used principally to support working capital and short term liquidity, as well as hedging certain offshore investments. Our short term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

The following long term debt was repaid during the year:

- $5 million Telstra bonds, matured 15 July 2011;
- $435 million domestic syndicated bank loan, matured 22 September 2011;
- $90 million offshore New Zealand dollar public bond, matured 24 November 2011;
- $27 million offshore United States dollar private placement bond, matured 16 December 2011;
- $106 million offshore United States dollar public bond, matured 30 January 2012;
- $250 million offshore Australian dollar syndicated bank loan, matured 1 February 2012;
- $947 million offshore United States dollar public bond, matured 1 April 2012; and
- $176 million offshore United States dollar syndicated bank loan, matured 18 May 2012.

Long term debt of $2,970 million will mature during fiscal 2013. This represents the contractual face value amount after hedging. Included in this amount are offshore borrowings which were swapped into Australian dollars at inception of the borrowing through to maturity using cross currency and interest rate swaps, creating synthetic Australian dollar obligations. These post hedge obligations are reflected in our total contractual Australian dollar liability at maturity of $2,970 million.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

d) Movements in net debt (continued)

The amount of $2,970 million is different to the carrying amount of $2,698 million which is included in current borrowings (along with promissory notes of $563 million and finance leases of $45 million) in the statement of financial position. The carrying amount reflects the amount of our borrowings due to mature within 12 months prior to netting offsetting risk positions of associated derivative financial instruments hedging these borrowings. The carrying amount reflects a mixed measurement basis with part of the borrowing portfolio recorded at fair value and the remaining part at amortised cost which is compliant with the requirements under Australian Accounting Standards.

(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	**2012 $m**	2011 $m
Interest on borrowings (i)			
Financial instruments in hedge relationships			
Domestic loans in cash flow hedges (ii)		**19**	19
Offshore loans in cash flow hedges (ii)		**481**	545
Offshore loans in fair value hedges (ii)		**180**	175
Promissory notes in fair value hedges (ii)		**8**	4
Derivatives and borrowings hedging net foreign investments		**3**	1
Available for sale			
Promissory notes		**7**	3
Other financial instruments			
Offshore loans not in a hedge relationship or de-designated from fair value hedge relationships (ii)		**191**	194
Telstra bonds and domestic loans		**218**	225
Other		**13**	8
Finance leases		**12**	12
	7	**1,132**	1,186
Finance income on net debt			
Cash and cash equivalents	6	**111**	117
Net interest on net debt		**1,021**	1,069

(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 on borrowings is due to a reduction in the volume of average net debt and a reduction in the average interest yield. The average yield on average net interest bearing financial liabilities during the year was 7.0% (2011: 7.2%) for the Telstra Group. The reduction in yield arises principally from a reduction in short-term market base market rates in the current year compared to the prior year, resulting in lower costs on the floating rate debt component of our debt portfolio. The reduction in short-term base rates was partially offset by an increase in refinancing margins on term debt issued during the year.

Some early refinancing of our fiscal 2013 borrowing requirements was undertaken in the second half of the current year resulting in higher levels of liquidity. Higher liquidity contributes to higher interest costs due to borrowing yields (to maintain higher liquidity) exceeding investment yields.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(f) Derivative financial instruments

All our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for a number of derivatives classified as held for trading which are in economic relationships but not in a designated hedge relationship for hedge accounting purposes. Refer to note 18 for details on hedging relationships.

Derivative financial instruments for the Telstra Group as at 30 June are shown in Table G and Table H below. For these derivative instruments the fair value equates to the carrying amounts in the statement of financial position which differs from the face values which are also provided in other tables within this note.

Table G

	Telstra Group								
	As at 30 June 2012								
	Cross currency swaps		Interest rate swaps		Forward contracts		Total	Total	Total
	Asset $m	Liability $m	Asset $m	Liability $m	Asset $m	Liability $m	Asset $m	Liability $m	Net $m
Current									
Fair value hedge	**1**	**(14)**	**2**	**-**	**-**	**(2)**	**3**	**(16)**	**(13)**
Cash flow hedge (i).	**-**	**(20)**	**5**	**(7)**	**-**	**(4)**	**5**	**(31)**	**(26)**
Hedge of net investment in foreign operation	**2**	**(5)**	**-**	**-**	**-**	**-**	**2**	**(5)**	**(3)**
Held for trading (ii)	**7**	**(245)**	**14**	**-**	**1**	**(2)**	**22**	**(247)**	**(225)**
	10	**(284)**	**21**	**(7)**	**1**	**(8)**	**32**	**(299)**	**(267)**
Non current									
Fair value hedge	**10**	**(192)**	**75**	**-**	**-**	**-**	**85**	**(192)**	**(107)**
Cash flow hedge (i).	**12**	**(1,050)**	**487**	**(676)**	**-**	**-**	**499**	**(1,726)**	**(1,227)**
Hedge of net investment in foreign operation	**-**	**(5)**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(5)**
Held for trading (ii)	**-**	**(426)**	**74**	**-**	**-**	**-**	**74**	**(426)**	**(352)**
	22	**(1,673)**	**636**	**(676)**	**-**	**-**	**658**	**(2,349)**	**(1,691)**
	32	**(1,957)**	**657**	**(683)**	**1**	**(8)**	**690**	**(2,648)**	**(1,958)**

Table H

	Telstra Group								
	As at 30 June 2011								
	Cross currency swaps		Interest rate swaps		Forward contracts		Total	Total	Total
	Asset $m	Liability $m	Asset $m	Liability $m	Asset $m	Liability $m	Asset $m	Liability $m	Net $m
Current									
Fair value hedge	-	(261)	8	-	-	(4)	8	(265)	(257)
Cash flow hedge (i).	-	(336)	11	(8)	1	(17)	12	(361)	(349)
Hedge of net investment in foreign operation	59	-	-	-	-	-	59	-	59
Held for trading (ii)	-	-	-	-	4	(8)	4	(8)	(4)
	59	(597)	19	(8)	5	(29)	83	(634)	(551)
Non current									
Fair value hedge	13	(51)	8	(40)	-	-	21	(91)	(70)
Cash flow hedge (i).	10	(946)	176	(173)	-	-	186	(1,119)	(933)
Hedge of net investment in foreign operation	10	-	-	-	-	-	10	-	10
Held for trading (ii)	-	(587)	68	-	-	(2)	68	(589)	(521)
	33	(1,584)	252	(213)	-	(2)	285	(1,799)	(1,514)
	92	(2,181)	271	(221)	5	(31)	368	(2,433)	(2,065)

(i) Gains or losses recognised in the cash flow hedging reserve on cross currency swap and interest rate swap contracts will be continuously released to the income statement until the underlying borrowings are repaid. Gains or losses recognised in the cash flow hedging reserve on forward exchange contracts will be released to the income statement when the underlying forecast transaction occurs and affects profit or loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example property, plant and equipment) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(f) Derivative financial instruments (continued)

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in designated hedge relationships for hedge accounting purposes. These derivatives include cross currency and interest rate swaps associated with a long term Euro bond issue not in a designated hedge relationship and with a number of offshore borrowings denominated in United States dollars, 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. 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. Also included in held for trading derivatives are forward contracts economically hedging trade creditors and other liabilities denominated in a foreign currency.

(g) Fair value hierarchy

We use various methods in estimating the fair value of our financial instruments. The methods comprise:

- Level 1: the fair value is calculated using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety has been determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. An unobservable valuation input is considered significant if stressing the unobservable input to the valuation model would result in a greater than 10% change in the overall fair value of the instrument.

The fair value of the financial instruments and the classification within the fair value hierarchy are summarised in Tables I, J and K below, followed by a description of the methods used to estimate the fair value.

Table I

	Telstra Group			
	As at 30 June 2012			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale				
Investments - other				
Quoted securities . . .	**1**	**-**	**-**	**1**
Unlisted securities . . .	**-**	**-**	**18**	**18**
Derivative assets				
Cross currency swaps .	**-**	**32**	**-**	**32**
Interest rate swaps . .	**-**	**657**	**-**	**657**
Forward contracts . . .	**-**	**1**	**-**	**1**
	1	**690**	**18**	**709**
Derivative liabilities				
Cross currency swaps .	**-**	**(1,957)**	**-**	**(1,957)**
Interest rate swaps . .	**-**	**(683)**	**-**	**(683)**
Forward contracts . . .	**-**	**(8)**	**-**	**(8)**
	-	**(2,648)**	**-**	**(2,648)**
	1	**(1,958)**	**18**	**(1,939)**

Table J

	Telstra Group			
	As at 30 June 2011			
	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Available for sale				
Investments - other				
Quoted securities . . .	1	-	-	1
Derivative assets				
Cross currency swaps .	-	92	-	92
Interest rate swaps . .	-	271	-	271
Forward contracts . . .	-	5	-	5
	1	368	-	369
Derivative liabilities				
Cross currency swaps .	-	(2,181)	-	(2,181)
Interest rate swaps . .	-	(221)	-	(221)
Forward contracts . . .	-	(31)	-	(31)
	-	(2,433)	-	(2,433)
	1	(2,065)	-	(2,064)

Notes to the Financial Statements (continued)

17. Capital management and financial instruments (continued)

(g) Fair value hierarchy (continued)

Available for sale investments - unlisted securities

These shares are not listed on any stock exchange, therefore a quoted market price is not available and accordingly have been classified as Level 3. These shares were acquired for a purchase price of $18 million which represents an amount exchanged between knowledgeable and willing parties in an arms' length purchase transaction. During the fiscal year no gains or losses have been recognised in other comprehensive income and therefore the consideration paid approximates the investments fair value.

Table K	Unlisted securities
	Level 3 $m
Opening balance 1 July 2011	-
Purchases	18
Closing balance 30 June 2012	18

Cross currency and interest rate swaps

The net fair values of our cross currency and interest rate swaps are determined using valuation techniques which utilise data from observable and unobservable market data. Assumptions are based on market conditions existing at each reporting date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. In particular, the following inputs are used to derive yield curves used in the calculation of fair value of our derivatives:

- base curves which are readily available market data and quoted for all major currencies; and
- pricing data reflecting Telstra's borrowing margins obtained from selected market participants with whom Telstra has or would transact in capital markets. We generally use the mid point of the pricing data range in calculating the yield curve. This pricing data used to estimate Telstra's borrowing margins is not observable, however sensitivity analysis on changes to this input, by using the maximum point in the pricing range, does not result in a significant change to the fair value of our cross currency and interest rate swaps.

We have therefore classified these derivatives based on the observable market inputs (Level 2).

Forward contracts

The fair value of our forward exchange contracts is calculated by reference to forward exchange market rates at reporting date for contracts with similar maturity profiles. These market rates are observable and therefore these derivatives have been classified as Level 2.

Notes to the Financial Statements (continued)

18. Financial risk management

We undertake transactions using a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and promissory notes;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements; and
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk and foreign currency risk), credit risk and liquidity risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. We manage our risks with a view to the outcomes of both our financial results and the underlying economic position. Financial risk management is carried out centrally by our Treasury department, which is part of our Corporate area, under policies approved by the Board of Directors (the Board). The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward exchange contracts.

We do not speculatively trade in derivative financial instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Section (a) of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Sections (b) and (c) provide details of our hedging strategies and hedge relationships that are used for financial risk management. In particular, these sections provide additional context around our hedge transactions and the resulting economic and risk positions.

(a) Risk and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below. These risks comprise market risk, credit risk and liquidity risk.

Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Components of market risk to which we are exposed are discussed below.

(i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities. Non derivative interest bearing assets are predominantly short term liquid assets. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates which exposes us to fair value interest rate risk. Our borrowings, which have a variable interest rate attached, give rise to cash flow interest rate risk.

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage interest rate risk on our net debt portfolio by:

- adjusting the ratio of fixed interest debt to variable interest debt to our target ratio, as required by our debt management policy;
- ensuring access to diverse sources of funding;
- reducing risks of refinancing by establishing and managing in accordance with target maturity profiles; and
- undertaking hedging activities through the use of derivative financial instruments.

Under our interest rate swaps we agree with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 17 Table D for our residual post hedge fixed and floating interest positions on a contractual face value basis.

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 when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings. 'Hedging strategies' and 'Hedge relationships' contained in sections (b) and (c) of this note provides further information.

The weighted average interest rates on our fixed and floating rate financial instruments as at 30 June, which do not have offsetting risk positions, and the principal/notional amounts on which interest is calculated, are shown in Table A below. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset. Accordingly, the majority of our instruments in the following table represent Australian dollar interest positions. Principal/notional amounts shown are net of discounts and as such differ from the face value disclosed in note 17 (Tables C and D).

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

Table A

	Telstra Group			
	As at 30 June 2012		As at 30 June 2011	
	Principal/ notional receivable/ (payable) $m	Weighted average % (*)	Principal/ notional receivable/ (payable) $m	Weighted average % (*)
Fixed rate instruments - Australian interest rate				
Cross currency and interest rate swap payable	(5,841)	6.17	(6,169)	6.17
Finance lease payable	(123)	7.73	(122)	7.60
Telstra bonds and domestic loans	(1,754)	7.20	(2,240)	7.26
Offshore loans	(140)	6.10	-	-
Fixed rate instruments - Foreign interest rates				
Finance lease payable	(16)	22.50	(17)	21.00
Offshore loans (#)	(201)	7.65	(195)	7.60
	(8,075)		(8,743)	
Variable rate instruments - Australian interest rates				
Contractual repricing or maturity 3 months or less				
Cash and cash equivalents (^)	3,539	4.31	2,249	5.07
Bank deposits with maturity greater than 90 days	-	-	1	4.88
Cross currency swap receivable (#)	460	3.54	452	5.02
Cross currency and interest rate swap payable	(7,082)	5.50	(4,802)	6.23
Telstra bonds and domestic loans	(1,000)	4.55	(1,440)	5.53
Promissory notes	(187)	4.36	(35)	5.18
Contractual repricing or maturity 3 to 12 months				
Telstra bonds and domestic loans	(500)	7.44	-	-
Forward contract liability - net	(113)	2.78	(318)	3.96
Cross currency and interest rate swap payable	(328)	6.17	(906)	6.53
Variable rate instruments - Foreign interest rates				
Contractual repricing or maturity 6 months or less				
Cash and cash equivalents (^)	338	0.80	239	1.56
Cross currency swap payable (#)	(468)	0.13	(383)	0.03
Cross currency swap receivable (**)	235	3.65	-	-
Offshore loans (#)	-	-	(77)	7.03
Promissory notes (#)	(275)	2.96	(194)	2.90
	(5,381)		(5,214)	
Net interest bearing debt	(13,456)		(13,957)	
Other interest bearing financial assets				
Fixed rate instruments - Australian interest rates				
Finance lease receivable	142	7.79	144	7.49
Amounts owed by jointly controlled entities	443	12.00	-	-
Floating rate instruments - Australian interest rate				
Contractual maturity 12 months				
Other receivables	24	6.90	-	-
Net interest bearing financial liabilities	(12,847)		(13,813)	

(*) The average rate is calculated as the weighted average (based on principal/notional value) effective interest rate, as at reporting date.

(#) Predominantly relate to financial instruments used to hedge our net foreign investments.

(^) Rates on cash and cash equivalents represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

(**) Financial instruments used to hedge loan from wholly owned controlled entity.

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 percent 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 percent increase would move short term interest rates (cash) at 30 June 2012 from 3.50% (2011: 4.75%) to 3.85% (2011: 5.23%) representing a 35 (2011: 48) basis point shift. This basis point shift is considered reasonable taking into account the absolute rates as at 30 June and current market conditions.

The results in this sensitivity analysis reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges and therefore the movement in the Australian dollar interest rates is a significant assumption in this sensitivity analysis.

Based on the sensitivity analysis, equity would be affected by the revaluation of our derivatives associated with borrowings designated in a cash flow hedge relationship and finance costs would be impacted by the following:

- the impact on interest expense being incurred on our net floating rate Australian dollar positions during the year;
- the revaluation of our derivatives associated with borrowings de-designated from a fair value hedge relationship or not in a hedge relationship; and
- the ineffectiveness resulting from the change in fair value of both our derivatives and borrowings which are designated in a fair value hedge.

The carrying value of borrowings de-designated from fair value hedge relationships or not in a hedge relationship is not adjusted for fair value movements attributable to interest rate risk. Accordingly, the revaluation gain or loss on our foreign currency derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing.

It is important to note that this sensitivity analysis does not include the effect of movements in Telstra's borrowing margins. Whilst margins will be affected by market factors, this risk variable predominantly reflects Telstra specific credit risk and accordingly is not considered a market risk. Furthermore, determining a reasonably possible change in this risk variable with sufficient reliability is impractical. Therefore, the following sensitivity analysis assumes a constant margin and parallel shifts in interest rates across all currencies.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

Market risk (continued)

(ii) Sensitivity analysis - interest rate risk (continued)

The following sensitivity analysis is based on our interest rate exposures comprising:

- the revaluation impact on our derivatives and borrowings from a 10 percent movement in interest rates based on the net debt balances as at reporting date; and
- the effect on interest expense on our floating rate borrowings from a 10 percent movement in interest rates at each reset date during the year.

At 30 June, if interest rates had moved as illustrated in Table B below, with all other variables held constant and taking into account all underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

Table B

	Telstra Group							
	+10%				-10%			
	Net profit or loss (*)		Equity (cash flow hedging reserve)		Net profit or loss (*)		Equity (cash flow hedging reserve)	
	Year ended 30 June		As at 30 June		Year ended 30 June		As at 30 June	
	Gain/(loss)		Gain/(loss)		Gain/(loss)		Gain/(loss)	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Revaluation of derivatives and borrowings - fair value hedges of offshore loans	**39**	3	**-**	-	**(41)**	(3)	**-**	-
Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship	**(1)**	(5)	**-**	-	**1**	5	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans	**-**	-	**65**	74	**-**	-	**(69)**	(79)
Floating rate Australian dollar instruments	**(39)**	(39)	**-**	-	**39**	39	**-**	-
	(1)	(41)	**65**	74	**(1)**	41	**(69)**	(79)

(*) The before tax impact is included within finance costs.

The higher sensitivity in 2012 compared to 2011 relating to revaluation of derivatives and borrowings in fair value hedges reflects an increase in our portfolio as at 30 June 2012 from debt issued during the year.

(iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, forecast transaction, recognised asset or liability will fluctuate due to changes in foreign currency rates. Our foreign currency exchange risk arises primarily from:

- borrowings denominated in foreign currencies;
- trade and other creditor balances denominated in foreign currencies;
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies; and
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, including:

- Euros;
- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Swiss francs;
- Hong Kong dollars;
- Chinese renminbi; and
- Japanese yen.

Our economic foreign currency risk is assessed for each individual currency and for each hedge type, calculated by aggregating the net exposure for that currency for that hedge type.

We minimise our exposure to foreign currency risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where this is not possible we manage our exposure as follows.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

Market risk (continued)

(iii) Foreign currency risk (continued)

Cash flow foreign currency risk arises primarily from foreign currency overseas borrowings. We hedge this risk on the major part of our foreign currency denominated borrowings by entering into a combination of interest rate and cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments. Refer to note 17 Table D for our residual post hedge currency exposures on a contractual face value basis.

Foreign exchange risk that arises from transactional exposures such as firm commitments or highly probable transactions settled in a foreign currency (primarily United States dollars) are managed principally through the use of forward foreign currency derivatives. We hedge a proportion of these transactions (such as asset and inventory purchases settled in foreign currencies) in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our foreign controlled entities which have a functional currency other than Australian dollars. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. We manage this translation foreign exchange risk with forward foreign currency contracts, cross currency swaps and/or borrowings denominated in the currency of the entity concerned. We currently hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively. The amount hedged during fiscal 2012 was in the range of 40% to 50% (2011: 40% to 50%). In relation to the proposed sale of TelstraClear Limited (refer note 31).

In addition, our subsidiaries may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction.

We also economically hedge a proportion of foreign currency risk associated with trade and other creditor balances using forward foreign currency contracts.

Refer to section (b) ‘Hedging strategies’ and section (c) ‘Hedge relationships’ contained in this note for further information.

(iv) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in this section is based on foreign currency risk exposures on our financial instruments and net foreign investment balances as at reporting date.

The translation of our investments in foreign operations from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate. In doing so, this sensitivity analysis reflects the impact on equity from a movement in the exchange rate associated with both the underlying hedged investment and the financial instruments hedging the translation currency risk.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 percent has been selected as this is considered reasonable taking into account the current level of exchange rates and the volatility observed both on an historical basis and market expectations for future movements. Comparing the Australian dollar exchange rate against the Euro, the year end rate of 0.8089 (2011: 0.7405) would generate a 10 percent favourable position of 0.8898 (2011: 0.8145) and an adverse position of 0.7354 (2011: 0.6732). This range is considered reasonable given the volatility that has been observed. For example, over the last five years, the Australian dollar exchange rate against the Euro has traded in the range 0.4798 to 0.8190 (2011: 0.4755 to 0.7735).

Foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit or loss from foreign currency movements associated with these borrowings as they are effectively hedged.

There is some volatility in profit or loss from exchange rate movements associated with our borrowings de-designated or not in hedge relationships and with our cash flow hedges of forecast transactions.

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)

We are exposed to equity impacts from foreign currency movements associated with our offshore investments and our derivatives in cash flow hedges of offshore borrowings. This foreign currency risk is spread over a number of currencies and accordingly, we have disclosed the sensitivity analysis on a total portfolio basis and not separately by currency. It should be noted that our foreign currency exposure associated with cash flow hedge derivatives is predominantly in Euros and with our offshore investments predominantly in Hong Kong dollars, New Zealand dollars, British pounds sterling and Chinese renminbi (relating to our investments in Hong Kong CSL Limited, TelstraClear Limited, Telstra Limited and Sequel Limited).

The following sensitivity analysis is based on our foreign currency risk exposures comprising the revaluation impact on our derivatives and borrowings and net foreign investments from a 10 percent adverse/favourable movement in foreign exchange rates based on our balances as at reporting date. At 30 June, had the Australian dollar against all applicable currencies moved as illustrated in Table C, with all other variables held constant and taking into account identified underlying exposures and related hedges, net profit and equity after tax would have been affected as follows:

Table C — **Telstra Group**

	10% adverse movement						**10% favourable movement**					
	Net profit or loss		**Equity (foreign currency translation reserve)**		**Equity (cash flow hedging reserve)**		**Net profit or loss**		**Equity (foreign currency translation reserve)**		**Equity (cash flow hedging reserve)**	
	Year ended 30 June		**As at 30 June**		**As at 30 June**		**Year ended 30 June**		**As at 30 June**		**As at 30 June**	
	Gain/(loss)		**Gain/(loss)**		**Gain/(loss)**		**Gain/(loss)**		**Gain/(loss)**		**Gain/(loss)**	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship (*)	**(10)**	(9)	**-**	-	**-**	-	**12**	11	**-**	-	**-**	-
Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (^)	**(19)**	(23)	**-**	-	**-**	-	**18**	21	**-**	-	**-**	-
Revaluation of derivatives - cash flow hedges of offshore loans	**-**	-	**-**	-	**(32)**	(11)	**-**	-	**-**	-	**40**	14
Net foreign investments (**)	**-**	-	**(106)**	(90)	**-**	-	**-**	-	**130**	110	**-**	-
	(29)	(32)	**(106)**	(90)	**(32)**	(11)	**30**	32	**130**	110	**40**	14

(*) The impact of some of our borrowings de-designated from fair value hedge relationships or not in a hedge relationship has resulted in some volatility to profit or loss. The revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings, however there will be some profit or loss impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. The borrowings which are accounted for on an amortised cost basis will reflect revaluation movements for changes in the spot exchange rate which are not discounted. Therefore, the impact on profit or loss is primarily attributable to the discounting effect of the foreign exchange gains and losses on the hedging derivatives.

(^) Adverse and favourable impacts include $1 million (2011: $2 million) relating to purchases of property, plant and equipment, which would affect the cost of the asset and profit or loss as the assets are depreciated over their useful lives.

(**) Relates to the translation of the net assets of our foreign controlled entities including the impact of hedging. The net gain or loss in the sensitivity analysis represents the impact relating to the unhedged portion of the net assets of our foreign controlled entities.

The higher sensitivity in 2012 compared to 2011 relating to derivatives in cash flow hedges and net foreign investments is primarily due to the shift in value of our portfolio as at 30 June valuation dates.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

a) Risk and mitigation (continued)

Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and 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 pro-active basis;
- we may require collateral where appropriate; and
- we manage exposure to individual entities we either transact with or enter into derivative contracts with, through a system of credit limits.

Where entities have a right of set-off and intend to settle on a net basis, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions which are not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 23 and note 30.

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ageing analysis and ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debt is raised. In addition, receivable balances are monitored on an ongoing basis with the result that our exposure to bad debts is not significant. For further details regarding our trade and other receivables refer to note 10.

In relation to our transactions in money market instruments, forward foreign currency contracts, and cross currency and interest rate swaps, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout (i.e. in-the-money). We have policies that limit the amount of credit exposure to any financial institution. These risk limits are regularly monitored. Derivative counterparties and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with our policy requirements. Our credit risk and financial instruments are spread amongst a number of financial institutions.

One of the methods that we use to manage the credit risk exposure relating to these instruments is to monitor our exposure by country of financial institution based on a value at risk (VaR) methodology. 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 holding period or in this case the maturity of the instrument. In some cases, the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this time period given historical observations; and
- we have used 90% (2011: 90%) confidence levels to determine the applicable potential credit limit factors.

The VaR based methodology employed has the following limitations:

- the use of historical data as a proxy for estimating future events may not cover all potential events, in particular this is relevant when trying to estimate potential volatility over a long holding period such as 10 years; and
- the use of a 90% confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

Credit risk (continued)

Table D	Telstra Group			
	Credit risk concentrations (VaR based)			
	As at 30 June			
	2012		2011	
	%	$m	%	$m
Australia	**25.8**	**3,190**	16.7	1,644
United States . . .	**21.1**	**2,616**	24.8	2,440
Japan.	**0.5**	**63**	0.6	56
Europe	**20.5**	**2,530**	19.4	1,911
United Kingdom .	**15.3**	**1,889**	17.3	1,703
Canada.	**0.1**	**11**	6.4	629
Switzerland. . . .	**0.6**	**70**	1.0	99
China/Hong Kong	**15.3**	**1,892**	10.2	1,001
Singapore	**0.6**	**71**	3.3	324
New Zealand . . .	**0.2**	**27**	0.3	36
	100.0	**12,359**	100.0	9,843

Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle a financial liability or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid to liquid instruments.

During the prior year new policy settings were implemented to raise the minimum level of liquidity and to pre-fund major payments. This has resulted in the holding of higher levels of liquidity.

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 2012, based on contractual face values, 18% of our debt (after hedging) comprising offshore borrowings, Telstra bonds and domestic loans and excluding promissory notes, will mature in less than one year (2011: 13%).

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in the following Table E. The contractual maturity amounts (nominal cash flows) represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values. These amounts are reported in Australian dollars based on the applicable exchange rate as at 30 June. We have also included derivative financial assets in the following table on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed together.

For floating rate instruments, the amount disclosed is determined by reference to the current market pricing for interest rates over the period to maturity.

Also affecting liquidity are cash and cash equivalents, available for sale financial assets and other 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)

Table E — Telstra Group

	As at 30 June 2012						As at 30 June 2011					
		Contractual maturity (nominal cash flows)						Contractual maturity (nominal cash flows)				
	Carrying amount $m	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m	Carrying amount $m	Less than 1 year $m	1 to 2 years $m	2 to 5 years $m	over 5 years $m	Total $m
Derivative financial instruments												
Net interest rate swaps payable (i)	(683)	(172)	(173)	(364)	(176)	(885)	(217)	(76)	(58)	(92)	(101)	(327)
Cross currency swaps payable (ii)	(13,243)	(2,666)	(1,319)	(6,043)	(7,435)	(17,463)	(11,679)	(2,204)	(2,253)	(5,131)	(6,222)	(15,810)
Forward foreign currency contracts payable (ii)	(691)	(691)	-	-	-	(691)	(1,164)	(1,153)	(11)	-	-	(1,164)
Net interest rate swaps receivable (i)	657	203	199	376	59	837	267	164	119	151	(43)	391
Cross currency receivable (ii)	11,318	1,992	941	3,948	6,308	13,189	9,590	1,188	1,693	3,512	5,176	11,569
Forward foreign currency contracts receivable (ii)	684	678	-			678	1,138	1,117	8			1,125
Non-derivative financial liabilities												
Telstra bonds and domestic loans	(3,528)	(1,672)	(621)	(1,119)	(822)	(4,234)	(3,954)	(677)	(1,683)	(1,312)	(1,243)	(4,915)
Trade/other creditors and accrued expenses	(4,162)	(4,105)	(1)	(15)	(41)	(4,162)	(4,099)	(4,045)	(4)	(17)	(33)	(4,099)
Offshore loans	(11,034)	(1,628)	(1,042)	(4,504)	(6,715)	(13,889)	(9,567)	(1,406)	(1,677)	(3,800)	(5,179)	(12,062)
Finance leases	(139)	(56)	(48)	(51)	(31)	(186)	(139)	(53)	(44)	(50)	(19)	(166)
Promissory notes	(563)	(567)	-	-	-	(567)	(508)	(510)	-	-	-	(510)
Deferred consideration for capital expenditure	(143)	(34)	(27)	(89)	(55)	(205)	(171)	(48)	(29)	(80)	(81)	(238)

(i) Net amounts for interest rate swaps for which net cash flows are exchanged. Classification into net receive and net pay positions is based on the total net cash flows over the life of the contract.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(a) Risk and mitigation (continued)

Liquidity risk (continued)

Financing arrangements

Table F	Telstra Group As at 30 June 2012 $m	Telstra Group As at 30 June 2011 $m
We have access to the following lines of credit:		
Credit standby arrangements		
Unsecured committed cash standby facilities which are subject to annual review	**759**	593
Amount of credit unused	**759**	593

We have promissory note facilities in place in the United States, Europe, Australia and New Zealand under which we may nominally issue up to $9,183 million (2011: $9,198 million). As at 30 June 2012, we had on issue $563 million (2011: $508 million) under these facilities. As at 30 June 2012, our subsidiary CSL Limited had a bank bill acceptance facility of $111 million (2011: $93 million) of which $84 million was issued (2011: $92 million). These facilities are not committed or underwritten and we have no guaranteed access to the funds. Generally, given we retain suitable ratings, our facilities are available, subject to market conditions, unless we default on any terms applicable under the relevant agreements or become insolvent. During the current and prior years there were no defaults or breaches on any of our facility agreements.

(b) Hedging strategies

We hold a number of different financial instruments to hedge risks relating to underlying transactions. Our major exposure to interest rate risk and foreign currency risk arises from our long term borrowings. We also have translation currency risk associated with our offshore investments and transactional currency exposures such as purchases in foreign currencies.

We designate certain derivatives as either:

- hedges of the fair value of recognised liabilities (fair value hedges);
- hedges of foreign currency risk associated with recognised liabilities or highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

The terms and conditions in relation to our derivative financial instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

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;
- a long term Euro bond issue which is not in a designated hedge relationship for hedge accounting purposes; and
- some forward foreign currency contracts and cross currency swaps 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, loans from wholly owned controlled entities and other liabilities denominated in a foreign currency.

All our financial liabilities de-designated or not in designated hedge relationships are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

All other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

Refer to section (c) for details on our hedge relationships based on contractual face value amounts and cash flows. Refer to note 7 for the impact on finance costs relating to borrowings de-designated or not in hedge relationships.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(b) Hedging strategies (continued)

Fair value hedges

We hold cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated are a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the fair value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

The net impact on finance costs from remeasuring the fair value of the hedge instruments together with the gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks, largely represents ineffectiveness attributable to movements in Telstra’s borrowing margins.

The remeasurement of the hedged items resulted in a loss before tax of $208 million (2011: gain of $180 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of $199 million (2011: loss of $207 million). This results in a net loss before tax of $9 million and a net loss after tax of $6 million (2011: net loss before tax of $27 million and net loss after tax of $19 million).

Refer to note 7 for the impact on finance costs relating to borrowings in fair value hedges.

The effectiveness of the hedging relationship is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative financial instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as fair value hedges.

Cash flow hedges

Cash flow hedges are predominantly used to hedge exposures relating to our borrowings and our ongoing business activities where we have highly probable purchase or settlement commitments in foreign currencies.

We enter into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long term offshore borrowings. The hedged items designated are a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also enter into forward exchange contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency which hedge foreign currency risk arising from spot rate changes. The hedged items comprise a portion of highly probable forecast payments for operating and capital items primarily denominated in United States dollars.

The effectiveness of the hedging relationship relating to our borrowings is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. The actual derivative financial instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125, the hedge is effective.

In relation to our offshore borrowings, ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year, there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year, there was no material impact on profit or loss as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedge reserve refer to the statement of comprehensive income.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as cash flow hedges.

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(b) Hedging strategies (continued)

Cash flow hedges (continued)

The following table shows the maturities of the payments in our cash flow hedges (i.e when the cash flows are expected to occur). These amounts represent the undiscounted cash flows reported in Australian dollars based on the applicable exchange rate as at 30 June and represent the identified foreign currency exposures at reporting date in relation to our cash flow hedges.

Table G	Telstra Group	
	Nominal cash outflows	
	As at 30 June	
	2012	2011
	$m	$m
Highly probable forecast transactions		
Non-Capital items (i)		
- less than one year	**(541)**	(548)
Capital items (ii)		
- less than one year	**(11)**	(63)
	(552)	(611)
Borrowings (iii)		
- less than one year	**(527)**	(831)
- one to five years	**(3,235)**	(2,174)
- greater than five years	**(2,653)**	(4,516)
	(6,415)	(7,521)

(i) These amounts will affect our income statement in the same period as the cash flows are expected to occur.

(ii) For purchases of property, plant and equipment, the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit or loss as the assets are depreciated over their useful lives. Refer to note 2 for our depreciation policies for property, plant and equipment.

(iii) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit or loss over the life of the borrowing, however the impact on profit or loss is expected to be nil as the borrowings are effectively hedged.

Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge a portion of our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 percent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the statement of comprehensive income, net losses before tax of $31 million and after tax of $22 million (2011: gains before tax of $140 million and after tax of $98 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Refer to note 17, Table G and Table H, for the value of our derivatives designated as hedges of net foreign investments.

(c) Hedge relationships

The following tables provide additional context around our hedge transactions and in particular describes how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the following tables will not be equal to the carrying values.

Table H and Table I describe each of our hedge relationships, using cross currency and interest rate swaps as the hedging instruments and comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and foreign denominated borrowings that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our offshore foreign denominated borrowings, some domestic borrowings, our offshore investment in Hong Kong CSL Limited and a loan from a wholly owned controlled entity. 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 2012

	Face value	Derivative hedging instruments - cross currency and interest rate swaps							Final currency and interest positions	
	Face value	Notional/Face value							Notional/Face Value	
	Pre hedge underlying exposure	Interest rate swap receive fixed/(pay) float	Cross currency swap receive/(pay) float	Cross currency swap receive fixed	Cross currency swap receive/(pay) float	Cross currency swap (pay) fixed	Interest rate swap receive float/(pay) fixed	Interest rate swap (pay) float/receive fixed	(Pay)/receive float	(Pay) fixed
	Local currency	Local currency			Final leg - Australian dollar				Australian dollar	
	$m	$m	$m	$m	$m	$m	$m		$m	$m
In hedge relationships										
Offshore borrowings - fixed										
Swiss francs	(225)	(225)	225	-	(252)	-	-	-	(252)	-
Euros	(5,325)	(5,250)	5,250	75	(7,877)	-	(3,679)	-	(4,198)	(3,679)
British pounds sterling	(200)	(200)	200	-	(584)	-	(360)	-	(224)	(360)
Hong Kong dollar	(330)	-	-	330	(50)	-	-	-	(50)	-
Japanese yen	(47,000)	-	-	47,000	(514)	(163)	(409)	-	(105)	(572)
United States dollar	(1,150)	(1,000)	1,000	150	(1,158)	-	(955)	-	(203)	(955)
Australian dollar	(50)	-	-	-	-	-	-	(50)	(50)	-
Offshore borrowings - floating										
Swiss francs	(550)	(550)	550	-	(599)	-	-	-	(599)	-
Euros	(500)	(500)	500	-	(859)	-	-	-	(859)	-
Japanese yen	(1,000)	-	1,000	-	(12)	-	-	-	(12)	-
United States dollar	(600)	-	600	-	(630)	-	-	-	(630)	-
Domestic loans - floating										
Australian dollar	(275)	-	-	-	-	-	(275)	-	-	(275)
Net foreign investments										
Hong Kong dollar	8,332	-	(3,700)	-	460	-	-	-	460	-
Loans from wholly owned controlled entities										
New Zealand dollar	(300)	-	300	-	(228)	-	-	-	(228)	-
					(12,303)	(163)	(5,678)	(50)	(6,950)	(5,841)

18. Financial risk management (continued)

(c) Hedge relationships (continued)

Table I

Telstra Group - 30 June 2011

	Face value	Derivative hedging instruments - cross currency and interest rate swaps - Notional/Face value						Final currency and interest positions - Notional/Face Value	
	Pre hedge underlying exposure	Interest rate swap receive fixed/(pay) float	Cross currency swap receive/ (pay) float	Cross currency swap receive fixed	Cross currency swap receive/ (pay) float	Cross currency swap (pay) fixed	Interest rate swap receive float/(pay) fixed	(Pay)/receive float	(Pay) fixed
	Local currency	Local currency			Final leg - Australian dollar			Australian dollar	
	$m	$m	$m	$m	$m	$m	$m	$m	$m
In hedge relationships									
Offshore borrowings - fixed									
Swiss francs	(550)	(550)	550	-	(599)	-	(328)	(271)	(328)
Euros	(4,000)	(4,000)	4,000	-	(6,387)	-	(3,679)	(2,708)	(3,679)
British pounds sterling	(200)	(200)	200	-	(584)	-	(360)	(224)	(360)
Hong Kong dollar	(330)	-	-	330	(50)	-	-	(50)	-
Japanese yen	(48,000)	-	-	48,000	(526)	(163)	(409)	(117)	(572)
United States dollar	(1,150)	(1,000)	1,000	150	(1,158)	-	(955)	(203)	(955)
Offshore borrowings - floating									
Australian dollar	(250)	-	-	-	-	-	-	(250)	-
United States dollar	(1,310)	(500)	1,310	-	(1,885)	-	-	(1,885)	-
Domestic loans - floating									
Australian dollar	(275)	-	-	-	-	-	(275)	-	(275)
Net foreign investments									
Hong Kong dollar	8,088	-	(3,200)	-	452	-	-	452	-
					(10,737)	(163)	(6,006)	(5,256)	(6,169)

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table J describes each of our hedge relationships, where forward foreign currency exchange contracts are used as the hedging instruments. These relationships comprise effective economic relationships based on contractual face value amounts and cash flows, including relationships that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to economically hedge our promissory notes, forecast transactions denominated in foreign currency, and foreign currency trade and other liabilities.

Outlined in the following table is the pre hedge underlying exposure, each leg of the forward foreign currency contract and the end post hedge position. This post hedge position represents our net final currency positions and is represented in our residual economic position as described in note 17 Table D.

Table J	Telstra Group							
			Derivative hedging instruments - forward foreign currency contracts					
	Face value		Notional value				Average exchange rate	
	Pre hedge underlying exposure (payable)		Forward contract receive		Forward contract pay - final leg			
	Local Currency		Local currency		Australian dollars			
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m	**2012**	2011
Forward contracts hedging interest bearing debt								
Promissory notes								
United States dollars - contractual maturity 0-3 months (2011: 0-3 months)	**(103)**	(300)	**103**	300	**(104)**	(286)	**0.9904**	1.0496
Loans from wholly owned controlled entities								
British pounds sterling - contractual maturity 0-3 months (2011: 0-3 months)	**(10)**	(18)	**10**	18	**(15)**	(28)	**0.6446**	0.6457
New Zealand dollars - contractual maturity 0-3 months (2011: 0-3 months)	**(155)**	(363)	**155**	363	**(122)**	(277)	**1.2702**	1.3096
United States dollars - contractual maturity 0-3 months (2011: 0-3 months)	**(54)**	(20)	**54**	20	**(53)**	(19)	**1.0260**	1.0254
Hong Kong dollars - contractual maturity 0-3 months (2011: 0-3 months)	**(19)**	-	**19**	-	**(2)**	-	**7.9610**	-
Forward contracts hedging forecast payments and other liabilities								
Forecast transactions								
United States dollars - contractual maturity 0-12 months (2011: 0-12 months)	**(540)**	(653)	**254**	307	**(257)**	(309)	**0.9891**	0.9947
Euro - contractual maturity 0-12 months (2011: nil)	**(5)**	-	**2**	-	**(3)**	-	**0.7922**	-
Swedish krona - contractual maturity 0-6 months (2011: 0-3)	**(8)**	(20)	**4**	15	**(1)**	(2)	**7.0442**	6.3482
New Zealand dollars - contractual maturity 0-12 months (2011: nil)	**(19)**	-	**19**	-	**(15)**	-	**1.2710**	-
Trade and other liabilities - non interest bearing								
United states dollars - contractual maturity 0-12 months (2011: 0-21 months)	**(65)**	(104)	**65**	104	**(66)**	(108)	**0.9945**	0.9652
					(638)	(1,029)		

Notes to the Financial Statements (continued)

18. Financial risk management (continued)

(c) Hedge Relationships (continued)

Table K describes our hedge relationships where offshore loans and promissory notes are used as the hedging instruments. These hedging instruments are used to hedge our net foreign investment in TelstraClear Limited. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments (New Zealand denominated borrowings and promissory notes) and the end post hedge position and is represented in our residual economic position as described in note 17 Table D.

Table K			Non-derivative hedging instruments			
			Face value			
	Hedged amount (i)		Offshore loans and promissory notes (ii)			
	New Zealand dollars		New Zealand dollars (payable)		Australian dollars (payable)	
	2012 $m	2011 $m	**2012 $m**	2011 $m	**2012 $m**	2011 $m
Net foreign investments						
TelstraClear Ltd (New Zealand dollars). .	**609**	609	**(609)**	(609)	**(477)**	(470)

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2012 the face value in Australian dollars of offshore loans was $200 million (2011: $274 million) and the face value in Australian dollars of promissory notes was $277 million (2011: $196 million).

Notes to the Financial Statements (continued)

19. Share capital

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Contributed equity	**5,793**	5,793
Share loan to employees	**(67)**	(70)
Shares held by employee share plans	**(145)**	(159)
Net services received under employee share plans	**54**	46
	5,635	5,610

Contributed equity

Our contributed equity represents our authorised and issued fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

We have 12,443,074,357 (30 June 2011: 12,443,074,357) authorised fully paid ordinary shares on issue.

Share loan to employees

The share loan to employees account represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plan Trusts (TESOP 97 and TESOP 99). Refer to note 27 for further details regarding these plans.

Shares held by employee share plans

The shares held by employee share plans represent the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded with contributions and intercompany loans from Telstra Corporation Limited. As at 30 June 2012 the number of shares totalled 29,324,833 (2011: 32,419,972). These shares are excluded from the calculation of basic and diluted earnings per share. Refer to note 3 for further details.

Net services received under employee share plans

The net services received under the employee share plans account is used to record the cumulative value of our options, performance rights, restricted shares, incentive shares, direct shares and ownshares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows

		Telstra Group	
		Year ended 30 June	
	Note	2012 $m	2011 $m
(a) Reconciliation of profit to net cash provided by operating activities			
Profit for the year		**3,424**	3,250
Add/(subtract) the following transactions			
Depreciation and amortisation		**4,412**	4,459
Finance income		**(134)**	(127)
Finance costs		**1,022**	1,262
Distribution from FOXTEL Partnership		**(108)**	(70)
Share based payments		**31**	12
Defined benefit plan expense		**223**	268
Net gain on disposal of property, plant and equipment		**(14)**	(14)
Net gain on disposal of intangibles		**(9)**	-
Net gain on disposal of associates		**-**	(8)
Net loss/(gain) on disposal of controlled entities		**17**	(69)
Net loss/(gain) on sale of businesses		**1**	16
Share of net (profits) from jointly controlled and associated entities		**-**	(1)
Impairment losses (excluding inventories, trade and other receivables)		**211**	210
Foreign exchange differences		**3**	(1)
Cash movements in operating assets and liabilities (net of acquisitions and disposals of controlled entity balances)			
Increase in trade and other receivables		**(254)**	(327)
Decrease in inventories		**15**	10
Increase in prepayments and other assets		**(102)**	(190)
Increase in net defined benefit		**(340)**	(348)
Increase in trade and other payables		**509**	67
Increase/(decrease) in revenue received in advance		**334**	(143)
Decrease in net taxes payable		**(87)**	(204)
Increase/(decrease) in provisions		**122**	(34)
Net cash provided by operating activities		**9,276**	8,018
(b) Cash and cash equivalents			
Cash at bank and on hand		**362**	356
Bank deposits, bills of exchange and promissory notes		**3,583**	2,274
Total cash and cash equivalents		**3,945**	2,630
Reconciliation to the statement of cash flows			
Cash and cash equivalents included in assets held for sale	12	**-**	7
Cash and cash equivalents in the statement of cash flows		**3,945**	2,637

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

(c) Acquisitions

Autohome

On 17 May 2012, Telstra Holdings Pty Ltd acquired an additional 11% interest in Autohome Inc for a purchase consideration of $37 million, increasing its ownership from 55% to 66%. The effect of the changes in the ownership of Autohome on the equity attributable to owners of Telstra Corporation Limited during the year is summarised as follows:

	Year ended 30 June 2012 $m
Carrying amount of non-controlling interests acquired	5
Consideration paid to non-controlling interests	37
Excess of consideration paid recognised in the general reserve	32

(d) Disposals

L Mobile (formerly Dotad Group)

On 27 March 2012, our controlled entity Telstra Robin Holdings Limited sold its 67% shareholding in Dotad Media Holdings Limited (L Mobile) for a net consideration of ($3) million.

The effect of this disposal is detailed below:

	Total disposals Year ended 30 June 2012 $m
Consideration for disposal - net of cash disposed	
Cash consideration for disposal	3
Cash and cash equivalents disposed	(6)
Outflow of cash on disposal	(3)
Total Consideration for disposal	3
Assets/(liabilities) at disposal date	
Cash and cash equivalents	6
Trade and other receivables	8
Inventories	3
Other assets	10
Property, plant and equipment	1
Intangibles	8
Trade and other payables	(8)
Current tax liabilities	(3)
Deferred tax liabilities	(2)
Other liabilities	(1)
Net assets	22
Adjustment for non-controlling interests	(11)
Foreign currency transaltion reserve disposed	9
Loss on disposal	(17)

In fiscal 2010 Dotad Media Holding Ltd was acquired with $67 million of the consideration contingent upon the entity achieving certain pre-determined revenue and EBITDA targets over the next three fiscal years and $6 million deferred until February 2012. In fiscal 2011 the contingent consideration was reduced by $30 million with a corresponding gain recognised in the income statement. We also recognised a $5 million foreign exchange gain on the retranslation of the contingent consideration. In fiscal 2012 the balance of the contingent consideration of $33 million was reduced as the pre-determined targets were not met.

Notes to the Financial Statements (continued)

20. Notes to the statement of cash flows (continued)

Adstream

On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million. Payment of the consideration has been deferred for a period of up to two years. As at 30 June 2011, Adstream's net assets were transferred to non current assets held for sale.

ChinaM

On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million.

The effect of these two disposals is detailed below:

	Total disposals Year ended 30 June 2012 $m
Consideration for disposal	
Total consideration on disposal	29
Cash and cash equivalents disposed	(13)
	16
Deferred consideration for the disposal	24
Outflow of cash on disposal	(8)
Total consideration for disposal	29
Assets/(liabilities) at disposal date	
Cash and cash equivalents	13
Trade and other receivables	8
Property, plant and equipment	2
Intangibles	30
Other assets	1
Trade and other payables	(4)
Current tax liabilities	(1)
Provisions	(1)
Deferred tax liabilities	(1)
Other liabilities	(4)
Net assets	43
Adjustment for non-controlling interests	(13)
Loss on disposal	(1)

(e) Significant investing and financing activities that involve components of non cash

Acquisition of assets by means of non cash transactions

	Telstra Group Year ended 30 June 2012 $m	Telstra Group Year ended 30 June 2011 $m
Acquisition of property, plant and equipment by means of finance leases	48	76
Acquisition of property, plant and equipment by means of debt forgiveness*	-	108

The table above represents those assets acquired during the period which do not impact cash as the acquisition was made via finance leases or debt forgiveness.

*Relates to the acquisition of assets from Reach.

Notes to the Financial Statements (continued)

21. Impairment

Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill is detailed below:

	Goodwill	
	As at 30 June	
CGUs	**2012 $m**	2011 $m
CSL New World Group *	**784**	740
Telstra Europe Group*	**55**	54
Sensis Group (a)	**215**	215
Location Navigation (a)	**14**	14
1300 Australia Pty Ltd	**16**	16
Sequel Group* (b)	**-**	100
Autohome* (b)	**96**	-
Sequel Media* (b)	**11**	-
Octave Group* (c)	**-**	-
iVision (d)	**-**	36
LMobile Group* (e)	**-**	45
TelstraClear Group* (f)	**-**	129
Other (d)	**98**	66
	1,289	1,415

* 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) Our assessment of the Sensis Group CGU excludes the Location Navigation CGU that forms part of the Sensis reportable segment. This CGU is assessed separately.

(b) We have completed an internal restructure of the Sequel Group by transferring all the shares in China Topside Limited and Norstar Advertising Media Holdings Limited from Autohome Inc. (formerly Sequel Limited) to Sequel Media Inc. This restructure has resulted in two CGUs at 30 June 2012 as compared to a single CGU at 30 June 2011.

(c) During fiscal 2011, the carrying value of our assets in the Octave Group CGU (included in the Telstra International Group reportable segment) was tested for impairment based on value in use. This resulted in an impairment charge of $133 million against goodwill ($94 million) and other intangible assets ($39 million) being recognised in the Telstra Group financial statements. The carrying amount of the Octave Group goodwill has been reduced to nil.

(d) Following the acquisition of iVision in March 2011 its operations have been integrated into the Telstra Group, mainly into the Telstra Enterprise and Government segment in fiscal 2012. As at 30 June 2012, iVision was not considered a separate CGU. The $36 million goodwill recognised on initial acquisition has been included in ‘Other’ and tested for impairment at the Telstra Enterprise and Government (TE&G) cash generating unit level, which is aligned with the TE&G operating segment.

(e) During fiscal 2012, the carrying value of our assets in the LMobile Group CGU (included in the Telstra International Group reportable segment) was tested for impairment based on value in use. This resulted in an impairment charge of $56 million against goodwill ($49 million) and other intangible assets ($7 million) being recognised in the Telstra Group financial statements. The impairment arose as a result of competitive market pressure, which contributed to significant uncertainty around future cash flows from the LMobile Group. We also estimated that the pre-determined revenue and EBITDA targets for the year ended 31 December 2010 will not be met. As such, we derecognised the $33 million contingent consideration liability recognised at the date of acquisition of the LMobile Group. The $33 million gain on the derecognition of the contingent consideration liability has been recorded as other income.

Subsequent to the impairment on 27 March 2012 our controlled entity Telstra Robin Holdings Ltd disposed of its entire ownership interest in the LMobile Group. Refer to Note 20 for further details.

(f) Goodwill allocated to the TelstraClear Group CGU (included in the TelstraClear reportable segment) relates to TelstraClear Limited. As at 30 June 2012, assets and liabilities of TelstraClear Limited have been classified as assets and liabilities held for sale and measured at the lower of carrying amount and fair value less costs to sell. This resulted in an impairment charge of $130 million against goodwill being recognised in the Telstra Group financial statements. For further details refer to note 12 and note 31.

Notes to the Financial Statements (continued)

21. Impairment (continued)

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 two CGUs are:

- the Telstra Entity CGU, excluding the HFC cable network; and
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications 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.

The ubiquitous telecommunications network and the HFC cable network are only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

On 7 March 2012, Telstra finalised the Definitive Agreements (DAs) with NBN Co Limited (NBN Co) and the Commonwealth Government for its participation in the rollout of the National Broadband Network (NBN).

We expect our discounted future cash flows to more than support the carrying amount of both networks. This is based on:

- the consideration we expect to receive under the DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits; and
- forecast cash flows from continuing to:
  - provide Pay TV services via the HFC cable network into the future; and
  - use of the core network.

In addition, the NBN build is expected to take up to 10 years and the weighted average remaining service lives for the existing network assets impacted by the disconnection obligations that will apply under the NBN DAs falls within this anticipated NBN rollout period.

Given this, the results of our impairment testing for both networks based on the DAs show that the carrying amounts are recoverable at 30 June 2012.

Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation with the exception of TelstraClear.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on a maximum five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite useful life intangible assets has been allocated:

	Discount rate (g)		Terminal value growth rate (h)	
	As at 30 June		As at 30 June	
	2012 %	2011 %	**2012 %**	2011 %
CSL New World Group	**10.9**	10.6	**2.0**	2.0
TelstraClear Group (f)	**-**	11.1	**-**	3.0
Telstra Europe Group	**7.5**	9.6	**3.0**	3.0
Sensis Group	**12.1**	13.2	**3.0**	3.0
Location Navigation	**10.7**	11.8	**3.0**	3.0
1300 Australia Group	**11.3**	12.6	**3.0**	3.0
Sequel Group (b)	**-**	18.2	**-**	5.0
Autohome (a)	**19.4**	n/a	**5.0**	n/a
Sequel Media (a)	**18.8**	n/a	**5.0**	n/a
Octave Group (c)	**-**	21.2	**-**	5.0
LMobile Group (e)	**-**	20.1	**-**	5.0
iVision (d)	**-**	17.6	**-**	3.0

(g) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which they operate.

(h) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets. The terminal value growth rate for the Australian CGUs are aligned at three percent.

Management have determined there are no reasonably possible changes that could occur in these two key assumptions that would cause the carrying amount of these CGUs to exceed their recoverable amount. The discount rate would need to increase by 350 basis points or the terminal value growth rate would need to be negative growth of 2.2% before the recoverable amount of any of the CGUs would be equal to the carrying value.

Notes to the Financial Statements (continued)

22. Expenditure commitments

	Telstra Group As at 30 June	
	2012	2011
	$m	$m
Capital expenditure commitments		
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:		
Property, plant and equipment commitments *	**611**	426
Intangible assets commitments	**130**	146
Operating lease commitments		
Future lease payments for non-cancellable operating leases not recorded in the financial statements:		
Within 1 year	**447**	415
Within 1 to 5 years	**1,253**	1,162
After 5 years	**1,120**	960
	2,820	2,537

Description of our operating leases

We have operating leases for the following types of assets:

- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, mechanical aids and heavy excavation equipment; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:

- 6 years for land and buildings;
- 2 years for motor vehicles, 4 to 5 years for light commercial vehicles, and 7 to 12 years for trucks and mechanical aids and heavy excavation equipment; and
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of $16 million (2011: $9 million) for the Telstra Group. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

* This includes the Telstra Entity capital expenditure commitments of $572 million (2011: $415 million). Refer to note 30 for further details.

Notes to the Financial Statements (continued)

22. Expenditure commitments (continued)

	Note	Telstra Group As at 30 June 2012 $m	2011 $m
Finance lease commitments			
Within 1 year		**56**	53
Within 1 to 5 years		**99**	94
After 5 years		**31**	19
Total minimum lease payments		**186**	166
Future finance charges on finance leases		**(47)**	(27)
Present value of net future minimum lease payments		**139**	139
The present value of finance lease liabilities is as follows:			
Within 1 year	17	**45**	45
Within 1 to 5 years		**79**	82
After 5 years		**15**	12
Total finance lease liabilities	17	**139**	139

Description of our finance leases

We have finance leases for the following types of assets:
- property leases in our controlled entity, Telstra Europe Limited; and
- computer mainframes, computer processing equipment and other related equipment.

The weighted average lease term is:
- 24 years for the property leases with a remaining average life of 11 years; and
- 4 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:
- property leases interest rate of 22.5%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 7.7%.

We sublease computer mainframes, computer processing equipment and other related equipment as part of our solutions management and outsourcing services that we provide to our customers. Refer to note 10 for further details regarding these finance subleases.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 26.

Notes to the Financial Statements (continued)

23. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2012. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

Telstra Entity

Refer to note 30 for Telstra Entity contingent liabilities.

Other

Other contingent liabilities identified for the Telstra Group, are as follows:

3GIS Partnership

As we are subject to joint and several liability in relation to agreements entered into as part of our 3GIS Partnership with Vodafone Hutchinson Australia, we would be liable if our partner in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are $96 million (2011: $91 million).

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 25. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 25 for further information.

Notes to the Financial Statements (continued)

24. Post employment benefits

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for defined contribution schemes, or at rates determined by the actuaries for defined benefit schemes.

The defined contribution divisions receive fixed contributions and our legal or constructive obligation is limited to these contributions.

The present value of our obligations for the defined benefit plans are calculated by an actuary using the projected unit credit method. This method determines each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to calculate the final obligation.

Details of the defined benefit plans we participate in are set out below.

Telstra Superannuation Scheme (Telstra Super)

On 1 July 1990, Telstra Super was established and the majority of Telstra staff transferred into Telstra Super. The Telstra Entity and some of our Australian controlled entities participate in Telstra Super.

Telstra Super has both defined benefit and defined contribution divisions. The defined benefit divisions of Telstra Super are closed to new members.

The defined benefit divisions provide benefits based on years of service and final average salary. Post employment benefits do not include payments for medical costs.

Contribution levels made to the defined benefit divisions are designed to ensure that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. The benefits received by members of each defined benefit division take into account factors such as the employees' length of service, final average salary, employer and employee contributions.

An actuarial investigation of this scheme is carried out at least every three years.

HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial investigations are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

Measurement dates

For Telstra Super actual membership data as at 30 April was used to precisely value the defined obligations as at that date. Details of assets, benefit payments and other cash flows as at 31 May were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes in the membership and actual asset return. Contributions as at 30 June were provided in relation to the defined benefit and defined contribution divisions.

Asset values as at 30 June were used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of membership data, contributions, benefit payments and other cash flows as at 30 June were also provided in relation to the HK CSL Retirement Scheme.

The fair value of the defined benefit plan assets and the present value of the defined benefit obligations as at the reporting date are determined by our actuary. The details of the defined benefit divisions are set out in the following pages.

Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees' salaries. We made contributions to these schemes of $19 million for fiscal 2012 (2011: $15 million).

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(a) Net defined benefit plan (liability)/asset - historical summary

Our net defined benefit plan (liability)/asset recognised in the statement of financial position for the current and previous periods is determined as follows:

	Telstra Group				
	As at 30 June				
	2012	2011	2010	2009	2008
	$m	$m	$m	$m	$m
Fair value of defined benefit plan assets (b)	**2,559**	2,599	2,546	2,503	3,205
Present value of the defined benefit obligation (c)	**3,266**	2,762	2,934	2,847	3,048
Net defined benefit (liability)/asset before adjustment for contributions tax	**(707)**	(163)	(388)	(344)	157
Adjustment for contributions tax	**(124)**	(31)	(69)	(62)	25
Net defined benefit (liability)/asset at 30 June	**(831)**	(194)	(457)	(406)	182
Comprised of:					
Defined benefit asset	**-**	11	7	8	182
Defined benefit liability	**(831)**	(205)	(464)	(414)	-
	(831)	(194)	(457)	(406)	182
Experience adjustments:					
Experience adjustments arising on defined benefit plan assets - (loss)/ gain	**(207)**	89	(56)	(593)	(525)
Experience adjustments arising on defined benefit obligations - gain	**26**	48	64	72	41

(b) Reconciliation of changes in fair value of defined benefit plan assets

	Telstra Group	
	As at 30 June	
	2012	2011
	$m	$m
Fair value of defined benefit plan assets at beginning of year	**2,599**	2,546
Expected return on plan assets	**200**	197
Employer contributions	**157**	169
Contributions tax	**(24)**	(25)
Member contributions	**47**	30
Benefits paid (i)	**(202)**	(382)
Actuarial gain/(loss)	**(207)**	89
Plan expenses after tax	**(13)**	(13)
Foreign currency exchange differences	**2**	(12)
Fair value of defined benefit plan assets at end of year	**2,559**	2,599

The actual return on defined benefit plan assets was nil (2011: 9.7%) for Telstra Super and a loss of 5.1% (2011: gain of 16.0%) for the HK CSL Retirement Scheme.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(c) Reconciliation of changes in the present value of the wholly funded defined benefit obligation

	Telstra Group As at 30 June 2012 $m	2011 $m
Present value of defined benefit obligation at beginning of year	**2,762**	2,934
Current service cost	**107**	124
Interest cost	**146**	151
Member contributions	**15**	21
Benefits paid (i)	**(202)**	(382)
Actuarial (gain)/loss	**429**	(75)
Curtailment loss	**7**	3
Foreign currency exchange differences	**2**	(14)
Present value of wholly funded defined benefit obligation at end of year	**3,266**	2,762

(i) Benefits paid include $180 million (2011: $356 million) of entitlements to exiting defined benefit members which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2013, we expect to pay total benefit payments of $239 million (including benefits retained) to defined benefit members of Telstra Super.

(d) Amounts recognised in the income statement and in other comprehensive income

	Note	Telstra Group Year ended 30 June 2012 $m	2011 $m
The components of the defined benefit plan expense recognised in the income statement within labour expenses are as follows:			
Current service cost		**107**	124
Interest cost		**146**	151
Expected return on plan assets		**(200)**	(197)
Member contributions		**(32)**	(9)
Curtailment loss		**7**	3
Plan expenses after tax		**13**	13
Adjustment for contributions tax		**8**	15
		49	100
Employer contributions - defined contribution divisions		**174**	168
Total expense recognised in the income statement	7	**223**	268
Actuarial (loss)/gain recognised directly in other comprehensive income		**(755)**	183
Cumulative actuarial losses recognised directly in other comprehensive income		**(822)**	(67)

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(e) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets for defined benefit divisions as at 30 June are as follows:

	Telstra Super		HK CSL Retirement Scheme	
	As at 30 June		As at 30 June	
	2012	2011	**2012**	2011
	%	%	**%**	%
Asset allocations				
Equity instruments	**48**	57	**46**	53
Debt instruments	**2**	2	**44**	40
Property	**19**	21	**-**	-
Cash	**3**	4	**8**	5
Private equity	**14**	12	**-**	-
Infrastructure	**2**	1	**-**	-
International hedge funds	**8**	1	**-**	-
Opportunities	**4**	2	**2**	2
	100	100	**100**	100

Telstra Super's investments in debt and equity instruments include bonds issued by, and shares in, Telstra Corporation Limited. Refer to note 29 for further details.

(f) Principal actuarial assumptions

We used the following major assumptions to determine our defined benefit plan expense for the year ended 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2012	2011	**2012**	2011
	%	%	**%**	%
Discount rate	**5.6**	5.1	**2.5**	2.4
Expected rate of return on plan assets (i)	**8.0**	8.0	**6.6**	6.4
Expected rate of increase in future salaries	**4.0**	4.0	**4.2 - 4.5**	2.5 - 4.0

We used the following major assumptions to determine our defined benefit obligations at 30 June:

	Telstra Super		HK CSL Retirement Scheme	
	Year ended 30 June		Year ended 30 June	
	2012	2011	**2012**	2011
	%	%	**%**	%
Discount rate (ii)	**3.6**	5.2	**1.0**	2.5
Expected rate of increase in future salaries (iii)	**4.0**	4.0	**4.0 - 5.0**	4.2 - 4.5

(i) The expected rate of return on plan assets has been based on historical and future expectations of returns for each of the major categories of asset classes over the subsequent 10 year period, or longer. Estimates are based on a combination of factors including the current market outlook for interest rates, inflation, earnings growth and currency strength. To determine the aggregate return, the expected future return of each plan asset class is weighted according to the strategic asset allocation of total plan assets.

Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(f) Principal actuarial assumptions (continued)

(ii) The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used a blended 10-year Australian government bond rate as it has the closest term from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years. Refer to note 2.20(b) for further information.

For the HK CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 11 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 4.0%, which is reflective of our long term expectation for salary increases. The salary inflation rate for the HK CSL Retirement Scheme is 5.0% in fiscal 2013 to 2015, and 4.0% thereafter which reflects the long term expectations for salary increases.

(g) Employer contributions

Telstra Super

The funding deed we have with Telstra Super requires contributions to be made when the average vested benefits index (VBI) in respect of the defined benefit membership (the ratio of defined benefit plan assets to defined benefit members' vested benefits) of a calendar quarter falls to 103% or below. For the quarter ended 30 June 2012, the VBI was 91% (30 June 2011: 92%). We have paid contributions totalling $467 million during the year (2011: $467 million). This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions, which are excluded from the employer contributions in the reconciliations above. The current contribution rate for the defined benefit divisions of Telstra Super, effective June 2012, is 27% of defined benefit member's salaries (June 2011: 24%).

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately $474 million in fiscal 2013 which includes contributions to the defined benefit divisions at a contribution rate of 27% for fiscal 2013. This contribution rate could change depending on market conditions during fiscal 2013. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions.

HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

There were no employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2012 (2011: $1 million). We do not expect to make any contributions to our HK CSL Retirement Scheme in fiscal 2013.

Annual actuarial investigations are currently undertaken for this scheme by Mercer Hong Kong Limited.

Notes to the Financial Statements (continued)

25. Investments in controlled entities

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (#) As at 30 June 2012 $m	2011 $m	% of equity held by immediate parent As at 30 June 2012 %	2011 %
Parent entity					
Telstra Corporation Limited (a)	Australia				
Controlled entities					
Telstra Finance Limited (a)	Australia	**-**	-	**100.0**	100.0
Telstra ESOP Trustee Pty Limited	Australia	**-**	-	**100.0**	100.0
Telstra Growthshare Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Media Pty Limited.	Australia	**393**	393	**100.0**	100.0
Telstra Multimedia Pty Limited (a)	Australia	**2,678**	2,678	**100.0**	100.0
Telstra International (Aus) Limited (a)	Australia	**2**	2	**100.0**	100.0
Telstra Pay TV Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
Chief Entertainment Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra 3G Spectrum Holdings Pty Ltd	Australia	**302**	302	**100.0**	100.0
Telstra OnAir Holdings Pty Ltd	Australia	**478**	478	**100.0**	100.0
Telstra Business Systems Pty Ltd (a)	Australia	**50**	69	**100.0**	100.0
Telstra Plus Pty Ltd	Australia	**-**	-	**100.0**	100.0
Applications and Ventures Group Pty Limited (formerly Clayton 770 Pty Ltd) (a)	Australia	**-**	-	**100.0**	100.0
Research Resources Pty Ltd	Australia	**-**	-	**100.0**	100.0
1300 Australia Pty Ltd	Australia	**20**	20	**85.0**	85.0
• Alpha Phone Words Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra iVision Pty Limited (formerly iVision Pty Limited) (a)	Australia	**41**	41	**100.0**	100.0
• Integrated Vision Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision (QLD) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision Investments Pty Ltd	Australia	**-**	-	**100.0**	100.0
• iVision (Unify) Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Unify Pty Ltd	Australia	**-**	-	**100.0**	100.0
Telstra Communications Limited (a)	Australia	**29**	29	**100.0**	100.0
• Telecom Australia (Saudi) Company Limited (b)(c)(d)(e)	Saudi Arabia	**-**	-	**50.0**	50.0
Adstream (Aust) Pty Ltd (h)	Australia	**-**	23	**-**	64.4
• Adstream Limited (h)	New Zealand	**-**	-	**-**	100.0
• Quickcut (Aust) Pty Ltd (h)	Australia	**-**	-	**-**	100.0
Telstra Holdings Pty Ltd (a)	Australia	**7,474**	7,474	**100.0**	100.0
• Telstra International Holdings Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra Technology Services (Hong Kong) Limited	Hong Kong	**-**	-	**75.0**	75.0
• Autohome Inc. (formerly Sequel Limited) (c)(d)(g)	Cayman Islands	**-**	-	**66.0**	55.0
• Cheerbright International Holdings Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Cheerbright Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Autohome (Hong Kong) Limited (c)(f)	Hong Kong	**-**	-	**100.0**	-
• Sequel Media Inc. (c)(d)	Cayman Islands	**-**	-	**55.0**	55.0
• China Topside Limited (c)	British Virgin Islands	**-**	-	**100.0**	100.0
• Beijing Topside Technologies Co. Ltd (c)	China	**-**	-	**100.0**	100.0
• Norstar Advertising Media Holdings Limited (c)	Cayman Islands	**-**	-	**100.0**	100.0

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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	
		2012	2011	2012	2011
Controlled entities (continued)		$m	$m	%	%
• Shengtuo Shidai (Beijing) Information Technology Co. Ltd (c)	China	-	-	100.0	100.0
• Union Tough Advertisement Limited (c)	Hong Kong	-	-	100.0	100.0
• Haocheng Shidai (Beijing) Advertisement Co. Ltd (c)(d)	China	-	-	30.0	30.0
• Telstra Asia Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra Octave Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Octave Investments Holdings Limited (c)(d)	British Virgin Islands	-	-	67.0	67.0
• Beauty Sunshine Investments Limited (h)	British Virgin Islands	-	-	-	100.0
• Beijing Wireless Permanence Technology Company Limited (h)	China	-	-	-	100.0
• Sharp Point Group Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Beijing Liang Dian Shi Jian Technology Company Limited (c)	China	-	-	100.0	100.0
• Telstra Robin Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Dotad Media Holdings Limited (h)	British Virgin Islands	-	-	-	67.0
• LMobile (China) Holdings Limited (h)	Hong Kong	-	-	-	100.0
• Beijing Daote Aidi Internet Technology Company (h)	China	-	-	-	100.0
• Telstra Asia Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra South East Asia Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• PT Reach Network Services Indonesia (e)	Indonesia	-	-	90.0	90.0
• Telstra Asia Regional Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra Malaysia Sdn. Bhd. (formerly Reach Bandwidth Services Malaysia Sdn. Bhd) (e)	Malaysia	-	-	51.0	51.0
• Telstra (Thailand) Ltd (formerly Reach Communications Services (Thailand) Limited) (c)(d)(e)	Thailand	-	-	49.0	49.0
• Telstra Network (Thailand) Ltd (formerly Reach Network (Thailand) Ltd) (c)(e)(g)	Thailand	-	-	68.0	35.9
• Telstra Network (Thailand) Ltd (formerly Reach Network (Thailand) Limited (c)(e)	Thailand	-	-	32.0	32.0
• Telstra Philippines Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Incomgen Holdings Inc. (c)(d)(e)	Philippines	-	-	40.0	40.0
• Reach Web Holdings Inc. (c)(e)	Philippines	-	-	60.0	60.0
• Telstra Philippines Inc (formerly Reach Networks Philippines Inc. (c)(e)	Philippines	-	-	60.0	60.0
• Telstra Philippines Inc (formerly Reach Networks Philippines Inc. (c)(e)	Philippines	-	-	40.0	40.0
• Reach Web Holdings Inc. (c)(e)	Philippines	-	-	40.0	40.0
• Thai Cyber Web Co Limited (c)(d)(e)	Thailand	-	-	48.8	48.8
• Telstra Global Holdings Limited (c)	British Virgin Islands	-	-	100.0	100.0
• Telstra International Limited	Hong Kong	-	-	100.0	100.0
• Telstra Services Korea Limited (formerly Reach Network Services Korea Limited) (e)	Republic of Korea	-	-	100.0	100.0
• Reach Holdings Limited (c)	Mauritius	-	-	100.0	100.0
• Reach Network India Private Limited (c)	India	-	-	99.9	99.9
• Reach Data Services India Private Limited (c)	India	-	-	99.9	99.9
• Beijing Australia Telecommunications Technical Consulting Services Company Limited (c)	China	-	-	100.0	100.0

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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	
		2012	2011	2012	2011
Controlled entities (continued)		$m	$m	%	%
• Telstra Holdings (Bermuda) No. 2 Limited	Bermuda	**-**	-	**100.0**	100.0
• CSL New World Mobility Limited	Bermuda	**-**	-	**76.4**	76.4
• New World PCS Holdings Limited	Cayman Islands	**-**	-	**100.0**	100.0
• CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• Hong Kong CSL Limited	Hong Kong	**-**	-	**100.0**	100.0
• Big Bang Holdings Limited	Hong Kong	**-**	-	**100.0**	100.0
• One2Free PersonalCom Limited	Hong Kong	**-**	-	**100.0**	100.0
• Integrated Business Systems Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World PCS Limited	Hong Kong	**-**	-	**100.0**	100.0
• New World Mobility Limited	Hong Kong	**-**	-	**60.0**	60.0
• New World 3G Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Holdings (Bermuda) No 1 Limited	Bermuda	**-**	-	**100.0**	100.0
• Telstra International HK Limited	Hong Kong	**-**	-	**100.0**	100.0
• Telstra Japan KK.	Japan	**-**	-	**100.0**	100.0
• Telstra International Holdings No. 2 Limited (b)	Bermuda	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd	Singapore	**-**	-	**100.0**	100.0
• Telstra Global Limited	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara	Indonesia	**-**	-	**100.0**	100.0
• Telstra Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (Cable Telecom) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (PSINet)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (CTE) Limited	United Kingdom	**-**	-	**100.0**	100.0
• Cable Telecommunications Limited	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Datacentre UK Limited	United Kingdom	**-**	-	**100.0**	100.0
• Inteligen Communications Limited	United Kingdom	**-**	-	**100.0**	100.0
• PSINet Jersey Limited	Jersey	**-**	-	**100.0**	100.0
• PSINet Hosting Centre Limited	Jersey	**-**	-	**100.0**	100.0
• Cordoba Holdings Limited	Jersey	**-**	-	**100.0**	100.0
• London Hosting Centre Limited	Jersey	**-**	-	**100.0**	100.0
• Telstra Inc	United States	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (c)	India	**-**	-	**100.0**	100.0
• Telstra International PNG Limited (f)	Papua New Guinea	**-**	-	**100.0**	-
• Telstra NZ Limited	New Zealand	**-**	-	**100.0**	100.0
• Telstra New Zealand Holdings Limited	New Zealand	**-**	-	**100.0**	100.0
• Telstra Network Services NZ Limited	New Zealand	**-**	-	**100.0**	100.0
• TelstraClear Limited (i)	New Zealand	**-**	-	**100.0**	100.0
• CLEAR Communications Limited (i)	New Zealand	**-**	-	**100.0**	100.0
• Telstra Telecommunications Private Ltd (c)	India	**-**	-	**74.0**	74.0
Network Design and Construction Limited (a)	Australia	**20**	20	**100.0**	100.0
• NDC Global Holdings Pty Limited	Australia	**-**	-	**100.0**	100.0
• NDC Global Services Pty Limited	Australia	**-**	-	**100.0**	100.0
Telstra Services Solutions Holdings Limited (a)	Australia	**313**	313	**100.0**	100.0
Sensis Pty Ltd (a)	Australia	**851**	851	**100.0**	100.0
• Location Navigation Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Life Events Media Pty Limited	Australia	**-**	-	**100.0**	100.0

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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	
		2012	2011	2012	2011
Controlled entities (continued)		$m	$m	%	%
• CitySearch Australia Pty Ltd	Australia	**-**	-	**100.0**	100.0
• Sensis Holdings Pty Ltd (a)	Australia	**-**	-	**100.0**	100.0
• Telstra Sensis (Beijing) Co. Limited (c)(e)	China	**-**	-	**100.0**	100.0
Investment in controlled entities		**12,651**	12,693		
Allowance for impairment in value		**(7,683)**	(7,551)		
Total investment in controlled entities		**4,968**	5,142		

(#) The amounts recorded are before any provision for reduction in value.

(a) ASIC deed of cross guarantee financial information

A deed of cross guarantee was entered into on 17 May 2010, as defined in ASIC Class Order 98/1418 (Class Order). This deed replaces the previous deed of cross guarantee entered into on 28 June 2006.

The following entities form part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Limited;
- Telstra International (Aus) Limited;
- Telstra Pay TV Pty Ltd;
- Telstra Business Systems Pty Ltd;
- Telstra iVision Pty Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- Telstra Services Solutions Holdings Limited;
- Applications and Ventures Group Pty Limited;
- Sensis Pty Ltd; and
- Sensis Holdings Pty Ltd.

Applications and Ventures Group Pty Limited was added via an assumption deed on 12 December 2011.

Telstra Finance Limited is trustee of the closed group. However, it is not a group entity under the Deed.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order);
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

The consolidated income statement and statement of financial position of the closed group is presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Closed group statement of financial position	Closed group As at 30 June 2012 $m	2011 $m
Current assets		
Cash and cash equivalents	**3,582**	2,316
Trade and other receivables	**4,136**	3,908
Inventories	**246**	257
Derivative financial assets	**32**	83
Current tax receivables	**363**	-
Prepayments	**211**	222
Total current assets	**8,570**	6,786
Non current assets		
Trade and other receivables	**1,923**	1,345
Inventories	**24**	22
Investments - accounted for using the equity method	**10**	-
Investments - other	**2,818**	3,209
Property, plant and equipment	**19,812**	20,504
Intangible assets	**6,122**	5,974
Derivative financial assets	**658**	285
Non current tax receivables	**80**	382
Total non current assets	**31,447**	31,721
Total assets	**40,017**	38,507
Current liabilities		
Trade and other payables	**3,607**	3,572
Provisions	**934**	836
Borrowings	**4,044**	2,969
Derivative financial liabilities	**299**	634
Current tax payables	**675**	370
Revenue received in advance	**1,103**	929
Total current liabilities	**10,662**	9,310
Non current liabilities		
Other payables	**55**	57
Provisions	**257**	234
Borrowings	**11,951**	12,167
Derivative financial liabilities	**2,349**	1,799
Deferred tax liabilities	**1,045**	1,648
Defined benefit liability	**825**	205
Revenue received in advance	**469**	298
Total non current liabilities	**16,951**	16,408
Total liabilities	**27,613**	25,718
Net assets	**12,404**	12,789
Equity		
Share capital	**5,635**	5,610
Reserves	**(84)**	(10)
Retained profits	**6,853**	7,189
Equity available to the closed group	**12,404**	12,789

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(a) ASIC deed of cross guarantee financial information (continued)

Closed group income statement and retained profits reconciliation	Closed group	
	Year ended 30 June	
	2012	2011
	$m	$m
Income		
Revenue (excluding finance income)	**23,681**	23,293
Other income	**114**	127
	23,795	23,420
Expenses		
Labour	**3,717**	3,601
Goods and services purchased	**5,392**	5,332
Other expenses	**4,704**	4,718
	13,813	13,651
Share of net (profit) from jointly controlled and associated entities	**-**	(1)
	13,813	13,650
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	**9,982**	9,770
Depreciation and amortisation	**4,007**	4,156
Earnings before interest and income tax expense (EBIT)	**5,975**	5,614
Finance income	**205**	191
Finance costs	**1,035**	1,262
Net finance costs	**830**	1,071
Profit before income tax expense	**5,145**	4,543
Income tax expense	**1,488**	1,306
Profit for the year available to the closed group	**3,657**	3,237
Retained profits at the beginning of the financial year available to the closed group	**7,189**	7,303
Actuarial (gain)/loss on defined benefit plans	**(740)**	178
Income tax on actuarial loss on defined benefit plans	**222**	(54)
Total available for distribution	**10,328**	10,664
Dividends provided for or paid	**(3,475)**	(3,475)
Retained profits at the end of the financial year available to the closed group	**6,853**	7,189

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(b) Liquidations

At 30 June 2012, the following entities were in voluntary liquidation:

- Telecom Australia (Saudi) Company Limited; and
- Telstra International Holdings No. 2 Limited.

(c) Controlled entities with different reporting dates

The following companies have reporting dates that differ from our reporting date of 30 June for fiscal 2012:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Autohome Inc. and its controlled entities - 31 December;
- Sequel Media Inc. and its controlled entities - 31 December;
- Telstra Asia Holdings Limited and its controlled entities - 31 December;
- Telstra Asia Limited - 31 December;
- Telstra South East Asia Holdings Limited - 31 December;
- Telstra Asia Regional Holdings Limited - 31 December;
- Telstra (Thailand) Ltd - 31 December;
- Telstra Network (Thailand) Ltd - 31 December;
- Thai Cyber Web Co Limited - 31 December;
- Telstra Philippines Holdings Limited and its controlled entities - 31 December;
- Telstra Global Holdings Limited - 31 December;
- Reach Holdings Limited - 31 December;
- Reach Network India Private Limited - 31 March;
- Reach Data Services India Private Limited - 31 March;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March;
- Telstra Telecommunications Private Ltd - 31 March; and
- Telstra Sensis (Beijing) Co Limited - 31 December.

Financial reports prepared as at 30 June are used for consolidation purposes.

(d) Controlled entities in which our equity ownership is less than or equal to 50%

We have no direct equity interest in the following entities within the Autohome Inc. Group:

- Beijing Autohome Information Technology Co. Ltd; and
- Shanghai Youcheyoujia Advertising Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate Autohome Inc.'s internet content provision and advertising business respectively. Autohome Inc. has the decision-making powers to control these entities. Autohome Inc. is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

We have no direct equity interest in the following entities within the Sequel Media Inc. Group:

- Beijing Haochen Domain Information Technology Co. Ltd;
- Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
- Beijing POP Information Technology Co. Ltd; and
- Shijiazhuang Xinrong Advertising Co. Ltd.

In addition, our controlled entity Union Tough Advertisement Limited has a 30% direct interest in Haocheng Shidai (Beijing) Advertisement Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate Sequel Media Inc.'s internet content provision and advertising business respectively. Sequel Media Inc. has the decision-making powers to control these entities. Sequel Media Inc. is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

We have no direct equity interest in the following entities within the Octave Investments Holdings Limited Group:

- Beijing Xunjie Yingxiang Network Technology Company Ltd;
- Beijing Rui Xin Zai Xian System Technology Company Limited;
- Guangzhou Rui Yin Digital Technology Company Limited;
- Shijiazhuang Ruixin Yin Shang Digital Technology Company Limited; and
- Wuhan Rui Yin Zai Xian Digital Technology Company Limited.

The purpose of these entities is to hold the licenses and approvals required to operate Octave Investments Holdings Limited's internet content provision and mobile value added services. Octave Investments Holdings Limited has the decision-making powers to control these entities. Octave Investments Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our Telstra Group financial report.

Notes to the Financial Statements (continued)

25. Investments in controlled entities (continued)

(d) Controlled entities in which our equity ownership is less than or equal to 50% (continued)

We have effective control over the following entities through economic dependency and contractual arrangements with the majority shareholders and have consolidated them into our group:

- Telstra (Thailand) Ltd;
- Incomgen Holdings Inc.; and
- Thai Cyber Web Co. Ltd.

We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our Telstra Group financial report. This entity is currently in voluntary liquidation.

(e) Controlled entities not individually audited by Ernst & Young

Companies not audited by Ernst & Young, our Australian statutory auditor.

(f) New incorporations and business combinations

A new controlled entity Telstra International PNG Limited was registered on 1 November 2011.

Autohome (Hong Kong) Limited was incorporated on 16 March 2012 and is 100% owned by Cheerbright International Holdings Limited.

The office of ITA Limited was registered on 10 May 2012. This entity is not controlled by Telstra as it was setup for Telstra's Structural Separation Undertaking for the Independent Telecommunications Adjudicator.

(g) Purchase of additional interest

On 12 March 2012, Telstra (Thailand) Ltd increased its ownership in Telstra Network (Thailand) Ltd to 68% for a minimal consideration.

On 17 May 2012, Telstra Holdings Pty Ltd acquired an additional 11% interest in Autohome Inc. for $37 million to take our ownership interest to 66%.

(h) Sales and disposals

On 21 July 2011, we sold our 64.4% shareholding in Adstream (Aust) Pty Ltd for a total consideration of $24 million.

On 21 October 2011, our controlled entity Octave Investments Holdings Limited sold its ChinaM business for a total consideration of $5 million.

On 27 March 2012, our controlled entity Telstra Robin Holdings Ltd sold its 67% shareholding in Dotad Media Holdings Ltd (LMobile) for a total consideration of $3 million.

(i) Non current assets held for sale

The carrying value of the assets and liabilities of TelstraClear Limited and its controlled entity CLEAR Communications Limited have been classified as held for sale at 30 June 2012. Please refer to note 12 and note 31 for further details.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities

	Telstra Group As at 30 June 2012 $m	Telstra Group As at 30 June 2011 $m
Investments in jointly controlled entities		
Investments in jointly controlled entities	**2**	2
Allowance for impairment in value	**-**	-
Carrying amount of investments in jointly controlled entities	**2**	2
Investments in associated entities		
Investments in associated entities	**34**	24
Allowance for impairment in value	**(24)**	(24)
Carrying amount of investments in associated entities	**10**	-
	12	2

Our investments in jointly controlled and associated entities are listed below:

Name of Entity	Principal activities	Ownership interest As at 30 June 2012 %	Ownership interest As at 30 June 2011 %
Jointly controlled entities			
FOXTEL Partnership (f)(g)	Pay television	**50.0**	50.0
FOXTEL Television Partnership (f)(g)	Pay television	**50.0**	50.0
Customer Services Pty Limited (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) (d)(f)(g)	International connectivity services	**50.0**	50.0
TNAS Limited (incorporated in New Zealand) (d)(f)(g)	Toll free number portability in New Zealand	**33.3**	33.3
3GIS Pty Ltd (d)(f)	Management services	**50.0**	50.0
3GIS Partnership (d)(f)	3G network services	**50.0**	50.0
Bridge Mobile Pte Ltd (incorporated in Singapore) (d)(f)	Regional roaming provider	**10.0**	10.0
Associated entities			
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (d)(f)(g)	Network cable provider	**46.9**	46.9
Telstra Super Pty Ltd (a)(g)	Superannuation trustee	**100.0**	100.0
Telstra Foundation Ltd (a)	Charitable trustee organisation	**100.0**	100.0
Mandoe Pty Ltd (b)(f)	Signage software provider	**25.0**	-
IPscape Pty Ltd (b)(f)	Cloud based call centre solution	**31.3**	-
Dimmi Pty Ltd (b)(f)	Online restaurant reservation	**23.4**	-

Unless otherwise noted, all investments have a reporting date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

(*) The Telstra Group carrying amounts are calculated using the equity method of accounting.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(a) Jointly controlled and associated entities in which we own more than 50% equity

- we own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision-making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.
- we own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.
- we own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to $100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. Our voting power on the Board is limited to 38%, which is equivalent to our representation on the Board.

(b) Other changes in jointly controlled and associated entities

In fiscal 2012 we acquired interests in the following associated entities for a total consideration of $10 million:

- Dimmi Pty Ltd;
- IPscape Pty Ltd; and
- Mandoe Pty Ltd.

(c) Dividends received

No dividends were received during the year (2011: $1 million received from Keycorp Limited which was disposed of in fiscal 2011).

(d) Jointly controlled and associated entities with different reporting dates

The following jointly controlled and associated entities have different reporting dates to our reporting date of 30 June for fiscal 2012:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December;
- Bridge Mobile Pte Ltd - 31 March; and
- Australia-Japan Cable Holdings Limited - 31 December.

Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in jointly controlled and associated entities with different reporting dates is the same at that reporting date as at 30 June unless otherwise noted.

(e) Share of net profits

In fiscal 2012 there were minimal (2011: $1 million) share of profits from jointly controlled and associated entities.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(f) Other disclosures for jointly controlled and associated entities

The movements in the consolidated equity accounted amount of our jointly controlled and associated entities are summarised as follows:

	Jointly controlled entities Telstra Group		Associated entities Telstra Group	
	Year ended/As at 30 June		Year ended/As at 30 June	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Carrying amount of investments at beginning of year	**2**	2	**-**	15
Additional investments made during the year	**-**	-	**10**	-
	2	2	**10**	15
Share of net profits for the year	**-**	-	**-**	1
Dividends received	**-**	-	**-**	(1)
Sale, transfers and reductions of investments during the year	**-**	-	**-**	(15)
Carrying amount of investments at end of year	**2**	2	**10**	-
Our share of contingent liabilities of jointly controlled and associated entities	**9**	9	**-**	-
Our share of capital commitments contracted for by our jointly controlled and associated entities	**9**	3	**1**	-

Other commitments

Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately $4,045 million (2011: $4,152 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to $192 million (2011: $182 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 1 and 10 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the partnership's operational expenditure. As we are obligated through this agreement to fund our share of the partnership's operating expenditure we are also responsible for our share of its expenditure commitments.

On 21 October 2010, we agreed to conclude our 3GIS Partnership with Vodafone Hutchison Australia on 31 August 2012. When the agreement concludes, our property lease commitments will continue as both parties will be assigned their share of leases.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(f) Other disclosures for jointly controlled and associated entities (continued)

Summarised presentation of all of our jointly controlled and associated entities' assets, liabilities, revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

	Jointly controlled entities Telstra Group (#) Year ended/As at 30 June		Associated entities Telstra Group Year ended/As at 30 June	
	2012 $m	2011 $m	**2012 $m**	2011 $m
Current assets	**450**	378	**27**	49
Non current assets	**3,405**	1,027	**176**	175
Total assets	**3,855**	1,405	**203**	224
Current liabilities	**765**	589	**15**	47
Non current liabilities	**3,544**	1,207	**327**	334
Total liabilities	**4,309**	1,796	**342**	381
Net liabilities	**(454)**	(391)	**(139)**	(157)
Total income	**4,808**	4,910	**54**	51
Total expenses	**4,635**	4,633	**31**	36
Profit before income tax expense	**173**	277	**23**	15
Income tax expense/(benefit)	**4**	-	**1**	(2)
Profit for the year	**169**	277	**22**	17

Summarised presentation of our share of all our jointly controlled and associated entities' revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

	Jointly controlled entities 2012 $m	Jointly controlled entities 2011 $m	Associated entities 2012 $m	Associated entities 2011 $m
Total income	**2,953**	2,974	**25**	24
Total expenses	**2,868**	2,833	**14**	17
Profit before income tax expense	**85**	141	**11**	7
Income tax expense/(benefit)	**2**	-	**-**	(1)
Profit for the year	**83**	141	**11**	8

(#) Assets and liabilities include the acquisition of AUSTAR by the FOXTEL Partnership accounted for on a provisional basis.

Notes to the Financial Statements (continued)

26. Investments in jointly controlled and associated entities (continued)

(g) Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively, for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown below:

	Telstra Group			
	Year ended 30 June			
	Period 2012 $m	**Cumulative 2012 $m**	Period 2011 $m	Cumulative 2011 $m
Jointly controlled entities				
FOXTEL (*)	**28**	**160**	(20)	132
Reach Ltd	**1**	**560**	(37)	559
Associated entities				
Australia-Japan Cable Holdings Limited	**(11)**	**137**	(8)	148
	18	**857**	(65)	839

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- TNAS Limited; and
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

(*) FOXTEL includes FOXTEL Partnership and their controlled entities, FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

A $108 million distribution was received from FOXTEL during the year (2011: $70 million). This has been recorded as revenue in the income statement and has decreased our cumulative share of unrecognised losses in FOXTEL to $160 million after taking into account Telstra's share of FOXTEL's profit for the year of $85 million and other adjustments of $5 million.

Notes to the Financial Statements (continued)

27. Employee share plans

The Company has a number of employee share plans that are available for Directors, executives and employees. These include those conducted through the:

- Telstra Growthshare Trust; and
- Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below.

Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans;
- Directshare and Ownshare plans; and
- other equity plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2012, we recorded an expense of $19 million for our share based payment plans operated by the Telstra Growthshare Trust (2011: $12 million). As at 30 June 2012, we had an estimated total expense yet to be recognised of $36 million (2011: $27 million), which is expected to be recognised over a weighted average of 1.5 years (2011: 1.8 years).

(a) Short term incentive (STI) plans

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and incentive shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

(i) Description of equity instruments

Deferred Incentive shares for the Chief Executive Officer (CEO) and other senior executives (fiscal 2012 and fiscal 2011)

For fiscal 2012 and fiscal 2011, the Board approved 25% of the CEO and other senior executives' short term incentive to be allocated as deferred incentive shares. The effective allocation date is 17 August 2012 and 19 August 2011 respectively. These shares vest in equal parts over one and two years on the anniversary of their effective allocation date, subject to the CEO or a senior executive's continued employment with any entity that forms part of the Telstra Group. However, the CEO or a senior executive may retain the shares if they cease employment because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Applicable only to allocations from August 2012, deferred incentive shares may also be retained if the CEO or a senior executive ceases employment due to retirement, where that retirement is 6 months after the actual allocation date. The CEO and senior executives are able to vote and receive dividends as and from the allocation date. Performance hurdles applied in determining the number of deferred incentive shares allocated and therefore vesting of the deferred incentive shares are not subject to any additional performance hurdles.

Due to the Structural Separation Undertaking (SSU) arising from the NBN transaction, the GMD of Telstra Wholesale is prohibited from participating in the fiscal 2012 LTI plan. As a result, an alternative remuneration arrangement has been provided, which is a share based deferred incentive plan based on the same performance measures as his fiscal 2012 STI plan.

Deferred Incentive shares for other executives (fiscal 2012)

As part of a review on the market positioning of management positions, Telstra elected to remove management positions (other than senior executives) that were participating in LTI plans from any future LTI allocations. This change was effective 1 July 2011. Replacing the LTI plan is a share based deferral plan which requires management roles to defer 25% of the actual STI payment they receive into Telstra shares for a period of three years.

For fiscal 2012, the Board approved 25% of management's short term incentive to be allocated as deferred incentive shares. The effective allocation date will be 16 August 2012. These shares vest on the three year anniversary of their allocation date, subject to the executive's continued employment with any entity that forms part of the Telstra Group. However, the executive may retain the shares if they cease employment because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits). Applicable only to allocations from August 2012, deferred incentive shares may also be retained if the executive ceases employment due to retirement or expiry of a fixed term contract where that retirement or fixed term expiry is 6 months after the actual allocation date. The executive is able to vote and receive dividends as and from the allocation date. Performance hurdles are applied in determining the number of deferred incentive shares allocated and therefore vesting of the deferred incentive share is not subject to any other performance hurdles.

Incentive shares (fiscal 2008 and 2007):

In relation to fiscal 2008 and 2007 allocations of incentive shares, the incentive shares vested immediately, and the executive is able to use the incentive shares to vote and receive dividends from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are released from the restriction period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(a) Short term incentive (STI) plans (continued)

Vested incentive shares are released from trust on the earliest of:

- five years from the date of effective allocation;
- when the minimum level of executive shareholding has been achieved and the Board approves removal of the five year restriction period;
- upon the ceasing of employment by the executive; or
- a date the Board determines (in response to an actual or likely change of control).

Once the vested incentive shares are released from trust, they will be transferred to the executive.

(ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and deferred incentive shares under our STI plans and are detailed in the following table:

	Incentive shares (^)	
	Number	Weighted average fair value (*)
Outstanding as at 30 June 2010	1,172,308	$4.36
Forfeited	(68)	$4.77
Exercised	(191,749)	$4.42
Outstanding as at 30 June 2011	980,491	$4.35
Granted	**893,678**	**$3.11**
Forfeited	**(206,734)**	**$3.11**
Exercised	**(416,965)**	**$4.35**
Outstanding as at 30 June 2012 (#)	**1,250,470**	**$3.67**
Exercisable as at 30 June 2012	**-**	**-**

(^) Incentive shares includes both incentive shares and deferred incentive shares. The weighted average share price for incentive shares exercised during the financial year was $3.11 (2011: $2.84).

(*) The fair value of incentive shares and deferred incentive shares for the CEO and other senior executives granted is based on the market value of Telstra shares on allocation date. The fair value of deferred incentive shares for executives (other than the CEO and other senior executives), is based on the market value of Telstra shares on grant date.

(#) The number outstanding includes incentives shares and deferred incentive shares that are subject to a restriction period. These amount to 1,250,470 as at 30 June 2012.

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 right to acquire a share in Telstra. Further information regarding each type of LTI plan that was outstanding during the year are detailed in the following table:

	Allocation date	Performance period		Exercise price	Expiry date
		from	to		
Growthshare 2002 - Sept 2001 allocation					
TSR options	6 Sept 2001	6 Sept 2004	6 Sept 2006	$4.90	6 Sept 2011
Growthshare 2006 - Feb 2006 allocation					
RG & NT performance rights	19 Aug 2005	1 Jul 2005	30 Jun 2010	$1 per parcel exercised	19 Aug 2012
ROI performance rights	19 Aug 2005	1 Jul 2005	30 Jun 2008	$1 per parcel exercised	19 Aug 2012
Growthshare 2008					
ESOP options	17 Aug 2007	n/a	n/a	$4.34	17 Aug 2012
ROI options	17 Aug 2007	1 Jul 2008	30 Jun 2011	$4.34	30 Jun 2013
Growthshare 2009					
ESOP options	21 Aug 2008	n/a	n/a	$4.36	21 Aug 2013
US ESOP options	21 Aug 2008	n/a	n/a	$4.25	21 Aug 2013
RTSR options	21 Aug 2008	1 Jul 2008	30 Jun 2012	$4.36	30 Jun 2014
ROI restricted shares	21 Aug 2008	1 Jul 2009	30 Jun 2012	nil	21 Aug 2014
Growthshare 2010					
ESRP performance rights	21 Aug 2009	n/a	n/a	nil	21 Aug 2012
RTSR restricted shares	21 Aug 2009	1 Jul 2009	30 Jun 2012	nil	21 Aug 2013
FCF ROI restricted shares	21 Aug 2009	1 Jul 2009	30 Jun 2012	nil	21 Aug 2013
Growthshare 2011					
ESRP performance rights	20 Aug 2010	n/a	n/a	nil	20 Aug 2013
RTSR restricted shares	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
FCF ROI restricted shares	20 Aug 2010	1 Jul 2010	30 Jun 2013	nil	20 Aug 2014
Growthshare 2012					
ESP restricted shares	**19 Apr 2012**	**n/a**	**n/a**	**nil**	**19 Apr 2015**
RTSR restricted shares	**19 Aug 2011**	**1 Jul 2011**	**30 Jun 2014**	**nil**	**19 Aug 2015**
FCF ROI restricted shares	**19 Aug 2011**	**1 Jul 2011**	**30 Jun 2014**	**nil**	**19 Aug 2015**

Refer to section (b)(ii) for a description of the above equity instruments.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(i) Outstanding equity based instruments (continued)

In relation to these executive LTI plans, the Board may, in its discretion, reset the hurdles governing the fiscal 2012, fiscal 2011, fiscal 2010 and fiscal 2009 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of factors including:

- a material change in the strategic business plan;
- a regulatory change; or
- a significant out-of-plan business development (this could include a major acquisition outside the current business plan, resulting in a significant change to the business of Telstra or the Telstra Group, that means that (in the reasonable opinion of the Board) the targets for that class of equity instruments are no longer appropriate).

In fiscal 2012, the Board did not reset the hurdles governing the equity instruments issued in fiscal 2012, fiscal 2011, fiscal 2010 or fiscal 2009.

(ii) Description of equity instruments

Restricted shares

Executive LTI restricted shares

In respect of restricted shares, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the restricted shares vest. In relation to restricted shares issued in fiscal 2012, fiscal 2011, fiscal 2010 and fiscal 2009, if the performance hurdle is satisfied during the applicable performance period, a specified number of restricted shares, as determined in accordance with the trust deed and terms of issue, will vest and become restricted trust shares.

Although the trustee holds the restricted trust shares in trust, the executive will retain beneficial interest (dividends, voting rights, bonuses and rights issues) in the shares until they are transferred to them or sold on their behalf at expiration of the restriction period (unless forfeited).

A description of each restricted share that existed in fiscal 2012 is set out below:

- return on investment (ROI) restricted shares - the performance hurdle for these shares is based on an increase in the earnings before interest and tax for Telstra divided by the average investment;
- relative total shareholder return (RTSR) restricted shares - the performance hurdle for these shares is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the peer group; and
- free cashflow return on investment (FCF ROI) restricted shares - the performance hurdle for these shares is based on Telstra's annual free cashflow (less finance costs) over the performance period divided by the average investment over the performance period.

Employee Share Plan restricted shares 2012

Restricted shares provided under the employee share plan (ESP) in fiscal 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 may direct the Trustee to vote on their behalf and receive dividends on the shares. The shares are released from trust on the earlier of 3 years from the date of allocation or the date the participating employee ceases relevant employment.

Options

An employee or executive is not entitled to Telstra shares unless the options initially vest (subject to the achievement of the relevant performance hurdles) and then are exercised. This means that the employee or executive cannot use options to vote or receive dividends until they have vested and been exercised. If the performance hurdles are satisfied in the applicable performance period, options must be exercised at any time before the expiry date, otherwise they will lapse. Once the options are exercised and the exercise price paid, Telstra shares will be transferred to the eligible employee or executive.

A description of each type of option that existed in fiscal 2012 is set out below:

Employee options:

- ESOP options - the performance hurdle for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions); and
- US ESOP options - the performance hurdle for these options is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

Executive LTI options:

- relative total shareholder return options (RTSR options) - the performance hurdle for these options is based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the peer group;

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)

- total shareholder return options (TSR options) - the performance hurdle for these options is based on growth in Telstra's total shareholder return; and
- return on investment options (ROI options) - the performance hurdle for these options is based on an increase in the earnings before interest and tax for Telstra relative to the average investment.

Performance rights

In respect of performance rights allocated prior to fiscal 2010, an executive or an employee has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights vest. If the performance hurdle is satisfied during the applicable performance period, a specified number of performance rights, as determined in accordance with the trust deed and terms of issue, will become vested performance rights.

The exercise price for the vested performance rights allocated to executives prior to fiscal 2010 is $1 in total for all of the performance rights exercised on a particular day.

For employee share rights plan (ESRP) performance rights allocated in fiscal 2011 and fiscal 2010, there is no exercise price payable. Once the performance rights have vested, the rights will be automatically exercised and Telstra shares will be transferred to the employee. Until this time, the employee cannot use the performance rights (or vested performance rights) to vote or receive dividends.

A description of each type of performance right that existed in fiscal 2012 is set out below:

Employee performance rights (fiscal 2011 and fiscal 2010):

- employee share rights plan (ESRP) performance rights - the performance hurdle for these rights is based on the completion of three years continuous service by the participant (and once granted are not subject to any performance conditions).

Executive LTI performance rights:

- revenue growth (RG) performance rights - the performance hurdle for these rights is based on increases in Telstra's revenue; and
- network transformation (NT) performance rights - the performance hurdle for these rights is based on completion of certain elements in Telstra's network transformation program.

(iii) Performance hurdles

Restricted Shares

Details of the relevant performance hurdles in relation to restricted shares, are set out below:

Relative Total Shareholder Return (RTSR) restricted shares (fiscal 2012, fiscal 2011 and fiscal 2010)

For fiscal 2012, fiscal 2011 and fiscal 2010 RTSR restricted shares, the single performance period is the three year period ending on 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 restricted shares that vest for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation vests) to the 75th percentile (at which 100% of the allocation vests); and
- any restricted shares that do not vest will lapse.

If Telstra does not reach the 50th percentile, all of these RTSR restricted shares will lapse.

Any RTSR restricted shares that vest become restricted trust shares and are held by the Trustee until the restriction period ends (4 years after the effective allocation date of the restricted shares).

Free Cashflow Return on Investment (FCF ROI) restricted shares (fiscal 2012, fiscal 2011 and fiscal 2010)

For fiscal 2012, fiscal 2011 and fiscal 2010 FCF ROI restricted shares, the single performance period is the three year period ending on 30 June 2014, 30 June 2013 and 30 June 2012 respectively.

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

- if the threshold target is achieved, then 50% of the allocation of FCF ROI restricted shares will vest;
- if the result achieved is between the threshold and stretch targets, then the number of FCF ROI restricted shares that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved or exceeded, then 100% of the FCF ROI restricted shares will vest.

If the threshold target is not achieved, all of these FCF ROI restricted shares will lapse.

Any FCF ROI restricted shares that vest become restricted trust shares and are held by the Trustee until the end of the restriction period (4 years after the effective allocation date of the restricted shares).

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

Return on Investment (ROI) restricted shares (fiscal 2009)

For ROI restricted shares, there are three performance periods as follows:

- First performance period - 1 July 2009 to 30 June 2010;
- Second performance period - 1 July 2010 to 30 June 2011; and
- Third performance period - 1 July 2011 to 30 June 2012.

For each of the performance periods, the number of restricted shares that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of restricted shares for that period will vest;
- if the result achieved is between the threshold and stretch target, then the number of restricted shares for that period that will vest is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved or exceeded, then 100% of the restricted shares for that period will vest.

Any of these restricted shares that vest become restricted trust shares. Any restricted shares which do not vest in their respective performance periods will lapse.

Employee Share Plan (ESP) restricted shares (fiscal 2012)

As part of the fiscal 2012 employee share plan, certain eligible employees were provided restricted shares. There are no performance hurdles for these restricted shares.

Options

Details of the relevant performance hurdles in relation to options are set out below:

ESOP options and US ESOP options (fiscal 2009 (ESOP and US ESOP) and 2008 (ESOP only))

As part of the employee share option plan, certain eligible employees were provided options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the options (and in certain other circumstances), the options will vest. These options are not subject to any additional performance hurdles.

Relative Total Shareholder Return (RTSR) options (fiscal 2009)

For RTSR options, the applicable performance hurdle is based on comparing the TSR growth of Telstra against other companies in the peer group. Telstra is then given a score to determine its rank in comparison to the peer group. The RTSR options vest only if Telstra achieves a rank of at least the 50th percentile.

The Board has the discretion to amend the members in the peer group, as well as make necessary adjustments to the calculation of the TSR amount, TSR growth or rank.

For RTSR options, there are three performance periods as follows:

- First performance period - 1 July 2008 to 30 June 2010;
- Second performance period - 1 July 2008 to 30 June 2011; and
- Third performance period - 1 July 2008 to 30 June 2012.

The result for each performance period is separately measured. If Telstra achieves a rank greater than or equal to the 50th percentile for the performance period, then:

- the number of TSR options that will vest for that performance period is scaled proportionately from the 50th percentile (at which 25% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
- 25% of any unvested options for that performance period will lapse.

If Telstra achieves a rank of less than the 50th percentile for the performance period, then none of the options allocated for that performance period will vest and 25% of the options will lapse.

In addition, for the third performance period, if Telstra's rank meets or exceeds:

- both the 50th percentile and the rank achieved in the first performance period, the remaining unvested options from the first performance period will vest; and/or
- both the 50th percentile and the rank achieved in the second performance period, the remaining unvested options from the second performance period will vest.

The number of additional unvested options which may vest is also determined by using a linear scale.

If Telstra achieves a rank of less than the 50th percentile for the third performance period, then no options will vest for the third performance period. Furthermore, any remaining unvested options which do not vest or lapse following the third performance period will lapse following the end of the third performance period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iii) Performance hurdles (continued)

Return on Investment (ROI) options (fiscal 2008)

The ROI hurdle has been measured over the following three performance periods:

- First performance period - 1 July 2008 to 30 June 2009;
- Second performance period - 1 July 2009 to 30 June 2010; and
- Third performance period - 1 July 2010 to 30 June 2011.

For each of the performance periods, the number of options that will vest is calculated as follows:

- if the threshold target is achieved in the applicable performance period, then 50% of the allocation of options will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; and
- if the stretch target is achieved, then 100% of the options will vest.

The maximum number of options that can vest in a performance period is limited to the initial number allocated, less any options that may have lapsed.

Performance rights

Details of the relevant performance hurdles in relation to performance rights are set out below:

Employee Share Rights Plan (ESRP) performance rights (fiscal 2011 and fiscal 2010)

As part of the employee share rights plan, certain eligible employees were provided performance rights that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the performance rights (and in certain other circumstances), the performance rights will vest. These performance rights are not subject to any additional performance hurdles.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information

	Number of equity instruments						
	Outstanding at 30 June 2011	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2012	Exercisable at 30 June 2012
Growthshare 2002 - Sept 2001 allocation							
TSR options	8,337,000	-	(8,337,000)	-	-	-	-
Growthshare 2006 - Feb 2006 allocation							
RG performance rights (#)	57,462	-	-	(16,945)	-	40,517	40,517
NT performance rights (#)	22,823	-	-	(4,510)	-	18,313	18,313
Growthshare 2008							
ESOP options	11,274,721	-	(1,141,576)	-	-	10,133,145	10,133,145
ROI options	4,491,914	-	(1,154,752)	-	-	3,337,162	3,337,162
Growthshare 2009							
ESOP options	12,576,618	-	(923,072)	-	-	11,653,546	11,653,546
US ESOP options	45,000	-	(9,000)	-	-	36,000	36,000
RTSR options	11,080,943	-	(1,530,652)	-	(5,242,121)	4,308,170	-
ROI restricted shares	1,663,709	-	(213,440)	-	(1,450,269)	-	-
Growthshare 2010							
ESRP performance rights	1,696,020	-	(86,327)	(54,048)	-	1,555,645	-
RTSR restricted shares	5,661,481	-	(994,023)	-	(818,741)	3,848,717	-
FCF ROI restricted shares	5,661,481	-	(994,023)	-	(2,320,679)	2,346,779	-
Growthshare 2011							
ESRP performance rights	1,158,901	-	(82,516)	-	-	1,076,385	-
RTSR restricted shares	6,858,590	-	(1,219,352)	-	-	5,639,238	-
FCF ROI restricted shares	6,858,590	-	(1,219,352)	-	-	5,639,238	-
Growthshare 2012							
ESP restricted shares	-	2,375,300	-	(16,600)	-	2,358,700	-
RTSR restricted shares	-	3,019,272	(270,005)	-	-	2,749,267	-
FCF ROI restricted shares	-	3,019,272	(270,005)	-	-	2,749,267	-

(*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(^) Expired refers to the performance hurdle not being met.

(#) The performance rights outstanding and exercisable at 30 June 2012 are those performance rights that satisfied the RG and NT performance hurdles for the final performance period. The Growthshare 2006 plan reached its final testing point as at 30 June 2010.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

	Number of equity instruments						
	Outstanding at 30 June 2010	Granted	Forfeited (*)	Exercised	Expired (^)	Outstanding at 30 June 2011	Exercisable at 30 June 2011
Growthshare 2002 - Sept 2001 allocation							
TSR options	8,939,000	-	(602,000)	-	-	8,337,000	8,337,000
Growthshare 2006 - Feb 2006 allocation							
RG performance rights (#)	370,319	-	-	(312,857)	-	57,462	57,462
NT performance rights (#)	58,751	-	-	(35,928)	-	22,823	22,823
Growthshare 2008							
ESOP options	12,326,078	-	(1,051,107)	(250)	-	11,274,721	11,274,721
TSR options	14,113,671	-	(2,018,861)	-	(12,094,810)	-	-
ROI options.	10,357,760	-	(1,027,940)	-	(4,837,906)	4,491,914	4,491,914
Growthshare 2009							
ESOP options	14,051,102	-	(1,474,325)	(159)	-	12,576,618	-
US ESOP options	69,500	-	(24,500)	-	-	45,000	-
RTSR options	14,925,718	-	(2,867,044)	-	(977,731)	11,080,943	-
ROI restricted shares.	3,580,248	-	(662,898)	-	(1,253,641)	1,663,709	-
Growthshare 2010							
ESRP performance rights	1,944,862	-	(218,619)	(30,223)	-	1,696,020	-
RTSR restricted shares	7,403,997	-	(1,742,516)	-	-	5,661,481	-
FCF ROI restricted shares	7,403,997	-	(1,742,516)	-	-	5,661,481	-
Growthshare 2011							
ESRP performance rights	-	1,168,590	(9,689)	-	-	1,158,901	-
RTSR restricted shares	-	7,147,682	(289,092)	-	-	6,858,590	-
FCF ROI restricted shares	-	7,147,682	(289,092)	-	-	6,858,590	-

(*) Forfeited refers to either instruments that lapsed on cessation of employment or the instrument lapsing unexercised.

(^) Expired refers to the performance hurdle not being met.

(#) The performance rights outstanding and exercisable at 30 June 2010 include those performance rights that satisfied the RG and NT performance hurdles for the final performance period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(b) Long term incentive (LTI) plans (continued)

(iv) Summary of movements and other information (continued)

	Options (*)		Performance rights (^)		Restricted Shares (#)	
	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)	Number	Weighted average fair value (**)
Outstanding as at 30 June 2010	74,782,829	$0.45	2,373,932	$2.91	18,388,242	$2.01
Granted	-	-	1,168,590	$2.37	14,295,364	$1.75
Forfeited	(9,065,777)	$0.39	(228,308)	$2.86	(4,726,114)	$1.95
Exercised (^^)	(409)	$0.35	(379,008)	$3.16	-	-
Expired	(17,910,447)	$0.50	-	-	(1,253,641)	$2.83
Outstanding as at 30 June 2011	47,806,196	$0.45	2,935,206	$2.69	26,703,851	$1.84
Granted	**-**	**-**	**-**	**-**	**8,413,844**	**$2.67**
Forfeited	**(13,096,052)**	**$0.84**	**(168,843)**	**$2.63**	**(5,180,200)**	**$1.88**
Exercised (##)	**-**	**-**	**(75,503)**	**$2.97**	**(16,600)**	**$3.36**
Expired	**(5,242,121)**	**$0.16**	**-**	**-**	**(4,589,689)**	**$2.39**
Outstanding as at 30 June 2012	**29,468,023**	**$0.32**	**2,690,860**	**$2.66**	**25,331,206**	**$2.01**
Exercisable as at 30 June 2012	**25,159,853**	**$0.35**	**58,830**	**$3.18**	**-**	**-**

(*) Options include RTSR, TSR, ROI, ESOP and US ESOP options. The options "exercised" includes those participants that have been made redundant and are then consequently entitled to the Telstra shares.

(^) Performance rights include TSR, RG, NT and ESRP performance rights.

(#) Restricted shares relate to RTSR, FCFROI ROI 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 weighted average share price for instruments exercised during fiscal 2011 was $2.58 for fiscal 2008 and fiscal 2009 ESOP allocation of options, and $2.76 for fiscal 2005 and fiscal 2010 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during fiscal 2012 was $3.25 for the fiscal 2006 and fiscal 2009 allocation of performance rights, and $3.59 for fiscal 2012 allocation 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 restricted shares	**Growthshare LTI RTSR restricted shares**	Growthshare LTI FCF ROI restricted shares	Growthshare LTI RTSR restricted shares	Growthshare ESRP performance rights
	Dec 2011	**Dec 2011**	Feb 2011	Feb 2011	Feb 2011
Share price	**$3.33**	**$3.33**	$2.98	$2.98	$2.94
Risk free rate	**3.13%**	**3.13%**	5.27%	5.27%	5.28%
Dividend yield	**9.0%**	**9.0%**	9.0%	9.0%	9.0%
Expected stock volatility	**22%**	**22%**	25%	25%	25%
Expected life	**(*)**	**(*)**	(*)	(*)	(*)
Expected rate of achievement of TSR performance hurdles	**n/a**	**71%**	n/a	33%	n/a

(*) The date the instruments become exercisable.

For fiscal 2012 LTI FCF ROI and RTSR restricted shares, the fair value has been measured at a grant date of 31 December 2011 and has been allocated over the period for which the service is received which commenced 1 July 2011.

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 fiscal 2012 ESP restricted share is $3.36 based on the market value of Telstra shares at the allocation date of 19 April 2012 and has been allocated over the period for which the service is received which commenced 1 July 2011.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

Telstra Growthshare Trust (continued)

(c) Telstra Directshare and Ownshare

(i) Nature of Telstra Directshare and Ownshare

Telstra Directshare

As a result of the changes to tax laws governing employee share schemes, the Board determined that, from 1 July 2009, non-executive directors are no longer required to receive a minimum of 20% of their total remuneration as restricted Telstra shares, known as Directshare. Instead, the Board has decided to implement a policy to encourage non-executive directors to hold a total value equivalent to at least 50% of their total remuneration as Telstra shares.

The Directshare Plan, previously operated by the Company, has been 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 (2011: 10 years) from the date of allocation of the shares;
- the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; and
- the Trustee determines that an ‘event’ under the terms of Directshare has occurred.

Telstra Ownshare

Certain eligible employees may, at their election, be provided part of their remuneration in Telstra shares. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation;
- the participant ceases employment with the Telstra Group; and
- the Board of Telstra determines that an ‘event’ has occurred.

At the end of the restriction period, the Ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

(ii) Instruments granted during the financial year

The fair value of the instruments granted under the Directshare and Ownshare plans is determined by the remuneration foregone by the participant. On the grant of Directshares and Ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 5 November 2010 grant of Ownshares relates to shares acquired through salary sacrifice by employees.

There were no shares granted during fiscal 2012 under the Directshare plan. For the Ownshare plan, the weighted average fair value of fully paid shares granted to executives as at 30 June 2012 was $3.15 (2011: $2.68) and the total fair value of shares granted was $553,637 (2011: $464,776).

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 2010	Granted (*)	Distributed (^)	Outstanding at 30 June 2011	**Granted (*)**	**Distributed (^)**	**Outstanding at 30 June 2012**
Directshares							
5 September 2003 allocation	9,525	-	-	9,525	**-**	**-**	**9,525**
20 February 2004 allocation	10,233	-	-	10,233	**-**	**-**	**10,233**
20 August 2004 allocation	2,755	-	-	2,755	**-**	**-**	**2,755**
19 February 2005 allocation	7,911	-	-	7,911	**-**	**-**	**7,911**
19 August 2005 allocation	5,248	-	-	5,248	**-**	**-**	**5,248**
17 February 2006 allocation	8,230	-	-	8,230	**-**	**-**	**8,230**
18 August 2006 allocation	12,343	-	-	12,343	**-**	**-**	**12,343**
23 February 2007 allocation	14,522	-	-	14,522	**-**	**-**	**14,522**
17 August 2007 allocation	15,343	-	-	15,343	**-**	**-**	**15,343**
29 February 2008 allocation	24,968	-	-	24,968	**-**	**-**	**24,968**
21 August 2008 allocation	36,358	-	-	36,358	**-**	**(2,909)**	**33,449**
6 March 2009 allocation	63,181	-	-	63,181	**-**	**(6,122)**	**57,059**
21 August 2009 allocation	6,313	-	-	6,313	**-**	**-**	**6,313**
19 February 2010 allocation	6,809	-	-	6,809	**-**	**-**	**6,809**
	223,739	-	-	223,739	**-**	**(9,031)**	**214,708**

	Outstanding at 30 June 2010	Granted (*)	Distributed (^)	Outstanding at 30 June 2011	**Granted (*)**	**Distributed (^)**	**Outstanding at 30 June 2012**
Ownshares							
27 September 2007 allocation	320,428	-	(320,428)	-	**-**	**-**	**-**
26 October 2007 allocation	123,353	-	(123,353)	-	**-**	**-**	**-**
15 September 2008 allocation	353,317	-	(37,576)	315,741	**-**	**(315,741)**	**-**
24 October 2008 allocation	192,965	-	(3,119)	189,846	**-**	**(189,846)**	**-**
24 December 2009 allocation	129,650	-	(5,432)	124,218	**-**	**(14,096)**	**110,122**
5 November 2010 allocation	-	173,424	(2,760)	170,664	**-**	**(24,599)**	**146,065**
21 October 2011 allocation	-	-	-	-	**175,836**	**-**	**175,836**
	1,119,713	173,424	(492,668)	800,469	**175,836**	**(544,282)**	**432,023**

(*) The number of Directshares granted is based on the monthly volume weighted average price of a Telstra share in the six months prior to allocation, in conjunction with the remuneration foregone. The number of Ownshares granted is based on the weighted average price of a Telstra share in the week ending on the day before the allocation date, in conjunction with the remuneration foregone.

(^) Directshares and Ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are transferred to the participants at the completion of the restriction period.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

(d) Other equity plans

In exceptional circumstances, Telstra has put in place structured retention incentive plans. These are designed to protect Telstra from the loss of employees who possess specific skill sets considered critical to the business and where Telstra is vulnerable to losing key personnel. Such retention plans are not restricted to senior executives. The plans are granted on ad hoc basis and the participants receive Telstra shares deferred for a certain amount of period.

As part of his Service Agreement negotiated upon appointment, the CFO and GMD of Finance and Strategy was allocated 96,500 performance rights to Telstra shares where 50 percent vest after two years and the remaining 50 percent vest after three years from the date of commencement. Vesting is subject to an assessment of performance by the Board and 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 rights as at the time of cessation of employment becomes available.

TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998, we offered eligible employees the opportunity to buy ordinary shares of Telstra. These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

Although the Telstra ESOP Trustee Pty Ltd (wholly owned subsidiary of Telstra) is the trustee for TESOP99 and TESOP97 and holds the shares in the trust, the participating employee retains the beneficial interest in the shares (dividends and voting rights).

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares, and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, were subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceased. This restriction period has now been fulfilled under each plan.

If a participant ceases to be employed by the Telstra Entity, a company in which Telstra owns greater than 50% equity, or the company which was their employer when the shares were acquired, the employee must repay their loan within two months of leaving to acquire the relevant shares. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

Notes to the Financial Statements (continued)

27. Employee share plans (continued)

TESOP99 and TESOP97 (continued)

The Telstra ESOP Trustee continues to hold the loan shares where the employee has ceased employment and elected not to repay the loan, until the share price is sufficient to recover the loan amount and associated costs. The Trustee will then sell the shares. As at 30 June 2012, there were 9,204,900 shares held for this purpose (2011: 8,999,600).

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 2010	23,382,125	$3.25	76	13,842,600	$3.25	45
Exercised (#)	(23,367,125)	$2.68	(63)	(53,600)	$2.68	-
Equity instruments outstanding and exercisable as at 30 June 2011	15,000	$2.89	-	13,789,000	$2.89	40
Exercised (#)	**(12,500)**	**$3.10**	-	**(34,600)**	**$3.15**	**-**
Equity instruments outstanding and exercisable as at 30 June 2012	**2,500**	**$3.69**	-	**13,754,400**	**$3.69**	**51**

(*) The fair value of these shares is based on the market value of Telstra shares at reporting date and exercise date.

(#) The amount exercised relates to the shares released from trust as a result of the interest free loan to employees being fully repaid during the year.

The employee share loan balance as at 30 June 2012 is $67 million (2011: $70 million). The weighted average loan still to be repaid for TESOP97 is $0.14 per instrument (2011: $0.10) and for TESOP99 is $4.85 per instrument (2011: $5.06).

Notes to the Financial Statements (continued)

28. Key management personnel compensation

In accordance with AASB 124: "Related Party Disclosures", key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. As such, KMP are deemed to include the following:

- the non-executive Directors of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, including the CEO, referred to as a 'senior executive' in this note.

Directors

During fiscal 2012 and fiscal 2011, the Directors of the Telstra Entity were:

Name	Position
Current Directors	
Catherine B Livingstone	Chairman, Non-Executive Director
David I Thodey	Executive Director and Chief Executive Officer
Timothy Y Chen	Non-Executive Director (KMP effective from 1 April 2012)
Geoffrey A Cousins	Non-Executive Director
Russell A Higgins	Non-Executive Director
John P Mullen	Non-Executive Director
Nora L Scheinkestel	Non-Executive Director
Margaret L Seale	Non-Executive Director (KMP effective from 7 May 2012)
John W Stocker	Non-Executive Director
Steven M Vamos	Non-Executive Director
John D Zeglis	Non-Executive Director

Former Directors

John V Stanhope, retired as Executive Director, Chief Financial Officer and Group Managing Director, Finance on 30 December 2011.
John M Stewart, resigned as Non-Executive Director on 18 October 2011.

Senior executives

The senior executives that qualified as KMP for fiscal 2012 and fiscal 2011 were:

Name	Position
Current Senior Executives	
David I Thodey	Executive Director and Chief Executive Officer
Gordon Ballantyne	Chief Customer Officer and Group Managing Director, Telstra Customer Sales and Service
Rick Ellis	Group Managing Director, Telstra Media (KMP effective from 16 January 2012)
Stuart Lee	Group Managing Director, Telstra Wholesale (KMP effective from 6 July 2011)
Kate McKenzie	Group Managing Director, Telstra Innovation Products and Marketing
Andrew Penn	Chief Financial Officer and Group Managing Director, Finance and Strategy (KMP effective from 31 December 2011)
Brendon Riley	Chief Operations Officer, Telstra Operations

Former Senior Executives

John V Stanhope, retired as Executive Director, Chief Financial Officer and Group Managing Director, Finance on 30 December 2011.
Bruce Akhurst, Chief Executive Officer, Sensis ceased being a KMP on 15 January 2012.
Paul Geason, Group Managing Director, Telstra Enterprise and Government ceased being a KMP in fiscal 2012.
Deena Shiff, former Group Managing Director, Telstra Business ceased being a KMP in fiscal 2012. Deena Shiff is currently Group Managing Director, Telstra Applications and Ventures.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP aggregate compensation

During fiscal 2012 and fiscal 2011, the aggregate compensation provided to our KMP was:

	Telstra Group	
	As at 30 June	
	2012	2011
	$	$
Short term employee benefits	**20,104,442**	20,361,213
Post employment benefits	**418,627**	918,178
Other long term benefits	**226,353**	257,529
Termination benefits	**744,751**	1,700,353
Share-based payments	**6,318,874**	4,558,079
	27,813,047	27,795,352

We have made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered a benefit to a KMP, it is included in their compensation.

We have provided loans to eligible employees, including our KMP, to enable purchase of Telstra shares through TESOP97 and TESOP99. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in shares of the Telstra Entity

During fiscal 2012, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2011	Directshare allocation	Equity instruments exercised	Net shares acquired or disposed of by other means	Total shares held at 30 June 2012	Shares that are held nominally (c)
	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Catherine B Livingstone	150,816	-	-	15,000	165,816	165,816
Timothy Y Chen (a)	-	-	-	-	-	-
Geoffrey A Cousins	31,765	-	-	-	31,765	21,765
Russell A Higgins	40,513	-	-	47,891	88,404	83,084
John P Mullen	26,159	-	-	-	26,159	26,159
Nora L Scheinkestel	30,000	-	-	29,450	59,450	59,450
Margaret L Seale (a)	224,141	-	-	-	224,141	224,141
John W Stocker	212,238	-	-	-	212,238	194,124
Steven M Vamos	40,000	-	-	-	40,000	40,000
John D Zeglis	103,993	-	-	-	103,993	37,493
John M Stewart (b)	34,031	-	-	-	34,031	9,031
	893,656	-	-	92,341	985,997	861,063
Senior Executives						
David I Thodey	605,113	-	-	181,004	786,117	667,594
Gordon Ballantyne	-	-	-	86,568	86,568	86,568
Rick Ellis (a)	10,000	-	-	-	10,000	8,000
Stuart Lee (a)	214,087	-	-	51,416	265,503	149,443
Kate McKenzie	117,710	-	-	49,988	167,698	122,009
Andrew Penn (a)	-	-	-	74,232	74,232	58,800
Brendon Riley	5,735	-	-	177,682	183,417	179,387
Bruce Akhurst (b)	177,306	-	-	94,330	271,636	263,856
John V Stanhope (b)	446,545	-	-	3,383	449,928	7,410
	1,576,496	-	-	718,603	2,295,099	1,543,067
	2,470,152	-	-	810,944	3,281,096	2,404,130

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2012 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during the year, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who left Telstra during the year, represents shares held as at the date they retired or no longer qualified as KMP.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in shares of the Telstra Entity (continued)

During fiscal 2011 our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

	Total shares held at 30 June 2010	Directshare allocation	Equity instruments exercised	Net shares acquired or disposed of by other means	Total shares held at 30 June 2011	Shares that are held nominally (c)
	Number	Number	Number	Number	Number	Number
Non-Executive Directors						
Catherine B Livingstone	124,635	-	-	26,181	150,816	150,816
Geoffrey A Cousins	21,765	-	-	10,000	31,765	21,765
Russell A Higgins	22,992	-	-	17,521	40,513	35,193
John P Mullen	26,159	-	-	-	26,159	26,159
Nora L Scheinkestel (a)	9,100	-	-	20,900	30,000	30,000
John M Stewart	9,031	-	-	25,000	34,031	9,031
John W Stocker	212,238	-	-	-	212,238	194,124
Steven M Vamos	24,021	-	-	15,979	40,000	40,000
John D Zeglis	53,993	-	-	50,000	103,993	37,493
	503,934	-	-	165,581	669,515	544,581
Senior Executives						
David I Thodey	495,588	-	9,525	100,000	605,113	486,590
John V Stanhope	437,067	-	9,078	400	446,545	169,318
Bruce Akhurst	166,999	-	10,307	-	177,306	169,526
Nerida Caesar (b)	19,340	-	-	-	19,340	9,100
Paul Geason	8,960	-	-	35,400	44,360	5,800
Kate McKenzie	102,185	-	15,525	-	117,710	72,021
Brendon Riley (a)	5,735	-	-	-	5,735	1,705
Michael Rocca (b)	444,102	-	9,095	-	453,197	171,198
Deena Shiff	303,776	-	7,029	-	310,805	143,129
	1,983,752	-	60,559	135,800	2,180,111	1,228,387
	2,487,686	-	60,559	301,381	2,849,626	1,772,968

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed by our KMP during fiscal 2011 were on an arm's length basis at market price.

(a) For those non-executive Directors and senior executives who qualified as KMP during fiscal 2011, represents shares held as at the date they became KMP.

(b) For those non-executive Directors and senior executives who retired from office during fiscal 2011 or no longer qualify as KMP as at 30 June 2011 represents shares held as at the date they retired or no longer qualified as KMP.

(c) Nominally refers to shares held either indirectly or beneficially. This includes those acquired under Directshare as well as certain incentive shares issued to our KMP that vest immediately. These shares are subject to a restriction period, such that the non-executive Director or senior executive is restricted from dealing with the shares until after they are released from the restriction period. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of the Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2012:

Instrument type (*) Senior Executive	Total held at 30 June 2011 (a) Number	Granted during the year Number	Exercised during the year Number	Other changes (b) Number	Total held at 30 June 2012 (c)(d) Number	Vested as at 30 June 2012 (c) Number	Vested and exercisable at 30 June 2012 (c) Number
Options							
David I Thodey	1,535,305	-	-	(945,141)	590,164	590,164	252,174
Stuart Lee	393,751	-	-	(274,076)	119,675	119,675	48,913
Kate McKenzie	377,304	-	-	(156,964)	220,340	220,340	91,304
Bruce Akhurst	1,695,687	-	-	(617,000)	1,078,687	1,078,687	271,739
John V Stanhope	1,035,137	-	-	(1,035,137)	-	-	-
Restricted shares							
David I Thodey	2,566,575	1,567,846	-	(485,369)	3,649,052	725,274	-
Rick Ellis	-	225,080	-	-	225,080	-	-
Stuart Lee	526,890	-	-	(88,779)	438,111	126,923	-
Kate McKenzie	633,667	488,746	-	(140,738)	981,675	190,385	-
Brendon Riley	-	643,086	-	-	643,086	-	-
Bruce Akhurst	1,565,313	700,552	-	-	2,265,865	-	-
John V Stanhope	1,621,538	-	-	(1,621,538)	-	-	-
Performance shares							
Andrew Penn	-	96,500	-	-	96,500	-	-
TESOP99							
Stuart Lee	400	-	-	-	400	400	400
Bruce Akhurst	400	-	-	-	400	400	400
John V Stanhope	400	-	-	-	400	400	400

(*) Each vested equity instrument is convertible into one ordinary share.

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they retired or no longer qualify as KMP.

(b) During fiscal 2012, other changes for our performance rights, options and restricted shares are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year.

(c) For those senior executives who left Telstra during the year, represents equity instruments held as at the date they retired or no longer qualify as KMP.

(d) Excludes incentive shares that vest immediately and are beneficially owned by the KMP. "Granted" for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentive shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of the Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during fiscal 2011:

Instrument type (*)	Total held at 30 June 2010 (a)	Granted during the year	Exercised during the year	Other changes (b)	Total held at 30 June 2011 (c)	Vested as at 30 June 2011 (c)	Vested and exercisable at 30 June 2011 (c)
Senior Executive	Number	Number	Number	Number	Number	Number	Number
Performance rights							
David I Thodey	9,525	-	(9,525)	-	-	-	-
John V Stanhope	9,078	-	(9,078)	-	-	-	-
Bruce Akhurst	10,307	-	(10,307)	-	-	-	-
Kate McKenzie	15,007	-	(15,007)	-	-	-	-
Michael Rocca	9,095	-	(9,095)	-	-	-	-
Deena Shiff	7,029	-	(7,029)	-	-	-	-
Options							
David I Thodey	2,778,217	-	-	(1,242,912)	1,535,305	786,174	786,174
John V Stanhope	2,020,885	-	-	(985,748)	1,035,137	440,998	440,998
Bruce Akhurst	3,035,004	-	-	(1,339,317)	1,695,687	888,739	888,739
Nerida Caesar	335,467	-	-	-	335,467	37,565	37,565
Paul Geason	300,580	-	-	(135,234)	165,346	81,392	81,392
Kate McKenzie	828,627	-	-	(451,323)	377,304	91,304	91,304
Michael Rocca	2,486,864	-	-	-	2,486,864	511,999	262,000
Deena Shiff	2,034,343	-	-	(1,019,394)	1,014,949	384,522	384,522
Restricted shares							
David I Thodey	1,294,450	1,355,932	-	(83,807)	2,566,575	-	-
John V Stanhope	913,334	774,672	-	(66,468)	1,621,538	-	-
Bruce Akhurst	931,520	724,068	-	(90,275)	1,565,313	-	-
Nerida Caesar	468,967	-	-	-	468,967	-	-
Paul Geason	236,201	242,924	-	(9,392)	469,733	-	-
Kate McKenzie	363,118	302,544	-	(31,995)	633,667	-	-
Michael Rocca	857,327	-	-	-	857,327	-	-
Deena Shiff	727,751	575,390	-	(70,528)	1,232,613	-	-

Notes to the Financial Statements (continued)

28. Key management personnel compensation (continued)

KMP interests in rights, options and restricted shares of the Telstra Entity (continued)

Instrument type (*) Senior Executive	Total held at 30 June 2010 (a) Number	Granted during the year Number	Exercised during the year Number	Other changes (b) Number	Total held at 30 June 2011 (c)(d) Number	Vested as at 30 June 2011 (c) Number	Vested and exercisable at 30 June 2011 (c) Number
Incentive shares rights (d)							
Kate McKenzie	518	-	(518)	-	-	-	-
TESOP97							
John V Stanhope	2,500	-	-	(2,500)	-	-	-
Bruce Akhurst	2,500	-	-	(2,500)	-	-	-
Michael Rocca	2,500	-	-	(2,500)	-	-	-
TESOP99							
John V Stanhope	400	-	-	-	400	400	400
Bruce Akhurst	400	-	-	-	400	400	400
Deena Shiff	400	-	-	-	400	400	400

(*) Each vested equity instrument is convertible into one ordinary share.

(a) For those senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2011, other changes for our performance rights, options and restricted shares are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year. For TESOP97, the shares were released from trust as a result of the interest free loans being fully repaid during fiscal 2011.

(c) For those senior executives who left Telstra during the year, represents equity instruments held as at the date they resigned.

(d) Excludes incentive shares that vest immediately and are beneficially owned by the KMP. “Granted” for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentive shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

Notes to the Financial Statements (continued)

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	
	2012 $m	2011 $m
Income from controlled entities:		
Sale of goods and services (a)	**892**	991
Dividend revenue (b)	**668**	164
Expenses to controlled entities:		
Purchase of goods and services (a)	**602**	433
Finance costs	**33**	24
Total amounts receivable at 30 June from:		
Current		
Controlled entities - receivables (a)(d)	**985**	788
Controlled entities - loans (e)(f)	**3,331**	3,147
Allowance for amounts owed by controlled entities	**(2,948)**	(2,773)
	1,368	1,162
Non current		
Controlled entities - loans (g)	**1**	-
Movement in allowance for amounts owed by controlled entities:		
Opening balance	**(2,773)**	(2,665)
Impairment loss (c)	**(175)**	(108)
Closing balance	**(2,948)**	(2,773)
Total amounts payable at 30 June to:		
Current		
Controlled entities - payables (a)(d)	**214**	217
Controlled entities - loans (e)(h)	**1,492**	1,832
	1,706	2,049

(a) The Telstra Entity sold and purchased goods and services and received and paid interest to its controlled entities. These transactions are in the ordinary course of business and are on normal commercial terms and conditions.

Details of our individual significant transactions involving our controlled entities during fiscal 2012 are detailed as follows:

- the Telstra Entity received procurement fees from its controlled entity Sensis Pty Ltd for the use of Yellow Pages and White Pages trademarks amounting to $355 million (2011: $522 million). As at 30 June 2012, the Telstra Entity recorded revenue received in advance amounting to $90 million (2011: $170 million) for the use of these trademarks;
- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to $356 million (2011: $347 million) for access to ducts that store the hybrid fibre coaxial (HFC) cable network;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to $334 million (2011: $338 million) for undertaking agency and contract management services for the national directory service; and
- the Telstra Entity paid for international connectivity and management services to Telstra International Limited amounting to $136 million (2011: nil).

(b) During fiscal 2012 the Telstra Entity recorded dividend revenue mainly from the following entities:

- $550 million (2011: nil) from Sensis Pty Ltd;
- $50 million (2011: $70 million) from Telstra Media Pty Limited;
- $64 million (2011: $41 million) from Telstra Holdings Pty Ltd; and
- nil (2011: $43 million) from Telstra Business Systems Pty Ltd.

(c) The profit before income tax expense of the Telstra Entity includes an impairment loss of $175 million (2011: $108 million) relating to a movement in allowance for amounts owed by a controlled entity.

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our controlled entities (continued)

(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 Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. As at 30 June 2012, $3,181 million (2011: $2,978 million) related to loans owed by, and $1,258 million (2011: $1,832 million) related to, loans payable to controlled entities. We also have an allowance for amounts owed by controlled entities of $2,948 million (2011: $2,773 million) as at 30 June 2012.

(f) At 30 June 2012, $150 million (2011: $169 million) related to a loan provided to Telstra OnAir Holdings Pty Ltd (a partner in the 3GIS Partnership). Telstra and Vodafone Hutchison Australia will conclude their joint venture agreement for the 3GIS network on 31 August 2012. Refer to note 26 for further details. This loan has been provided to ensure committed deferred consideration payments and funding calls from the 3GIS Partnership can be met. The loan is an interest free loan.

(g) At 30 June 2012, $1 million (2011: nil) related to a loan provided to Life Events Media Pty Limited. The loan is interest bearing and matures in March 2014.

(h) At 30 June 2012, Telstra Entity received a $234 million (2011: nil) loan from TelstraClear Limited. The loan is interest bearing and repayable in June 2013. The loan will be extinguished via a pre completion dividend upon the sale of TelstraClear.

Transactions involving our jointly controlled and associated entities

Interests in our jointly controlled and associated entities are set out in note 26. Our transactions with our jointly controlled and associated entities recorded in the income statement and statement of financial position are as follows:

	Telstra Group Year ended/As at 30 June	
	2012 $m	2011 $m
Income from jointly controlled and associated entities:		
Sale of goods and services (a)	**139**	197
Distribution from FOXTEL Partnership (b)	**108**	70
Interest on loans to jointly controlled and associated entities (c)	**12**	-
Expenses to jointly controlled and associated entities:		
Purchase of goods and services (a)	**892**	884
Total amounts receivable at 30 June from:		
Current		
Jointly controlled and associated entities - trade receivables (a)	**4**	4
Jointly controlled and associated entities - loans (c)	**33**	35
	37	39
Non current		
Jointly controlled and associated entities - loans (c)	**448**	5
Allowance for amounts owed by jointly controlled and associated entities (c)	**(5)**	(5)
	443	-
Movement in allowance for amounts owed by jointly controlled and associated entities:		
Opening balance	**(5)**	(182)
Amounts reversed	**-**	147
Foreign currency exchange differences	**-**	30
Closing balance	**(5)**	(5)
Total amounts payable at 30 June to:		
Current		
Jointly controlled and associated entities - payables (a)	**31**	13

Notes to the Financial Statements (continued)

29. Related party disclosures (continued)

Transactions involving our jointly controlled and associated entities (continued)

(a) We sold and purchased goods and services, and received interest from our jointly controlled and associated entities. These transactions were in the ordinary course of business and on normal commercial terms and conditions.

Details of our individual significant transactions involving our jointly controlled and associated entities during fiscal 2012 are detailed as follows:

- we purchased pay television services amounting to $649 million (2011: $640 million) from our jointly controlled entity FOXTEL. The purchases were to enable the resale of FOXTEL services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales to FOXTEL for our cost recoveries of $118 million (2011: $102 million); and
- purchases were made by the Telstra Group of $79 million (2011: $233 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for the purchase of, and entitlement to, capacity and connectivity services.

(b) A $108 million (2011: $70 million) distribution was received from our jointly controlled entity FOXTEL during the year.

(c) Loans provided to jointly controlled and associated entities relate to loans provided to Reach of $5 million (2011: $5 million), the 3GIS Partnership (3GIS) of $32 million (2011: $35 million) and FOXTEL Partnership of $443 million (2011: nil).

In April 2012, Telstra Corporation Limited provided a loan to FOXTEL Partnership to fund the acquisition of shares in Austar. The loan is interest bearing and it has a minimum term of just over 10 years and a maximum of 15 years.

The loan provided to Reach is an interest free loan and repayable upon the giving of twelve months notice by both PCCW Limited and us. We have 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.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership. Telstra and Vodafone Hutchison Australia will conclude their joint venture agreement for the 3GIS network on 31 August 2012. Refer to note 26 for further details.

Transactions involving other related entities

Post employment benefits

As at 30 June 2012, the Telstra Superannuation Scheme (Telstra Super) owned 38,383,958 shares in Telstra Corporation Limited (2011: 42,589,721) at a cost of $118 million (2011: $130 million) and a market value of $142 million (2011: $123 million). All of these shares were fully paid at 30 June 2012. In fiscal 2012, we paid dividends to Telstra Super of $13 million (2011: $10 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

Telstra Super also held bonds issued by Telstra Corporation Limited. These bonds had a cost of $11 million (2011: $4 million) and a market value of $11 million (2011: $10 million) at 30 June 2012.

All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

Key management personnel (KMP)

For details regarding our KMP's remuneration and interests in Telstra, as well as other related party transactions, refer to note 28.

Notes to the Financial Statements (continued)

30. Parent entity information

	Telstra Entity	
	As at 30 June	
	2012 $m	2011 $m
Statement of Financial Position		
Total current assets	**9,399**	7,430
Total non current assets (a)	**31,551**	31,679
Total assets	**40,950**	39,109
Total current liabilities	**11,451**	10,178
Total non current liabilities	**16,942**	16,419
Total liabilities	**28,393**	26,597
Share capital	**5,635**	5,610
Cashflow hedging reserve	**(87)**	(14)
General reserve	**194**	194
Retained profits	**6,815**	6,722
Total Equity	**12,557**	12,512

	Telstra Entity	
	Year ended 30 June	
	2012 $m	2011 $m
Statement of Comprehensive Income		
Profit for the year (a)	**4,086**	3,367
Total comprehensive income	**3,495**	3,319

(a) Includes $307 million (2011: $283 million) of impairment losses relating to the value of our investments in, and amounts owed by, our controlled entities. The impairment losses have been eliminated on consolidation of the Telstra Group.

Except for those noted below, our accounting policies for the Telstra Entity are consistent with those for the Telstra Group:

- under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed from our wholly owned entities are booked as current assets or liabilities;
- investments in controlled entities, included within non current assets above, are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.22. Refer to note 25 for details on our investments in controlled entities; and
- our interests in associated and jointly controlled entities; including partnerships, are accounted for using the cost method of accounting and are included within non current assets in the table above.

Property, plant and equipment commitments

	Telstra Entity	
	As at 30 June	
	2012 $m	2011 $m
Total property, plant and equipment expenditure commitments contracted for at balance date but not recorded in the financial statements	**572**	415

Contingent liabilities and guarantees

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2012, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reliably estimated.

Included in our common law claims is the following litigation case:

Optus Confidential Information

Optus commenced proceedings in the Federal Court of Australia in December 1997 alleging that Telstra breached the Trade Practices Act and misused Optus' confidential information. All the claims were subsequently settled or withdrawn other than a confidential information claim (relating to the preparation and use of STD and IDD market share reports). It relates to historical events in the period from 1993-2003. This matter was resolved during fiscal 2012.

Notes to the Financial Statements (continued)

30. Parent entity information (continued)

Contingent liabilities and guarantees (continued)

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 $279 million (2011: $294 million) in respect of the performance of contracts;

- indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose is $189 million (2011: $189 million);

- financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $108 million (2011: $60 million) and a requirement that the entity remains our controlled entity;

- guarantees of the performance of jointly controlled entities under contractual agreements to a maximum amount of $10 million (2011: $10 million);

- guarantees over the performance of third parties under defeasance arrangements, whereby lease payments are made on our behalf by the third parties over the remaining terms of the finance leases. The lease payments over the remaining expected term of the leases amount to $96 million (US$98 million) (2011: $106 million (US$114 million)). In fiscal 2012, we exercised our early buyout option to terminate a portion of the leases that commenced in 1999. We still hold an early buyout option for the remaining leases; and

- during fiscal 1998, we resolved to provide IBM Global Services Australia Limited (IBMGSA) with guarantees issued on a several basis up to $210 million as a shareholder of IBMGSA. We issued a guarantee of $68 million on behalf of IBMGSA during fiscal 2000. During fiscal 2004, we sold our shareholding in this entity. The $68 million guarantee is provided to support service contracts entered into by IBMGSA and third parties, and was made with IBMGSA bankers, or directly to IBMGSA customers. As at 30 June 2012, this guarantee remains unchanged and $142 million (2011: $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 2012 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

Final Dividend

On 9 August 2012, the directors of Telstra Corporation Limited resolved to pay a fully franked final dividend of 14 cents per ordinary share. The record date for the final dividend will be 24 August 2012 with payment being made on 21 September 2012. Shares will trade excluding the entitlement to the dividend on 20 August 2012.

A provision for dividend payable has been raised as at the date of resolution, amounting to $1,738 million. The final dividend will be fully franked at a tax rate of 30%. The financial effect of the dividend resolution was not brought to account as at 30 June 2012.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the final ordinary dividend, except for $745 million of franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

The Dividend Reinvestment Plan (DRP) continues to be suspended.

Disposal of TelstraClear Limited

On 12 July 2012, we signed an agreement to dispose of our 100% shareholding in TelstraClear Limited and its controlled entity (TelstraClear) for a total consideration of $658 million (NZ$840 million). The sale is contingent on New Zealand regulatory approval, including the New Zealand Commerce Commission, Overseas Investment Office and Ministry of Business, Innovation and Employment, which is expected to take a number of months. The loss on disposal, subject to completion adjustments, is expected to be $263 million, mainly due to an impairment of $130 million and the reclassification of $130 million foreign currency reserve to the Income Statement.

In accordance with AASB 5: “Non-current Assets Held for Sale and Discontinued Operations” the carrying value of assets and liabilities of TelstraClear, with the exception of cash balances which are excluded from the sale agreement, have been classified as held for sale as at 30 June 2012. Refer to note 12 for further details.

Directors' Declaration

This directors' declaration is required by the Corporations Act 2001 of Australia.

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes of the Telstra Group set out on pages 72 to 201:

(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;

(ii) give a true and fair view of the financial position as at 30 June 2012 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2012; and

(iii) have been made out in accordance with the Corporations Act 2001.

(b) they have received declarations as required by section 295A of the Corporations Act 2001;

(c) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and

(d) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 25(a) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 25(a).

For and on behalf of the board

C B Livingstone	David Thodey
Catherine B Livingstone AO **Chairman**	David I Thodey **Chief Executive Officer and Executive Director**

Date: 9 August 2012
Melbourne, Australia

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Independent Auditor's Report to the Members of Telstra Corporation Limited

Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements,* that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

a. the financial report of Telstra Corporation Limited is in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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 51 to 70 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

SJ Ferguson
Partner
Melbourne, Australia
9 August 2012

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TELSTRA CORPORATION LIMITED

ABN 33 051 775 556
Incorporated in the Australian Capital Territory
Telstra is listed on Stock Exchanges in
Australia and in New Zealand (Wellington)

WEBSITES

Telstra's Investor Relations home page:
www.telstra.com.au/investor

Telstra's Sustainability home page:
www.telstra.com.au/sustainability

INDICATIVE FINANCIAL CALENDAR*

Final dividend paid	Friday 21 September 2012
Annual General Meeting	Tuesday 16 October 2012
Half Year Results announcement	Thursday 7 February 2013
Ex-dividend share trading commences	Monday 18 February 2013
Record date for interim dividend	Friday 22 February 2013
Interim dividend paid	Friday 22 March 2013
Annual Results announcement	Thursday 8 August 2013
Ex-dividend share trading commences	Monday 19 August 2013
Record date for final dividend	Friday 23 August 2013
Final dividend paid	Friday 20 September 2013
Annual General Meeting	Tuesday 15 October 2013

* Timing of events may be subject to change. Any change will be notified to the Australian Securities Exchange (ASX).

telstra.com.au/investor