



13 August 2009

**Office of the Company Secretary**

Company Announcements Office  
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### **ELECTRONIC LODGEMENT**

Dear Sir or Madam

### **Telstra Corporation Limited Financial Results for the Year ended 30 June 2009**

In accordance with the Listing Rules, I enclose the following for immediate release:

1. Appendix 4E – full year report
2. Year end results and operations review – financial highlights
3. Media release
4. Full year financial report for the year ended 30 June 2009
5. Directors' report
6. Concise Financial Report.

Telstra will conduct an analyst briefing at 9.00 AM and media briefing at 11.00 AM on the full year results. A webcast of the briefings will be available from 9.00AM AEST at [http://www.telstra.com.au/abouttelstra/media/webcasts\\_event.cfm?ObjectID=1547](http://www.telstra.com.au/abouttelstra/media/webcasts_event.cfm?ObjectID=1547). Transcripts will be lodged with the ASX when available.

This Announcement has been released simultaneously to the New Zealand Stock Exchange.

Yours sincerely

A handwritten signature in black ink, appearing to read "Carmel Mulhern".

**Carmel Mulhern**  
Company Secretary



**Telstra Corporation Limited and controlled entities**

**Appendix 4E**

**Preliminary final report**

**for the year ended 30 June 2009**

**Appendix 4E**  
**Preliminary final report**  
**30 June 2009**  
**Telstra Corporation Limited ABN 33 051 775 556**

**Results for announcement to the market**

|  | Telstra Group      |        |          |          |
|--|--------------------|--------|----------|----------|
|  | Year ended 30 June |        |          |          |
|  | 2009               | 2008   | Movement | Movement |
|  | \$m                | \$m    | \$m      | %        |
| <b>Extract from the income statement</b>                               |                    |        |          |          |
| Revenue (excluding finance income) . . . . .                           | 25,507             | 24,828 | 679      | 2.7%     |
| Other income . . . . .   | 107                | 174    | (67)     | (38.5%)  |
| Profit for the year . . . . .  | 4,076              | 3,711  | 365      | 9.8%     |
| Profit for the year available to Telstra Entity shareholders . . . . . | 4,073              | 3,692  | 381      | 10.3%    |

For fiscal 2009 and fiscal 2008, all items included in our income statement are considered to be from continuing operations.

There were no individual transactions that had a sufficiently significant impact on our income statement that require specific disclosure.

**Appendix 4E**  
**Preliminary final report**  
**30 June 2009**  
**Telstra Corporation Limited ABN 33 051 775 556**

**Results for announcement to the market (continued)**

|   | <b>Telstra Entity</b>     |       |
|---|---------------------------|-------|
|   | <b>Year ended 30 June</b> |       |
|   | <b>2009</b>               | 2008  |
|   | <b>\$m</b>                | \$m   |
| <b>Dividends paid</b>   |                           |       |
| Previous year final dividend (paid 26 September 2008) . . . . . | <b>1,737</b>              | 1,740 |
| Interim dividend (paid 9 April 2009) . . . . .                  | <b>1,737</b>              | 1,736 |
| Total dividends paid. . . . .                                   | <b>3,474</b>              | 3,476 |
| <b>Dividends paid per ordinary share</b>                        |                           |       |
|   | <b>¢</b>                  | ¢     |
| Previous year final dividend paid . . . . .                     | <b>14.0</b>               | 14.0  |
| Interim dividend paid . . . . .                                 | <b>14.0</b>               | 14.0  |
| Total dividends paid. . . . .                                   | <b>28.0</b>               | 28.0  |

Our dividends for fiscal 2009 and fiscal 2008 are fully franked at a tax rate of 30%.

The interim dividend for fiscal 2009 had a record date of 13 March 2009 and was paid on 9 April 2009.

The final dividend for fiscal 2009 was resolved to be paid subsequent to balance date and will be paid in fiscal 2010. Our final dividend in respect of fiscal 2009 has been disclosed as an event after balance date. The final dividend has a record date of 28 August 2009 with payment to be made on 25 September 2009. Shares will trade excluding entitlement to the dividend on 24 August 2009.

In addition, our final dividend in respect of fiscal 2008 was provided for and paid during fiscal 2009. The final dividend had a record date of 29 August 2008 and payment was made on 26 September 2008.

Refer to item 6 on page 15 of this report for further details of the dividend reinvestment plan.

## Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

### Contents and reference page

| Appendix 4E items   | Reference   |
|---|---|
| <b>1. Reporting period and the previous corresponding period.</b>   | Refer to the 30 June 2009 financial report lodged with this document.   |
| <b>2. Results for announcement to the market.</b>   | Refer to page 2 for "results for announcement to the market".   |
| <b>3. Income statement with notes to the statement.</b>   | Refer to the income statement on page 5 and statement of comprehensive income on page 6 of this report.   |
| <b>4. Statement of financial position with notes to the statement.</b>  | Refer to the statement of financial position on page 7 of this report.  |
| <b>5. Statement of cash flows with notes to the statement.</b>  | Refer to the statement of cash flows on page 8 of this report.  |
| <b>6. Statement of changes in equity with notes to the statement.</b>   | Refer to the statement of changes in equity on page 9 of this report.   |
| <b>7. Details of individual and total dividends or distributions and dividend or distribution payments.</b>   | Refer to the "results for announcement to the market" on page 3 of this report. Also refer to note 4: Dividends and note 30: Events after balance date in the 30 June 2009 financial report lodged with this document for additional information, including discussion on franking credits. |
| <b>8. Details of dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan.</b>    | Refer to item 6 on page 15 of this report.  |
| <b>9. Net tangible assets per security.</b>   | Refer to item 1 on page 10 of this report.  |
| <b>10. Details of entities over which control has been gained or lost during the period.</b>  | Refer to item 2 on page 10 of this report.  |
| <b>11. Details of joint venture entities and associated entities.</b>   | Refer to item 3 on page 11 of this report.  |
| <b>12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position.</b>   | Refer to item 4 on page 12 of this report.  |
| <b>13. Accounting standards used in compiling reports by foreign entities.</b>  | Not applicable.   |
| <b>14. A commentary on the results for the period.</b>  | Refer to item 5 on page 13 of this report.  |
| <b>15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.</b> | Refer to item 7 on page 15 of this report.  |
| <b>16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification.</b>                     | Not applicable.   |
| <b>17. If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification.</b>   | Not applicable.   |

## Income Statement

for the year ended 30 June 2009

|  | Telstra Group      |        |
|--|--------------------|--------|
|  | Year ended 30 June |        |
|  | 2009               | 2008   |
|  | \$m                | \$m    |
| <b>Income</b>  |                    |        |
| Revenue (excluding finance income) . . . . .   | 25,507             | 24,828 |
| Other income . . . . .   | 107                | 174    |
|  | <b>25,614</b>      | 25,002 |
| <b>Expenses</b>  |                    |        |
| Labour . . . . .   | 4,131              | 4,158  |
| Goods and services purchased . . . . .   | 5,313              | 5,181  |
| Other expenses . . . . .   | 5,225              | 5,246  |
|  | <b>14,669</b>      | 14,585 |
| Share of net (profit)/loss from jointly controlled and associated entities . . . . .           | (3)                | 1      |
|  | <b>14,666</b>      | 14,586 |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . . | <b>10,948</b>      | 10,416 |
| Depreciation and amortisation . . . . .  | 4,390              | 4,190  |
| Earnings before interest and income tax expense (EBIT) . . . . .                               | <b>6,558</b>       | 6,226  |
| Finance income . . . . .   | 67                 | 72     |
| Finance costs . . . . .  | 967                | 1,158  |
| Net finance costs . . . . .  | <b>900</b>         | 1,086  |
| <b>Profit before income tax expense</b> . . . . .  | <b>5,658</b>       | 5,140  |
| Income tax expense . . . . .   | <b>1,582</b>       | 1,429  |
| <b>Profit for the year</b> . . . . .   | <b>4,076</b>       | 3,711  |
| <b>Attributable to:</b>  |                    |        |
| Equity holders of Telstra Entity . . . . .   | 4,073              | 3,692  |
| Minority interests . . . . .   | 3                  | 19     |
|  | <b>4,076</b>       | 3,711  |
| <b>Earnings per share (cents per share)</b>  |                    |        |
| Basic . . . . .  | <b>32.9</b>        | 29.9   |
| Diluted . . . . .  | <b>32.9</b>        | 29.8   |

The above income statement is an extract from our full financial report. Refer to the 30 June 2009 financial report lodged with this document for the detailed notes to this statement.

## Statement of Comprehensive Income

for the year ended 30 June 2009

|   | Telstra Group      |       |
|---|--------------------|-------|
|   | Year ended 30 June |       |
|   | 2009               | 2008  |
|   | \$m                | \$m   |
| <b>Profit for the year</b> . . . . .  | <b>4,076</b>       | 3,711 |
| <b>Foreign currency translation reserve</b>   |                    |       |
| Reserves recognised on equity accounting our interest in jointly controlled and associated entities . . . . . | <b>1</b>           | 1     |
| Translation of financial statements of non-Australian controlled entities . . . . .                           | <b>177</b>         | (231) |
| Income tax on movements in the foreign currency translation reserve . . . . .                                 | <b>36</b>          | (43)  |
|   | <b>214</b>         | (273) |
| <b>Cash flow hedging reserve</b>  |                    |       |
| Changes in fair value of cash flow hedges . . . . .   | <b>120</b>         | 120   |
| Changes in fair value transferred to other expenses . . . . .   | <b>(285)</b>       | (77)  |
| Changes in fair value transferred to goods and services purchased . . . . .                                   | <b>(27)</b>        | 15    |
| Changes in fair value transferred to finance costs . . . . .  | <b>104</b>         | 115   |
| Changes in fair value transferred to property, plant and equipment . . . . .                                  | <b>(14)</b>        | 7     |
| Income tax on movements in the cash flow hedging reserve . . . . .  | <b>31</b>          | (53)  |
|   | <b>(71)</b>        | 127   |
| <b>Retained profits</b>   |                    |       |
| Actuarial loss on defined benefit plans . . . . .   | <b>(546)</b>       | (434) |
| Income tax on actuarial loss on defined benefit plans . . . . .   | <b>163</b>         | 129   |
|   | <b>(383)</b>       | (305) |
| <b>Minority interests</b>   |                    |       |
| Translation of financial statements of non-Australian controlled entities . . . . .                           | <b>30</b>          | (19)  |
| Actuarial loss on defined benefit plans . . . . .   | <b>(7)</b>         | -     |
|   | <b>23</b>          | (19)  |
| <b>Total comprehensive income for the year</b> . . . . .  | <b>3,859</b>       | 3,241 |
| <b>Attributable to:</b>   |                    |       |
| Profit for the year attributable to equity holders of Telstra Entity . . . . .                                | <b>4,073</b>       | 3,692 |
| Actuarial loss on defined benefit plans (after tax) recognised in retained profits . . . . .                  | <b>(383)</b>       | (305) |
| Total comprehensive income recognised in retained profits . . . . .   | <b>3,690</b>       | 3,387 |
| Other comprehensive income recognised in foreign currency translation reserve . . . . .                       | <b>214</b>         | (273) |
| Other comprehensive income recognised in cash flow hedging reserve . . . . .                                  | <b>(71)</b>        | 127   |
| <b>Total comprehensive income attributable to equity holders of Telstra Entity</b> . . . . .                  | <b>3,833</b>       | 3,241 |
| Profit for the year attributable to minority interests . . . . .  | <b>3</b>           | 19    |
| Other comprehensive income attributable to minority interests . . . . .                                       | <b>23</b>          | (19)  |
| <b>Total comprehensive income attributable to minority interests</b> . . . . .                                | <b>26</b>          | -     |

The above statement of comprehensive income is an extract from our full financial report. Refer to the 30 June 2009 financial report lodged with this document for the detailed notes to this statement.

## Statement of Financial Position

as at 30 June 2009

|  | Telstra Group |               |
|--|---------------|---------------|
|  | As at 30 June |               |
|  | 2009          | 2008          |
|  | \$m           | \$m           |
| <b>Current assets</b>  |               |               |
| Cash and cash equivalents . . . . .                              | 1,381         | 899           |
| Trade and other receivables . . . . .                            | 4,039         | 3,952         |
| Inventories . . . . .  | 239           | 309           |
| Derivative financial assets . . . . .                            | 128           | 54            |
| Current tax receivables . . . . .                                | 101           | -             |
| Prepayments . . . . .  | 304           | 299           |
| <b>Total current assets . . . . .</b>                            | <b>6,192</b>  | <b>5,513</b>  |
| <b>Non current assets</b>  |               |               |
| Trade and other receivables . . . . .                            | 163           | 198           |
| Inventories . . . . .  | 18            | 12            |
| Investments - accounted for using the equity method . . . . .    | 16            | 14            |
| Investments - other . . . . .                                    | -             | 1             |
| Property, plant and equipment . . . . .                          | 23,895        | 24,311        |
| Intangible assets . . . . .                                      | 8,416         | 7,245         |
| Derivative financial assets . . . . .                            | 1,073         | 444           |
| Non-current tax receivables . . . . .                            | 172           | -             |
| Deferred tax assets . . . . .                                    | 9             | 1             |
| Defined benefit assets . . . . .                                 | 8             | 182           |
| <b>Total non current assets . . . . .</b>                        | <b>33,770</b> | <b>32,408</b> |
| <b>Total assets . . . . .</b>                                    | <b>39,962</b> | <b>37,921</b> |
| <b>Current liabilities</b>                                       |               |               |
| Trade and other payables . . . . .                               | 3,734         | 3,930         |
| Provisions . . . . .   | 495           | 535           |
| Borrowings . . . . .   | 1,979         | 2,055         |
| Derivative financial liabilities . . . . .                       | 111           | 82            |
| Current tax payables . . . . .                                   | 262           | 264           |
| Revenue received in advance . . . . .                            | 1,171         | 1,257         |
| <b>Total current liabilities . . . . .</b>                       | <b>7,752</b>  | <b>8,123</b>  |
| <b>Non current liabilities</b>                                   |               |               |
| Trade and other payables . . . . .                               | 245           | 181           |
| Provisions . . . . .   | 761           | 776           |
| Borrowings . . . . .   | 15,344        | 13,444        |
| Derivative financial liabilities . . . . .                       | 819           | 1,222         |
| Deferred tax liabilities . . . . .                               | 1,593         | 1,575         |
| Defined benefit liability . . . . .                              | 414           | -             |
| Revenue received in advance . . . . .                            | 353           | 355           |
| <b>Total non current liabilities . . . . .</b>                   | <b>19,529</b> | <b>17,553</b> |
| <b>Total liabilities . . . . .</b>                               | <b>27,281</b> | <b>25,676</b> |
| <b>Net assets . . . . .</b>                                      | <b>12,681</b> | <b>12,245</b> |
| <b>Equity</b>  |               |               |
| Share capital . . . . .  | 5,576         | 5,534         |
| Reserves . . . . .   | (273)         | (410)         |
| Retained profits . . . . .                                       | 7,115         | 6,893         |
| <b>Equity available to Telstra Entity shareholders . . . . .</b> | <b>12,418</b> | <b>12,017</b> |
| Minority interests . . . . .                                     | 263           | 228           |
| <b>Total equity . . . . .</b>                                    | <b>12,681</b> | <b>12,245</b> |

The above statement of financial position is an extract from our full financial report. Refer to the 30 June 2009 financial report lodged with this document for the detailed notes to this statement.

## Statement of Cash Flows

for the year ended 30 June 2009

|   | <b>Telstra Group</b>      |                |
|---|---------------------------|----------------|
|   | <b>Year ended 30 June</b> |                |
|   | 2009                      | 2008           |
|   | \$m                       | \$m            |
| <b>Cash flows from operating activities</b>                                   |                           |                |
| Receipts from customers (inclusive of goods and services tax (GST)) . . . . . | 27,719                    | 27,246         |
| Payments to suppliers and to employees (inclusive of GST) . . . . .           | (17,074)                  | (16,871)       |
| Net cash generated by operations . . . . .                                    | 10,645                    | 10,375         |
| Income taxes paid . . . . .   | (1,647)                   | (1,531)        |
| <b>Net cash provided by operating activities</b> . . . . .                    | <b>8,998</b>              | <b>8,844</b>   |
| <b>Cash flows from investing activities</b>                                   |                           |                |
| Payments for:   |                           |                |
| - property, plant and equipment . . . . .                                     | (3,263)                   | (3,862)        |
| - intangible assets . . . . .   | (1,531)                   | (1,465)        |
| Capital expenditure (before investments) . . . . .                            | (4,794)                   | (5,327)        |
| - shares in controlled entities (net of cash acquired) . . . . .              | (240)                     | (74)           |
| - payments for other investments . . . . .                                    | (1)                       | (1)            |
| Total capital expenditure . . . . .   | (5,035)                   | (5,402)        |
| Proceeds from:  |                           |                |
| - sale of property, plant and equipment . . . . .                             | 22                        | 28             |
| - sale of intangible assets . . . . .   | 2                         | 1              |
| - sale of shares in controlled entities (net of cash disposed) . . . . .      | 197                       | 51             |
| Proceeds from finance lease principal amounts . . . . .                       | 55                        | 52             |
| Loans to jointly controlled and associated entities . . . . .                 | (4)                       | -              |
| Repayment of loan to jointly controlled and associated entities . . . . .     | -                         | 6              |
| Interest received . . . . .   | 65                        | 72             |
| Settlement of hedges in net investments . . . . .                             | (35)                      | 73             |
| Distributions received from FOXTEL . . . . .                                  | 100                       | 130            |
| <b>Net cash used in investing activities</b> . . . . .                        | <b>(4,633)</b>            | <b>(4,989)</b> |
| <b>Operating cash flows less investing cash flows</b> . . . . .               | <b>4,365</b>              | <b>3,855</b>   |
| <b>Cash flows from financing activities</b>                                   |                           |                |
| Proceeds from borrowings . . . . .  | 3,118                     | 3,559          |
| Repayment of borrowings . . . . .   | (2,288)                   | (2,458)        |
| Repayment of finance lease principal amounts . . . . .                        | (36)                      | (42)           |
| Staff repayments of share loans . . . . .                                     | 11                        | 15             |
| Purchase of shares for employee share plans . . . . .                         | -                         | (129)          |
| Finance costs paid . . . . .  | (1,221)                   | (1,213)        |
| Dividends paid to equity holders of Telstra Entity . . . . .                  | (3,474)                   | (3,476)        |
| Dividends paid to minority interests . . . . .                                | (43)                      | (22)           |
| <b>Net cash used in financing activities</b> . . . . .                        | <b>(3,933)</b>            | <b>(3,766)</b> |
| <b>Net increase in cash and cash equivalents</b> . . . . .                    | <b>432</b>                | <b>89</b>      |
| Cash and cash equivalents at the beginning of the year . . . . .              | 899                       | 823            |
| Effects of exchange rate changes on cash and cash equivalents . . . . .       | 50                        | (13)           |
| <b>Cash and cash equivalents at the end of the year</b> . . . . .             | <b>1,381</b>              | <b>899</b>     |

The above statement of cash flows is an extract from our full financial report. Refer to the 30 June 2009 financial report lodged with this document for the detailed notes to this statement.

## Statement of Changes in Equity

for the year ended 30 June 2009

### Telstra Group

|  | Reserves                |   |                                |   |                           |                            |                              | Total<br>\$m |
|--|-------------------------|---|--------------------------------|---|---------------------------|----------------------------|------------------------------|--------------|
|  | Share<br>capital<br>\$m | Foreign<br>currency<br>translation<br>\$m | Cash<br>flow<br>hedging<br>\$m | Consolid-<br>ation<br>fair value<br>\$m | General<br>reserve<br>\$m | Retained<br>profits<br>\$m | Minority<br>interests<br>\$m |              |
| <b>Balance at 1 July 2007</b> . . . . .                            | 5,611                   | (325)                                     | 37                             | 26                                      | 4                         | 6,976                      | 251                          | 12,580       |
| - total comprehensive income for the year                          | -                       | (273)                                     | 127                            | -                                       | -                         | 3,387                      | -                            | 3,241        |
| - dividends . . . . .  | -                       | -   | -                              | -                                       | -                         | (3,476)                    | (43)                         | (3,519)      |
| - minority interest on acquisitions . . .                          | -                       | -   | -                              | -                                       | -                         | -                          | 20                           | 20           |
| - transfers to retained profits . . . . .                          | -                       | -   | -                              | (6)                                     | -                         | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 15                      | -   | -                              | -                                       | -                         | -                          | -                            | 15           |
| - prior year labour expense settled in<br>equity . . . . .         | 9                       | -   | -                              | -                                       | -                         | -                          | -                            | 9            |
| - additional shares purchased . . . . .                            | (129)                   | -   | -                              | -                                       | -                         | -                          | -                            | (129)        |
| - share-based payments . . . . .                                   | 28                      | -   | -                              | -                                       | -                         | -                          | -                            | 28           |
| <b>Balance at 30 June 2008</b> . . . . .                           | 5,534                   | (598)                                     | 164                            | 20                                      | 4                         | 6,893                      | 228                          | 12,245       |
| - total comprehensive income for the year                          | -                       | 214                                       | (71)                           | -                                       | -                         | 3,690                      | 26                           | 3,859        |
| - dividends . . . . .  | -                       | -   | -                              | -                                       | -                         | (3,474)                    | (39)                         | (3,513)      |
| - minority interest on acquisitions . . .                          | -                       | -   | -                              | -                                       | -                         | -                          | 48                           | 48           |
| - transfers to retained profits . . . . .                          | -                       | -   | -                              | (6)                                     | -                         | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 11                      | -   | -                              | -                                       | -                         | -                          | -                            | 11           |
| - prior year labour expense settled in<br>equity . . . . .         | 8                       | -   | -                              | -                                       | -                         | -                          | -                            | 8            |
| - share-based payments . . . . .                                   | 23                      | -   | -                              | -                                       | -                         | -                          | -                            | 23           |
| <b>Balance at 30 June 2009</b> . . . . .                           | 5,576                   | (384)                                     | 93                             | 14                                      | 4                         | 7,115                      | 263                          | 12,681       |

The above statement of changes in equity is an extract from our full financial report. Refer to the 30 June 2009 financial report lodged with this document for the detailed notes to this statement.

## Appendix 4E

### 1. Net tangible assets per security

|  | Telstra Group |      |
|--|---------------|------|
|  | As at 30 June |      |
|  | 2009          | 2008 |
|  | ¢             | ¢    |
| Net tangible assets per security . . . . . | 32.2          | 38.4 |

Net tangible assets are defined as net assets of the Telstra Group less intangible assets and minority interests. The number of Telstra shares on issue for fiscal 2009 and 2008 was 12,433 million.

The decrease in net tangible assets per security is due to the net tangible assets of the Telstra Group decreasing from \$4,772 million at 30 June 2008 to \$4,002 million at 30 June 2009. The reduction of \$770 million is mainly due to an increase in net debt (\$269 million) and the actuarial loss recorded on our defined benefit plans (\$553 million after tax).

### 2. Details of entities over which control has been gained or lost during the period

#### Entities over which control has been gained during the period

- On 9 February 2009, we acquired 67% of the issued capital of Octave Investments Holdings Limited for a total consideration of \$292 million including acquisition costs.

Octave Investments Holdings Limited acquired 100% of the issued capital of Beauty Sunshine Investments Limited and Sharp Point Group Limited along with their controlled entities. These entities are internet businesses in China with leading positions in the mobile content and online music sectors.

- Two new controlled entities were established within the Sensis Group during the year:
  - Location Navigation Pty Ltd on 2 February 2009; and
  - Telstra Sensis (Beijing) Co. Limited on 13 August 2008.
- During the year, 100% of the issued capital of the following entities was acquired for minimal consideration:
  - Reach Holdings Limited and its controlled entities, acquired by our controlled entity Telstra Holdings Pty Ltd; and
  - Big Bang Holdings Limited, acquired by our controlled entity CSL Limited.

#### Entities over which control has been lost during the period

- On 30 April 2009, our controlled entity Telstra Service Solutions Holdings Limited sold its 100% shareholding in the KAZ Group Pty Limited for a total consideration of \$205 million (net of cash balances of the disposed entities).
- On 2 July 2008, our controlled entity Telstra International HK Limited sold its 100% shareholding in Damovo Hong Kong Limited for minimal consideration.

## Appendix 4E

### 3. Details of investments in joint ventures and associated entities

Our investments in jointly controlled and associated entities are listed below:

| Name of entity   | Principal activities                        | Telstra Group      |       |
|--|---|--------------------|-------|
|  |   | Ownership interest |       |
|  |   | As at 30 June      |       |
|  |   | 2009               | 2008  |
|  |   | %                  | %     |
| <b>Jointly controlled entities</b>                                   |   |                    |       |
| FOXTEL Partnership   | Pay television                              | 50.0               | 50.0  |
| FOXTEL Television Partnership  | Pay television                              | 50.0               | 50.0  |
| Customer Services Pty Limited  | Customer service                            | 50.0               | 50.0  |
| FOXTEL Management Pty Limited  | Management services                         | 50.0               | 50.0  |
| FOXTEL Cable Television Pty Ltd                                      | Pay television                              | 80.0               | 80.0  |
| Reach Ltd (incorporated in Bermuda) (i)                              | International connectivity services         | 50.0               | 50.0  |
|  | Toll free number portability in New Zealand |                    |       |
| TNAS Limited (incorporated in New Zealand) (ii)                      |   | 33.3               | 33.3  |
| 3GIS Pty Ltd (i)   | Management services                         | 50.0               | 50.0  |
| 3GIS Partnership (i)   | 3G network services                         | 50.0               | 50.0  |
| Bridge Mobile Pte Ltd (incorporated in Singapore) (ii)               | Regional roaming provider                   | 10.0               | 10.0  |
| m.Net Corporation Limited  | Mobile phone content provider               | 25.2               | 25.2  |
| <b>Associated entities</b>   |   |                    |       |
| Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (i) | Network cable provider                      | 46.9               | 46.9  |
| Telstra Super Pty Ltd  | Superannuation trustee                      | 100.0              | 100.0 |
| Keycorp Limited  | Electronic transactions solutions           | 48.2               | 48.2  |
| Telstra Foundation Ltd   | Charitable trustee organisation             | 100.0              | 100.0 |
| LinkMe Pty Ltd (iii)   | Internet recruitment provider               | -                  | 46.0  |

(i) Balance date is 31 December.

(ii) Balance date is 31 March.

(iii) On 28 February 2009 we disposed of our investment in LinkMe Pty Ltd for nominal consideration.

Unless noted, all investments are incorporated in Australia.

#### Share of net profits/(losses)

|   | Telstra Group      |            |
|---|--------------------|------------|
|   | Year ended 30 June |            |
|   | 2009               | 2008       |
|   | \$m                | \$m        |
| Net profit/(loss) from jointly controlled and associated entities has been contributed by the following entities: |                    |            |
| <b>Associated entities</b>  |                    |            |
| - Keycorp Limited . . . . .   | 4                  | -          |
| - LinkMe Pty Ltd . . . . .  | (1)                | (1)        |
|   | <b>3</b>           | <b>(1)</b> |

Refer note 26 in our financial statements lodged with this document for further details on our jointly controlled and associated entities.

## Appendix 4E

### 4. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

#### Statement of Financial Position

We continue to maintain a strong statement of financial position with net assets of \$12,681 million, compared with \$12,245 million at 30 June 2008. The increase in net assets of \$436 million comprised an increase in total assets of \$2,041 million, offset by an increase in our total liabilities of \$1,605 million.

The increase in total assets of \$2,041 million was primarily due to:

- A stronger cash position at 30 June 2009, with cash and cash equivalents increasing by \$482 million to \$1,381 million;
- Other current assets (excluding cash) increased by \$197 million to \$4,811 million, largely driven by current tax receivables of \$101 million associated with amended tax returns that have been lodged;
- Our intangible assets comprises of goodwill and intangible assets internally generated and acquired. A year on year increment of \$1,171 million to \$8,416 million was driven by an increase in software (\$755 million) primarily relating to our new billing system applications and reporting systems as part of our IT transformation program. Goodwill also increased (\$329 million) primarily because of foreign exchange movements on goodwill relating to our offshore entities, CSL New World Group and our businesses in China (\$228 million). Acquisition of Beauty Sunshine Investments Limited and Sharp Point Group Limited during the year, also contributed to the overall intangibles growth and was offset in part by the sale of the KAZ Group in April 2009;
- Other non-current assets increased by \$607 million to \$1,459 million, driven largely by increasing interest rate and cross currency swaps from fair value revaluations associated with our hedging requirements; and
- Property, plant and equipment decreased by \$416 million to \$23,895 million over the year mainly due to the accelerated depreciation on CSL New World's mobile network assets as we invest in new network technologies and the depreciation associated with our transformation program asset build in recent years.

The increase in total liabilities of \$1,605 million was primarily due to:

- Total current and non-current borrowings, excluding derivatives, increased by \$1,824 million to \$17,323 million in fiscal 2009. This drove the increase in gross debt of \$751 million. The movement in gross debt comprises new long-term borrowings of \$2,627 million, net maturities of \$1,833 million, net decrease in revaluations of \$67 million and finance lease additions of \$24 million;

- The gross pension asset has decreased by \$588 million since 30 June 2008 and is now a net defined benefit liability of \$406 million. This decrease was primarily attributable to an actuarial loss caused by a significant decline in the superannuation scheme's asset values; offset by
- Other current liabilities decreased by \$371 million to \$7,752 million driven by lower accrued capex with a number of key projects being finalised during the year. There was also a decrease in network build and IT transformation capital activities undertaken this year compared with fiscal 2008.

#### Statement of Cash Flows

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

During fiscal 2009, operating cash flow increased by 1.7% or \$154 million to \$8,998 million, driven by higher receipts generated during the year offset by higher payments made to suppliers and employees and higher tax payments.

Cash used in investing activities of \$4,633 million decreased by \$356 million over the prior year. The decrease is mainly a result of lower capital expenditure as our peak transformation spending has past.

Free cash flow (operating less investing) grew by 13.2% to \$4,365 million.

Our cash used in financing activities was \$3,933 million, up \$167 million from \$3,766 million in the prior year. Proceeds from new bank loans were lower than the prior year.

## Appendix 4E

### 5. Commentary on the results for the period

#### Income Statement

Our net profit for the year was \$4,076 million, representing an increase of 9.8% on the prior year's net profit of \$3,711 million. Earnings before interest and income tax expense (EBIT) for fiscal 2009 was \$6,558 million, representing an increase of 5.3% on the prior year result of \$6,226 million.

Total income (excluding finance income) for the year increased by 2.4% to \$25,614 million (2008: \$25,002 million) and total revenue grew by 2.7% to \$25,507 million. Income growth was mainly attributable to:

- total mobile revenue growth of \$469 million, up 7.3%;
- fixed internet revenue growth of \$140 million, up 6.9%; and
- IP and data access revenue growth of \$130 million, up 8.1%.

These increases have been partially offset by a decline in PSTN revenues of \$329 million or 4.9% as the market continues to move towards mobile and broadband products.

Mobile services revenue (including wireless broadband) increased largely due to the continued growth in the number of customers, increased demand for Next G™ services and wireless data services and increased usage across a range of voice and data services. A significant contributor has been wireless broadband which is continuing its rapid growth. Mobiles revenue for the year of \$6,878 million exceeded PSTN revenue of \$6,337 million for the first time in a fiscal year.

Fixed internet revenue grew during the year due to fixed broadband. Our customers are continuing to migrate across to higher speed broadband plans, due to an increased demand for speed, applications and content. However over the last year we have seen a significant slow down in subscriber growth in fixed broadband.

IP and data access revenue growth during the year was driven by the success of the Telstra Next IP™ network. Within the access portfolio, IP Metropolitan Area Network (IP MAN) is the largest revenue generating data product, which continues to record double digit growth.

In addition, our total income for the year includes a \$100 million (2008: \$130 million) capital distribution received from our FOXTEL partnership, in which we own a 50% interest.

Total expenses (before depreciation and amortisation, finance costs, income tax expense and our share of profit/(loss) from jointly controlled and associated entities) increased by only 0.6% to \$14,669 million from \$14,585 million in the prior year.

Goods and services purchased increased by \$132 million, which is largely due to higher international network payments resulting from foreign exchange movements and higher offshore traffic and volumes.

Labour expenses decreased by \$27 million, driven through successful implementation of headcount reduction strategies and productivity improvement.

Other expenses decreased by \$21 million, a first year on year reduction since fiscal 2005. The decrease is predominantly due to lower promotion and advertising costs as spending was more targeted and strong discretionary cost management. Service contract costs however continued to increase, mainly driven by the migration of consumer customers onto the new billing systems. While impairment costs fell, bad and doubtful debts increased by 15.1% to \$289 million due to higher levels of aged debt and insolvency due to the economic conditions.

Depreciation and amortisation expenses have risen by \$200 million to \$4,390 million for the year ended 30 June 2009. The increase has been driven mainly by acceleration in depreciation of CSL New World mobile network assets which have been replaced, and increased amortisation cost associated with the IT transformation.

#### Investor return and other key ratios

Our basic earnings per share increased to 32.9 cents per share in fiscal 2009 from 29.9 cents per share in the prior year. The increase was due to higher profit in fiscal 2009. We have resolved to pay a final fully franked dividend of 14 cents per share (\$1,737 million), bringing dividends per share for fiscal 2009 to 28 cents per share. The prior year dividends amounted to 28 cents per share.

Other relevant measures of return to investors include the following:

- Return on average assets - 2009: 17.4% (2008: 16.8%)
- Return on average equity - 2009: 33.3% (2008: 30.3%)

Return on average assets and return on average equity are higher in fiscal 2009 primarily due to the increased profit in fiscal 2009.

#### Segment information

The following are our reportable segments:

- Telstra Consumer;
- Telstra Business;
- Telstra Enterprise and Government;
- Telstra Networks and Services;
- Telstra Wholesale;
- Sensis;
- CSL New World;
- TelstraClear; and
- Other (including Telstra Country Wide, Telstra Media (new), Telstra Cable (previously Telstra Media), Strategic Marketing, Information Technology, and our Corporate areas).

Refer to note 5 in our financial statements for details on the nature of the products and services provided by these segments.

## Appendix 4E

### 5. Commentary on the results of the period (continued)

#### Segment information (continued)

##### **Telstra Consumer**

Telstra Consumer recorded segment income growth of 3.0% during fiscal 2009 to \$10,325 million (sales revenue growth was 3.1%) for the fiscal year with EBIT contribution growing by 3.2%. This is a strong performance in a market faced with an economic slowdown and increasingly aggressive competitor price competition. Mobile services revenue increased by 8.7% to \$3,728 million driven by continued customer growth and an increase in average revenue per user (ARPU). The 527,000 mobile net SIO additions in Telstra Consumer were skewed to customers taking the prepaid option, with 376,000 prepaid adds in the year. Our consumer segment saw a decline in PSTN revenue of 2.2% to \$3,777 million while fixed internet revenue grew by 14.7% to \$1,274 million

Expense growth in the consumer segment has been kept to a minimum, ensuring that EBIT growth continues to outpace revenue growth. Total external expenses increased by 2.7% to \$4,008 million mainly due to increases in service contracts and bad and doubtful debts. Cost of good sold decreased by 7.4% partly due to lower volumes. Management of subscriber acquisition and recontracting costs (SARCs) remains strong with the average SARC rate decreasing by 14.0%.

##### **Telstra Business**

Segment income in Telstra Business grew by 4.5% to \$3,799 million during the year (sales revenue growth was 4.7%), demonstrating continued strong performance in the segment. EBIT contribution grew by 6.0%. Mobile services revenue increased by 11.1% to \$1,404 million. While voice related revenues rose by 4.5%, data revenue contributed significantly to the overall growth and now represents 27.5% of mobile services revenues. Fixed internet revenue has grown by 14.3% despite the product essentially operating in a mature market experiencing a slowdown in growth.

Total expenses growth was contained to 1.0% which was below the revenue growth rate and includes a decline in labour costs of 5.2% and handset subsidies of 8.7% with lower volumes absorbing the increased cost of high end devices.

##### **Telstra Enterprise & Government**

Telstra Enterprise and Government segment income has increased by 2.8% to \$4,784 million despite the sale of KAZ in April 2009 (sales revenue growth was 2.9%). Mobile services revenue growth has underpinned the strong result in Telstra Enterprise and Government and has grown by 13.2% to \$789 million. Mobile data revenue has underpinned the growth and now represents 44.0% of mobile services revenue. IP access is a large and fast growing part of our enterprise and government segment with revenue growing by 23.3% to \$583 million and a large proportion of our IP customers take value-added products such as IP security, IP telephony and hosting services.

Expenses declined by 1.9% mainly due to the sale of KAZ as mentioned above. Excluding KAZ expenses from both years, total expenses grew to support the growth in revenue..

##### **Telstra Networks & Services**

With the departure of the Chief Operations Officer during the year, the Telstra Operations operating segment was dissolved. As a result, Telstra Networks and Services (TN&S) is now a reportable segment in its own right. TN&S is primarily a cost centre responsible for our network infrastructure and customer solutions supporting the revenue generating activities for our other segments. In fiscal 2009, the segment's negative EBIT contribution improved by 2.7% driven by decreases in labour expenses, goods and services purchased and service contracts and other agreements.

##### **Telstra Wholesale**

Segment income for Telstra Wholesale declined by 5.2% to \$2,383 million as the business continued to be impacted by ULL migration in fiscal 2009. PSTN revenue declined due to continued losses to ULL combined with the overall market reduction in the use of PSTN services. The increases in ULL together with higher spectrum sharing services also resulted in a decline in wholesale internet revenue and growth in intercarrier access revenue as competitors continue building their own networks.

Telstra Wholesale EBIT contribution decreased by 7.2% to \$2,214 million in fiscal 2009 reflecting the change to a lower mobile terminating access (MTA) rate in the prior year. On a segment basis, Telstra Wholesale holds the impact of price variances year on year whilst the customer facing business units hold the volume impact of this cost category. The MTA rate adjustment in the prior year resulted in an increase in carrier network outpayments.

##### **Sensis**

Sensis segment income increased to \$2,251 million during the year, up 5.8% from the prior year. Only 9 months of Trading Post revenue has been included in the fiscal 2009 results, as this business was transferred to the Telstra Media segment on 1 April 2009. Print directories revenue growth has been driven by increased yield, new customer growth and advertiser retention rates. Sensis' Chinese online businesses revenue growth was driven by the expansion of SouFun's operations to 100 cities in China and the Norstar Media and Autohome/PCPop acquisitions in June 2008.

Sensis EBIT contribution increased by 11.3% to \$1,051 million in fiscal 2009. Total segment expenses grew as a result of a growth in labour expenses and directory costs. Staff numbers have increased as part of the SouFun expansion and the growth in the mini Yellow Pages book "In the car" publication has required additional print and distribution costs. Depreciation and amortisation has declined due to an extension of the service life of some software asset classes.

## Appendix 4E

### 5. Commentary on results for the period (continued)

#### Segment information (continued)

##### **CSL New World**

The CSL New World segment income grew by 7.9% to \$989 million during the year, largely attributable to the impact of foreign currency translation. In Hong Kong dollars, total income has decreased by 11.3% predominantly driven by lower volume of handset sales following a significant slowdown in consumer spending. CSL New World has also recorded lower local voice revenue, outbound roaming voice revenue and prepaid revenue. Outbound roaming revenue has been particularly impacted by the global economic climate and reduced travel out of Hong Kong.

CSL New World EBIT contribution declined to a \$103 million net loss during fiscal 2009. The EBIT decline was impacted by \$172 million of accelerated depreciation on old networks, following the decision to invest in new network technologies and acceleration in the phasing out of the old networks. Lower sales volumes resulted in a decline in cost of handsets sold and decreased outbound traffic volumes led to lower international disbursement costs. Labour costs have also decreased through improved productivity which facilitated a reduction in headcount. This was partially offset by higher network costs.

##### **TelstraClear**

Segment income for TelstraClear declined to \$547 million during the year. In New Zealand dollars, total income increased by 2.3% largely driven by growth in broadband penetration on the consumer hybrid fibre coaxial cable network in Wellington and Christchurch, as well as a rise in consumer PSTN access lines.

EBIT contribution for TelstraClear improved by 35.0% to a \$13 million net loss at 30 June 2009. Lower information technology and discretionary expenses were offset by a rise in bad and doubtful debts expense associated with the current challenging economic environment and an increase in promotions and advertising spend.

#### **Other information**

No significant events have occurred after balance date for the year ended 30 June 2009, other than:

#### **Final dividend**

On 13 August 2009, 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 28 August 2009 with payment being made on 25 September 2009. Shares will trade excluding the entitlement to the dividend on 24 August 2009.

A provision for dividend payable has been raised as at the date of resolution, amounting to \$1,737 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 2009.

There are no income tax consequences for the Telstra Group and Telstra Entity resulting from the resolution and payment of the final ordinary dividend, except for \$745 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

#### **Change in Directshare terms**

As a result of the changes to tax laws governing employee share schemes, creating uncertainty in relation to the future tax treatment of shares acquired under employee share schemes, the Board has determined that non-executive directors will not be required to receive a minimum of 20% of their total remuneration as Directshares from 1 July 2009. 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. Such shares are to be acquired over a five year period from 1 July 2009 to further align the remuneration structure with the interests of shareholders.

### 6. Details of dividend or distribution reinvestment plans in operation

The Future Fund has declined to participate in the dividend reinvestment plan (DRP) for the 2009 final dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended.

### 7. Statement about the audit status

Our preliminary final report is based on the Telstra Corporation Limited and controlled entities financial report as at 30 June 2009, which has been audited by Ernst & Young. Refer to the 30 June 2009 financial report for the independent auditor's report to the members of Telstra Corporation Limited.



## **Telstra Corporation Limited and controlled entities Results and operations review Year ended 30 June 2009**

**Results on guidance; dividend maintained**

### **Result highlights:**

- **Sales revenue grew by 2.9% or \$714 million to \$25,371 million**
- **Total revenue grew by 2.7% or \$679 million to \$25,507 million**
- **Taking into account expected revenues from the KAZ group prior to the announcement of the sale, total revenue grew by 3.0%**
- **Operating expenses (before depreciation and amortisation) grew by 0.6% or \$84 million to \$14,669 million**
- **EBITDA grew by 5.1% or \$532 million to \$10,948 million**
- **EBIT grew by 5.3% or \$332 million to \$6,558 million**
  
- **Profit attributable to Telstra shareholders grew by 10.3% or \$381 million to \$4,073 million**
- **Basic earnings per share of 32.9 cents, up 10.0% or 3.0 cents**
- **Free cash flow increased by 13.2% or \$510 million to \$4,365 million**
- **Final dividend of 14 cents per share, fully franked**
  
- **Mobile services revenue grew by 10.0% or \$553 million to \$6,101 million**
- **Fixed retail broadband revenue grew by 15.9% or \$210 million to \$1,533 million**
- **IP and data access revenue grew by 8.1% or \$130 million to \$1,733 million**
- **Sensis sales revenue grew by 5.8% or \$123 million to \$2,250 million**

## Full year results and operations review - June 2009

### Financial Highlights Year ended 30 June 2009

#### Results on guidance; dividend maintained

Telstra Corporation Limited and its controlled entities (Telstra) are pleased to report strong growth in revenue, earnings and free cash flow and the maintenance of our dividend despite the challenging macro economic conditions the company is facing.

In fiscal 2009, total revenue grew by 2.7% to \$25,507 million. Taking into account expected revenues from the KAZ group prior to the announcement of the sale, total revenue grew by 3.0%. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.1% to \$10,948 million which was within our guidance range of 5% to 6% growth. Earnings before interest and tax (EBIT) increased by 5.3% to \$6,558 million, exceeding the guidance range of 3% to 5% growth.

#### 2009 results versus guidance

|   | 2009 results | 2009 guidance |
|---|--------------|---------------|
| Total revenue growth . . . . .          | 2.7% *       | 3 - 4%        |
| EBITDA growth . . . . .                 | 5.1%         | 5 - 6%        |
| EBIT growth . . . . .                   | 5.3%         | 3 - 5%        |
| Depreciation and amortisation . . . . . | \$4.4b       | Around \$4.5b |
| Accrued capex . . . . .                 | \$4.6b       | \$4.3 - 4.6b  |

\* 3.0% after adjusting for expected KAZ revenues

Free cash flow of \$4,365 million was generated which is a significant increase of over half a billion dollars or 13.2% from fiscal 2008. We remain on track to meet our free cash flow target of \$6 billion in fiscal 2010.

Basic earnings per share increased by 10.0% from 29.9 cents to 32.9 cents.

On 13 August 2009, the Directors of Telstra resolved to pay a fully franked ordinary dividend of 14 cents per share. The record date of the dividend will be 28 August 2009 with payment on 25 September 2009. Shares will trade excluding entitlement to the dividend on 24 August 2009. This dividend brings the fully franked ordinary dividends for fiscal 2009 to 28 cents per share, amounting to \$3,474 million.

#### Outlook

As we have discussed in the past, our business remains resilient, but not immune to the prevailing macro economic conditions. This is reflected in our expectations for the business in 2010. We remain firmly focused on delivering the financial outcomes of the transformation. We continue towards the target of \$6 billion of free cash flow in fiscal 2010, which will include what we expect to be around \$500 million in cash contributions to the Telstra Superannuation Scheme which was not in our original plan. Achievement of this target

would give us significant excess free cash flow, and all the flexibility that brings.

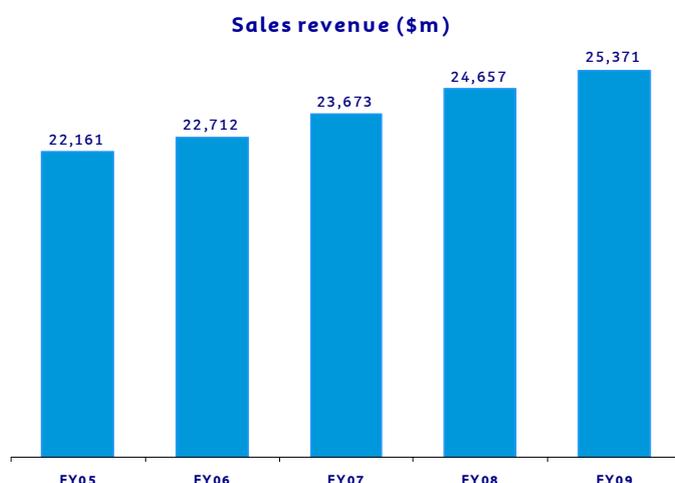
With less than one year remaining on our 2005-2010 compound annual growth rate (CAGR) objectives for revenue and EBITDA, it is no longer informative to consider guidance based on 5 year CAGRs.

For fiscal 2010 we expect sales revenue percentage growth of low single-digits, EBITDA and EBIT percentage growth of low single-digits, with EBITDA margins maintained and accrued capital expenditure of less than \$3.8b, equivalent to around 14% of sales revenue. In these difficult economic times, our fiscal 2010 guidance will see the top line growing, complemented by bottom line growth. All guidance of course excludes the impacts of any Government regulatory review or National Broadband Network outcomes or any unexpected outcome from Australian Competition and Consumer Commission wholesale pricing determinations.

#### 2010 outlook

|  | 2010 guidance           |
|--|-------------------------|
| Sales revenue growth (%) . . . . .       | Low single digit growth |
| EBITDA growth (%) . . . . .              | Low single digit growth |
| EBITDA margin on sales revenue . . . . . | Maintained              |
| Depreciation and amortisation . . . . .  | ~\$4.5b                 |
| EBIT growth (%) . . . . .                | Low single digit growth |
| Accrued capital expenditure . . . . .    | <\$3.8b                 |
| Free cash flow . . . . .                 | \$6b                    |

#### Revenue



## Full year results and operations review - June 2009

### Sales revenue by business segment

|   | Year ended 30 June |                 |                 | Half-year ended |                 |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|
|   | 2009               | 2009            | 2008            | 30 June 2009    |                 |
|   | \$m                | YoY<br>change % | YoY<br>change % | \$m             | YoY<br>change % |
| Telstra Consumer . . . . .                  | 10,269             | 3.1%            | 6.0%            | 5,098           | 3.2%            |
| Telstra Business . . . . .                  | 3,789              | 4.7%            | 8.8%            | 1,862           | 2.2%            |
| Telstra Enterprise and Government . . . . . | 4,787              | 2.9%            | 3.6%            | 2,390           | 1.9%            |
| Telstra Wholesale . . . . .                 | 2,383              | (5.1%)          | (4.5%)          | 1,173           | (6.1%)          |
| Sensis . . . . .                            | 2,250              | 5.8%            | 8.1%            | 1,216           | 3.6%            |

### Key product revenue

|                                       | Year ended<br>Jun 2009<br>\$m | YoY<br>change<br>% |
|---------------------------------------|-------------------------------|--------------------|
| Mobile services . . . . .             | 6,101                         | 10.0%              |
| PSTN . . . . .                        | 6,337                         | (4.9%)             |
| Fixed retail broadband . . . . .      | 1,533                         | 15.9%              |
| IP and data access . . . . .          | 1,733                         | 8.1%               |
| Advertising and directories . . . . . | 2,259                         | 6.8%               |

Our retail business segments have continued to perform well during a difficult trading period. Total retail revenue<sup>1</sup> grew by 3.4% in the year which contrasts with the decline in wholesale revenue of 5.1%. Of particular note in our enterprise and government segment is the growth in IP access revenue. This is an important and growing part of the business with revenue in this segment increasing by 23.3% this fiscal year, more than offsetting the decline in the traditional legacy data products. In Telstra Consumer, which has been impacted by the economic slowdown, mobile services revenue growth was still solid at 8.7%. Mobile services revenue was also strong in our business segment which recorded double-digit growth of 11.1%.

At a product level, strong growth has also continued in the key categories of mobiles, fixed retail broadband and IP and data access with these products contributing an even greater proportion of our revenue.

Total fixed revenue decreased by 1.6% to \$10,766 million, with gains in internet more than offset by declines in PSTN revenue.

Total PSTN revenue declined by 4.9% during the year to \$6,337 million. The main driver of this decline was lower usage across all calling categories. Fixed to mobile (decline of 0.7% in revenue), local calls (down by 14.0%) and national long distance (down by 9.2%) continue to experience a fall in volumes due to on-going product substitution (most notably to mobiles and broadband) together with the impact of the current economic climate. In the second half of fiscal 2009 the PSTN revenue decline actually reduced marginally to 4.8%.

As we indicated in our December 2008 half-year results, PSTN revenue is expected to continue to decline due to substitution to other products. PSTN accounted for only 25% of total sales

revenue in the year ended 30 June 2009, compared to 27% in fiscal 2008.

Fixed retail broadband revenue increased by 15.9% to \$1,533 million. As the broadband market matures, fixed retail broadband SIO net additions have slowed with 20k services added during the year. An increase in cable broadband services has offset declines in ADSL services with 23k cable broadband services added in the year. Fixed retail broadband average revenue per user (ARPU) continues to grow and is now at \$57.70 per month, an increase of 6.5% on the prior year.

Mobile revenue continues to grow strongly, a testament to our investment in the world leading Next G™ network. Mobile services revenue grew by 10.0% to \$6,101 million for the year and by 7.6% in the second half. For the first time in a fiscal year, total mobile revenue of \$6,878 million exceeds PSTN revenue. Blended mobile ARPU increased in the year by 4.8% to \$51.84 driven by increases in mobile data revenue. We now have more than 10 million mobile services, including 6.3 million 3GSM services which makes up 62% of the total.

Wireless broadband (data card) revenue<sup>2</sup> grew by 69.2% to \$587 million. We now have more than 1 million wireless broadband SIOs, up from 526k in June 2008.

IP and data access revenues continue to grow strongly, up 8.1% to \$1,733 million. IP access revenue grew by 24.9% as IP MAN revenue saw strong growth, rising by 37.8% to \$321 million as customers demand higher bandwidth. Significant contract wins in the year include a 10 year contract with the Commonwealth Bank of Australia worth up to \$1 billion over the life of the contract.

1. Total retail revenue is calculated as the sum of Telstra Consumer, Telstra Business and Telstra Enterprise and Government.

2. Based on a simplified definition which includes only data cards, USB dongles and embedded modems.

## Full year results and operations review - June 2009

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Sensis sales revenue increased by 5.8% during the year with strong growth in White Pages<sup>®</sup> revenue and the Yellow<sup>™</sup> on-line business while revenue in the core Yellow<sup>™</sup> print business increased marginally. SouFun is growing as expected and our other China assets (Norstar Media and Autohome/PCPop) are delivering value and also meeting our expectations.

### Expenses

Total operating expenses (excluding depreciation and amortisation) grew by only 0.6% to \$14,669 million. This is the lowest rate of expense growth in 6 years. Total operating expenses actually declined by 0.5% in the second half of fiscal 2009 on a year-on-year basis.

Labour expenses declined by 0.6% to \$4,131 million mostly driven by lower headcount and productivity improvements flowing through in the second half as we foreshadowed in February. Headcount reduction (excluding acquisitions and divestments) in the year of 2,881 takes the four year aggregate reduction to 11,665, achieving our 2010 target of 10,000 to 12,000 a full year early.

Goods and services purchased grew by 2.5% to \$5,313 million which is in line with our target of maintaining growth in this expense category at or below sales revenue growth. The increase in fiscal 2009 was largely driven by network payments, which increased by 10.3% to \$1,982 million partly due to foreign exchange impacts and increased volumes. Cost of goods sold decreased by 5.4%, consistent with a fall in retail subsidised handset volumes and subscriber acquisition and recontracting costs (SARCs) after the peak of CDMA migration in the prior year.

Other expenses decreased by 0.4% to \$5,225 million despite a rise of 2.1% in service contracts and other agreements which is the largest component within the other expenses category. Promotion and advertising expenses declined by 17.1% as spending was more targeted. While impairment costs fell, bad and doubtful debts increased by 15.1% to \$289 million due to higher levels of aged debt and insolvency due to the economic conditions.

### Capital expenditure and cash flow

Accrued operating capital expenditure of \$4,598 million was in line with our guidance range. As the capital intensive phase of the transformation passes, we are on track to meet our 2010 target of capex / sales to be around 14%.

Free cash flow increased by \$510 million to \$4,365 million due to higher earnings and lower capital expenditure. This puts us in a good position to meet the objective of \$6 billion of free cash flow in fiscal 2010.

### Debt position

Our capital position remains strong and this is recognised by the credit rating agencies. Our long term credit ratings at the end of June 2009 were "A" (S&P), "A2" (Moody's), and "A" (Fitch).

In terms of financial parameters, we remain at the stronger end of our target ranges for each. Debt servicing (net debt to

EBITDA) is 1.4 times (target: 1.7 - 2.1 times), our gearing ratio is at 55.2% (target: 55% to 75%) and EBITDA interest cover is 9.6 times (target: >7 times). The interest cover is measured based on actual net interest on borrowings and therefore excludes revaluation impacts that can arise in net finance costs as required under the Australian Accounting Standards.

Despite the extreme volatility due to the global financial crisis, we have continued to successfully execute a number of long term borrowings across a diverse range of debt markets on competitive terms.

The effective net debt position at 30 June 2009 was \$15,655 million which represents an increase over the year of \$269 million. Our effective interest rate (or average borrowing cost) on average net debt reduced from 7.3% in fiscal 2008 to 7.1% in fiscal 2009.

### National Broadband Network

Telstra remains committed to engaging with the Government on its objective to deliver a National Broadband Network to Australia. A full understanding of the issues and their implications for shareholders is vital if we are to engage in constructive dialogue with the Government. We are also cognisant of our fiduciary duties to protect shareholder value at all times.

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## Full year results and operations review - June 2009

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## Full year results and operations review - June 2009

### Summary financial information

#### Results of operations

|   | Year ended 30 June |               |               |                 | Half-year ended 30 June |                 |
|---|--------------------|---------------|---------------|-----------------|-------------------------|-----------------|
|   | 2009<br>\$m        | 2008<br>\$m   | Change<br>\$m | Change<br>%     | 2009<br>\$m             | YoY change<br>% |
| Sales revenue . . . . .   | 25,371             | 24,657        | 714           | 2.9%            | 12,727                  | 2.6%            |
| Other revenue <sup>(i)</sup> . . . . .  | 136                | 171           | (35)          | (20.5%)         | 70                      | 37.3%           |
| Total revenue . . . . .   | 25,507             | 24,828        | 679           | 2.7%            | 12,797                  | 2.7%            |
| Other income <sup>(ii)</sup> . . . . .  | 107                | 174           | (67)          | (38.5%)         | 54                      | (19.4%)         |
| <b>Total income (excl. finance income)</b> . . . . .  | <b>25,614</b>      | <b>25,002</b> | <b>612</b>    | <b>2.4%</b>     | <b>12,851</b>           | <b>2.6%</b>     |
| Labour . . . . .  | 4,131              | 4,158         | (27)          | (0.6%)          | 1,979                   | (4.2%)          |
| Goods and services purchased . . . . .  | 5,313              | 5,181         | 132           | 2.5%            | 2,681                   | 7.0%            |
| Other expenses . . . . .  | 5,225              | 5,246         | (21)          | (0.4%)          | 2,581                   | (4.7%)          |
| Operating expenses . . . . .  | 14,669             | 14,585        | 84            | 0.6%            | 7,241                   | (0.5%)          |
| Share of net (profit)/loss from jointly controlled and associated entities . . . . .                  | (3)                | 1             | (4)           | (400.0%)        | (4)                     | (500.0%)        |
| <b>Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)</b> . . . . . | <b>10,948</b>      | <b>10,416</b> | <b>532</b>    | <b>5.1%</b>     | <b>5,614</b>            | <b>7.1%</b>     |
| Depreciation and amortisation . . . . .   | 4,390              | 4,190         | 200           | 4.8%            | 2,135                   | (0.1%)          |
| <b>Earnings before interest and income tax expense (EBIT)</b> . . . . .                               | <b>6,558</b>       | <b>6,226</b>  | <b>332</b>    | <b>5.3%</b>     | <b>3,479</b>            | <b>12.0%</b>    |
| Net finance costs . . . . .   | 900                | 1,086         | (186)         | (17.1%)         | 497                     | (15.2%)         |
| <b>Profit before income tax expense</b> . . . . .   | <b>5,658</b>       | <b>5,140</b>  | <b>518</b>    | <b>10.1%</b>    | <b>2,982</b>            | <b>18.3%</b>    |
| Income tax expense . . . . .  | 1,582              | 1,429         | 153           | 10.7%           | 827                     | 10.1%           |
| <b>Profit for the year</b> . . . . .  | <b>4,076</b>       | <b>3,711</b>  | <b>365</b>    | <b>9.8%</b>     | <b>2,155</b>            | <b>21.8%</b>    |
| <b>Attributable to:</b>   |                    |               |               |                 |                         |                 |
| Equity holders of the Telstra Entity . . . . .  | 4,073              | 3,692         | 381           | 10.3%           | 2,157                   | 22.1%           |
| Minority interests . . . . .  | 3                  | 19            | (16)          | (84.2%)         | (2)                     | (166.7%)        |
|   | <b>4,076</b>       | <b>3,711</b>  | <b>365</b>    | <b>9.8%</b>     | <b>2,155</b>            | <b>21.8%</b>    |
| Effective tax rate . . . . .  | 28.0%              | 27.8%         |               | 0.2             | 27.7%                   | (2.1)           |
| EBITDA margin on sales revenue . . . . .  | 43.2%              | 42.2%         |               | 1.0             | 44.1%                   | 1.8             |
| EBIT margin on sales revenue . . . . .  | 25.8%              | 25.3%         |               | 0.5             | 27.3%                   | 2.3             |
|   |                    |               | Change        |                 |                         |                 |
|   | <b>cents</b>       | <b>cents</b>  | <b>cents</b>  | <b>Change %</b> |                         |                 |
| Basic earnings per share <sup>(iii)</sup> . . . . .   | 32.9               | 29.9          | 3.0           | 10.0%           |                         |                 |
| Diluted earnings per share <sup>(iii)</sup> . . . . .   | 32.9               | 29.8          | 3.1           | 10.4%           |                         |                 |
| Dividends:  |                    |               |               |                 |                         |                 |
| Interim dividend . . . . .  | 14.0               | 14.0          |               |                 |                         |                 |
| Final dividend . . . . .  | 14.0               | 14.0          |               |                 |                         |                 |
| Total . . . . .   | 28.0               | 28.0          |               |                 |                         |                 |

(i) Other revenue primarily consists of distributions from our FOXTEL partnership 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.

n/m = not meaningful

## Full year results and operations review - June 2009

### Statement of financial position

|   | As at            |                  |               |               |
|---|------------------|------------------|---------------|---------------|
|   | 30 Jun 09<br>\$m | 30 Jun 08<br>\$m | Change<br>\$m | Change<br>%   |
| <b>Current assets</b>   |                  |                  |               |               |
| Cash and cash equivalents . . . . .                           | 1,381            | 899              | 482           | 53.6%         |
| Trade and other receivables . . . . .                         | 4,039            | 3,952            | 87            | 2.2%          |
| Inventories . . . . .   | 239              | 309              | (70)          | (22.7%)       |
| Derivative financial assets . . . . .                         | 128              | 54               | 74            | 137.0%        |
| Current tax receivables . . . . .                             | 101              | -                | 101           | n/m           |
| Prepayments . . . . .   | 304              | 299              | 5             | 1.7%          |
| <b>Total current assets</b> . . . . .                         | <b>6,192</b>     | <b>5,513</b>     | <b>679</b>    | <b>12.3%</b>  |
| <b>Non current assets</b>                                     |                  |                  |               |               |
| Trade and other receivables . . . . .                         | 163              | 198              | (35)          | (17.7%)       |
| Inventories . . . . .   | 18               | 12               | 6             | 50.0%         |
| Investments - accounted for using the equity method . . . . . | 16               | 14               | 2             | 14.3%         |
| Investments - other . . . . .                                 | -                | 1                | (1)           | n/m           |
| Property, plant and equipment . . . . .                       | 23,895           | 24,311           | (416)         | (1.7%)        |
| Intangible assets . . . . .                                   | 8,416            | 7,245            | 1,171         | 16.2%         |
| Derivative financial assets . . . . .                         | 1,073            | 444              | 629           | 141.7%        |
| Non current tax receivables . . . . .                         | 172              | -                | 172           | n/m           |
| Deferred tax assets . . . . .                                 | 9                | 1                | 8             | 800.0%        |
| Defined benefit assets . . . . .                              | 8                | 182              | (174)         | (95.6%)       |
| <b>Total non current assets</b> . . . . .                     | <b>33,770</b>    | <b>32,408</b>    | <b>1,362</b>  | <b>4.2%</b>   |
| <b>Total assets</b> . . . . .                                 | <b>39,962</b>    | <b>37,921</b>    | <b>2,041</b>  | <b>5.4%</b>   |
| <b>Current liabilities</b>                                    |                  |                  |               |               |
| Trade and other payables . . . . .                            | 3,734            | 3,930            | (196)         | (5.0%)        |
| Provisions . . . . .  | 495              | 535              | (40)          | (7.5%)        |
| Borrowings . . . . .  | 1,979            | 2,055            | (76)          | (3.7%)        |
| Derivative financial liabilities . . . . .                    | 111              | 82               | 29            | 35.4%         |
| Current tax payables . . . . .                                | 262              | 264              | (2)           | (0.8%)        |
| Revenue received in advance . . . . .                         | 1,171            | 1,257            | (86)          | (6.8%)        |
| <b>Total current liabilities</b> . . . . .                    | <b>7,752</b>     | <b>8,123</b>     | <b>(371)</b>  | <b>(4.6%)</b> |
| <b>Non current liabilities</b>                                |                  |                  |               |               |
| Trade and other payables . . . . .                            | 245              | 181              | 64            | 35.4%         |
| Provisions . . . . .  | 761              | 776              | (15)          | (1.9%)        |
| Borrowings . . . . .  | 15,344           | 13,444           | 1,900         | 14.1%         |
| Derivative financial liabilities . . . . .                    | 819              | 1,222            | (403)         | (33.0%)       |
| Deferred tax liabilities . . . . .                            | 1,593            | 1,575            | 18            | 1.1%          |
| Defined benefit liability . . . . .                           | 414              | -                | 414           | n/m           |
| Revenue received in advance . . . . .                         | 353              | 355              | (2)           | (0.6%)        |
| <b>Total non current liabilities</b> . . . . .                | <b>19,529</b>    | <b>17,553</b>    | <b>1,976</b>  | <b>11.3%</b>  |
| <b>Total liabilities</b> . . . . .                            | <b>27,281</b>    | <b>25,676</b>    | <b>1,605</b>  | <b>6.3%</b>   |
| <b>Net assets</b> . . . . .                                   | <b>12,681</b>    | <b>12,245</b>    | <b>436</b>    | <b>3.6%</b>   |
| <b>Equity</b>   |                  |                  |               |               |
| Equity available to Telstra Entity shareholders . . . . .     | 12,418           | 12,017           | 401           | 3.3%          |
| Minority interests . . . . .                                  | 263              | 228              | 35            | 15.4%         |
| <b>Total equity</b> . . . . .                                 | <b>12,681</b>    | <b>12,245</b>    | <b>436</b>    | <b>3.6%</b>   |
| Gross debt . . . . .  | 17,036           | 16,285           | 751           | 4.6%          |
| Net debt . . . . .  | 15,655           | 15,386           | 269           | 1.7%          |
| EBITDA interest cover (times) . . . . .                       | 9.6              | 8.9              | 0.7           | 7.9%          |
| Net debt to EBITDA . . . . .                                  | 1.4              | 1.5              | (0.1)         | (6.7%)        |
| Return on average assets . . . . .                            | 17.4%            | 16.8%            |               | 0.6           |
| Return on average equity . . . . .                            | 33.3%            | 30.3%            |               | 3.0           |
| Return on average investment . . . . .                        | 23.4%            | 22.7%            |               | 0.7           |
| Net debt to capitalisation . . . . .                          | 55.2%            | 55.7%            |               | (0.5)         |

## Full year results and operations review - June 2009

### Statement of cash flows

|   | Year ended 30 June |                |               |               |
|---|--------------------|----------------|---------------|---------------|
|   | 2009<br>\$m        | 2008<br>\$m    | Change<br>\$m | Change<br>%   |
| <b>Cash flows from operating activities</b>                                   |                    |                |               |               |
| Receipts from customers (inclusive of goods and services tax (GST)) . . . . . | 27,719             | 27,246         | 473           | 1.7%          |
| Payments to suppliers and to employees (inclusive of GST) . . . . .           | (17,074)           | (16,871)       | (203)         | (1.2%)        |
| Net cash generated by operations . . . . .                                    | 10,645             | 10,375         | 270           | 2.6%          |
| Income taxes paid . . . . .   | (1,647)            | (1,531)        | (116)         | (7.6%)        |
| <b>Net cash provided by operating activities</b> . . . . .                    | <b>8,998</b>       | <b>8,844</b>   | <b>154</b>    | <b>1.7%</b>   |
| <b>Cash flows from investing activities</b>                                   |                    |                |               |               |
| Payments for:   |                    |                |               |               |
| - property, plant and equipment . . . . .                                     | (3,263)            | (3,862)        | 599           | 15.5%         |
| - intangible assets . . . . .   | (1,531)            | (1,465)        | (66)          | (4.5%)        |
| Capital expenditure (before investments) . . . . .                            | (4,794)            | (5,327)        | 533           | 10.0%         |
| - shares in controlled entities (net of cash acquired) . . . . .              | (240)              | (74)           | (166)         | (224.3%)      |
| - payments for other investments . . . . .                                    | (1)                | (1)            | -             | -             |
| <b>Total capital expenditure</b> . . . . .                                    | <b>(5,035)</b>     | <b>(5,402)</b> | <b>367</b>    | <b>6.8%</b>   |
| Proceeds from:  |                    |                |               |               |
| - sale of property, plant and equipment . . . . .                             | 22                 | 28             | (6)           | (21.4%)       |
| - sale of intangible assets . . . . .   | 2                  | 1              | 1             | 100.0%        |
| - sale of shares in controlled entities (net of cash disposed) . . . . .      | 197                | 51             | 146           | 286.3%        |
| Proceeds from finance lease principal amounts . . . . .                       | 55                 | 52             | 3             | 5.8%          |
| Loans to jointly controlled and associated entities . . . . .                 | (4)                | -              | (4)           | n/m           |
| Repayment of loan to jointly controlled and associated entities . . . . .     | -                  | 6              | (6)           | n/m           |
| Interest received . . . . .   | 65                 | 72             | (7)           | (9.7%)        |
| Settlement of hedges in net investments . . . . .                             | (35)               | 73             | (108)         | (147.9%)      |
| Distributions received . . . . .  | 100                | 130            | (30)          | (23.1%)       |
| <b>Net cash used in investing activities</b> . . . . .                        | <b>(4,633)</b>     | <b>(4,989)</b> | <b>356</b>    | <b>7.1%</b>   |
| <b>Operating cash flows less investing cash flows</b> . . . . .               | <b>4,365</b>       | <b>3,855</b>   | <b>510</b>    | <b>13.2%</b>  |
| <b>Cash flows from financing activities</b>                                   |                    |                |               |               |
| Proceeds from borrowings . . . . .  | 3,118              | 3,559          | (441)         | (12.4%)       |
| Repayment of borrowings . . . . .   | (2,288)            | (2,458)        | 170           | 6.9%          |
| Repayment of finance lease principal amounts . . . . .                        | (36)               | (42)           | 6             | 14.3%         |
| Staff repayments of share loans . . . . .                                     | 11                 | 15             | (4)           | (26.7%)       |
| Purchase of shares for employee share plans . . . . .                         | -                  | (129)          | 129           | n/m           |
| Finance costs paid . . . . .  | (1,221)            | (1,213)        | (8)           | (0.7%)        |
| Dividends paid to equity holders of Telstra Entity . . . . .                  | (3,474)            | (3,476)        | 2             | 0.1%          |
| Dividends paid to minority interests . . . . .                                | (43)               | (22)           | (21)          | (95.5%)       |
| <b>Net cash used in financing activities</b> . . . . .                        | <b>(3,933)</b>     | <b>(3,766)</b> | <b>(167)</b>  | <b>(4.4%)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .         | <b>432</b>         | <b>89</b>      | <b>343</b>    | <b>385.4%</b> |
| Cash and cash equivalents at the beginning of the year . . . . .              | 899                | 823            | 76            | 9.2%          |
| Effects of exchange rate changes on cash and cash equivalents . . . . .       | 50                 | (13)           | 63            | n/m           |
| <b>Cash and cash equivalents at the end of the year</b> . . . . .             | <b>1,381</b>       | <b>899</b>     | <b>482</b>    | <b>53.6%</b>  |

## Full year results and operations review - June 2009

### Segment information

#### Segment information <sup>(i)</sup>

|   | Total external income |               |             | EBIT contribution  |              |             |
|---|-----------------------|---------------|-------------|--------------------|--------------|-------------|
|   | Year ended 30 June    |               |             | Year ended 30 June |              |             |
|   | 2009                  | 2008          | Change      | 2009               | 2008         | Change      |
|   | \$m                   | \$m           | %           | \$m                | \$m          | %           |
| Telstra Consumer . . . . .                          | 10,325                | 10,023        | 3.0%        | 6,317              | 6,121        | 3.2%        |
| Telstra Business . . . . .                          | 3,799                 | 3,634         | 4.5%        | 2,741              | 2,586        | 6.0%        |
| Telstra Enterprise and Government . . . . .         | 4,784                 | 4,652         | 2.8%        | 3,257              | 3,096        | 5.2%        |
| Telstra Wholesale . . . . .                         | 2,383                 | 2,513         | (5.2%)      | 2,214              | 2,385        | (7.2%)      |
| Telstra Networks and Services . . . . .             | 84                    | 98            | (14.3%)     | (2,971)            | (3,053)      | 2.7%        |
| Sensis . . . . .                                    | 2,251                 | 2,127         | 5.8%        | 1,051              | 944          | 11.3%       |
| CSL New World . . . . .                             | 989                   | 917           | 7.9%        | (103)              | 13           | (892.3%)    |
| TelstraClear . . . . .                              | 547                   | 562           | (2.7%)      | (13)               | (20)         | 35.0%       |
| Other . . . . .                                     | 351                   | 307           | 14.3%       | (6,038)            | (6,011)      | (0.4%)      |
| <b>Total Telstra segments . . . . .</b>             | <b>25,513</b>         | <b>24,833</b> | <b>2.7%</b> | <b>6,455</b>       | <b>6,061</b> | <b>6.5%</b> |
| Other items excluded from segment results . . . . . | 101                   | 169           | (40.2%)     | 103                | 165          | (37.6%)     |
| <b>Total Telstra Group (reported) . . . . .</b>     | <b>25,614</b>         | <b>25,002</b> | <b>2.4%</b> | <b>6,558</b>       | <b>6,226</b> | <b>5.3%</b> |

#### Revenue by business segment

|  | Year ended 30 June |       |        |        | Half-year ended |          |
|--|--------------------|-------|--------|--------|-----------------|----------|
|  | 2009               | 2008  | Change | Change | 30 June 2009    | YoY      |
|  | \$m                | \$m   | \$m    | %      | \$m             | change % |
| <b>Telstra Consumer</b>                  |                    |       |        |        |                 |          |
| PSTN products . . . . .                  | 3,777              | 3,861 | (84)   | (2.2%) | 1,865           | (2.6%)   |
| Fixed internet. . . . .                  | 1,274              | 1,111 | 163    | 14.7%  | 638             | 10.8%    |
| Mobile services revenue . . . . .        | 3,728              | 3,431 | 297    | 8.7%   | 1,868           | 8.9%     |
| <b>Telstra Business</b>                  |                    |       |        |        |                 |          |
| PSTN products . . . . .                  | 1,348              | 1,385 | (37)   | (2.7%) | 658             | (4.2%)   |
| Fixed internet. . . . .                  | 283                | 248   | 35     | 14.1%  | 144             | 13.5%    |
| Mobile services revenue . . . . .        | 1,404              | 1,264 | 140    | 11.1%  | 693             | 7.7%     |
| <b>Telstra Enterprise and Government</b> |                    |       |        |        |                 |          |
| Mobile services revenue . . . . .        | 789                | 697   | 92     | 13.2%  | 389             | 6.9%     |
| IP and data access . . . . .             | 1,147              | 1,069 | 78     | 7.3%   | 571             | 5.3%     |

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

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

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

included in the “other” category. Depreciation and amortisation costs associated with the fixed assets of the parent entity are also recorded centrally in the corporate centre (also included in “other”).

Segment results are reported according to the internal management reporting structure at reporting date. Segment comparatives are restated to reflect any organisational changes which have occurred since the prior reporting period.

Further details about the performance of our business segments follows:

#### Telstra Consumer

Telstra Consumer recorded sales revenue growth of 3.1% for the fiscal year (total income growth of 3.0%) with EBIT contribution growing by 3.2%. This is a strong performance in a

## Full year results and operations review - June 2009

market faced with an economic slowdown and increasingly aggressive competitor price competition. Revenue growth in the second half of the fiscal year accelerated to 3.2% from 3.0% in the first half.

Our consumer segment saw a decline in PSTN revenue of 2.2% to \$3,777 million while total fixed revenue increased by 0.8% due to growth in fixed internet. Mobile revenue grew by 5.2% to \$4,428 million which more than offset the decline in PSTN and other fixed telephony revenue. Within mobiles, mobile services revenue increased by 8.7% to \$3,728 million driven by continued customer growth and an increase in average revenue per user (ARPU) which demonstrates the value of our Next G™ network. The 527k mobile net SIO additions in Telstra Consumer were skewed to customers taking the prepaid option, with 376k prepaid adds in the year. The rate of growth in mobiles has slowed compared to fiscal 2008, and we believe this includes the impact of a reduction in consumer spending during the economic downturn.

Fixed internet revenue grew by 14.7% to \$1,274 million. Whilst there has been a slowdown in customer take up, Telstra Consumer has experienced solid growth in cable SIOs which increased by 6.4% during the year. Importantly, fixed retail broadband ARPU continues to grow and is now at \$51.61, an increase of 7.9% from the prior year.

Expense growth in the consumer segment has been kept to a minimum, ensuring that EBIT growth continues to outpace revenue growth. Total external expenses increased by 2.7% to \$4,008 million mainly due to increases in service contracts and bad and doubtful debts. Cost of good sold decreased by 7.4% partly due to lower volumes. Management of subscriber acquisition and recontracting costs (SARCs) remains strong with the average SARC rate decreasing by 14.0% due to increased use of mobile repayment options (MRO) and a higher percentage of prepaid customers.

### Telstra Business

Sales revenue in this business segment grew by 4.7% to \$3,789 million (total income grew by 4.5%) demonstrating continued strong performance in the segment. EBIT contribution grew by 6.0% while expense growth was contained to 1.0% through sound expenditure management.

Mobile services revenue (including WBB (cards)) increased by 11.1% to \$1,404 million. While voice related revenues rose by 4.5%, data revenue contributed significantly to the overall growth and now represents 27.5% of mobile services revenues. Of the total mobile SIO base more than 78% is now on the 3GSM network, up from 64% at June 2008.

Fixed internet revenue has grown by 14.1% with internet direct increasing by 42.0% to \$89 million driven by the Business Grade Broadband offering. Continued ADSL revenue growth at 8.7% to \$149 million is also contributing to the growth in fixed internet despite the product essentially operating in a mature market experiencing a slowdown in growth.

Total expenses growth was contained to 1.0% which was below the revenue growth rate and includes a decline in labour costs

of 5.2% and handset subsidies of 8.7% with lower volumes absorbing the increased cost of high end devices.

### Telstra Enterprise and Government

Our enterprise and government segment has seen sales revenue grow by 2.9% in fiscal 2009 to \$4,787 million despite the sale of KAZ in April 2009 (total income grew by 2.8%).

Mobile services revenue has underpinned the strong result in Telstra Enterprise and Government and has grown by 13.2% to \$789 million. This impressive result has been driven by continued double-digit growth in mobile data revenue, which now represents 44.0% of mobile services revenue. The total SIO base is now over 1.3 million as 192k SIOs were added during the year.

IP access is a large and fast growing part of our enterprise and government segment with revenue growing by 23.3% to \$583 million. IP access ARPU for our enterprise and government customers is up by 3.4% compared to the prior year and a large proportion of our IP customers take value-added products such as IP security, IP telephony and hosting services.

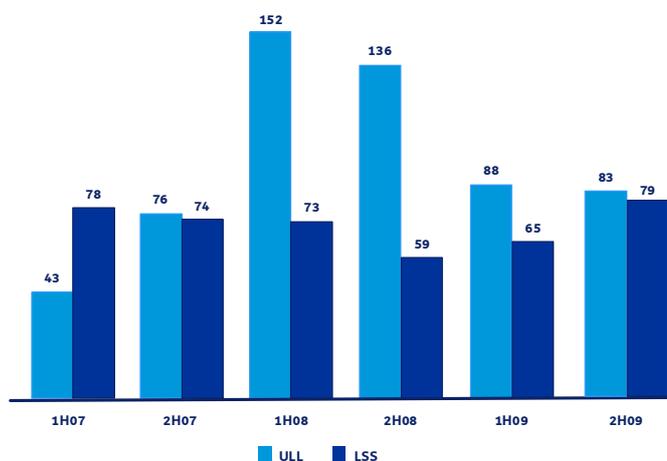
Expenses declined by 1.9% mainly due to the sale of KAZ as mentioned above. Excluding KAZ expenses from both years, total expenses grew to support the growth in revenue.

### Telstra Wholesale

Our wholesale business continues to suffer from ULL migration while the change to a lower mobile terminating access (MTA) rate in the prior year significantly contributed to the decline in EBIT contribution.

PSTN revenue declined by 19.9% due to continued losses to ULL combined with the overall market reduction in the use of PSTN services. However, ULL uptake has slowed in fiscal 2009 despite the low rental prices in metro Australia.

ULL and spectrum sharing (LSS) net additions ('000)



The increases in ULL together with higher spectrum sharing services also resulted in a decline of 10.1% in wholesale internet revenue and an increase of 34.1% in intercarrier access revenue as competitors continue building their own networks. Partially offsetting the above negative impact on revenue was an

## Full year results and operations review - June 2009

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increase of 37.8% or \$41 million in mobiles interconnection revenue due to the change in MTA rates as discussed below.

Total wholesale expenses grew by 32.3% driven by the impact of an MTA rate adjustment in the prior year which resulted in an increase of \$54 million in carrier network outpayments. On a segment basis, termination costs for certain call types are allocated to the retail segments at an agreed rate meaning that Telstra Wholesale holds the impact of any changes in the MTA rate. The determination from the Australian Competition and Consumer Commission (ACCC) in the prior year lead to a difference between the agreed rate (12 cents per minute) and the actual rate (9 cents per minute) which distorted the wholesale segment results in fiscal 2008.

### **Telstra Networks and Services**

With the departure of the Chief Operations Officer during the year the Telstra Operations business segment has been dissolved. As a result, Telstra Networks and Services (TN&S) is now a reportable business segment in its own right. TN&S is primarily a cost centre responsible for our network infrastructure and customer solutions supporting the revenue generating activities of our other segments. In fiscal 2009 its negative EBIT contribution improved by 2.7% driven by decreases in labour expenses, goods and services purchased and service contracts and other agreements.

Labour expenses declined by 4.1% as we continue to improve our field workforce productivity and reduce the number of call centres as part of our transformation. Salaries and associated costs fell by 1.8% while overtime, contractor and agency payments fell by 16.9%. In total, TN&S reduced its workforce by 1,230 full time equivalents (FTE) during fiscal 2009.

The sale of previously leased equipment in fiscal 2008 was the main driver behind a fall of 11.9% in goods and services purchased. Other expenses also declined marginally as service contracts and other agreements fell by 3.7% due to lower installation and maintenance volumes and improvements in productivity.

### **Sensis, CSL New World and TelstraClear**

Refer to more detailed discussion in the major subsidiaries section beginning on page 31.

### **Other**

Our other segment consists primarily of our corporate centre functions where we recognise the majority of our IT costs, 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 2009

### Statistical data summary

#### Billable traffic data <sup>(i)</sup>

|  | Year ended 30 June |           |             |             | Half-year ended 30 June |           |             |             |
|--|--------------------|-----------|-------------|-------------|-------------------------|-----------|-------------|-------------|
|  | 2009<br>m          | 2008<br>m | Change<br>m | Change<br>% | 2009<br>m               | 2008<br>m | Change<br>m | Change<br>% |
| <b>Fixed telephony</b>                   |                    |           |             |             |                         |           |             |             |
| Number of local calls . . . . .          | 4,844              | 5,680     | (836)       | (14.7%)     | 2,343                   | 2,689     | (346)       | (12.9%)     |
| National long distance minutes . . . . . | 6,555              | 6,947     | (392)       | (5.6%)      | 3,277                   | 3,417     | (140)       | (4.1%)      |
| Fixed to mobile minutes . . . . .        | 3,332              | 3,410     | (78)        | (2.3%)      | 1,657                   | 1,696     | (39)        | (2.3%)      |
| International direct minutes . . . . .   | 560                | 548       | 12          | 2.2%        | 282                     | 275       | 7           | 2.5%        |
| <b>Mobiles</b>                           |                    |           |             |             |                         |           |             |             |
| Mobile voice telephone minutes . . . . . | 11,005             | 10,096    | 909         | 9.0%        | 5,435                   | 5,177     | 258         | 5.0%        |
| Number of SMS sent . . . . .             | 8,943              | 6,973     | 1,970       | 28.3%       | 4,590                   | 3,749     | 841         | 22.4%       |

#### Services in operation <sup>(i)</sup>

|  | Jun 2009      | As at         |               | Jun 09 vs Jun 08 |               | Jun 09 vs Dec 08 |               |  |
|--|---------------|---------------|---------------|------------------|---------------|------------------|---------------|--|
|  |               | Dec 2008      | Jun 2008      | Change           | Change<br>%   | Change           | Change<br>%   |  |
| <b>Fixed products</b>  |               |               |               |                  |               |                  |               |  |
| Basic access lines in service (thousands) . . . . .                                |               |               |               |                  |               |                  |               |  |
| Residential . . . . .  | 5,462         | 5,533         | 5,557         | (95)             | (1.7%)        | (71)             | (1.3%)        |  |
| Business . . . . .   | 2,271         | 2,296         | 2,308         | (37)             | (1.6%)        | (25)             | (1.1%)        |  |
| Total retail customers . . . . .   | 7,733         | 7,829         | 7,865         | (132)            | (1.7%)        | (96)             | (1.2%)        |  |
| Domestic wholesale . . . . .   | 1,285         | 1,341         | 1,496         | (211)            | (14.1%)       | (56)             | (4.2%)        |  |
| <b>Total basic access lines in service (thousands)</b>                             | <b>9,018</b>  | <b>9,170</b>  | <b>9,361</b>  | <b>(343)</b>     | <b>(3.7%)</b> | <b>(152)</b>     | <b>(1.7%)</b> |  |
| ISDN access (basic lines equivalents)<br>(thousands) . . . . .                     | 1,291         | 1,284         | 1,298         | (7)              | (0.5%)        | 7                | 0.5%          |  |
| Fixed broadband SIOs - retail . . . . .  | 2,274         | 2,297         | 2,254         | 20               | 0.9%          | (23)             | (1.0%)        |  |
| Fixed broadband SIOs - wholesale . . . . .   | 1,691         | 1,680         | 1,708         | (17)             | (1.0%)        | 11               | 0.7%          |  |
| Total fixed broadband SIOs . . . . .   | 3,965         | 3,977         | 3,962         | 3                | 0.1%          | (12)             | (0.3%)        |  |
| Narrowband SIOs . . . . .  | 363           | 435           | 530           | (167)            | (31.5%)       | (72)             | (16.6%)       |  |
| <b>Total fixed internet SIOs (thousands)</b>                                       | <b>4,328</b>  | <b>4,412</b>  | <b>4,492</b>  | <b>(164)</b>     | <b>(3.7%)</b> | <b>(84)</b>      | <b>(1.9%)</b> |  |
| Unbundled local loop SIOs (thousands) . . . . .                                    | 698           | 615           | 527           | 171              | 32.4%         | 83               | 13.5%         |  |
| Spectrum sharing services (thousands) . . . . .                                    | 580           | 501           | 436           | 144              | 33.0%         | 79               | 15.8%         |  |
| <b>Mobiles</b>   |               |               |               |                  |               |                  |               |  |
| Mobile services in operation (thousands) . . . . .                                 | 10,191        | 9,706         | 9,335         | 856              | 9.2%          | 485              | 5.0%          |  |
| 3GSM mobile SIOs (in thousands) . . . . .  | 6,328         | 5,246         | 4,352         | 1,976            | 45.4%         | 1,082            | 20.6%         |  |
| Total wireless broadband (data card) SIOs<br>(thousands) <sup>(ii)</sup> . . . . . | 1,046         | 765           | 526           | 520              | 98.9%         | 281              | 36.7%         |  |
| Total wholesale mobile SIOs (thousands) . . . . .                                  | 72            | 75            | 74            | (2)              | (2.7%)        | (3)              | (4.0%)        |  |
| <b>Total pay TV bundling SIOs (thousands)</b> . . . . .                            | <b>450</b>    | <b>460</b>    | <b>450</b>    | <b>-</b>         | <b>-</b>      | <b>(10)</b>      | <b>(2.2%)</b> |  |
| <b>Employee data</b>   |               |               |               |                  |               |                  |               |  |
| Domestic full time staff <sup>(iii)</sup> . . . . .                                | 31,662        | 33,191        | 33,982        | (2,320)          | (6.8%)        | (1,529)          | (4.6%)        |  |
| Full time staff and equivalents <sup>(iii)</sup> . . . . .                         | 39,464        | 41,540        | 42,784        | (3,320)          | (7.8%)        | (2,076)          | (5.0%)        |  |
| <b>Total workforce <sup>(iii)</sup></b> . . . . .                                  | <b>43,181</b> | <b>45,309</b> | <b>46,649</b> | <b>(3,468)</b>   | <b>(7.4%)</b> | <b>(2,128)</b>   | <b>(4.7%)</b> |  |

(i) Refer to detailed data included in each product section.

(ii) Based on a simplified definition which includes only data cards, USB dongles and embedded modems.

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

## Full year results and operations review - June 2009

### Revenue

|  | Year ended 30 June |               |               |               | Half-year ended 30 June |                 |
|--|--------------------|---------------|---------------|---------------|-------------------------|-----------------|
|  | 2009<br>\$m        | 2008<br>\$m   | Change<br>\$m | Change<br>%   | 2009<br>\$m             | YoY change<br>% |
| <b>Fixed products</b>                        |                    |               |               |               |                         |                 |
| PSTN products                                | 6,337              | 6,666         | (329)         | (4.9%)        | 3,118                   | (4.8%)          |
| ISDN products                                | 942                | 978           | (36)          | (3.7%)        | 459                     | (5.0%)          |
| Fixed internet                               | 2,160              | 2,020         | 140           | 6.9%          | 1,076                   | 4.4%            |
| Other fixed revenue                          | 1,327              | 1,272         | 55            | 4.3%          | 658                     | 1.9%            |
| <b>Total fixed products</b>                  | <b>10,766</b>      | <b>10,936</b> | <b>(170)</b>  | <b>(1.6%)</b> | <b>5,311</b>            | <b>(2.3%)</b>   |
| <b>Mobiles</b>                               |                    |               |               |               |                         |                 |
| Mobile services - retail and interconnection | 6,074              | 5,506         | 568           | 10.3%         | 3,024                   | 7.8%            |
| Mobile services - wholesale                  | 27                 | 42            | (15)          | (35.7%)       | 11                      | (31.3%)         |
| <b>Total mobile services</b>                 | <b>6,101</b>       | <b>5,548</b>  | <b>553</b>    | <b>10.0%</b>  | <b>3,035</b>            | <b>7.6%</b>     |
| Mobile hardware                              | 777                | 861           | (84)          | (9.8%)        | 381                     | (0.8%)          |
| <b>Total mobiles</b>                         | <b>6,878</b>       | <b>6,409</b>  | <b>469</b>    | <b>7.3%</b>   | <b>3,416</b>            | <b>6.6%</b>     |
| <b>IP and data access</b>                    |                    |               |               |               |                         |                 |
| Specialised data                             | 628                | 690           | (62)          | (9.0%)        | 300                     | (11.8%)         |
| Global products                              | 130                | 101           | 29            | 28.7%         | 67                      | 24.1%           |
| IP access                                    | 667                | 534           | 133           | 24.9%         | 344                     | 22.0%           |
| Wholesale internet and data                  | 308                | 278           | 30            | 10.8%         | 152                     | 7.8%            |
| <b>Total IP and data access</b>              | <b>1,733</b>       | <b>1,603</b>  | <b>130</b>    | <b>8.1%</b>   | <b>863</b>              | <b>5.6%</b>     |
| Business services and applications           | 1,008              | 1,055         | (47)          | (4.5%)        | 518                     | (3.4%)          |
| Non service content                          | 70                 | 15            | 55            | 366.7%        | 60                      | 650.0%          |
| Advertising and directories                  | 2,259              | 2,116         | 143           | 6.8%          | 1,231                   | 5.4%            |
| CSL New World                                | 989                | 917           | 72            | 7.9%          | 494                     | 14.4%           |
| TelstraClear                                 | 547                | 562           | (15)          | (2.7%)        | 272                     | (1.1%)          |
| Other offshore services revenue              | 390                | 346           | 44            | 12.7%         | 195                     | 13.4%           |
| Pay TV bundling                              | 467                | 426           | 41            | 9.6%          | 234                     | 5.4%            |
| Other sales revenue <sup>(i)</sup>           | 264                | 272           | (8)           | (2.9%)        | 133                     | (1.5%)          |
| <b>Sales revenue</b>                         | <b>25,371</b>      | <b>24,657</b> | <b>714</b>    | <b>2.9%</b>   | <b>12,727</b>           | <b>2.6%</b>     |
| Other revenue <sup>(ii)</sup>                | 136                | 171           | (35)          | (20.5%)       | 70                      | 37.3%           |
| <b>Total revenue</b>                         | <b>25,507</b>      | <b>24,828</b> | <b>679</b>    | <b>2.7%</b>   | <b>12,797</b>           | <b>2.7%</b>     |
| Other income <sup>(iii)</sup>                | 107                | 174           | (67)          | (38.5%)       | 54                      | (19.4%)         |
| <b>Total income</b>                          | <b>25,614</b>      | <b>25,002</b> | <b>612</b>    | <b>2.4%</b>   | <b>12,851</b>           | <b>2.6%</b>     |

(i) Other sales revenue includes \$76 million relating to HFC cable usage (2008: \$77 million).

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

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

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### Fixed products

#### PSTN

- PSTN revenue declined by 4.9% to \$6,337 million driven by a substantial year-on-year reduction in call usage
- Retail revenue declined by only 2.5% compared with a wholesale decline of 19.9%
- PSTN average revenue per user (ARPU) remained relatively stable, declining by only 1.1% to \$57.47 per month

|   | Year ended 30 June |             |               |                |
|---|--------------------|-------------|---------------|----------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>%    |
| PSTN revenue <sup>(i)</sup>                               | <b>6,337</b>       | 6,666       | (329)         | <b>(4.9%)</b>  |
| <b>PSTN retail versus wholesale revenue</b>               |                    |             |               |                |
| Retail  | <b>5,582</b>       | 5,723       | (141)         | <b>(2.5%)</b>  |
| Wholesale   | <b>755</b>         | 943         | (188)         | <b>(19.9%)</b> |
| <b>Basic access lines in service (thousands)</b>          |                    |             |               |                |
| Residential   | <b>5,462</b>       | 5,557       | (95)          | <b>(1.7%)</b>  |
| Business  | <b>2,271</b>       | 2,308       | (37)          | <b>(1.6%)</b>  |
| Total retail  | <b>7,733</b>       | 7,865       | (132)         | <b>(1.7%)</b>  |
| Domestic wholesale  | <b>1,285</b>       | 1,496       | (211)         | <b>(14.1%)</b> |
| Total basic access lines in service                       | <b>9,018</b>       | 9,361       | (343)         | <b>(3.7%)</b>  |
| Average revenue per user per month (\$'s)                 | <b>57.47</b>       | 58.11       | (0.64)        | <b>(1.1%)</b>  |
| Number of local calls (millions) <sup>(ii)</sup>          | <b>4,844</b>       | 5,680       | (836)         | <b>(14.7%)</b> |
| National long distance minutes (millions) <sup>(ii)</sup> | <b>6,555</b>       | 6,947       | (392)         | <b>(5.6%)</b>  |
| Fixed to mobile minutes (millions)                        | <b>3,332</b>       | 3,410       | (78)          | <b>(2.3%)</b>  |
| International direct minutes (millions) <sup>(ii)</sup>   | <b>560</b>         | 548         | 12            | <b>2.2%</b>    |

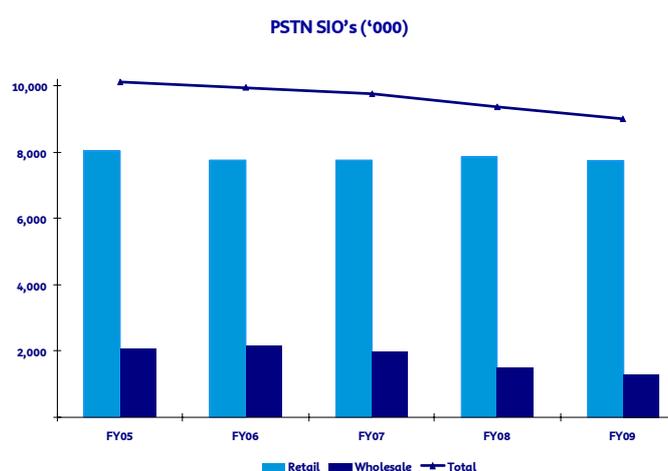
Note: statistical data represents management's best estimates.

(i) Refer to page 39 for a more detailed breakdown of PSTN revenue.

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

PSTN revenue continued to fall with total PSTN revenue declining by 4.9% in fiscal 2009 to \$6,337 million. PSTN ARPU, however, only dropped marginally, by 1.1% to \$57.47. While the rate of decline increased on the prior year, the revenue decline slowed by 0.3 percentage points to 4.8% in the second half of this fiscal year consistent with the slowing in the SIO decline over the same period. PSTN revenue now makes up only 25% of our total sales revenue.

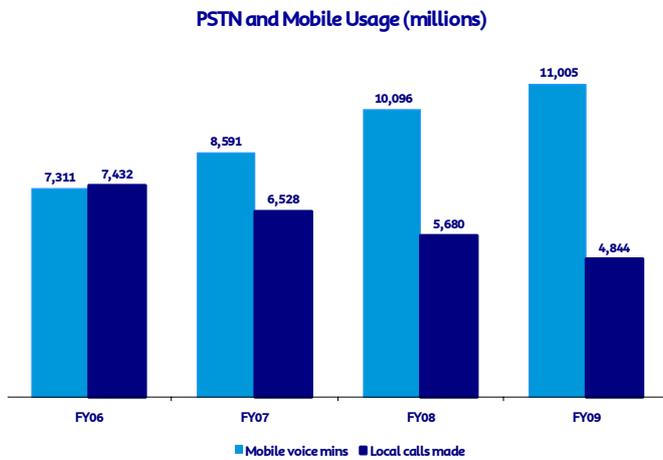
Consistent with previous years, wholesale PSTN revenue declined at a higher rate than retail falling by 19.9% during the year. The rate of decline in wholesale PSTN revenue did however slow, driven by a slow down in ULL migration in the second half. Total PSTN SIOs fell by 343k during the year, however the rate of decline in SIOs actually slowed, falling by 3.7% versus a 4.0% decline in the prior year. PSTN line loss was again driven by a fall in wholesale lines. There were 211k wholesale lines lost in the year, partially offset by a 171k increase in ULL SIOs. In retail, PSTN revenue declined by 2.5% with 132k retail lines lost over the year.



While there has been a fall in PSTN SIOs, the decline in PSTN revenues has been predominantly driven by lower usage. On average, our customers are making 5 less calls per line per month. Together with the impact of the current economic climate, we are also seeing continued migration from fixed

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calling products to mobile voice calls and SMS, email and voice over internet protocol (VOIP).



Customer behaviour is a catalyst for the change in usage trends with the increasing preference towards mobile voice, data messaging and internet based communications. This is evident from the trends in fixed telephony usage with revenue from local calls declining by 14.0% driven by a 14.7% decrease in the number of local calls made. National long distance minutes also decreased by 5.6% leading to a 9.2% decrease in revenue in this category. Local and national long distance calls have also experienced a decline but have been stemmed by increased penetration of subscription based pricing plans. Many of these plans offer free local and long distance calls, and at the same time, ensure bill certainty for our customers. There are now over 746k customers on a subscription pricing plan. Fixed to mobile revenue has also decreased by 0.7% to \$1,214 million with a corresponding 2.3% decrease in fixed to mobile minutes.

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

|   | Half-year ended |          |          |          |          |
|---|-----------------|----------|----------|----------|----------|
|   | Jun 2009        | Dec 2008 | Jun 2008 | Dec 2007 | Jun 2007 |
| Total PSTN . . . . .                                      | <b>(4.8%)</b>   | (5.1%)   | (4.3%)   | (2.1%)   | (2.9%)   |
| Retail . . . . .  | <b>(3.2%)</b>   | (1.8%)   | (0.6%)   | 0.3%     | (1.7%)   |
| Wholesale . . . . .                                       | <b>(15.4%)</b>  | (23.8%)  | (23.3%)  | (13.7%)  | (8.4%)   |
| Wholesale as a percentage of total PSTN revenue . . . . . | <b>11.8%</b>    | 12.1%    | 13.2%    | 15.0%    | 16.5%    |

### PSTN basic access services in operation

|                     | Half-year ended |          |          |          |          |          |
|---------------------|-----------------|----------|----------|----------|----------|----------|
|                     | Jun 2009        | Dec 2008 | Jun 2008 | Dec 2007 | Jun 2007 | Dec 2006 |
|                     | '000s           | '000s    | '000s    | '000s    | '000s    | '000s    |
| Retail . . . . .    | <b>7,733</b>    | 7,829    | 7,865    | 7,824    | 7,777    | 7,739    |
| Wholesale . . . . . | <b>1,285</b>    | 1,341    | 1,496    | 1,730    | 1,981    | 2,118    |

## Full year results and operations review - June 2009

### ISDN

|   | Year ended 30 June |             |               |             |
|---|--------------------|-------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| ISDN revenue . . . . .  | 942                | 978         | (36)          | (3.7%)      |
| ISDN average revenue per user per month (\$'s) . . . . .                | 60.64              | 66.02       | (5.38)        | (8.1%)      |
| ISDN access lines (basic access line equivalents) (thousands) . . . . . | 1,291              | 1,298       | (7)           | (0.5%)      |

Note: statistical data represents management's best estimates.

ISDN revenue has declined as expected mainly due to competitive pricing pressure and lower minutes of use. Substitution to other calling methods together with our planned migration of customers from ISDN home services to a

combination of PSTN and broadband offerings has driven a reduction in the number of calls and minutes of use.

### Fixed internet

- Fixed internet revenue increased by 6.9% driven by growth in fixed retail broadband
- Fixed retail broadband revenue increased by 15.9% with ARPU and SIOs both growing year-on-year

#### Fixed internet

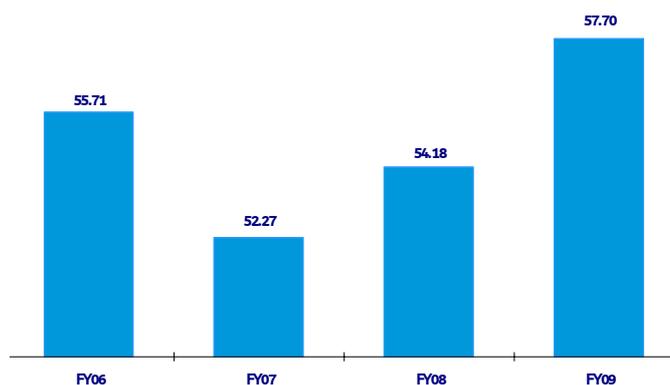
|   | Year ended 30 June |              |               |             |
|---|--------------------|--------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| Fixed broadband - retail <sup>(i)</sup> . . . . .                         | 1,533              | 1,323        | 210           | 15.9%       |
| Fixed broadband - hardware . . . . .                                      | 35                 | 30           | 5             | 16.7%       |
| Wholesale broadband . . . . .   | 498                | 554          | (56)          | (10.1%)     |
| Narrowband . . . . .  | 59                 | 93           | (34)          | (36.6%)     |
| Internet VAS . . . . .  | 35                 | 20           | 15            | 75.0%       |
| <b>Total fixed internet revenue</b> . . . . .                             | <b>2,160</b>       | <b>2,020</b> | <b>140</b>    | <b>6.9%</b> |
| Total fixed broadband SIOs - retail (thousands) <sup>(i)</sup> . . . . .  | 2,274              | 2,254        | 20            | 0.9%        |
| Average fixed broadband retail revenue per SIO per month (\$'s) . . . . . | 57.70              | 54.18        | 3.52          | 6.5%        |
| Broadband SIOs - wholesale (thousands) . . . . .                          | 1,691              | 1,708        | (17)          | (1.0%)      |
| Average broadband wholesale revenue per SIO per month (\$'s) . . . . .    | 24.44              | 26.59        | (2.15)        | (8.1%)      |
| Spectrum sharing services (thousands) . . . . .                           | 580                | 436          | 144           | 33.0%       |

Note: statistical data represents management's best estimates.

(i) Telstra Internet Direct (retail ADSL) revenue and SIOs are included in the above. Hyperconnect and symmetrical HDSL products are not.

Fixed internet revenue increased by 6.9% to \$2,160 million led by a strong year-on-year growth in fixed retail broadband. Fixed retail broadband revenue increased by 15.9% to \$1,533 million. SIOs increased by 20k to 2.3 million and importantly, ARPU continues to increase, up by 6.5% to \$57.70. There has been an increase in the take-up of premium high speed ADSL2+ and Cable Extreme plans which contributed to the higher ARPU.

Fixed Retail Broadband ARPU (\$ per month)



## Full year results and operations review - June 2009

The number of retail customers on fixed high-speed plans (20Mbps or greater) is now at 241k, increasing by 51.6% in fiscal 2009. We are also on track in upgrading our Melbourne hybrid fibre coaxial (HFC) cable network to deliver speeds of up to 100Mbps into the home by the end of the 2009 calendar year. Also contributing to increased fixed retail broadband revenue were higher internet direct SIOs as a result of the increased focus of selling Telstra Business broadband solutions to customers who currently have BigPond® products.

As market penetration increases and competitors continue to offer low-cost broadband in metro areas, we are seeing increased pressure in fixed retail broadband. We are also seeing migration from fixed to wireless broadband products. In

the second half of fiscal 2009 we lost 23k fixed retail broadband SIOs, compared to 43k added in the first half of the year.

Wholesale customers continue to migrate to ULL services, with wholesale broadband revenue falling by 10.1% to \$498 million. Volumes in ULL products have increased as carriers continue to build their own networks which in turn reduced wholesale DSL revenue.

Internet VAS revenues are still experiencing strong growth with security bundle customers increasing from 57k in June 2008 to 264k in June 2009 and additional email accounts increasing by 64.8% in fiscal 2009.

### Other fixed revenue

|   | Year ended 30 June |             |               |             |
|---|--------------------|-------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Other fixed revenue <sup>(i)</sup> . . . . .    | 1,327              | 1,272       | 55            | 4.3%        |
| Unbundled local loop SIOs (thousands) . . . . . | 698                | 527         | 171           | 32.4%       |

Note: statistical data represents management's best estimates.

(i) Refer to page 39 for a more detailed breakdown of other fixed revenue.

Other fixed revenue increased by 4.3% driven by a 34.7% increase in intercarrier access services, partially offset by declines in premium calling products, payphones and other fixed telephony.

The increase in intercarrier access services revenue was mainly due to the increase in ULL SIOs of 171k as wholesale customers continue to migrate their customer bases to their own infrastructure as a result of the low rental charges in metro Australia. However, there has been a significant slowing of the growth in ULL SIOs compared to the peaks experienced in fiscal 2008. Also contributing to the increase of \$57 million in ULL revenue was the increase in the monthly rental price by \$1.70 to \$16.00 following a determination from the ACCC, whilst the year-on-year growth rates have also been impacted by adjustments made in fiscal 2008 due to a number of regulatory decisions relating to connection and access prices. Strong demand for TEBA (Telstra Equipment Building Access) and global linx has also contributed to the increase in intercarrier access services revenue.

## Full year results and operations review - June 2009

### Mobiles

- Mobile services revenue growth continues at double digits (10.0%).
- Total retail mobile SIOs have had 856k net additions in the year.
- 3GSM SIOs have now reached 6.3 million, more than 60% of total mobile SIOs.
- Total mobile data revenue grew by 31.3% driven by wireless broadband and messaging revenues.
- Wireless broadband revenue increased by 69.2% and SIOs grew by 98.9%.

### Mobiles

|   | Year ended 30 June |              |               |              |
|---|--------------------|--------------|---------------|--------------|
|   | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>%  |
| Calling and access charges <sup>(i)</sup> . . . . .                           | 3,405              | 3,370        | 35            | 1.0%         |
| Mobile data   |                    |              |               |              |
| - Messaging . . . . .   | 896                | 740          | 156           | 21.1%        |
| - Non-messaging (handheld) . . . . .  | 547                | 459          | 88            | 19.2%        |
| - Wireless broadband (data cards) <sup>(ii)</sup> . . . . .                   | 587                | 347          | 240           | 69.2%        |
| Total mobile data . . . . .   | 2,030              | 1,546        | 484           | 31.3%        |
| Mobiles interconnection . . . . .   | 639                | 590          | 49            | 8.3%         |
| Total mobile services revenue - retail and interconnection . . . . .          | 6,074              | 5,506        | 568           | 10.3%        |
| Mobile services revenue - wholesale resale . . . . .                          | 27                 | 42           | (15)          | (35.7%)      |
| Total mobile services revenue . . . . .                                       | 6,101              | 5,548        | 553           | 10.0%        |
| Mobile hardware . . . . .   | 777                | 861          | (84)          | (9.8%)       |
| <b>Total mobile revenue</b> . . . . .   | <b>6,878</b>       | <b>6,409</b> | <b>469</b>    | <b>7.3%</b>  |
| <b>Mobile services retail postpaid and prepaid revenue</b>                    |                    |              |               |              |
| Postpaid . . . . .  | 4,797              | 4,384        | 413           | 9.4%         |
| Prepaid . . . . .   | 638                | 532          | 106           | 19.9%        |
| Postpaid mobile SIOs (thousands) . . . . .                                    | 6,569              | 6,087        | 482           | 7.9%         |
| Prepaid mobile SIOs (thousands) . . . . .                                     | 3,622              | 3,248        | 374           | 11.5%        |
| <b>Total retail mobile SIOs (thousands)</b> . . . . .                         | <b>10,191</b>      | <b>9,335</b> | <b>856</b>    | <b>9.2%</b>  |
| 3GSM postpaid mobile SIOs (thousands) . . . . .                               | 4,817              | 3,874        | 943           | 24.3%        |
| 3GSM prepaid mobile SIOs (thousands) . . . . .                                | 1,511              | 478          | 1,033         | 216.1%       |
| <b>3GSM total mobile SIOs (thousands)</b> . . . . .                           | <b>6,328</b>       | <b>4,352</b> | <b>1,976</b>  | <b>45.4%</b> |
| Wireless broadband (data card) SIOs (thousands) <sup>(ii)</sup> . . . . .     | 1,046              | 526          | 520           | 98.9%        |
| Wholesale SIOs (thousands) . . . . .  | 72                 | 74           | (2)           | (2.7%)       |
| Blended average revenue per user (including interconnection) (\$'s) . . . . . | 51.84              | 49.48        | 2.36          | 4.8%         |
| Prepaid average revenue per user (\$'s) . . . . .                             | 15.47              | 12.78        | 2.69          | 21.0%        |
| Postpaid average revenue per user (\$'s) . . . . .                            | 63.17              | 62.97        | 0.20          | 0.3%         |
| 3GSM average revenue per user (\$'s) . . . . .                                | 64.04              | 73.74        | (9.70)        | (13.2%)      |
| 3GSM postpaid average revenue per user (\$'s) . . . . .                       | 73.66              | 77.51        | (3.85)        | (5.0%)       |
| Data average revenue per user (\$'s) . . . . .                                | 17.32              | 13.89        | 3.43          | 24.7%        |
| Number of SMS sent (millions) . . . . .                                       | 8,943              | 6,973        | 1,970         | 28.3%        |
| Mobile voice telephone minutes (millions) . . . . .                           | 11,005             | 10,096       | 909           | 9.0%         |
| Deactivation rate . . . . .   | 23.0%              | 29.0%        |               | (6.0)        |

Note: statistical data represents management's best estimates.

(i) Includes \$390 million of international roaming (2008: \$404 million) and \$273 million of mobile messagebank (2008: \$266 million).

(ii) Based on a simplified definition which includes only data cards, USB dongles and embedded modems.

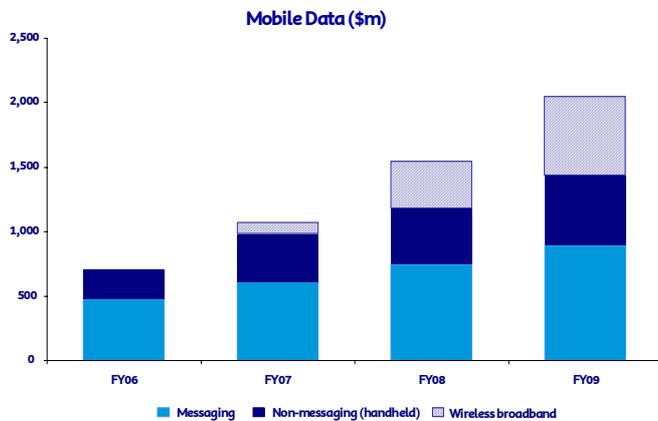
## Full year results and operations review - June 2009

In fiscal 2009, total domestic mobile revenue rose by 7.3% to \$6,878 million. This included a 10.0% growth in mobile services revenue to \$6,101 million and a 9.8% decline in mobile hardware revenue.

This resilient mobile growth is symptomatic of the strength of the Australian mobile market since our 2006 investment in the Next G™ network. We have seen a slowdown in growth in the second half of the fiscal year, as the economy begins to bite, but the performance remains at the top of our global peer group.

With voice and access revenue largely stable, mobile growth has again been driven by mobile data. Total mobile data revenue grew by 31.3%. Data represents over 33% of mobile services revenue, up from 27.9% in fiscal 2008. Within messaging revenue, SMS continued its strong growth, up by 19.5%, and MMS revenues grew by 55.8% to \$31 million. Mobile non-messaging (handheld) revenue grew by 19.2% to \$547 million.

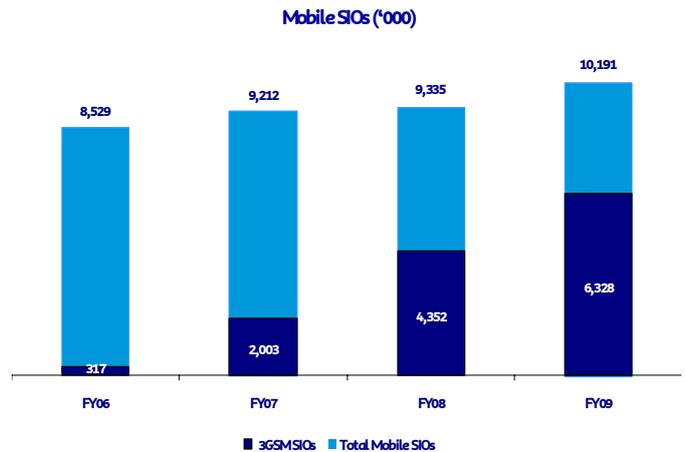
Within mobile data, wireless broadband growth continues unabated. At the end of June our WBB (data card) SIOs reached 1,046k, an increase of 281k in the half and 520k for the full year. More importantly, our strategy of focussing on high-end customers continues to drive growth with revenue up by 69.2% from the prior year to \$587 million.



Total mobile SIOs grew by 9.2% or 856k to nearly 10.2 million. This SIO growth was skewed to postpaid, with 482k postpaid additions.

Blended ARPU continues to increase, with a 4.8% increase to \$51.84. The rate of ARPU growth has slowed in the second half compared to the first half. We believe that the impact of the economy continues to be felt in the mobiles business, with average minutes of use falling from 98 minutes in the first half of fiscal 2009 to 91 minutes in the second half. The blended ARPU is also impacted by the growth in prepaid which has been buoyed by the introduction of prepaid wireless broadband.

Our 3GSM SIO base is now in excess of 6.3 million with 3GSM ARPU continuing to be strong.



Reducing mobile SARCs continues to be the focus for each of the retail business segments. For the year, total SARCs fell by 15.3% driven by lower volumes and a lower proportion of handsets being subsidised. SARCs are equivalent to 10.6% of domestic retail mobile services revenue, down by 3.2 percentage points year-on-year. For further details refer to page 26.

## Full year results and operations review - June 2009

### IP and data access

- IP access revenue grew by 24.9% and exceeded revenue from specialised data for the first time in fiscal 2009
- IP MAN and IP WAN revenue and SIOs grew as more businesses are utilising the power of our Next IP™ network

#### IP and data access

|   | Year ended 30 June |              |               |             |
|---|--------------------|--------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| Specialised data . . . . .                                      | 628                | 690          | (62)          | (9.0%)      |
| Global products . . . . .                                       | 130                | 101          | 29            | 28.7%       |
| IP access . . . . .   | 667                | 534          | 133           | 24.9%       |
| Wholesale internet and data . . . . .                           | 308                | 278          | 30            | 10.8%       |
| <b>Total IP and data access revenue . . . . .</b>               | <b>1,733</b>       | <b>1,603</b> | <b>130</b>    | <b>8.1%</b> |
| Domestic frame access ports (thousands) . . . . .               | 23                 | 26           | (3)           | (11.5%)     |
| Hyperconnect retail services in operation (thousands) . . . . . | 26                 | 23           | 3             | 13.0%       |
| Symmetrical HDSL services in operation (thousands) . . . . .    | 24                 | 21           | 3             | 14.3%       |
| IP MAN services in operation (thousands) . . . . .              | 17                 | 13           | 4             | 30.8%       |
| IP WAN services in operation (thousands) . . . . .              | 81                 | 67           | 14            | 20.9%       |

Note: statistical data represents management's best estimates.

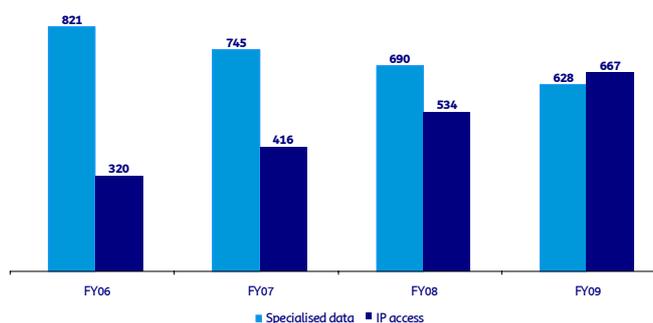
IP and data access revenue increased by 8.1% during fiscal 2009 to \$1,733 million predominantly due to IP access where revenue grew by 24.9% to \$667 million.

As telecommunications becomes more complex we are making the user experience simpler by harnessing the power of our Next IP™ network to offer businesses of all sizes access to world-leading infrastructure that provides huge benefits in terms of productivity and innovation.

Within the IP access portfolio, IP metro area network (IP MAN) was the largest contributor with \$321 million of revenue, representing growth of 37.8%. IP MAN is a high bandwidth, flexible IP access service that has grown at double-digit rates for many years, due to upward bandwidth migration from customers (predominantly in the Government sector). IP wide area network (IP WAN) experienced revenue growth of 18.7% to \$216 million. IP WAN allows businesses to use a single data connection in each location and then rely on the built-in intelligence and security of our Next IP™ network to manage the routing and delivery of data between locations within Australia and internationally. Customer growth has been strong in both the IP MAN and WAN products with 17k IP MAN and 81k IP WAN SIOs at the end of the year.

Specialised data revenue declined by 9.0% to \$628 million during the year due to the continued migration to IP based products. Digital data services, frame relay and leased lines were the main source of the decline. The fall in specialised data revenue has been more than offset by increases in IP access revenue. Furthermore, the second half of fiscal 2009 saw IP access revenue exceed revenue from specialised data for the first time.

IP Access v Specialised Data Revenue (\$m)



Wholesale internet and data grew by 10.8% driven by higher demand for capacity and backhaul while global products continued its recent growth due mainly to increases in international private lines and global IP services.

## Full year results and operations review - June 2009

### Business services and applications

|  | Year ended 30 June |             |               |               |
|--|--------------------|-------------|---------------|---------------|
|  | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>%   |
| Business services and applications revenue . . . . . | <b>1,008</b>       | 1,055       | (47)          | <b>(4.5%)</b> |

The decline in business services and applications revenue was predominately due to a decrease of \$83 million in revenue from the KAZ business which was sold in April 2009.

Business services and applications revenue (excluding KAZ) increased by 4.7%. This was partly due to a change of accounting treatment for deferred revenue which has enabled us to recognise revenue for construction work up front that was originally being amortised over the life of the contract or the life of the asset being built.

Also contributing to the increase was growth in managed network services revenue, driven by an increase in managed WAN equipment, increased managed hosting revenue across a number of customers and project work undertaken in relation to managed radio infrastructure. Business applications revenue also increased due to additional contact solutions project work and growth in rental and usage of equipment, in addition to increased video conference usage as companies seek alternatives to reduce travel costs.

### Advertising and directories

|   | Year ended 30 June |             |               |             |
|---|--------------------|-------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Advertising and directories revenue . . . . . | <b>2,259</b>       | 2,116       | 143           | <b>6.8%</b> |

Our advertising and directories revenue is predominantly derived from our wholly owned company Sensis (Australia's leading information resource) and its controlled entities. Our information services help Australians find, buy and sell through service offerings including Yellow<sup>™</sup>, White Pages<sup>®</sup>, Trading Post<sup>1</sup>, Citysearch<sup>2</sup>, UBD<sup>3</sup>, Gregory's<sup>3</sup> and Whereis<sup>®</sup>.

For a detailed description of the performance of Sensis please refer to the financial summary on page 31. Please note that our Trading Post business was transferred from Sensis to our Telstra Media segment on 1 April 2009 which resulted in \$18 million of advertising and directories revenue being recorded in Telstra Media in fiscal 2009.

1. Trade mark of Research Resources Pty Ltd  
 2. Trade mark of Citysearch Australia Pty Ltd  
 3. Trade mark of Universal Publishers Pty Ltd

## Full year results and operations review - June 2009

### Offshore controlled entities

|   | Year ended 30 June |              |               |             |
|---|--------------------|--------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| CSL New World . . . . .                                     | 989                | 917          | 72            | 7.9%        |
| TelstraClear . . . . .                                      | 547                | 562          | (15)          | (2.7%)      |
| Other offshore controlled entities . . . . .                | 390                | 346          | 44            | 12.7%       |
| <b>Total offshore controlled entities revenue . . . . .</b> | <b>1,926</b>       | <b>1,825</b> | <b>101</b>    | <b>5.5%</b> |

For further details regarding the performance of CSL New World (CSLNW) and TelstraClear, please refer to their respective business summaries commencing on page 32.

Growth in Asia, the USA and Europe has resulted in a \$44 million revenue improvement in other offshore controlled entities. Revenue has increased by \$24 million in Asia with strong sales growth in Singapore, Hong Kong and Japan. Our

Singapore and Hong Kong businesses also benefitted from the appreciating USD. In the USA the appreciating USD, particularly in the first half of the financial year, was responsible for the \$14 million revenue increase. Europe experienced a \$6 million increase in revenue mainly due to growth in data and hosting revenues in the UK.

### Pay TV bundling

|   | Year ended 30 June |             |               |             |
|---|--------------------|-------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Pay TV bundling revenue . . . . .                               | 467                | 426         | 41            | 9.6%        |
| Total pay TV bundling SIOs (thousands) . . . . .                | 450                | 450         | -             | -           |
| Total FOXTEL pay TV SIOs (excl wholesale) (thousands) . . . . . | 1,479              | 1,370       | 109           | 8.0%        |

Note: statistical data represents management's best estimates.

Pay TV bundling revenue increased by \$41 million driven by a \$50 million increase in FOXTEL<sup>1</sup> bundled revenue.

FOXTEL bundled pay TV SIOs increased by 7.3% or 31k from last year as a result of a targeted campaign to acquire 'new to pay TV' customers. The agreement to supply AUSTAR<sup>2</sup> bundled

services ended in fiscal 2009 resulting in the loss of 31k SIOs from June 2008. FOXTEL bundled ARPU increased by 0.5% to \$85.73 partly due to a price increase on the 'Get Started' package and higher penetration of FOXTEL iQ<sup>1</sup>.

### Other revenue

|                                      | Year ended 30 June |             |               |                |
|--------------------------------------|--------------------|-------------|---------------|----------------|
|                                      | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>%    |
| Distributions received . . . . .     | 100                | 130         | (30)          | (23.1%)        |
| Rental income . . . . .              | 36                 | 41          | (5)           | (12.2%)        |
| <b>Total other revenue . . . . .</b> | <b>136</b>         | <b>171</b>  | <b>(35)</b>   | <b>(20.5%)</b> |

Distributions received relates to partnership distributions from our FOXTEL partnership. A distribution of \$50 million was received in the second half of fiscal 2009.

1. Trade mark of Twentieth Century Fox Film Corporation  
2. Trade mark of AUSTAR Entertainment Pty Ltd

## Full year results and operations review - June 2009

### Other income

|   | Year ended 30 June |             |               | Change<br>%    |
|---|--------------------|-------------|---------------|----------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m |                |
| Proceeds from sale of property, plant and equipment . . . . . | 14                 | 23          | (9)           | (39.1%)        |
| Proceeds from sale of intangibles . . . . .                   | 2                  | 1           | 1             | 100.0%         |
| Proceeds from sale of investments . . . . .                   | 209                | 55          | 154           | 280.0%         |
| <b>Asset and investment sales . . . . .</b>                   | <b>225</b>         | <b>79</b>   | <b>146</b>    | <b>184.8%</b>  |
| Cost of property, plant and equipment . . . . .               | 14                 | 23          | (9)           | (39.1%)        |
| Cost of intangibles . . . . .                                 | 2                  | -           | 2             | n/m            |
| Cost of investments . . . . .                                 | 209                | 18          | 191           | 1061.1%        |
| <b>Cost of asset and investment sales . . . . .</b>           | <b>225</b>         | <b>41</b>   | <b>184</b>    | <b>448.8%</b>  |
| <b>Net gain on assets/investment sales . . . . .</b>          | <b>-</b>           | <b>38</b>   | <b>(38)</b>   | <b>n/m</b>     |
| USO levy receipts and subsidies . . . . .                     | 62                 | 70          | (8)           | (11.4%)        |
| Miscellaneous income . . . . .                                | 45                 | 66          | (21)          | (31.8%)        |
| <b>Other income . . . . .</b>                                 | <b>107</b>         | <b>136</b>  | <b>(29)</b>   | <b>(21.3%)</b> |
| <b>Total other income . . . . .</b>                           | <b>107</b>         | <b>174</b>  | <b>(67)</b>   | <b>(38.5%)</b> |

Total other income decreased by 38.5% in fiscal 2009 to \$107 million. The proceeds of sale of investments is made up of the sale of the KAZ group which resulted in proceeds of \$208 million, with the balance being from a further nominal investment sale. The KAZ sale resulted in a net gain on sale of \$3 million whilst fiscal 2008 included the sale of Telstra eBusiness with proceeds of \$55 million and a net gain on sale of \$37 million.

Miscellaneous income has declined primarily due to the receipt of proceeds in the prior year relating to the recovery of costs associated with C7 litigation.

## Full year results and operations review - June 2009

### Expenses

#### Labour

- Labour costs fell by 0.6% driven by the successful implementation of productivity improvements
- Excluding the impact of a decline in the 10 year Government bond rate, labour costs fell by 2.3%
- Achieved our 5 year target of 10,000 to 12,000 FTE reductions ahead of schedule with 11,665 completed since 1 July 2005 (excluding investments and divestments)

#### Labour

|  | Year ended 30 June |             |               |               |
|--|--------------------|-------------|---------------|---------------|
|  | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>%   |
| Labour . . . . .   | <b>4,131</b>       | 4,158       | (27)          | <b>(0.6%)</b> |
| Domestic full time employees (whole numbers) <sup>(i)</sup> . . . . .  | <b>31,662</b>      | 33,982      | (2,320)       | <b>(6.8%)</b> |
| Full time employees and employed equivalents (whole numbers) <sup>(ii)</sup> . . . . .   | <b>39,464</b>      | 42,784      | (3,320)       | <b>(7.8%)</b> |
| Total workforce, including contractors and agency staff (whole numbers) <sup>(iii)</sup> . . . . .   | <b>43,181</b>      | 46,649      | (3,468)       | <b>(7.4%)</b> |
| Current year reduction in total workforce excluding acquisition/divestment activity <sup>(iv)</sup> . . . . .                                    | <b>(2,881)</b>     |             |               |               |
| Reduction in total workforce to June 2008 excluding acquisition/divestment activity against November 2005 announcement <sup>(iv)</sup> . . . . . | <b>(8,784)</b>     |             |               |               |
| Total reduction in workforce . . . . .   | <b>(11,665)</b>    |             |               |               |

Note: statistical data represents management's best estimates.

- (i) Our domestic full time employees include domestic full time staff, domestic fixed term contracted staff and expatriate staff in overseas subsidiary entities.  
(ii) Our full time employees and equivalents include domestic full time employees plus casual and part time employees and employees in our offshore subsidiary entities.  
(iii) Our total workforce includes full time employees and equivalents plus contractors and staff employed through agency arrangements measured on an equivalent basis.  
(iv) The reduction in total workforce against our 10,000 to 12,000 FTE (full time equivalent) 5 year reduction target excludes the ongoing impacts of SouFun Holdings Ltd and the Chinese entities Norstar Media, Autohome/PCPop, China M and Sharp Point, our divestments of Telstra eBusiness Group, KAZ and Australian Administration Services Pty Ltd and the impact of CSL's merger with NewWorld PCS Mobility. All of these transactions have taken place since the original 5 year target announcement.

Salary cost savings achieved as a result of lower headcount drove a reduction in total labour costs of \$27 million in fiscal 2009.

Savings are a direct result of reductions in headcount undertaken in both the current and previous years. Salary costs in our networks and services segment declined by \$26 million from fiscal 2008 whilst the sale of the KAZ business from our enterprise and government segment in April 2009 resulted in salary cost savings of \$38 million.

The decline in the 10 year government bond rate, which required a revaluation of our long service leave balances and a subsequent increase in labour costs, accounted for an increase in labour costs of 1.6% or \$67 million.

Redundancy costs declined by 8.0% to \$219 million as a result of the large amount of redundancy activity which took place in the prior year. This redundancy activity, in addition to the redundancies that occurred this fiscal year, has resulted in the achievement, ahead of schedule, of our 5 year / 10,000 to 12,000 staff reduction target with 11,665 reductions since fiscal 2005.

We continue to simplify our business and processes which has driven a decrease in the total workforce of 3,468 full time equivalent staff and contractors since June 2008. These reductions were primarily due to:

- a focus on increasing efficiencies and streamlining our field workforce and call centres as part of our transformation, particularly in our service delivery, network services and network construction units, resulting in our networks and services segment reducing its total workforce by 1,230 since June 2008;
- the removal of approximately 900 marketing and management support roles across our consumer and small business units as part of our transformation strategy to reduce duplication and improve co-operation between our divisions by utilising our new systems. This program did not impact our customer facing areas;
- workforce numbers in our enterprise and government segment decreasing by 1,149 from the prior year, primarily as a result of the sale of the KAZ business which resulted in a workforce reduction of 1,177; offset by
- an increase in our media segment, largely due to the acquisition of interests in China M and Sharp Point in February 2009 which resulted in a workforce increase of 472.

During the financial year we recommenced making cash contributions to the Telstra Superannuation Scheme (Telstra Super) as the funding deed specifies that contributions must be made if the average vested benefits index (VBI) falls below 103% in any calendar quarter. Contributions of \$260 million

## Full year results and operations review - June 2009

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were paid to Telstra Super up to 30 June 2009. The average VBI for the June quarter was 82%. It should be noted that the cash contributions paid have no profit and loss impact and only impact the asset or liability recognised in the statement of financial position and the company's free cash flow. The contribution rate for the defined benefit fund in Telstra Super is currently at 27%.

In fiscal 2009, we recognised \$229 million of pension costs in our labour expenses compared to \$198 million in fiscal 2008. This expense is due to our requirement to recognise the actuarially defined movement in our defined benefit pension plans in our operating results. The current year movement has been driven by an increase in curtailment costs of \$11 million which represent the difference between actual vested benefits paid to defined benefit members and the Defined Benefit Obligation (DBO). Contributions in fiscal 2010 will depend on market conditions on a quarter-by-quarter basis, however we expect this to be around \$500 million in fiscal 2010.

## Full year results and operations review - June 2009

### Goods and services purchased

- Retail domestic subscriber acquisition and recontracting costs (SARC) decreased by 15.3% due to lower volumes and a lower proportion of handsets being subsidised
- Network payments increased mainly due to foreign exchange movements and higher offshore traffic and volumes
- Service fees increased by 13.8% driven by an increase of 31k FOXTEL pay TV bundled services

#### Goods and services purchased

|  | Year ended 30 June |              |               |             |
|--|--------------------|--------------|---------------|-------------|
|  | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| Cost of goods sold - handset subsidies (postpaid)                                    | 559                | 653          | (94)          | (14.4%)     |
| Cost of goods sold - other   | 1,337              | 1,351        | (14)          | (1.0%)      |
| Usage commissions  | 307                | 283          | 24            | 8.5%        |
| Network payments   | 1,982              | 1,797        | 185           | 10.3%       |
| Service fees   | 510                | 448          | 62            | 13.8%       |
| Managed services   | 190                | 210          | (20)          | (9.5%)      |
| Dealer performance commissions   | 102                | 122          | (20)          | (16.4%)     |
| Paper purchases and printing   | 134                | 126          | 8             | 6.3%        |
| Other  | 192                | 191          | 1             | 0.5%        |
| <b>Total goods and services purchased</b>  | <b>5,313</b>       | <b>5,181</b> | <b>132</b>    | <b>2.5%</b> |
| Retail domestic subscriber acquisition and recontracting costs (SARC) <sup>(i)</sup> | 630                | 744          | (114)         | (15.3%)     |

(i) Domestic subscriber acquisition and recontract costs include \$511 million of domestic handset subsidy costs (June 2008: \$610 million) and other go to market costs included within cost of goods sold-other and other goods and services purchased.

Goods and services purchased saw a modest rise of 2.5% in costs this fiscal year impacted by significant foreign exchange impacts influencing our international network payments, partly offset by lower retail SARC.

Network payments was the major contributor to our increased costs rising by 10.3% to \$1,982 million. However, excluding the impacts of foreign exchange, network payments only rose by 5.6%. The growth in fiscal 2009 was mostly due to:

- our network payments to REACH rose by \$94 million this year of which \$53 million related to foreign exchange impacts. Underlying volume costs have risen by \$41 million to meet strong demand for voice traffic and increased data bandwidth in our Global Linx products which are used by our domestic customers to terminate their international voice and data traffic that originates in Australia;
- offshore outpayments rose by \$44 million predominately in our CSLNW subsidiary mainly due to foreign exchange impacts of \$45 million as well as \$17 million higher underlying network costs for increased backhaul charges during the second half of fiscal 2009. This was offset by \$14 million lower costs in TelstraClear primarily driven by foreign exchange impacts; and
- our domestic network payments grew by \$35 million with the increase almost solely due to rising SMS offnet volumes which grew by 24.2% or \$34 million this fiscal year. This reflects the changing trend in customer usage where we have seen our revenue from data messaging also increase due to 28.3% more SMS messages being sent by our customers this year.

Service fees increased broadly in line with higher FOXTEL bundling customers and revenue this year. FOXTEL services bundled through Telstra have risen by 31k generated by increased marketing campaigns and the introduction of IQ HD products. Other service fee increases resulted from growth in our BigPond<sup>®</sup> content revenues sold via our Next G<sup>™</sup> and 3GSM mobiles such as FOXTEL by mobile, music, games, sport and news. Our business, as well as enterprise and government segments, also had higher service fees to support the expanded take up of Blackberry mobile products.

Usage commissions rose by \$24 million driven by 20.0% higher prepaid recharge commissions payable this fiscal year following the popularity of our prepaid mobile and wireless broadband products which also grew by 19.9% during the same period. Higher commissions were also paid to our dealer and licensed shop channels following strong contracting performance especially on our business customer fixed line plans and customer premises equipment.

Offsetting these increases in cost of goods sold was retail domestic SARC which was again a focus for productivity improvement this fiscal year. It declined by \$114 million of which domestic handset subsidies were the largest component with a reduction of \$99 million to \$511 million. This resulted from lower handsets sold after the peak of CDMA migration in the prior year but also saw improved efficiency with a decline of 3.2% in SARC as a proportion of mobile services domestic retail revenue this fiscal year. Improved SARC productivity was attributable to:

## Full year results and operations review - June 2009

- a change in the handset mix with our customers moving away from subsidised phones (which have declined as a proportion of handsets sold by 4.8%) and moving towards mobile repayment options and cap plans. Some of the mix change was also attributable to the closure of the CDMA network in the prior year; and
- a decline in our blended SARC rate per phone sold which reduced by 12.0% over the fiscal year to \$139 although this was slightly higher in the second half of fiscal 2009 following the introduction of popular 'smart phones' such as the iPhone3GS.

### Blended average SARC rate trend by half-year



Furthermore, dealer commissions fell by 16.4% from the prior year linked to lower door knocking activities in our personal calling program as well as a deferral of certain commissions over the life of the contracts to which they relate.

Our cost of goods sold - other category also generated savings this year mainly due to a decline in the cost of goods sold of handsets. This was triggered by cost savings in the average rate of our prepaid handsets which more than offset the increase in handset volumes, as well as more efficient sourcing and supply chain activities related to handsets and lower accessory volumes. Postpaid handset cost of goods sold increased slightly from last year partly due to stronger take up of smart phones although this was offset by lower volumes due to the CDMA impacts in fiscal 2008.

## Full year results and operations review - June 2009

### Other expenses

- Total other expenses declined by 0.4%, the first year-on-year reduction since fiscal 2005; with a significant drop of 4.7% in the second half of fiscal 2009
- Service contracts increased by 5.5% mainly driven by the migration of customers onto the new billing systems
- Promotion and advertising decreased by 17.1% as spending was more targeted

#### Other expenses

|  | Year ended 30 June |              |               |               |
|--|--------------------|--------------|---------------|---------------|
|  | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>%   |
| Property, motor vehicle and IT rental expense . . . . .    | 614                | 609          | 5             | 0.8%          |
| Net foreign currency conversion losses / (gains) . . . . . | 16                 | (13)         | 29            | 223.1%        |
| Service contracts and other agreements . . . . .           | 2,389              | 2,339        | 50            | 2.1%          |
| Promotion and advertising . . . . .                        | 379                | 457          | (78)          | (17.1%)       |
| General and administration . . . . .                       | 1,038              | 1,028        | 10            | 1.0%          |
| Other operating expenses . . . . .                         | 442                | 465          | (23)          | (4.9%)        |
| Impairment and diminution expenses . . . . .               | 347                | 361          | (14)          | (3.9%)        |
| <b>Total other expenses . . . . .</b>                      | <b>5,225</b>       | <b>5,246</b> | <b>(21)</b>   | <b>(0.4%)</b> |

Total other expenses have declined for the first time since fiscal 2005 as we begin to see savings driven by operational efficiencies and strong cost management.

Driving the overall reduction in other expenses was promotion and advertising expenditure which declined by \$78 million as spending was more targeted. Cutbacks were also seen in several sponsorship programs including Australian Idol and Football Federation Association.

Service contracts and other agreements grew by 2.1% but the annual rate of growth has slowed considerably, with the second half of fiscal 2009 declining by 2.0% year-on-year. A 5.5% increase in service contracts was predominantly due to increased inbound call volumes and higher average call handling times within our call centres as customers migrated onto the new billing systems. Partly offsetting this were lower network installation and maintenance volumes undertaken by our field staff and an 18.8% reduction in consultancy costs predominantly due to a reduced program of work as a result of cost saving initiatives being completed.

Impairment and diminution expenses declined by 3.9% predominantly due to:

- inventory write downs which declined by \$32 million partly due to fewer handset sales returns from customers and improvement in managing 'safety stock' levels. There was also a higher level of obsolescence in the previous fiscal year linked to the CDMA network migration and closure in January 2008;
- non inventory impairment which decreased by \$13 million driven by lower retirements of test equipment from our other plant and equipment asset base; offset by
- a \$38 million increase in bad and doubtful debts influenced by several factors including the difficult economic conditions. Our outbound credit management collection calls were also impacted by increased inbound

call traffic, subsequently affecting our debt recovery process.

General and administration expenses grew by 1.0%. This is a significant reduction in growth from fiscal 2007 and 2008 where costs had increased by 19.8% and 8.3% respectively. This is an indication of strong overhead and discretionary cost management in spite of a growing business. Factors impacting the cost growth in fiscal 2009 include:

- a \$39 million increase in info tech repairs and maintenance costs associated with the growth in both our IT hardware infrastructure and software packages to support the IT transformation releases;
- a \$25 million increase in mobile site certification activities and general property outgoings. The effects of the Victorian bushfires and Queensland/New South Wales storms resulted in higher maintenance and clean up activities; offset by
- a \$53 million decline in discretionary expenses including travel and fares, training expenses and legal costs due to strong cost management throughout the year.

Property, motor vehicle and IT rental expenses have remained relatively stable driven by higher accommodation costs due to several expansions and developments together with higher rates, offset by a decline in IT rental expense due to the purchase, instead of the lease, of a number of new servers.

Net foreign currency conversion losses increased due to the significant fall in the Australian dollar this fiscal year which impacted the unhedged exposure associated with the timing of invoice receipts and payments.

The decrease in other operating expenses of \$23 million was a result of a reduction in repairs and maintenance and sundry purchases associated with employee related costs.

## Full year results and operations review - June 2009

### Share of net (profit)/loss from jointly controlled and associated entities

|  | Year ended 30 June |             |               |             |
|--|--------------------|-------------|---------------|-------------|
|  | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Share of net (profit)/loss from jointly controlled and associated entities . . . . . | (3)                | 1           | (4)           | (400.0%)    |

Our share of net (profit)/loss from jointly controlled and associated entities includes our share of both profits and losses from equity accounted investments. The \$3 million gain for the reported period was represented by our associated entities with a \$4 million profit from Keycorp Limited offset by losses from LinkMe Pty Limited which was sold in the second half of fiscal 2009.

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

by our share of profits derived from these entities. At 30 June 2009, our share of FOXTTEL carried forward losses amounted to \$164 million compared to \$135 million at June 2008. The increase in fiscal 2009 was largely due to two partnership distributions totalling \$100 million received from FOXTTEL offset by our share of FOXTTEL's profit which amounted to \$68 million and other minor equity accounting adjustments.

Whilst our share of carried forward losses in REACH remained unchanged at \$590 million from fiscal 2008, our share of carried forward losses in Australia-Japan Cable increased by \$5 million to \$167 million at June 2009.

### Depreciation and amortisation

|  | Year ended 30 June |              |               |             |
|--|--------------------|--------------|---------------|-------------|
|  | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| Depreciation . . . . .                               | 3,624              | 3,486        | 138           | 4.0%        |
| Amortisation . . . . .                               | 766                | 704          | 62            | 8.8%        |
| <b>Total depreciation and amortisation . . . . .</b> | <b>4,390</b>       | <b>4,190</b> | <b>200</b>    | <b>4.8%</b> |

Higher depreciation on communications assets in CSLNW was the main driver behind the increase in the depreciation and amortisation expense of 4.8%.

Depreciation on communications assets increased by \$73 million as accelerated depreciation on CSLNW's existing 3GSM and 2GSM networks continued until June 2009. Total accelerated depreciation at CSLNW was \$172 million this fiscal year whilst foreign currency movements in CSLNW also resulted in a \$40 million increase in depreciation. There was an offsetting reduction in depreciation expense of \$92 million due to a change in the service life of other communications assets within the group.

Other plant and equipment depreciation increased by \$34 million, mainly due to the addition of information technology equipment related to the transformation activities.

Additions to the building structure of various exchanges in NSW made up the majority of the additions to land and buildings where depreciation increased by \$30 million in fiscal 2009. There were also major property fitouts undertaken due to the roll out of T[life]<sup>™</sup> stores.

Asset additions as a result of our IT transformation were the main reason for the 8.8% increase in amortisation. Major acquisitions were for customer relationship management, billing and network operations management applications. These increases were partially offset by amortisation reductions due to an extension to the service life of some software asset classes.

## Full year results and operations review - June 2009

### Net finance costs

|   | Year ended 30 June |              |               |                |
|---|--------------------|--------------|---------------|----------------|
|   | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>%    |
| Borrowing costs . . . . .   | 1,199              | 1,238        | (39)          | (3.2%)         |
| Finance leases . . . . .  | 9                  | 10           | (1)           | (10.0%)        |
| Unwinding of discount on liabilities recognised at present value . . . . .              | 23                 | 24           | (1)           | (4.2%)         |
| Gain on fair value hedges - effective . . . . .   | (61)               | (171)        | 110           | 64.3%          |
| Gain on cash flow hedges - ineffective . . . . .  | (1)                | (4)          | 3             | 75.0%          |
| (Gain)/loss on transactions not in a designated hedge relationship . . . . .            | (77)               | 27           | (104)         | (385.2%)       |
| (Gain)/loss on transactions de-designated from fair value hedge relationships . . . . . | (145)              | 13           | (158)         | (1215.4%)      |
| Other . . . . .   | 20                 | 21           | (1)           | (4.8%)         |
| <b>Finance costs</b> . . . . .  | <b>967</b>         | <b>1,158</b> | <b>(191)</b>  | <b>(16.5%)</b> |
| Finance income . . . . .  | (67)               | (72)         | 5             | 6.9%           |
| <b>Net finance costs</b> . . . . .  | <b>900</b>         | <b>1,086</b> | <b>(186)</b>  | <b>(17.1%)</b> |

The reduction in net interest on borrowings of \$35 million (borrowing costs and finance leases less finance income) in fiscal 2009 arises from:

- a reduction in the average yield on debt over the year from 7.3% in fiscal 2008 to 7.1% in fiscal 2009; and
- reductions in short term market base interest rates during the year which resulted in lower costs on the floating rate debt component of our debt portfolio.

This was partly offset by an increase in interest costs arising from:

- an increase in the average volume of debt over the period;
- higher yields driven by an increase in our borrowing margins which have impacted our refinancing yields; and
- substantial replacement of short term borrowings with long term debt.

The significant deterioration in global economic conditions during fiscal 2009 resulted in de-leveraging by financial institutions and consequent increases in borrowing margins. This has resulted in higher absolute yields on new term debt raisings during the year.

The reduction in the gain on fair value hedges - effective of \$110 million represents the fair value movements of the Australian dollar floating rate position and is due to the following factors:

- an increase in our long term borrowing margins;
- a reduction in base market rates;
- a reduction in the number of future interest flows as we approach maturity of the financial instrument; and
- the discount factor unwinding as the time to maturity shortens.

The movement in the (gain)/loss of transactions not in or de-designated from hedge relationships of \$262 million (moving from a loss to a gain) relates to a number of

borrowings denominated in Euro, British pounds and United States dollars that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting. Notwithstanding that these 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. The gain mainly comprises the following movements:

- the valuation impacts described above for fair value hedges; and
- the different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value), resulting in some disparity attributable to the discounting impact of future cash flows in the derivatives.

It is important to note that our intention is to hold our borrowings and associated derivative instruments to maturity and accordingly revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind out to nil at maturity.

## Full year results and operations review - June 2009

### Income tax expense and franking account

- Income tax expense increased mainly due to the 10.1% increase in our profit before tax
- Our effective tax rate of 28.0% is lower than the Australian company tax rate due to tax effect adjustments which included a deduction for an investment allowance

|                              | Year ended 30 June |             |               |             |
|------------------------------|--------------------|-------------|---------------|-------------|
|                              | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Income tax expense . . . . . | 1,582              | 1,429       | 153           | 10.7%       |
| Effective tax rate . . . . . | 28.0%              | 27.8%       |               | 0.2         |

Income tax expense increased by 10.7% to \$1,582 million while profit before income tax increased by 10.1% to \$5,658 million. This increase in tax expense was mainly attributable to the following factors:

- the tax effect of the increase in profit before tax of \$518 million added \$155 million to the expense;
- the effects of different rates of tax on overseas income increased the expense by \$33 million;
- an increase of \$12 million resulting from a decrease in non assessable profit on sale of investments from the prior year; offset by
- a decrease of \$64 million due to the impact of the Federal Government's investment allowance this fiscal year.

The effective tax rate was 28.0% for the year which was relatively consistent with the prior year rate of 27.8%, and is 2.0% lower than the Australian company tax rate of 30.0%. This represents a difference of \$115 million to the notional income tax expense and was largely as a result of the following tax effect adjustments:

- an investment allowance deduction of \$211 million with a tax effect reduction of \$64 million; and
- correction of prior year income tax expense with a true-up reduction of \$35 million.

During the current year, we have paid a total of \$1,636 million of tax instalments for the Telstra tax consolidated group relating to the last quarter of fiscal 2008 and the first three quarters of fiscal 2009. Franking credits of \$1,493 million were used when we paid our final 2008 dividend and 2009 interim dividend. In addition, the 2008 income tax return refund has resulted in a further reduction in our franking credits of \$36 million.

Following the overall movements in our franking account during the year, our franking account balance was \$178 million at the end of fiscal 2009. Our exempting account balance at year end is \$24 million, however there are statutory restrictions placed on the distribution of credits from this account. Consequently, it is unlikely that we will be able to distribute our exempting credits. We believe our current balance of franking credits combined with the franking credits that will arise on tax instalments expected to be paid during

fiscal 2010, will be sufficient to cover the franking debits arising from our final dividend.

## Full year results and operations review - June 2009

### Major subsidiaries - financial summaries

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

#### Sensis financial summary

|   | Year ended 30 June |             |               |             |
|---|--------------------|-------------|---------------|-------------|
|   | 2009<br>\$m        | 2008<br>\$m | Change<br>\$m | Change<br>% |
| Total income . . . . .  | 2,251              | 2,127       | 124           | 5.8%        |
| Operating expenses (excl. depreciation and amortisation). . . . . | 1,078              | 1,033       | 45            | 4.4%        |
| EBITDA contribution . . . . .                                     | 1,173              | 1,094       | 79            | 7.2%        |
| Depreciation and amortisation. . . . .                            | 122                | 150         | (28)          | (18.7%)     |
| EBIT contribution . . . . .                                       | 1,051              | 944         | 107           | 11.3%       |
| Capital expenditure . . . . .                                     | 219                | 257         | (38)          | (14.8%)     |
| EBITDA margin on sales revenue . . . . .                          | 52.1%              | 51.4%       |               | 0.7         |

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

Sensis total income is split into the following categories:

|  | Year ended 30 June |              |               |             |
|--|--------------------|--------------|---------------|-------------|
|  | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>% |
| - Yellow <sup>™</sup> revenue . . . . .              | 1,306              | 1,273        | 33            | 2.6%        |
| - White Pages <sup>®</sup> revenue. . . . .          | 412                | 369          | 43            | 11.7%       |
| - Classified revenue . . . . .                       | 68                 | 110          | (42)          | (38.2%)     |
| - Emerging business. . . . .                         | 125                | 150          | (25)          | (16.7%)     |
| - Chinese online businesses <sup>(1)</sup> . . . . . | 201                | 88           | 113           | 128.4%      |
| - Voice . . . . .                                    | 129                | 126          | 3             | 2.4%        |
| Total Sensis advertising and directories . . . . .   | 2,241              | 2,116        | 125           | 5.9%        |
| Other . . . . .                                      | 9                  | 11           | (2)           | (18.2%)     |
| Total Sensis sales revenue . . . . .                 | 2,250              | 2,127        | 123           | 5.8%        |
| Other income. . . . .                                | 1                  | -            | 1             | -           |
| <b>Sensis total income. . . . .</b>                  | <b>2,251</b>       | <b>2,127</b> | <b>124</b>    | <b>5.8%</b> |

<sup>(1)</sup> The Chinese online business results are from unaudited management accounts converted from local currency into Australian Dollars. The year ended 30 June 2009 includes 12 months of revenue for Norstar Media and Autohome/PCPop as our investment occurred in June 2008, with no corresponding revenue in the prior year. SouFun is included in both years.

Sensis is Telstra's advertising subsidiary and Australia's leading information resource. Sensis help you find, buy and sell through service offerings including Yellow<sup>™</sup>, White Pages<sup>®</sup>, 1234, Citysearch, UBD, Gregory's and Whereis<sup>®</sup>. Sensis also manages the group's advertising assets in China through interests in SouFun and the two Chinese internet businesses purchased in June 2008, Norstar Media and Autohome/PCPop. These investments give Sensis leading positions in the fast-growing online auto and digital device advertising sectors.

The success of our unique value proposition and continued investment in usage and advertiser return on investment has assisted in growing total income by 5.8%. Of note was that included in the fiscal 2009 results was only 9 months of Trading Post revenue (within classifieds) and expenses as this business was transferred to our Telstra Media operating segment on 1 April 2009.

Our print directories grew in a weakening market with an 8.2% increase in White Pages<sup>®</sup> print directories and a 0.5% increase in Yellow<sup>™</sup> print directories achieved through growth in new customers, advertiser retention rates and yield. Both online sites have also experienced growth with White Pages<sup>®</sup> online revenue growth of 106.8% and Yellow Pages<sup>™</sup> online revenue growing by 14.6%.

China delivered excellent revenue growth of 128.4%. SouFun delivered revenue growth of 55.9%. SouFun is China's number one real estate site with an online presence in 100 cities. The Autohome and CHE168 businesses are number one in online auto, while PCPop and IT168 are number two in online consumer electronics. Site usage grew to 3.5 billion monthly page views; reflecting strong growth in China's online population and our focus on providing a 'best in class' customer experience.

## Full year results and operations review - June 2009

The decline in emerging business was driven by location and navigation products which declined by 39.5% due to a mixture of reduced yields and softer retail conditions (in line with industry trends), particularly in print.

Sensis operating expenses (before depreciation and amortisation) grew by 4.4% to \$1,078 million mainly due to the following:

- China growth of \$74 million due to our investment in June 2008 in Norstar Media and Autohome/PCPop which contributed \$47 million in fiscal 2009 with no expenses in

the prior year and organic growth of \$27 million to support SouFun revenue growth; and

- a reduction of \$29 million in domestic business driven by efficiency and productivity improvements across the core business and a decrease in bad and doubtful debts as fiscal 2008 included a review of delinquency rates and subsequent adjustment.

Depreciation and amortisation declined by \$28 million due to an extension of the service life of some software asset classes.

Capex has declined by \$38 million as the bulk of the IT transformation build was incurred in fiscal 2008.

### CSL New World financial summary

|  | Year ended 30 June |              |             | Year ended 30 June |               |             |
|--|--------------------|--------------|-------------|--------------------|---------------|-------------|
|  | 2009<br>A\$m       | 2008<br>A\$m | Change<br>% | 2009<br>HK\$m      | 2008<br>HK\$m | Change<br>% |
| Total income . . . . .                                       | 989                | 917          | 7.9%        | 5,675              | 6,395         | (11.3%)     |
| Operating expenses (excl. depreciation & amortisation) . . . | 750                | 658          | 14.0%       | 4,288              | 4,565         | (6.1%)      |
| EBITDA contribution . . . . .                                | 239                | 259          | (7.7%)      | 1,387              | 1,830         | (24.2%)     |
| Depreciation and amortisation . . . . .                      | 342                | 246          | 39.0%       | 1,699              | 1,486         | 14.3%       |
| EBIT contribution . . . . .                                  | (103)              | 13           | (892.3%)    | (312)              | 344           | (190.7%)    |
| Capital expenditure . . . . .                                | 148                | 128          | 15.6%       | 836                | 937           | (10.8%)     |
| EBITDA margin on sales revenue . . . . .                     | 24.2%              | 28.2%        | (4.0)       | 24.4%              | 28.6%         | (4.2)       |

Amounts presented in HK\$ have been prepared in accordance with A-IFRS. Amounts presented in A\$ represent amounts included in Telstra's consolidated result including additional depreciation and amortisation arising from consolidation fair value adjustments and an alignment of accounting policy for pension assets from a corridor approach to a full recognition approach to be consistent with Telstra policy. EBITDA margin differences arise mainly from the alignment of accounting policies as well as from monthly average rates used for conversion from HK\$ to A\$.

In the context of a challenging economic environment, EBITDA has declined by 24.2% in HK\$ for fiscal 2009. This was predominantly driven by lower voice revenues (local and international) and associated margins as well as a decline in the volume of handset sales. The EBIT decline was also impacted by accelerated depreciation on the company's old networks, following the decision to invest in new network technologies and acceleration in the phasing out of the old networks. The acceleration commenced in the second half of fiscal 2008 and finished in June 2009, resulting in a year-on-year increase to depreciation expenses of HK\$370 million.

The revenue decline has predominantly been driven by lower volume of handset sales following a significant slow down in consumer spending. Additionally, CSLNW has experienced lower local voice revenue, lower outbound roaming voice revenue and prepaid revenue. Outbound roaming voice revenue has been particularly impacted by the global economic climate and the reduction in travel out of Hong Kong.

Partially offsetting these declines was a rise in data revenue and higher mobile virtual network operator (MVNO) revenue.

Operating expenses excluding depreciation and amortisation declined mainly due to lower cost of handsets sold resulting from lower sales volumes, as well as lower international disbursements due to lower outbound traffic volumes. This has been partially offset by higher network costs including higher

backhaul charges in the second half of fiscal 2009, as well as MVNO-related disbursement and data disbursements which are in line with the increased revenue in those categories. Other expenses declined mainly due to lower labour costs through improving productivity which consequently facilitated a reduction to headcount, as well as lower publicity and promotion and repairs and maintenance on the old network.

The year-on-year change in the HK\$/AUD\$ exchange rate resulted in an increase in consolidated total income of A\$174 million which was offset by an increase in expenses (including depreciation and amortisation) of A\$185 million.

The decrease in capital expenditure was predominantly driven by lower spending on network coverage improvement and site acquisition which was carried out extensively in fiscal 2008 as well as lower product development and information technology spending.

## Full year results and operations review - June 2009

### TelstraClear financial summary

|  | Year ended 30 June |              |             | Year ended 30 June |               |             |
|--|--------------------|--------------|-------------|--------------------|---------------|-------------|
|  | 2009<br>A\$m       | 2008<br>A\$m | Change<br>% | 2009<br>NZ\$m      | 2008<br>NZ\$m | Change<br>% |
| Total income . . . . .                                       | 547                | 562          | (2.7%)      | 671                | 656           | 2.3%        |
| Operating expenses (excl. depreciation & amortisation) . . . | 439                | 455          | (3.5%)      | 539                | 531           | 1.5%        |
| EBITDA contribution . . . . .                                | 108                | 107          | 0.9%        | 132                | 125           | 5.6%        |
| Depreciation and amortisation . . . . .                      | 121                | 127          | (4.7%)      | 141                | 141           | -           |
| EBIT contribution . . . . .                                  | (13)               | (20)         | 35.0%       | (9)                | (16)          | 43.8%       |
| Capital expenditure . . . . .                                | 77                 | 96           | (19.8%)     | 96                 | 113           | (15.0%)     |
| EBITDA margin on sales revenue . . . . .                     | 19.7%              | 19.0%        | 0.7         | 19.7%              | 19.1%         | 0.6         |

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

For the year ended 30 June 2009, revenue in New Zealand (excluding rising trans Tasman intercompany revenue) has increased by 2.3% in local currency despite a challenging economic environment.

The tightening in the business markets has been offset by consumer services with overall consumer revenue (including both on-net and off-net services) rising by 18.7% for the year. Broadband penetration on the consumer hybrid fibre coaxial (HFC) cable network in Wellington and Christchurch continues to grow with 70% of the customer base now enabled, while consumer PSTN access lines rose by 24.3% for the year.

Operating expenses (excluding depreciation and amortisation) increased by 1.5% as a result of higher bad and doubtful debts associated with the current challenging economic times and an increase in promotion and advertising. Partially offsetting these increases in expenses were lower IT and discretionary expenses.

The year-on-year change in the NZ\$ versus AUD\$ exchange rate resulted in a decrease in consolidated total income of A\$28 million which was offset by a decrease in expenses (including depreciation and amortisation) of A\$29 million.

Capex investment has reduced by 15.0% for the year driven by a more focused investment strategy targeted at delivering core capability such as the billing upgrade. Capex reduced despite the implementation of access via unbundled local loop in which TelstraClear will be the country's biggest participant.

## Full year results and operations review - June 2009

### Statement of financial position

- Our financial position remains strong and this is recognised by the credit rating agencies
- We successfully executed \$2,627 million of long term borrowing and refinancing initiatives over the year despite difficult global capital markets
- To manage our position in the light of difficult market conditions we increased our holding of highly liquid assets and reduced our reliance on short term funding

#### Statement of financial position

|   | As at            |                  |               |               |
|---|------------------|------------------|---------------|---------------|
|   | 30 Jun 09<br>\$m | 30 Jun 08<br>\$m | Change<br>\$m | Change<br>%   |
| <b>Current assets</b>                                     |                  |                  |               |               |
| Cash and cash equivalents . . . . .                       | 1,381            | 899              | 482           | 53.6%         |
| Other current assets . . . . .                            | 4,811            | 4,614            | 197           | 4.3%          |
| <b>Total current assets</b> . . . . .                     | <b>6,192</b>     | <b>5,513</b>     | <b>679</b>    | <b>12.3%</b>  |
| <b>Non current assets</b>                                 |                  |                  |               |               |
| Property, plant and equipment . . . . .                   | 23,895           | 24,311           | (416)         | (1.7%)        |
| Intangible assets . . . . .                               | 8,416            | 7,245            | 1,171         | 16.2%         |
| Other non current assets . . . . .                        | 1,459            | 852              | 607           | 71.2%         |
| <b>Total non current assets</b> . . . . .                 | <b>33,770</b>    | <b>32,408</b>    | <b>1,362</b>  | <b>4.2%</b>   |
| <b>Total assets</b> . . . . .                             | <b>39,962</b>    | <b>37,921</b>    | <b>2,041</b>  | <b>5.4%</b>   |
| <b>Current liabilities</b>                                |                  |                  |               |               |
| Borrowings . . . . .                                      | 1,979            | 2,055            | (76)          | (3.7%)        |
| Other current liabilities . . . . .                       | 5,773            | 6,068            | (295)         | (4.9%)        |
| <b>Total current liabilities</b> . . . . .                | <b>7,752</b>     | <b>8,123</b>     | <b>(371)</b>  | <b>(4.6%)</b> |
| <b>Non current liabilities</b>                            |                  |                  |               |               |
| Borrowings . . . . .                                      | 15,344           | 13,444           | 1,900         | 14.1%         |
| Other non current liabilities . . . . .                   | 4,185            | 4,109            | 76            | 1.8%          |
| <b>Total non current liabilities</b> . . . . .            | <b>19,529</b>    | <b>17,553</b>    | <b>1,976</b>  | <b>11.3%</b>  |
| <b>Total liabilities</b> . . . . .                        | <b>27,281</b>    | <b>25,676</b>    | <b>1,605</b>  | <b>6.3%</b>   |
| <b>Net assets</b> . . . . .                               | <b>12,681</b>    | <b>12,245</b>    | <b>436</b>    | <b>3.6%</b>   |
| <b>Equity</b>   |                  |                  |               |               |
| Equity available to Telstra Entity shareholders . . . . . | 12,418           | 12,017           | 401           | 3.3%          |
| Minority interests . . . . .                              | 263              | 228              | 35            | 15.4%         |
| <b>Total equity</b> . . . . .                             | <b>12,681</b>    | <b>12,245</b>    | <b>436</b>    | <b>3.6%</b>   |

Given the current volatility of the economy, our balance sheet remains in a healthy state with net assets of \$12,681 million, an increase of 3.6%. Despite the impacts of the global financial crisis, we successfully executed a number of long term borrowings across a diverse range of debt markets on very competitive terms. The majority of promissory notes used for short term funding were repaid during the year, funded by a combination of positive cash flows from the underlying business and refinancing from long term debt issuance.

The term borrowings have strengthened our refinancing situation. Our net unsecured promissory notes are used principally to support working capital and short term liquidity as well as hedging certain offshore investments. We have no further long term debt maturities to refinance until March 2010 and June 2010, and our short term unsecured promissory notes will continue to be supported by our liquid assets and ongoing credit standby lines.

Our working capital (current asset to current liability) ratio improved as cash assets increased after holding higher levels of liquid funds during the unstable times in the financial markets. Other major balance sheet movements included:

- other current assets grew by 4.3% mainly due to a tax receivable of \$101 million and an \$87 million increase in our trade and other receivables resulting from higher revenue and ageing debt levels.
- the net book value of property, plant and equipment declined mainly due to the accelerated depreciation on CSLNW's mobile network assets as we invested in new network technologies, and the depreciation associated with our transformation program asset build in recent years.
- intangible assets increased by 16.2% due to two key factors:

## Full year results and operations review - June 2009

- goodwill rose by \$329 million, of which \$228 million was foreign exchange related. Goodwill also increased by \$233 million from recent Chinese acquisitions, partly offset by a reduction of \$127 million as a result of the sale of KAZ.
- software intangibles rose by \$755 million via our investments in IT transformation billing related systems.
- other non current assets increased primarily due to the \$629 million rise in the value of our non current cross currency and interest rate swap hedge receivables.
- total current and non current borrowings, excluding derivatives, increased by \$1,824 million which drove the increase in gross debt of \$751 million. Items offsetting this increase included a reduction in our net derivative liability position of \$1,077 million which is included within other assets and other liabilities.
- The movement in gross debt comprises:
  - net cash inflow of \$794 million (new borrowings of \$2,627 million, offset by net maturities of \$1,833 million).
  - net revaluations gains of \$67 million.
  - finance lease additions of \$24 million.
- our net debt position at 30 June 2009 was \$15,655 million which represents an increase during the fiscal year of \$269 million. Despite the increase in net debt our gearing ratio fell slightly from 55.7% as at June 30 2008 to 55.2% as at 30 June 2009.
- other non current liabilities were also impacted by the turnaround of our defined benefit pension balance from a \$182 million asset at June 2008 to a net defined benefit liability of \$406 million. This was due to an actuarial loss of \$553 million of which \$593 million was caused by the significant decrease in the value of the assets held by the superannuation plans as a result of the current financial crisis causing lower asset returns.
- equity attributable to Telstra Entity shareholders increased by 3.3% for the year due to increases in retained earnings and the foreign currency translation reserve.

### Capital expenditure

- Declined by 6.1% to \$4,598 million which was within our market guidance range
- The decline was driven by the completion of several major projects and programs in the prior year

#### Operating capex by technology on an accruals basis

|  | Year ended 30 June |              |               |               |
|--|--------------------|--------------|---------------|---------------|
|  | 2009<br>\$m        | 2008<br>\$m  | Change<br>\$m | Change<br>%   |
| Fixed access . . . . .                         | 708                | 820          | (112)         | (13.7%)       |
| IT . . . . .                                   | 1,127              | 1,252        | (125)         | (10.0%)       |
| Land and buildings . . . . .                   | 283                | 295          | (12)          | (4.1%)        |
| Network core . . . . .                         | 628                | 546          | 82            | 15.0%         |
| Products . . . . .                             | 265                | 257          | 8             | 3.1%          |
| Sensis . . . . .                               | 212                | 257          | (45)          | (17.5%)       |
| Transmission . . . . .                         | 369                | 597          | (228)         | (38.2%)       |
| Wireless access . . . . .                      | 430                | 443          | (13)          | (2.9%)        |
| International . . . . .                        | 301                | 244          | 57            | 23.4%         |
| Other . . . . .                                | 275                | 186          | 89            | 47.8%         |
| <b>Operating capital expenditure . . . . .</b> | <b>4,598</b>       | <b>4,897</b> | <b>(299)</b>  | <b>(6.1%)</b> |

Our operating capital expenditure declined by 6.1% to \$4,598 million in fiscal 2009 mainly due to the following categories:

- transmission spend declined by \$228 million partially due to the completion of the Asia-America Gateway project. Also, the program to increase transmission capacity in metropolitan areas has been completed;
- IT capex reduced by \$125 million primarily driven by the completion of significant IT transformation programs in fiscal 2008;
- fixed access spend was lower than last year by \$112 million due principally to a combined reduction across several programs. The spend in fiscal 2009 was impacted by unit cost reductions due to fewer high cost structural and short network extension projects. Some projects were also impacted by delays associated with the floods in Queensland and New South Wales; and
- Sensis decreased by \$45 million due to a delay in works in transformation while the program is being re-scoped. This was partly offset by the upgrade to IT systems and improved business processes across the Sensis core product chain.

## Full year results and operations review - June 2009

Partly offsetting the above are increases in the following categories:

- other capital expenditure increased by \$89 million, driven by an initiative to accelerate revenue growth in the management of customer IP networks and systems. Also contributing to the increased capital expenditure was the second phase of the Supply Chain Services initiative that is transforming our procurement and supply chain processes;
- network core increased by \$82 million mainly attributable to the IP Shared Network program to support

replacement of the Switched Data Network, in addition to the Next G™ Base Station Ethernet Enablement project. Other significant drivers include the new project to develop a HFC superfast internet capability in Melbourne and higher spend on building wireline capability; and

- international increased by \$57 million primarily due to offshore cable costs incurred in fiscal 2009 for the construction of the Asia America Gateway submarine cables which land in the US and is a separate component and stage of the project to the transmission spend.

### Cash flow summary

- Free cash flow grew by 13.2% or \$510 million to \$4.4 billion
- Net cash provided by operating activities increased by \$154 million while net cash used in investing activities declined by \$356 million

#### Cash flow summary

|  | Year ended 30 June |                |               |               |
|--|--------------------|----------------|---------------|---------------|
|  | 2009<br>\$m        | 2008<br>\$m    | Change<br>\$m | Change<br>%   |
| <b>Cash flows from operating activities</b>                    |                    |                |               |               |
| Receipts from customers (inclusive of GST)                     | 27,719             | 27,246         | 473           | 1.7%          |
| Payments to suppliers and to employees (inclusive of GST)      | (17,074)           | (16,871)       | (203)         | (1.2%)        |
| Net cash generated by operations                               | 10,645             | 10,375         | 270           | 2.6%          |
| Income taxes paid  | (1,647)            | (1,531)        | (116)         | (7.6%)        |
| <b>Net cash provided by operating activities</b>               | <b>8,998</b>       | <b>8,844</b>   | <b>154</b>    | <b>1.7%</b>   |
| <b>Cash flows from investing activities</b>                    |                    |                |               |               |
| Payments for property, plant and equipment                     | (3,263)            | (3,862)        | 599           | 15.5%         |
| Payments for intangible assets                                 | (1,531)            | (1,465)        | (66)          | (4.5%)        |
| Capital expenditure (before investments)                       | (4,794)            | (5,327)        | 533           | 10.0%         |
| Payments for other investments                                 | (241)              | (75)           | (166)         | (221.3%)      |
| Total capital expenditure                                      | (5,035)            | (5,402)        | 367           | 6.8%          |
| Proceeds from asset sales and finance leases                   | 276                | 132            | 144           | 109.1%        |
| Loans/repayments to jointly controlled and associated entities | (4)                | 6              | (10)          | (166.7%)      |
| Interest received  | 65                 | 72             | (7)           | (9.7%)        |
| Settlement of hedges in net investments                        | (35)               | 73             | (108)         | (147.9%)      |
| Distributions received   | 100                | 130            | (30)          | (23.1%)       |
| <b>Net cash used in investing activities</b>                   | <b>(4,633)</b>     | <b>(4,989)</b> | <b>356</b>    | <b>7.1%</b>   |
| <b>Operating cash flows less investing cash flows</b>          | <b>4,365</b>       | <b>3,855</b>   | <b>510</b>    | <b>13.2%</b>  |
| <b>Cash flows from financing activities</b>                    |                    |                |               |               |
| Movements in borrowings  | 830                | 1,101          | (271)         | (24.6%)       |
| Repayment of finance lease principal amounts                   | (36)               | (42)           | 6             | 14.3%         |
| Staff repayments of share loans                                | 11                 | 15             | (4)           | (26.7%)       |
| Purchase of shares for employee share plans                    | -                  | (129)          | 129           | n/m           |
| Finance costs paid   | (1,221)            | (1,213)        | (8)           | (0.7%)        |
| Dividends paid to equity holders of Telstra Entity             | (3,474)            | (3,476)        | 2             | 0.1%          |
| Dividends paid to minority interests                           | (43)               | (22)           | (21)          | (95.5%)       |
| <b>Net cash used in financing activities</b>                   | <b>(3,933)</b>     | <b>(3,766)</b> | <b>(167)</b>  | <b>(4.4%)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b>    | <b>432</b>         | <b>89</b>      | <b>343</b>    | <b>385.4%</b> |

## Full year results and operations review - June 2009

### Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations (receipts less payments). Fiscal 2009 saw operating cash grow by 1.7% to \$8,998 million largely due to an increase of \$634 million in cash profit before interest and tax, offset by larger negative cash movements in working capital balances compared with the prior year including:

- \$260 million of cash contributions paid to the Telstra Superannuation Scheme;
- a 3.2% reduction in trade and other payables; and
- a decrease in revenue received in advance largely due to the Sensis Group.

The increase in income taxes paid was a result of higher instalment payments made during the year from an increased instalment rate, offset by tax refunds received from the ATO for the 2008 income tax return. Fiscal 2008 included significant credits and refunds received from the ATO for instalment variations and prior year amended assessments.

### Net cash used in investing activities

During fiscal 2009, capital expenditure (before investments) declined by 10.0% to \$4,794 million. The \$533 million reduction was a result of our transformation program passing its spending peak in fiscal 2007 with several major projects/programs completed in the prior year. The capital requirements during fiscal 2009 were not to the same level. Capital expenditure is discussed in further detail on page 35.

Payments for intangible assets during the year largely relate to software assets including new billing system applications as part of the transformation release roll out and customer relationship management applications.

Our payments for shares in controlled entities amounted to \$240 million, primarily associated with the acquisition of a 67% controlling interest in two of China's leading mobile content and online music businesses, China M and Sharp Point, for a net cash outlay of \$169 million. A further \$71 million (including acquisition costs) was paid in relation to contractual obligations associated with the acquisitions of Norstar Media and Autohome/PCPop as certain pre-determined revenue and EBITDA targets were met. The acquisition of a 55% interest was undertaken in the prior year which drove the majority of the fiscal 2008 investment expenditure.

The cash proceeds from asset sales and finance leases of \$276 million were primarily due to the KAZ sale which resulted in cash proceeds of \$197 million. Proceeds from finance lease principal amounts and the sale of some intangibles, property, plant and equipment amounted to \$55 million and \$24 million respectively. The combined cash flow was \$144 million higher than in fiscal 2008 which included the sale of Telstra eBusiness of \$48 million.

The increase in the cash outflow of \$108 million from the settlement of hedges in net investments was attributable to the maturity of financial instruments used to hedge our foreign

currency risk associated with investments in foreign operations. Fiscal 2009 reflected a loss of \$35 million driven by the depreciation of the Australian dollar.

The \$100 million in distributions received during fiscal 2009 relate to two partnership distributions from FOXTEL.

### Free cash flow

Our free cash continued to grow in strength and has increased by 13.2% to \$4,365 million. The increase was driven by higher sales revenue generated by our operating activities in addition to a reduction in our capital asset payments within our investing activities.

### Net cash used in financing activities

The 4.4% increase in net cash used in financing activities to \$3,933 million was due to:

- \$265 million reduction in the cash proceeds from movements in borrowings (including finance leases) as requirements to support our transformation initiatives were not as significant in comparison with fiscal 2008. New borrowings for fiscal 2009 were mainly executed to support our working capital requirements in light of the current economic conditions. The borrowings included \$1.3 billion 3 year domestic syndicated loans, \$438 million offshore syndicated loans and a \$320 million 5 year Swiss Franc bond; and
- higher dividends paid by our offshore entities, CSLNW and SouFun group, to their minority shareholders during fiscal 2009; offset by
- a movement in purchase of shares for employee share plans. In the prior fiscal year, \$129 million of cash was used to purchase 27.5 million Telstra shares on market in order to support the long term incentive plan. We did not undertake such a purchase this fiscal year, contributing to a reduction of cash used in financing activities.

Telstra Corporation Limited

Product reconciliation to align previously released comparative figures with the current reported position  
Year ended 30 June 2009

| Product hierarchy at Jun 08 as previously released | Previously released Jun-08 \$m | New product hierarchy based on Jun 09 structure | Based on new hierarchy Jun 08 \$m | Movement since Jun 08 release \$m | Description of change from old product hierarchy as released in Jun 08   |
|--|--------------------------------|---|-----------------------------------|-----------------------------------|--|
| <b>FIXED TELEPHONY</b>                             |                                | <b>FIXED PRODUCTS</b>                           |                                   |                                   |  |
| Basic access                                       | 3,278                          | Basic access                                    | 3,278                             | -                                 |  |
| Local calls  | 736                            | Local calls                                     | 736                               | -                                 |  |
| PSTN value added services                          | 269                            | PSTN value added services                       | 269                               | -                                 |  |
| National long distance calls                       | 749                            | National long distance calls                    | 749                               | -                                 |  |
| Fixed to mobile                                    | 1,222                          | Fixed to mobile                                 | 1,222                             | -                                 |  |
| International direct                               | 181                            | International direct                            | 181                               | -                                 |  |
| Fixed interconnection                              | 231                            | Fixed interconnection                           | 231                               | -                                 |  |
| Total PSTN products                                | 6,666                          | PSTN products                                   | 6,666                             | -                                 |  |
| ISDN products                                      | 978                            | ISDN products                                   | 978                               | -                                 |  |
|  | -                              | Fixed internet                                  | 2,020                             | 2,020                             | \$146m internet direct moved from internet direct (IP and data access); \$1,772m fixed retail broadband moved from retail broadband within internet; \$554m wholesale broadband moved from wholesale broadband within internet; \$93m narrowband moved from narrowband within internet; \$1m business broadband VAS moved from business services and applications; \$19m internet VAS moved from VAS and content within internet; (\$565m) wireless broadband elimination moved from elimination for wireless broadband. |
| Premium calling products                           | 440                            | Premium calling products                        | 447                               | 7                                 | \$7m international freecall moved from other fixed telephony.  |
| Payphones  | 70                             | Payphones                                       | 70                                | -                                 |  |
| Customer premises equipment                        | 334                            | Customer premises equipment                     | 312                               | (22)                              | (\$15m) fee for services moved to other sales revenue; (\$7m) managed IP telephony CPE moved to business services and applications.  |
| Intercarrier access services                       | 265                            | Intercarrier access services                    | 265                               | -                                 |  |
| Other fixed telephony                              | 196                            | Other fixed telephony                           | 178                               | (18)                              | (\$7m) international freecall moved to premium calling products; (\$7m) corporate virtual private network (VPN) moved to other sales revenue; (\$4m) international VPN moved to global products.   |
|  |                                | Other fixed revenue                             | 1,272                             | (33)                              |  |
| Total fixed telephony                              | 8,949                          | Total fixed products                            | 10,936                            | 1,987                             |  |
| <b>MOBILES</b>                                     |                                | <b>MOBILES</b>                                  |                                   |                                   |  |
| Mobile services - retail and interconnection       | 5,506                          | Mobile services - retail and interconnection    | 5,506                             | -                                 |  |
| Mobile services - wholesale                        | 42                             | Mobile services - wholesale                     | 42                                | -                                 |  |
| Total mobile services                              | 5,548                          | Total mobile services                           | 5,548                             | -                                 |  |
| Mobile handsets                                    | 828                            | Mobile hardware                                 | 861                               | 33                                | \$33m wireless installation and hardware moved from retail broadband.  |
| Total mobiles                                      | 6,376                          | Total mobiles                                   | 6,409                             | 33                                |  |
| <b>INTERNET</b>                                    |                                |   |                                   |                                   |  |
| Narrowband   | 93                             |   |                                   | (93)                              | (\$93m) narrowband moved to fixed internet within fixed products.  |
| Retail broadband                                   | 1,805                          |   |                                   | (1,805)                           | (\$33m) wireless installation and hardware moved to mobile handsets; (\$1,772m) fixed retail broadband moved to fixed internet within fixed products.  |
| Wholesale broadband                                | 554                            |   |                                   | (554)                             | (\$554m) wholesale broadband moved to fixed internet within fixed products.  |
| VAS and content                                    | 34                             |   |                                   | (34)                              | (\$15m) non service internet content moved to non service content; (\$19m) internet VAS moved to fixed internet within fixed products.   |
| Total internet                                     | 2,486                          |   |                                   | (2,486)                           |  |
| <b>IP AND DATA ACCESS</b>                          |                                | <b>IP AND DATA ACCESS</b>                       |                                   |                                   |  |
| Internet direct                                    | 146                            |   |                                   | (146)                             | (\$146m) internet direct moved to fixed internet within fixed products.  |
| Specialised data                                   | 690                            | Specialised data                                | 690                               | -                                 |  |
| Global products                                    | 97                             | Global products                                 | 101                               | 4                                 | \$4m international VPN moved from other fixed telephony.   |
| IP access  | 534                            | IP access                                       | 534                               | -                                 |  |
| Wholesale internet and data                        | 278                            | Wholesale internet and data                     | 278                               | -                                 |  |
| Total IP and data access                           | 1,745                          | Total IP and data access                        | 1,603                             | (142)                             |  |
| Business services and applications                 | 1,049                          | Business services and applications              | 1,055                             | 6                                 | \$7m managed IP telephony CPE moved from customer premises equipment; (\$1m) business broadband VAS moved to fixed internet within fixed products.   |
|  | -                              | Non service content                             | 15                                | 15                                | \$15m non service internet content moved from VAS and content.   |
| Advertising and directories                        | 2,116                          | Advertising and directories                     | 2,116                             | -                                 |  |
| CSL New World                                      | 917                            | CSL New World                                   | 917                               | -                                 |  |
| TelstraClear                                       | 562                            | TelstraClear                                    | 562                               | -                                 |  |
| Offshore services revenue                          | 346                            | Other offshore services revenue                 | 346                               | -                                 |  |
| Pay TV bundling                                    | 426                            | Pay TV bundling                                 | 426                               | -                                 |  |
| Other minor items                                  | 250                            | Other sales revenue                             | 272                               | 22                                | \$15m fee for services moved from customer premises equipment; \$7m corporate VPN moved from other fixed telephony.  |
| Elimination for wireless broadband                 | (565)                          |   |                                   | 565                               | \$565m wireless broadband elimination moved to fixed internet within fixed products.   |
| <b>Sales revenue</b>                               | <b>24,657</b>                  | <b>Sales revenue</b>                            | <b>24,657</b>                     | <b>-</b>                          |  |



## Telstra Corporation Limited

Half-yearly comparison  
Year ended 30 June 2009

| Summary Reported Half Yearly Data (\$ millions)  | Full year<br>Jun-05 | Year on Year<br>Growth | Half 1<br>Dec-05 | Year on Year<br>Growth | Half 2<br>Jun-06 | Year on Year<br>Growth | Full year<br>Jun-06 | Year on Year<br>Growth | Half 1<br>Dec-06 | Year on Year<br>Growth | Half 2<br>Jun-07 | Year on Year<br>Growth | Full year<br>Jun-07 | Year on Year<br>Growth | Half 1<br>Dec-07 | Year on Year<br>Growth | Half 2<br>Jun-08 | Year on Year<br>Growth | Full year<br>Jun-08 | Year on Year<br>Growth | Half 1<br>Dec-08 | Year on Year<br>Growth | Half 2<br>Jun-09 | Year on Year<br>Growth | Full year<br>Jun-09 | Year on Year<br>Growth |
|--|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|
| <b>Revenue</b>                                   |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| <b>Fixed products</b>                            |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| <b>PSN products</b>                              |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Basic access                                     | 3,362               | 3.8%                   | 1,658            | (2.5%)                 | 1,659            | (0.2%)                 | 3,317               | (1.3%)                 | 1,663            | 0.3%                   | 1,670            | 0.7%                   | 3,333               | 0.5%                   | 1,657            | (0.4%)                 | 1,621            | (2.9%)                 | 3,278               | (1.7%)                 | 1,592            | (3.9%)                 | 1,565            | (3.5%)                 | <b>3,157</b>        | (3.7%)                 |
| Local calls                                      | 1,284               | (14.6%)                | 553              | (19.7%)                | 470              | (20.9%)                | 1,023               | (20.3%)                | 432              | (21.9%)                | 413              | (12.1%)                | 845                 | (17.4%)                | 388              | (10.2%)                | 348              | (15.7%)                | 736                 | (12.9%)                | 328              | (15.5%)                | 305              | (12.4%)                | <b>633</b>          | (14.0%)                |
| PSN value added services                         | 250                 | (3.5%)                 | 123              | (1.6%)                 | 123              | (0.8%)                 | 246                 | (1.6%)                 | 125              | 1.6%                   | 132              | 7.3%                   | 257                 | 4.5%                   | 134              | 7.2%                   | 135              | 2.3%                   | 269                 | 4.7%                   | 135              | 0.7%                   | 132              | (2.2%)                 | <b>607</b>          | (0.7%)                 |
| National long distance calls                     | 1,013               | (9.6%)                 | 470              | (10.8%)                | 442              | (9.1%)                 | 913                 | (9.9%)                 | 408              | (13.2%)                | 400              | (9.5%)                 | 808                 | (11.5%)                | 385              | (5.6%)                 | 364              | (9.0%)                 | 749                 | (7.3%)                 | 349              | (9.4%)                 | 331              | (6.8%)                 | <b>267</b>          | (9.2%)                 |
| Fixed to mobile calls                            | 1,288               | (3.4%)                 | 621              | (6.5%)                 | 595              | (4.6%)                 | 1,215               | (5.7%)                 | 608              | (2.1%)                 | 600              | (0.6%)                 | 1,208               | (0.6%)                 | 615              | 1.2%                   | 607              | 1.2%                   | 1,222               | 1.2%                   | 615              | 0.0%                   | 599              | (1.3%)                 | <b>1,214</b>        | (0.7%)                 |
| International direct                             | 234                 | (12.0%)                | 106              | (14.5%)                | 96               | (12.7%)                | 201                 | (14.1%)                | 94               | (11.3%)                | 90               | 6.3%                   | 184                 | (8.5%)                 | 92               | (2.1%)                 | 89               | (1.1%)                 | 181                 | (1.6%)                 | 90               | (2.2%)                 | 85               | (4.5%)                 | <b>175</b>          | (3.3%)                 |
| Fixed interconnection                            | 309                 | (8.0%)                 | 146              | (8.2%)                 | 140              | (6.7%)                 | 286                 | (7.4%)                 | 133              | (8.9%)                 | 119              | (15.0%)                | 252                 | (11.9%)                | 120              | (9.8%)                 | 111              | (6.7%)                 | 231                 | (8.3%)                 | 110              | (8.3%)                 | 101              | (9.0%)                 | <b>211</b>          | (8.7%)                 |
| <b>Total PSN products</b>                        | <b>7,740</b>        | <b>(3.9%)</b>          | <b>3,677</b>     | <b>(7.8%)</b>          | <b>3,525</b>     | <b>(6.0%)</b>          | <b>7,201</b>        | <b>(7.4%)</b>          | <b>3,463</b>     | <b>(5.8%)</b>          | <b>3,424</b>     | <b>(2.9%)</b>          | <b>6,887</b>        | <b>(4.4%)</b>          | <b>3,391</b>     | <b>(2.4%)</b>          | <b>3,275</b>     | <b>(4.4%)</b>          | <b>6,666</b>        | <b>(3.2%)</b>          | <b>3,219</b>     | <b>(5.1%)</b>          | <b>3,118</b>     | <b>(4.8%)</b>          | <b>6,337</b>        | <b>(4.9%)</b>          |
| <b>ISDN products</b>                             | 1,152               | (2.0%)                 | 553              | (5.6%)                 | 513              | (9.4%)                 | 1,066               | (7.5%)                 | 517              | (6.5%)                 | 497              | (3.1%)                 | 1,014               | (4.9%)                 | 495              | (4.3%)                 | 483              | (2.8%)                 | 978                 | (3.6%)                 | 483              | (2.4%)                 | 459              | (5.0%)                 | <b>942</b>          | (3.7%)                 |
| <b>Fixed internet</b>                            |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Fixed broadband retail and hardware              | 551                 | 44.6%                  | 357              | 40.0%                  | 413              | 39.5%                  | 770                 | 39.7%                  | 491              | 37.5%                  | 560              | 35.6%                  | 1,051               | 36.5%                  | 650              | 32.4%                  | 703              | 25.5%                  | 1,353               | 28.7%                  | 783              | 20.5%                  | 785              | 11.7%                  | <b>1,568</b>        | 15.9%                  |
| Wholesale broadband                              | 267                 | 79.2%                  | 208              | 90.8%                  | 260              | 64.6%                  | 468                 | 75.3%                  | 278              | 33.7%                  | 287              | 10.4%                  | 565                 | 20.7%                  | 278              | 0.0%                   | 276              | (3.8%)                 | 554                 | (1.9%)                 | 253              | (9.0%)                 | 245              | (11.2%)                | <b>498</b>          | (10.1%)                |
| Narrowband                                       | 275                 | (6.8%)                 | 117              | (17.6%)                | 102              | (23.3%)                | 220                 | (20.0%)                | 79               | (32.5%)                | 67               | (36.3%)                | 144                 | (34.5%)                | 52               | (34.2%)                | 41               | (36.9%)                | 93                  | (35.4%)                | 35               | (32.7%)                | 24               | (41.5%)                | <b>59</b>           | (36.6%)                |
| Internet VAS                                     | 5                   | 400.0%                 | 3                | 200.0%                 | 3                | 0.0%                   | 5                   | 0.0%                   | 3                | 0.0%                   | 4                | 33.3%                  | 7                   | 40.0%                  | 9                | 200.0%                 | 11               | 175.0%                 | 20                  | 185.7%                 | 13               | 44.4%                  | 22               | 100.0%                 | <b>35</b>           | 75.0%                  |
| <b>Total fixed internet</b>                      | <b>1,098</b>        | <b>32.9%</b>           | <b>685</b>       | <b>35.1%</b>           | <b>778</b>       | <b>31.6%</b>           | <b>1,463</b>        | <b>33.2%</b>           | <b>851</b>       | <b>24.2%</b>           | <b>916</b>       | <b>17.7%</b>           | <b>1,767</b>        | <b>20.8%</b>           | <b>989</b>       | <b>16.2%</b>           | <b>1,031</b>     | <b>12.6%</b>           | <b>2,020</b>        | <b>14.3%</b>           | <b>1,084</b>     | <b>9.6%</b>            | <b>1,076</b>     | <b>4.4%</b>            | <b>2,160</b>        | <b>6.9%</b>            |
| Premium calling products                         | 447                 | (5.9%)                 | 224              | (3.0%)                 | 219              | 1.4%                   | 443                 | (0.9%)                 | 223              | (0.4%)                 | 229              | 4.6%                   | 452                 | 2.0%                   | 223              | 0.0%                   | 224              | (2.2%)                 | 447                 | (1.1%)                 | 217              | (2.7%)                 | 212              | (5.4%)                 | <b>429</b>          | (4.0%)                 |
| Payphones  | 112                 | (14.5%)                | 50               | (13.8%)                | 46               | (14.8%)                | 96                  | (14.3%)                | 44               | (12.0%)                | 41               | (10.9%)                | 85                  | (11.5%)                | 36               | (18.2%)                | 34               | (17.1%)                | 70                  | (17.6%)                | 30               | (16.7%)                | 29               | (14.7%)                | <b>59</b>           | (15.7%)                |
| Customer premises equipment                      | 233                 | 21.4%                  | 135              | 23.9%                  | 140              | 12.9%                  | 275                 | 18.0%                  | 151              | 11.9%                  | 164              | 17.1%                  | 315                 | 14.5%                  | 162              | 7.3%                   | 150              | (8.5%)                 | 312                 | (1.0%)                 | 161              | (0.6%)                 | 153              | 2.0%                   | <b>314</b>          | 0.6%                   |
| Intercarrier access services (includes ULL)      | 134                 | 30.1%                  | 84               | 31.3%                  | 90               | 26.8%                  | 174                 | 29.0%                  | 91               | 8.3%                   | 99               | 10.9%                  | 190                 | 9.2%                   | 114              | 25.3%                  | 151              | 52.5%                  | 265                 | 39.5%                  | 173              | 51.8%                  | 184              | 21.9%                  | <b>357</b>          | 34.7%                  |
| Other fixed revenue                              | 224                 | (5.9%)                 | 107              | (7.8%)                 | 103              | (4.6%)                 | 210                 | (6.3%)                 | 101              | (5.6%)                 | 98               | (4.9%)                 | 199                 | (5.2%)                 | 91               | (9.9%)                 | 87               | (11.2%)                | 178                 | (10.6%)                | 88               | (3.3%)                 | 80               | (8.0%)                 | <b>168</b>          | (5.6%)                 |
| <b>Total fixed products</b>                      | <b>11,140</b>       | <b>(0.5%)</b>          | <b>5,515</b>     | <b>(2.6%)</b>          | <b>5,414</b>     | <b>(1.2%)</b>          | <b>10,928</b>       | <b>(1.9%)</b>          | <b>5,441</b>     | <b>(1.3%)</b>          | <b>5,468</b>     | <b>1.0%</b>            | <b>10,909</b>       | <b>(0.2%)</b>          | <b>5,501</b>     | <b>1.1%</b>            | <b>5,435</b>     | <b>(0.6%)</b>          | <b>10,936</b>       | <b>0.2%</b>            | <b>5,455</b>     | <b>(0.8%)</b>          | <b>5,311</b>     | <b>(2.3%)</b>          | <b>10,766</b>       | <b>(1.6%)</b>          |
| <b>Mobiles</b>                                   |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Calling and access charges                       | 3,195               | 6.5%                   | 1,633            | 1.2%                   | 1,520            | (3.9%)                 | 3,153               | (1.3%)                 | 1,613            | (1.2%)                 | 1,609            | 5.9%                   | 3,222               | 2.2%                   | 1,693            | 5.0%                   | 1,677            | 4.2%                   | 3,370               | 4.2%                   | 1,753            | 3.5%                   | 1,652            | (1.5%)                 | <b>3,405</b>        | 1.0%                   |
| Mobile data                                      |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| - Messaging                                      | 448                 | 9.8%                   | 235              | 2.2%                   | 244              | 11.9%                  | 479                 | 6.9%                   | 294              | 25.1%                  | 321              | 31.6%                  | 615                 | 28.4%                  | 356              | 21.1%                  | 384              | 19.6%                  | 740                 | 20.3%                  | 437              | 22.8%                  | 459              | 19.5%                  | <b>896</b>          | 21.1%                  |
| - Non-messaging (handheld)                       | 93                  | 102.2%                 | 75               | 78.6%                  | 141              | 176.5%                 | 216                 | 132.3%                 | 175              | 133.3%                 | 197              | 39.7%                  | 372                 | 72.2%                  | 221              | 26.3%                  | 238              | 20.8%                  | 459                 | 23.4%                  | 263              | 19.0%                  | 284              | 19.3%                  | <b>547</b>          | 19.2%                  |
| - Wireless broadband (data cards) <sup>(i)</sup> | 0                   | n/m                    | 2                | n/m                    | 8                | n/m                    | 10                  | n/m                    | 21               | 950.0%                 | 65               | 712.5%                 | 86                  | 760.0%                 | 139              | 561.9%                 | 208              | 220.0%                 | 347                 | 303.5%                 | 279              | 100.7%                 | 308              | 48.1%                  | <b>587</b>          | 69.2%                  |
| Total mobile data                                | 541                 | 19.2%                  | 312              | 14.7%                  | 393              | 46.1%                  | 705                 | 30.3%                  | 490              | 57.1%                  | 583              | 48.3%                  | 1,073               | 52.2%                  | 716              | 46.1%                  | 830              | 42.4%                  | 1,546               | 44.1%                  | 979              | 36.7%                  | 1,051            | 26.6%                  | <b>2,030</b>        | 31.3%                  |
| Mobiles interconnection                          | 547                 | 6.2%                   | 318              | 12.8%                  | 305              | 15.5%                  | 623                 | 13.9%                  | 296              | (6.9%)                 | 297              | (2.6%)                 | 593                 | (4.8%)                 | 292              | (1.4%)                 | 298              | 0.3%                   | 590                 | (0.5%)                 | 318              | 8.9%                   | 321              | 7.7%                   | <b>639</b>          | 8.3%                   |
| Mobile services - retail and interconnection     | 4,283               | 7.9%                   | 2,263            | 4.4%                   | 2,218            | 4.6%                   | 4,481               | 4.9%                   | 2,399            | 6.0%                   | 2,489            | 12.2%                  | 4,888               | 9.1%                   | 2,701            | 12.6%                  | 2,805            | 12.7%                  | 5,506               | 12.6%                  | 3,050            | 12.9%                  | 3,024            | 7.8%                   | <b>6,074</b>        | 10.3%                  |
| Mobile services - wholesale                      | 24                  | 60.0%                  | 16               | 45.5%                  | 20               | 53.8%                  | 36                  | 50.0%                  | 26               | 62.5%                  | 25               | 25.0%                  | 51                  | 41.7%                  | 26               | 0.0%                   | 16               | (36.0%)                | 42                  | (17.6%)                | 16               | (38.5%)                | 11               | (31.3%)                | <b>27</b>           | (35.7%)                |
| Total mobile services                            | <b>4,307</b>        | <b>8.1%</b>            | <b>2,279</b>     | <b>4.6%</b>            | <b>2,238</b>     | <b>5.2%</b>            | <b>4,517</b>        | <b>4.9%</b>            | <b>2,425</b>     | <b>6.4%</b>            | <b>2,514</b>     | <b>12.3%</b>           | <b>4,939</b>        | <b>9.3%</b>            | <b>2,727</b>     | <b>12.5%</b>           | <b>2,821</b>     | <b>12.2%</b>           | <b>5,548</b>        | <b>12.3%</b>           | <b>3,066</b>     | <b>12.4%</b>           | <b>3,035</b>     | <b>7.6%</b>            | <b>6,101</b>        | <b>10.0%</b>           |
| Mobile hardware                                  | 381                 | 8.2%                   | 213              | 7.6%                   | 256              | 39.1%                  | 469                 | 23.1%                  | 364              | 70.9%                  | 380              | 48.4%                  | 744                 | 58.6%                  | 477              | 31.0%                  | 384              | 1.1%                   | 861                 | 15.7%                  | 396              | (17.0%)                | 381              | (0.8%)                 | <b>777</b>          | (9.8%)                 |
| <b>Total mobiles</b>                             | <b>4,688</b>        | <b>8.1%</b>            | <b>2,492</b>     | <b>4.8%</b>            | <b>2,494</b>     | <b>7.9%</b>            | <b>4,986</b>        | <b>6.4%</b>            | <b>2,789</b>     | <b>11.9%</b>           | <b>2,894</b>     | <b>16.0%</b>           | <b>5,683</b>        | <b>14.0%</b>           | <b>3,204</b>     | <b>14.9%</b>           | <b>3,205</b>     | <b>10.7%</b>           | <b>6,409</b>        | <b>12.8%</b>           | <b>3,462</b>     | <b>8.1%</b>            | <b>3,416</b>     | <b>6.6%</b>            | <b>6,878</b>        | <b>7.3%</b>            |
| <b>IP and data access</b>                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Specialised data                                 | 901                 | (6.4%)                 | 424              | (9.2%)                 | 397              | (8.5%)                 | 821                 | (8.9%)                 | 377              | (11.1%)                | 368              | (7.3%)                 | 745                 | (9.3%)                 | 350              | (7.2%)                 | 340              | (7.6%)                 | 690                 | (7.4%)                 | 328              | (6.3%)                 | 300              | (11.8%)                | <b>628</b>          | (9.0%)                 |
| Global products                                  | 84                  | (2.3%)                 | 46               | 7.0%                   | 49               | 19.5%                  | 95                  | 13.1%                  | 45               | (2.2%)                 | 46               | (6.1%)                 | 91                  | (4.2%)                 | 47               | 4.4%                   | 54               | 17.4%                  | 101                 | 11.0%                  | 63               | 34.0%                  | 67               | 24.1%                  | <b>130</b>          | 28.7%                  |
| IP access  | 217                 | 39.1%                  | 148              | 57.4%                  | 172              | 39.8%                  | 320                 | 47.5%                  | 180              | 21.6%                  | 236              | 37.2%                  | 416                 | 30.0%                  | 252              | 40.0%                  | 282              | 19.5%                  | 534                 | 28.4%                  | 323              | 28.2%                  | 344              | 22.0%                  | <b>667</b>          | 24.9%                  |
| Wholesale internet and data                      | 184                 | 12.9%                  | 108              | 25.6%                  | 126              | 27.3%                  | 234                 | 27.2%                  | 127              | 17.6%                  | 131              | 4.0%                   | 258                 | 10.3%                  | 137              | 7.9%                   | 141              | 7.6%                   | 278                 | 7.8%                   | 156              | 13.9%                  | 152              | 7.8%                   | <b>308</b>          | 10.8%                  |
| <b>Total IP and data access</b>                  | <b>1,386</b>        | <b>1.4%</b>            | <b>726</b>       | <b>5.4%</b>            | <b>744</b>       | <b>6.7%</b>            | <b>1,470</b>        | <b>6.1%</b>            | <b>729</b>       | <b>0.4%</b>            | <b>781</b>       | <b>5.0%</b>            | <b>1,510</b>        | <b>2.7%</b>            | <b>786</b>       | <b>7.8%</b>            | <b>817</b>       | <b>4.6%</b>            | <b>1,603</b>        | <b>6.2%</b>            | <b>870</b>       | <b>10.7%</b>           | <b>863</b>       | <b>5.6%</b>            | <b>1,733</b>        | <b>8.1%</b>            |
| Business services and applications               | 1,056               | 69.5%                  | 514              | (1.9%)                 | 552              | 3.8%                   | 1,066               | 0.9%                   | 499              | (2.9%)                 | 560              | 1.4%                   | 1,059               | (0.7%)                 | 519              | 4.0%                   | 536              | (4.3%)                 | 1,055               | (0.4%)                 | 490              | (5.6%)                 | 518              | (3.4%)                 | <b>1,008</b>        | (4.5%)                 |
| Non service content                              | 7                   | 600.0%                 | 6                | 200.0%                 | 6                | 20.0%                  | 12                  | 71.4%                  | 7                | 16.7%                  | 6                | 0.0%                   | 13                  | 8.3%                   | 7                | 0.0%                   | 8                | 33.3%                  | 15                  | 15.4%                  | 10               | 42.9%                  | 60               | 650.0%                 | <b>70</b>           | 366.7%                 |
| Advertising and directories <sup>(ii)</sup>      | 1,696               | 18.2%                  | 996              | 5.4%                   | 818              | 9.1%                   | 1,814               | 7.0%                   | 879              | (11.7%)                | 1,075            | 31.4%                  | 1,954               | 7.7%                   | 948              | 7.8%                   | 1,168            | 8.7%                   | 2,116               | 8.3%                   | 1,028            | 8.4%                   | 1,231            | 5.4%                   | <b>2,259</b>        | 6.8%                   |
| CSL New World <sup>(iii)</sup>                   | 734                 | n/m                    | 373              | (1.8%)                 | 457              | 29.5%                  | 830                 | 13.1%                  | 519              | 39.1%                  | 481              | 5.3%                   | 1,000               | 20.5%                  | 485              | (6.6%)                 | 432              | (10.2%)                | 917                 | (8.3%)                 | 495              | 2.1%                   | 494              | 14.4%                  | <b>989</b>          | 7.9%                   |
| TelstraClear                                     | 625                 | n/m                    | 321              | 5.6%                   | 298              | (6.9%)                 | 620                 | (0.8%)                 | 286              | (10.9%)                | 287              | (3.7%)                 | 573                 | (7.6%)                 | 287              | 0.3%                   | 275              | (4.2%)                 | 562                 | (1.9%)                 | 275              | (4.2%)                 | 272              | (1.1%)                 | <b>547</b>          | (2.7%)                 |
| Offshore revenue                                 | 252                 | (82.6%)                | 139              | 16.8%                  | 156              | 17.3%                  | 295                 | 17.1%                  | 173              | 24.5%                  | 175              | 12.2%                  | 348                 | 18.0%                  | 174              | 0.6%                   | 172              | (1.7%)                 | 346                 | (0.6%)                 | 195              | 12.1%                  | 195              | 13.4%                  | <b>390</b>          | 12.7%                  |
| Pay TV bundling                                  | 263                 | 70.8%                  | 156              | 28.9%                  | 1                |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |

## Telstra Corporation Limited

Half-yearly comparison  
Year ended 30 June 2009

| Summary Reported Half Yearly Data  | Full year<br>Jun-05 | Year on Year<br>Growth | Half 1<br>Dec-05 | Year on Year<br>Growth | Half 2<br>Jun-06 | Year on Year<br>Growth | Full year<br>Jun-06 | Year on Year<br>Growth | Half 1<br>Dec-06 | Year on Year<br>Growth | Half 2<br>Jun-07 | Year on Year<br>Growth | Full year<br>Jun-07 | Year on Year<br>Growth | Half 1<br>Dec-07 | Year on Year<br>Growth | Half 2<br>Jun-08 | Year on Year<br>Growth | Full year<br>Jun-08 | Year on Year<br>Growth | Half 1<br>Dec-08 | Year on Year<br>Growth | Half 2<br>Jun-09 | Year on Year<br>Growth | Full year<br>Jun-09 | Year on Year<br>Growth |
|--|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|------------------|------------------------|------------------|------------------------|---------------------|------------------------|
| <b>Selected statistical data</b>   |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| <b>PSTN</b>  |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Retail basic access lines in service (thousands)                               | 8,046               | (4.7%)                 | 7,885            | (4.0%)                 | 7,781            | (3.3%)                 | 7,781               | (3.3%)                 | 7,739            | (1.9%)                 | 7,777            | (0.0%)                 | 7,777               | (0.0%)                 | 7,826            | 1.1%                   | 7,865            | 1.1%                   | 7,865               | 1.1%                   | 7,829            | 0.0%                   | 7,733            | (1.7%)                 | <b>7,733</b>        | (1.7%)                 |
| Wholesale basic access lines in service (thousands)                            | 2,073               | 12.7%                  | 2,143            | 8.2%                   | 2,160            | 4.2%                   | 2,160               | 4.2%                   | 2,118            | (1.2%)                 | 1,981            | (8.3%)                 | 1,981               | (8.3%)                 | 1,730            | (18.3%)                | 1,496            | (24.5%)                | 1,496               | (24.5%)                | 1,341            | (22.5%)                | 1,285            | (14.1%)                | <b>1,285</b>        | (14.1%)                |
| Total basic access lines in service (thousands)                                | <b>10,119</b>       | <b>(1.6%)</b>          | <b>10,028</b>    | <b>(1.6%)</b>          | <b>9,941</b>     | <b>(1.8%)</b>          | <b>9,941</b>        | <b>(1.8%)</b>          | <b>9,857</b>     | <b>(1.7%)</b>          | <b>9,758</b>     | <b>(1.8%)</b>          | <b>9,758</b>        | <b>(1.8%)</b>          | <b>9,556</b>     | <b>(3.1%)</b>          | <b>9,361</b>     | <b>(4.1%)</b>          | <b>9,361</b>        | <b>(4.1%)</b>          | <b>9,170</b>     | <b>(4.0%)</b>          | <b>9,018</b>     | <b>(3.7%)</b>          | <b>9,018</b>        | <b>(3.7%)</b>          |
| Unbundled local loop services in operation (thousands)                         | 44                  | 79.2%                  | 82               | 170.4%                 | 120              | 172.4%                 | 120                 | 172.4%                 | 163              | 100.0%                 | 239              | 99.2%                  | 239                 | 98.9%                  | 391              | 139.4%                 | 527              | 120.1%                 | 527                 | 120.5%                 | 615              | 57.3%                  | 698              | 32.4%                  | <b>698</b>          | 32.4%                  |
| Number of local calls (millions)   | 8,469               | (9.9%)                 | 3,882            | (12.0%)                | 3,550            | (12.5%)                | 7,432               | (12.2%)                | 3,390            | (12.7%)                | 3,138            | (11.6%)                | 6,528               | (12.2%)                | 2,991            | (11.8%)                | 2,689            | (14.3%)                | 5,680               | (13.0%)                | 2,501            | (16.4%)                | 2,343            | (12.9%)                | <b>4,844</b>        | (14.7%)                |
| National long distance minutes (millions)                                      | 7,743               | (9.1%)                 | 3,666            | (7.8%)                 | 3,549            | (5.8%)                 | 7,215               | (6.8%)                 | 3,594            | (2.0%)                 | 3,536            | (0.4%)                 | 7,130               | (1.2%)                 | 3,530            | (1.8%)                 | 3,417            | (3.4%)                 | 6,947               | (2.6%)                 | 3,278            | (7.1%)                 | 3,277            | (4.1%)                 | <b>6,555</b>        | (5.6%)                 |
| Fixed to mobile minutes (millions)   | 3,351               | n/m                    | 1,663            | (2.7%)                 | 1,667            | 1.6%                   | 3,329               | (0.6%)                 | 1,696            | 2.0%                   | 1,693            | 1.6%                   | 3,389               | 1.8%                   | 1,714            | 1.1%                   | 1,696            | 0.1%                   | 3,410               | 0.6%                   | 1,675            | (2.3%)                 | 1,657            | (2.3%)                 | <b>3,332</b>        | (2.3%)                 |
| International direct minutes (millions)  | 580                 | (10.9%)                | 273              | (10.2%)                | 261              | (5.4%)                 | 534                 | (7.9%)                 | 264              | (3.3%)                 | 264              | 1.1%                   | 528                 | (1.1%)                 | 273              | 3.4%                   | 275              | 4.2%                   | 548                 | 3.8%                   | 278              | 1.8%                   | 282              | 2.5%                   | <b>560</b>          | 2.2%                   |
| PSTN average revenue per user per month (\$'s)                                 | 63.23               | (2.8%)                 | 60.83            | (6.4%)                 | 58.84            | (4.4%)                 | 59.83               | (5.4%)                 | 58.29            | (4.2%)                 | 58.18            | (1.1%)                 | 58.26               | (2.6%)                 | 58.51            | 0.4%                   | 57.71            | (0.8%)                 | 58.11               | (0.3%)                 | 57.90            | (1.0%)                 | 57.15            | (1.0%)                 | <b>57.47</b>        | (1.1%)                 |
| <b>ISDN</b>  |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| ISDN access (basic access lines equivalents) (thousands)                       | 1,235               | 5.7%                   | 1,235            | 2.9%                   | 1,270            | 2.8%                   | 1,270               | 2.8%                   | 1,283            | 3.9%                   | 1,229            | (3.2%)                 | 1,229               | (3.2%)                 | 1,288            | 0.3%                   | 1,298            | 5.6%                   | 1,298               | 5.6%                   | 1,284            | (0.3%)                 | 1,291            | (0.5%)                 | <b>1,291</b>        | (0.5%)                 |
| ISDN average revenue per user per month (\$'s)                                 | 79.90               | (2.8%)                 | 74.63            | (9.6%)                 | 68.23            | (11.9%)                | 70.91               | (11.3%)                | 67.55            | (9.5%)                 | 65.94            | (3.4%)                 | 70.76               | (0.2%)                 | 67.02            | (0.8%)                 | 62.12            | (5.8%)                 | 66.02               | (6.7%)                 | 62.39            | (6.9%)                 | 59.37            | (4.4%)                 | <b>60.64</b>        | (8.1%)                 |
| <b>Fixed internet</b>  |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Fixed retail broadband SIOs (thousands) <sup>(1)</sup>                         | 870                 | n/a                    | 1,169            | n/a                    | 1,441            | n/a                    | 1,441               | 65.6%                  | 1,668            | 42.7%                  | 1,910            | 32.5%                  | 1,910               | 32.5%                  | 2,103            | 26.1%                  | 2,254            | 18.0%                  | 2,254               | 18.0%                  | 2,297            | 9.2%                   | 2,274            | 0.9%                   | <b>2,274</b>        | 0.9%                   |
| Broadband wholesale SIOs (thousands)   | 889                 | 134.4%                 | 1,164            | 90.3%                  | 1,427            | 60.6%                  | 1,427               | 60.5%                  | 1,622            | 39.3%                  | 1,762            | 23.5%                  | 1,762               | 23.5%                  | 1,753            | 8.1%                   | 1,708            | (3.1%)                 | 1,708               | (3.1%)                 | 1,680            | (4.2%)                 | 1,691            | (1.0%)                 | <b>1,691</b>        | (1.0%)                 |
| Total fixed broadband SIOs (thousands)   | <b>1,759</b>        | <b>n/a</b>             | <b>2,333</b>     | <b>n/a</b>             | <b>2,868</b>     | <b>n/a</b>             | <b>2,868</b>        | <b>63.0%</b>           | <b>3,290</b>     | <b>41.0%</b>           | <b>3,672</b>     | <b>28.0%</b>           | <b>3,672</b>        | <b>28.0%</b>           | <b>3,856</b>     | <b>17.2%</b>           | <b>3,962</b>     | <b>7.9%</b>            | <b>3,962</b>        | <b>7.9%</b>            | <b>3,977</b>     | <b>3.1%</b>            | <b>3,965</b>     | <b>0.1%</b>            | <b>3,965</b>        | <b>0.1%</b>            |
| Wholesale spectrum site sharing SIOs (thousands) (in wholesale SIOs)           | 40                  | 2748.0%                | 90               | 304.2%                 | 152              | 281.0%                 | 152                 | 281.0%                 | 230              | 155.2%                 | 304              | 99.6%                  | 304                 | 99.6%                  | 377              | 63.6%                  | 436              | 43.3%                  | 436                 | 43.3%                  | 501              | 32.9%                  | 580              | 33.0%                  | <b>580</b>          | 33.0%                  |
| Narrowband SIOs (thousands)  | 1,205               | 1.0%                   | 1,143            | (4.9%)                 | 1,027            | (14.8%)                | 1,027               | (14.8%)                | 819              | (28.3%)                | 654              | (36.3%)                | 654                 | (36.3%)                | 595              | (27.3%)                | 530              | (19.0%)                | 530                 | (19.0%)                | 435              | (26.9%)                | 363              | (31.5%)                | <b>363</b>          | (31.5%)                |
| Average fixed retail broadband revenue per SIO per month (\$'s) <sup>(1)</sup> | 57.73               | (15.1%)                | 58.76            | (7.0%)                 | 52.74            | (2.5%)                 | 55.71               | (3.5%)                 | 52.62            | (10.4%)                | 52.16            | (1.1%)                 | 52.27               | (6.2%)                 | 54.00            | 2.6%                   | 53.82            | 3.2%                   | 54.18               | 3.7%                   | 57.32            | 6.1%                   | 57.24            | 6.4%                   | <b>57.70</b>        | 6.5%                   |
| <b>Mobiles</b>   |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| 3GSM mobile SIOs (thousands)   | 0                   | n/m                    | 20               | n/m                    | 317              | n/m                    | 317                 | n/m                    | 1,024            | 5020.0%                | 2,003            | 531.9%                 | 2,003               | 531.9%                 | 3,295            | 221.8%                 | 4,352            | 117.3%                 | 4,352               | 117.3%                 | 5,246            | 59.2%                  | 6,328            | 45.4%                  | <b>6,328</b>        | 45.4%                  |
| Total retail mobile SIOs (thousands)   | 8,227               | 8.2%                   | 8,582            | 7.5%                   | 8,529            | 3.7%                   | 8,529               | 3.7%                   | 8,892            | 3.6%                   | 9,212            | 8.0%                   | 9,212               | 8.0%                   | 9,319            | 4.8%                   | 9,335            | 1.3%                   | 9,335               | 1.3%                   | 9,706            | 4.2%                   | 10,191           | 9.2%                   | <b>10,191</b>       | 9.2%                   |
| Total wireless broadband (data cards) SIOs (in thousands) <sup>(1)</sup>       | 0                   | n/m                    | 0                | n/m                    | 39               | n/m                    | 39                  | n/m                    | 95               | n/m                    | 178              | 351.7%                 | 178                 | 351.7%                 | 392              | 312.6%                 | 526              | 195.5%                 | 526                 | 195.5%                 | 765              | 95.2%                  | 1,046            | 98.9%                  | <b>1,046</b>        | 98.9%                  |
| Total wholesale SIOs (thousands)   | 83                  | 36.5%                  | 101              | 46.4%                  | 119              | 43.1%                  | 119                 | 43.1%                  | 129              | 27.5%                  | 131              | 10.4%                  | 131                 | 10.3%                  | 71               | (44.9%)                | 74               | (43.5%)                | 74                  | (43.5%)                | 75               | 5.6%                   | 72               | (2.7%)                 | <b>72</b>           | (2.7%)                 |
| Mobile voice telephone minutes (millions)                                      | 6,745               | 9.8%                   | 3,612            | 6.1%                   | 3,700            | 10.7%                  | 7,311               | 8.4%                   | 4,147            | 14.8%                  | 4,445            | 20.1%                  | 8,591               | 17.5%                  | 4,919            | 18.6%                  | 5,177            | 16.5%                  | 10,096              | 17.5%                  | 5,570            | 13.2%                  | 5,435            | 5.0%                   | <b>11,005</b>       | 9.0%                   |
| Number of SMS sent (millions)  | 2,289               | 17.8%                  | 1,318            | 15.4%                  | 1,700            | 48.2%                  | 3,019               | 31.9%                  | 2,227            | 68.9%                  | 2,675            | 57.3%                  | 4,902               | 62.4%                  | 3,224            | 44.8%                  | 3,749            | 40.1%                  | 6,973               | 42.2%                  | 4,353            | 35.0%                  | 4,590            | 22.4%                  | <b>8,943</b>        | 28.3%                  |
| Average 3GSM revenue per user per month (\$'s)                                 | n/a                 | n/a                    | n/a              | n/a                    | n/a              | n/a                    | n/a                 | n/a                    | 73.14            | n/m                    | 79.64            | n/m                    | 73.08               | n/m                    | 74.49            | 1.8%                   | 70.94            | (10.9%)                | 73.74               | 0.9%                   | 68.64            | (7.9%)                 | 61.27            | (13.6%)                | <b>64.04</b>        | (13.2%)                |
| Average 2GSM revenue per user per month (\$'s)                                 | 39.04               | (3.9%)                 | 38.21            | (4.4%)                 | 38.51            | 2.5%                   | 39.14               | 0.2%                   | 37.25            | (2.5%)                 | 32.74            | (15.0%)                | 35.05               | (10.5%)                | 30.93            | (17.0%)                | 26.92            | (17.8%)                | 29.22               | (16.6%)                | 26.65            | (13.8%)                | 23.06            | (14.3%)                | <b>25.08</b>        | (14.2%)                |
| Average mobile revenue per user per month (incl. interconnection) \$'s         | 45.09               | (3.4%)                 | 44.87            | (3.2%)                 | 42.98            | (1.1%)                 | 44.45               | (1.4%)                 | 45.91            | 2.3%                   | 45.81            | 6.6%                   | 45.92               | 3.3%                   | 48.59            | 5.8%                   | 50.11            | 9.4%                   | 49.48               | 7.8%                   | 53.39            | 9.9%                   | 50.66            | 1.1%                   | <b>51.84</b>        | 4.8%                   |
| Average prepaid revenue per user per month (\$'s)                              | 12.24               | (11.5%)                | 10.81            | (17.5%)                | 10.15            | (9.8%)                 | 10.85               | (11.4%)                | 11.94            | 10.5%                  | 11.61            | 14.4%                  | 11.74               | 8.2%                   | 12.46            | 4.3%                   | 13.05            | 12.4%                  | 12.78               | 8.9%                   | 15.08            | 21.0%                  | 16.28            | 24.8%                  | <b>15.47</b>        | 21.0%                  |
| Average postpaid revenue per user per month (\$'s)                             | 59.07               | 3.5%                   | 60.29            | 0.9%                   | 57.86            | (0.6%)                 | 58.74               | (0.5%)                 | 60.30            | 0.0%                   | 59.87            | 3.5%                   | 60.32               | 2.7%                   | 62.88            | 4.3%                   | 62.74            | 4.8%                   | 62.97               | 4.4%                   | 65.12            | 3.6%                   | 60.88            | (3.0%)                 | <b>63.17</b>        | 0.3%                   |
| Average data revenue per user per month (\$'s)                                 | 5.70                | 6.6%                   | 6.19             | 6.6%                   | 7.15             | 28.9%                  | 6.75                | 18.6%                  | 9.37             | 51.5%                  | 10.73            | 50.1%                  | 10.07               | 49.1%                  | 12.88            | 37.4%                  | 14.83            | 38.3%                  | 13.89               | 37.9%                  | 17.14            | 33.1%                  | 17.60            | 18.7%                  | <b>17.32</b>        | 24.7%                  |
| Deactivation rate  | 20.0%               | 3.2                    | 8.8%             | (0.9)                  | 13.9%            | 4.1                    | 23.4%               | 3.4                    | 10.4%            | 1.5                    | 9.6%             | (4.4)                  | 20.4%               | (3.0)                  | 13.9%            | 3.5                    | 14.9%            | 5.3                    | 29.0%               | 8.6                    | 12.7%            | (1.2)                  | 9.9%             | (5.0)                  | <b>23.0%</b>        | (6.0)                  |
| <b>Pay TV bundling</b>   |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Total pay TV bundling SIOs (thousands)   | 335                 | 30.2%                  | 340              | 10.6%                  | 344              | 2.6%                   | 344                 | 2.6%                   | 347              | 1.9%                   | 390              | 13.5%                  | 390                 | 13.5%                  | 426              | 22.8%                  | 450              | 15.4%                  | 450                 | 15.4%                  | 460              | 8.0%                   | 450              | -                      | <b>450</b>          | -                      |
| <b>Labour</b>  |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |                  |                        |                  |                        |                     |                        |
| Domestic full time employees   | 39,680              | 9.7%                   | 39,115           | (1.3%)                 | 37,599           | (5.2%)                 | 37,599              | (5.2%)                 | 36,184           | (7.5%)                 | 35,706           | (5.0%)                 | 35,706              | (5.0%)                 | 34,236           | (5.4%)                 | 33,982           | (4.8%)                 | 33,982              | (4.8%)                 | 33,191           | (3.1%)                 | 31,662           | (6.8%)                 | <b>31,662</b>       | (6.8%)                 |
| Full time employees and employed equivalents                                   | 46,227              | 10.2%                  | 45,456           | (1.6%)                 | 44,452           | (3.8%)                 | 44,452              | (3.8%)                 | 43,989           | (3.2%)                 | 43,411           | (2.3%)                 | 43,411              | (2.3%)                 | 42,308           | (3.8%)                 | 42,784           | (1.4%)                 | 42,784              | (1.4%)                 | 41,540           | (1.8%)                 | 39,464           | (7.8%)                 | <b>39,464</b>       | (7.8%)                 |
| Total workforce, including contractors and agency staff                        | 52,705              | n/a                    | 51,057           | n/a                    | 49,443           | (6.2%)                 | 49,443              | (6.2%)                 | 48,991           | (4.0%)                 | 47,840           | (3.2%)                 | 47,840              | (3.2%)                 | 46,561           | (5.0%)                 | 46,649           | (2.5%)                 | 46,649              | (2.5%)                 | 45,309           | (2.7%)                 | 43,181           | (7.4%)                 | <b>43,181</b>       | (7.4%)                 |

(1) Based on a simplified definition which includes only data cards, USB dongles and embedded modems.

## Telstra meets guidance with strong result in tough economic conditions and maintains dividend

Telstra today announced strong results for fiscal 2009 despite the challenging macro-economic conditions. Results were in line with guidance and analysts' consensus estimates and Telstra has maintained both its dividend and \$6 billion free cash flow target for fiscal 2010.

Telstra's Chief Executive Officer, David Thodey, said that in the past fiscal year Telstra's attributable net profit grew 10.3 percent to \$4.1 billion and the company generated free cash flow of \$4.4 billion, a 13 percent increase on the prior year.

"At a time when many companies have had to ask for money from their shareholders, we are pleased that Telstra shareholders will continue to benefit from our fully-franked dividend of 28 cents per share for the year," Mr Thodey said. "Over the past three months, I have seen first hand the commitment of all of our employees to offer world-class products and services and I am delighted that their efforts are reflected in the company's continued strong performance.

"As we highlighted at our half year results in February, our business is not immune to the economic slowdown. We continue to experience reduced usage of both fixed-line and mobile voice usage, while there is evidence of slowing customer growth in fixed broadband take up.

"Against this backdrop, I am delighted that our results are in line with our previous guidance, with the 5.3 percent EBIT growth slightly above the expectations we outlined in February."

Telstra continues to see strong growth in key product areas, with 10 percent mobile services growth among more than one million wireless broadband customers and 25 percent growth in IP access revenue more than offsetting declines in traditional fixed-line voice revenues.

Key financial outcomes include:

- Total revenue grew 2.7 percent to \$25,507 million. Excluding the impact of the sale of KAZ in April 2009, total revenue grew by 3.0 percent.
- Total operating expenses grew by only 0.6 percent to \$14,669 million – the slowest rate of expense growth in six years.
- EBITDA increased 5.1 percent to \$10,948 million, within our guidance range of 5 percent to 6 percent growth. EBITDA margins grew 1 percentage point in the year to 43.2 percent
- EBIT increased 5.3 percent to \$6,558 million.
- Capital expenditure of \$4,598 million was within our guidance range and continues to decline as the capital intensive phase of the transformation passes.

Operationally, the business performed well across all segments and products. Key operational highlights for fiscal 2009 included:

- Wireless broadband revenue grew 69.2 percent to \$587 million, with customer numbers almost doubling to more than one million.
- Fixed-line retail broadband revenue grew 15.9 percent to \$1,533 million

- Sensis revenue grew 5.8 percent to \$2,250 million, which included positive revenue growth in the Yellow Pages print business.
- Total workforce reduced by nearly 3,000. Excluding acquisitions and divestments, Telstra has reduced headcount since 2005 by 11,665, against our 2010 target of 10-12,000.

Telstra's retail business again had a strong year, achieving 3.4 percent revenue growth, in contrast to a 5.1 percent decline in wholesale revenue.

Of particular note in Telstra's Enterprise and Government segment was the growth in IP access revenue. This is an important and growing part of the segment, with a 23.3 percent revenue increase in fiscal 2009 more than offsetting the decline in traditional legacy data products.

In Telstra's Consumer segment, which has been affected by the economic slowdown, mobile services revenue grew a solid 8.7 percent. Mobile services revenue was also strong in the Telstra Business segment, which recorded double-digit growth of 11.1 percent.

The company has now opened 97 T[life]<sup>TM</sup> stores and 22 Telstra Business centres. Telstra's NextG<sup>TM</sup> network offers wireless broadband reach and speeds unsurpassed in Australia and we remain on track to launch super high-speed cable broadband in Melbourne by the end of the year.

"Telstra's transformation has been a long, complex and necessary journey and while there is more work to be done on IT and some network exits, we regard this work as business as usual. We must now drive the benefits of the new systems and processes," Mr Thodey said. "We acknowledge not all customer experiences have met expectations but our team is focused on quickly improving the customer experience so it becomes an unequivocal point of differentiation for Telstra. That can only be good news for our shareholders as well."

## OUTLOOK

Commenting on the year ahead, Mr Thodey noted: "Telstra faces significant challenges in the coming year, but we are well positioned to face those challenges. On the issue of the national broadband network (NBN), we are now engaging constructively with the Federal Government, as well as the new NBN Company. We are working to find the right way to deliver the objective of a world-class communications infrastructure for Australia, while protecting Telstra shareholders.

"On the economic front, we expect an extended period of slow growth, but we have an excellent pipeline of innovative products to excite customers and stimulate usage and improve productivity for businesses large and small. Competition remains intense, but we will continue to invest in networks and services that will differentiate our offerings and deliver value to our customers."

The company is committed to the target of generating \$6 billion of free cash flow in the 2010 financial year. In 2010, the company also expects low single-digit sales revenue growth and low single-digit EBITDA and EBIT growth, with EBITDA margins to be maintained. All guidance excludes the impacts of any Government regulatory review or NBN outcomes or any unexpected outcome from ACCC wholesale pricing determinations.

## Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

### Financial Report

as at 30 June 2009

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## Income Statement

for the year ended 30 June 2009

|  | Note | Telstra Group      |               | Telstra Entity     |               |
|--|------|--------------------|---------------|--------------------|---------------|
|  |      | Year ended 30 June |               | Year ended 30 June |               |
|  |      | 2009               | 2008          | 2009               | 2008          |
|  |      | \$m                | \$m           | \$m                | \$m           |
| <b>Income</b>  |      |                    |               |                    |               |
| Revenue (excluding finance income)   | 6    | 25,507             | 24,828        | 22,173             | 21,758        |
| Other income   | 6    | 107                | 174           | 103                | 135           |
|  |      | <b>25,614</b>      | <b>25,002</b> | <b>22,276</b>      | <b>21,893</b> |
| <b>Expenses</b>  |      |                    |               |                    |               |
| Labour   |      | 4,131              | 4,158         | 3,213              | 3,248         |
| Goods and services purchased   |      | 5,313              | 5,181         | 3,728              | 3,680         |
| Other expenses   | 7    | 5,225              | 5,246         | 5,057              | 4,892         |
|  |      | <b>14,669</b>      | <b>14,585</b> | <b>11,998</b>      | <b>11,820</b> |
| Share of net (profit)/loss from jointly controlled and associated entities           | 26   | (3)                | 1             | -                  | -             |
|  |      | <b>14,666</b>      | <b>14,586</b> | <b>11,998</b>      | <b>11,820</b> |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) |      | 10,948             | 10,416        | 10,278             | 10,073        |
| Depreciation and amortisation  | 7    | 4,390              | 4,190         | 3,737              | 3,621         |
| Earnings before interest and income tax expense (EBIT)                               |      | <b>6,558</b>       | <b>6,226</b>  | <b>6,541</b>       | <b>6,452</b>  |
| Finance income   | 6    | 67                 | 72            | 62                 | 60            |
| Finance costs  | 7    | 967                | 1,158         | 953                | 1,152         |
| Net finance costs  |      | <b>900</b>         | <b>1,086</b>  | <b>891</b>         | <b>1,092</b>  |
| <b>Profit before income tax expense</b>  |      | <b>5,658</b>       | <b>5,140</b>  | <b>5,650</b>       | <b>5,360</b>  |
| Income tax expense   | 9    | 1,582              | 1,429         | 1,675              | 1,543         |
| <b>Profit for the year</b>   |      | <b>4,076</b>       | <b>3,711</b>  | <b>3,975</b>       | <b>3,817</b>  |
| <b>Attributable to:</b>  |      |                    |               |                    |               |
| Equity holders of Telstra Entity   |      | 4,073              | 3,692         |                    |               |
| Minority interests   |      | 3                  | 19            |                    |               |
|  |      | <b>4,076</b>       | <b>3,711</b>  |                    |               |
| <b>Earnings per share (cents per share)</b>  |      |                    |               |                    |               |
| Basic  | 3    | 32.9               | 29.9          |                    |               |
| Diluted  | 3    | 32.9               | 29.8          |                    |               |

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

## Statement of Comprehensive Income

for the year ended 30 June 2009

|   | Note | Telstra Group      |       | Telstra Entity     |       |
|---|------|--------------------|-------|--------------------|-------|
|   |      | Year ended 30 June |       | Year ended 30 June |       |
|   |      | 2009               | 2008  | 2009               | 2008  |
|   |      | \$m                | \$m   | \$m                | \$m   |
| <b>Profit for the year</b> . . . . .  |      | <b>4,076</b>       | 3,711 | <b>3,975</b>       | 3,817 |
| <b>Foreign currency translation reserve</b>   |      |                    |       |                    |       |
| Reserves recognised on equity accounting our interest in jointly controlled and associated entities . . . . . | 26   | <b>1</b>           | 1     | -                  | -     |
| Translation of financial statements of non-Australian controlled entities . . . . .                           |      | <b>177</b>         | (231) | -                  | -     |
| Income tax on movements in the foreign currency translation reserve . . . . .                                 |      | <b>36</b>          | (43)  | -                  | -     |
|   |      | <b>214</b>         | (273) | -                  | -     |
| <b>Cash flow hedging reserve</b>  |      |                    |       |                    |       |
| Changes in fair value of cash flow hedges . . . . .   |      | <b>120</b>         | 120   | <b>119</b>         | 119   |
| Changes in fair value transferred to other expenses . . . . .   |      | <b>(285)</b>       | (77)  | <b>(285)</b>       | (77)  |
| Changes in fair value transferred to goods and services purchased . . . . .                                   |      | <b>(27)</b>        | 15    | <b>(27)</b>        | 15    |
| Changes in fair value transferred to finance costs . . . . .  |      | <b>104</b>         | 115   | <b>104</b>         | 115   |
| Changes in fair value transferred to property, plant and equipment . . . . .                                  |      | <b>(14)</b>        | 7     | <b>(14)</b>        | 7     |
| Income tax on movements in the cash flow hedging reserve . . . . .  |      | <b>31</b>          | (53)  | <b>31</b>          | (53)  |
|   |      | <b>(71)</b>        | 127   | <b>(72)</b>        | 126   |
| <b>Retained profits</b>   |      |                    |       |                    |       |
| Actuarial loss on defined benefit plans . . . . .   | 24   | <b>(546)</b>       | (434) | <b>(540)</b>       | (425) |
| Income tax on actuarial loss on defined benefit plans . . . . .   |      | <b>163</b>         | 129   | <b>163</b>         | 127   |
|   |      | <b>(383)</b>       | (305) | <b>(377)</b>       | (298) |
| <b>Minority interests</b>   |      |                    |       |                    |       |
| Translation of financial statements of non-Australian controlled entities . . . . .                           |      | <b>30</b>          | (19)  | -                  | -     |
| Actuarial loss on defined benefit plans . . . . .   | 24   | <b>(7)</b>         | -     | -                  | -     |
|   |      | <b>23</b>          | (19)  | -                  | -     |
| <b>Total comprehensive income for the year</b> . . . . .  |      | <b>3,859</b>       | 3,241 | <b>3,526</b>       | 3,645 |
| <b>Attributable to:</b>   |      |                    |       |                    |       |
| Profit for the year attributable to equity holders of Telstra Entity . . . . .                                |      | <b>4,073</b>       | 3,692 |                    |       |
| Actuarial loss on defined benefit plans (after tax) recognised in retained profits . . . . .                  |      | <b>(383)</b>       | (305) |                    |       |
| Total comprehensive income recognised in retained profits . . . . .   |      | <b>3,690</b>       | 3,387 |                    |       |
| Other comprehensive income recognised in foreign currency translation reserve . . . . .                       |      | <b>214</b>         | (273) |                    |       |
| Other comprehensive income recognised in cash flow hedging reserve . . . . .                                  |      | <b>(71)</b>        | 127   |                    |       |
| <b>Total comprehensive income attributable to equity holders of Telstra Entity</b> . . . . .                  |      | <b>3,833</b>       | 3,241 |                    |       |
| Profit for the year attributable to minority interests . . . . .  |      | <b>3</b>           | 19    |                    |       |
| Other comprehensive income attributable to minority interests . . . . .                                       |      | <b>23</b>          | (19)  |                    |       |
| <b>Total comprehensive income attributable to minority interests</b> . . . . .                                |      | <b>26</b>          | -     |                    |       |

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

## Statement of Financial Position

as at 30 June 2009

|  | Note   | Telstra Group |               | Telstra Entity |               |
|--|--------|---------------|---------------|----------------|---------------|
|  |        | As at 30 June |               | As at 30 June  |               |
|  |        | 2009          | 2008          | 2009           | 2008          |
|  |        | \$m           | \$m           | \$m            | \$m           |
| <b>Current assets</b>                                  |        |               |               |                |               |
| Cash and cash equivalents                              | .20    | 1,381         | 899           | 1,016          | 542           |
| Trade and other receivables                            | .10    | 4,039         | 3,952         | 3,908          | 3,502         |
| Inventories  | .11    | 239           | 309           | 211            | 264           |
| Derivative financial assets                            | .17(e) | 128           | 54            | 128            | 54            |
| Current tax receivables                                |        | 101           | -             | 100            | -             |
| Prepayments  |        | 304           | 299           | 214            | 234           |
| <b>Total current assets</b>                            |        | <b>6,192</b>  | <b>5,513</b>  | <b>5,577</b>   | <b>4,596</b>  |
| <b>Non current assets</b>                              |        |               |               |                |               |
| Trade and other receivables                            | .10    | 163           | 198           | 295            | 318           |
| Inventories  | .11    | 18            | 12            | 18             | 12            |
| Investments - accounted for using the equity method    | .12    | 16            | 14            | 11             | 12            |
| Investments - other                                    | .12    | -             | 1             | 5,529          | 5,461         |
| Property, plant and equipment                          | .13    | 23,895        | 24,311        | 22,317         | 22,665        |
| Intangible assets                                      | .14    | 8,416         | 7,245         | 4,724          | 3,738         |
| Derivative financial assets                            | .17(e) | 1,073         | 444           | 1,073          | 444           |
| Non-current tax receivables                            |        | 172           | -             | 172            | -             |
| Deferred tax assets                                    | .9     | 9             | 1             | -              | -             |
| Defined benefit assets                                 | .24    | 8             | 182           | -              | 161           |
| <b>Total non current assets</b>                        |        | <b>33,770</b> | <b>32,408</b> | <b>34,139</b>  | <b>32,811</b> |
| <b>Total assets</b>                                    |        | <b>39,962</b> | <b>37,921</b> | <b>39,716</b>  | <b>37,407</b> |
| <b>Current liabilities</b>                             |        |               |               |                |               |
| Trade and other payables                               | .15    | 3,734         | 3,930         | 3,234          | 3,420         |
| Provisions   | .16    | 495           | 535           | 420            | 457           |
| Borrowings   | .17(d) | 1,979         | 2,055         | 3,084          | 2,484         |
| Derivative financial liabilities                       | .17(e) | 111           | 82            | 111            | 82            |
| Current tax payables                                   |        | 262           | 264           | 220            | 222           |
| Revenue received in advance                            |        | 1,171         | 1,257         | 897            | 972           |
| <b>Total current liabilities</b>                       |        | <b>7,752</b>  | <b>8,123</b>  | <b>7,966</b>   | <b>7,637</b>  |
| <b>Non current liabilities</b>                         |        |               |               |                |               |
| Trade and other payables                               | .15    | 245           | 181           | 53             | 56            |
| Provisions   | .16    | 761           | 776           | 723            | 739           |
| Borrowings   | .17(d) | 15,344        | 13,444        | 15,320         | 13,419        |
| Derivative financial liabilities                       | .17(e) | 819           | 1,222         | 819            | 1,222         |
| Deferred tax liabilities                               | .9     | 1,593         | 1,575         | 1,729          | 1,734         |
| Defined benefit liability                              | .24    | 414           | -             | 414            | -             |
| Revenue received in advance                            |        | 353           | 355           | 353            | 355           |
| <b>Total non current liabilities</b>                   |        | <b>19,529</b> | <b>17,553</b> | <b>19,411</b>  | <b>17,525</b> |
| <b>Total liabilities</b>                               |        | <b>27,281</b> | <b>25,676</b> | <b>27,377</b>  | <b>25,162</b> |
| <b>Net assets</b>                                      |        | <b>12,681</b> | <b>12,245</b> | <b>12,339</b>  | <b>12,245</b> |
| <b>Equity</b>  |        |               |               |                |               |
| Share capital  | .19    | 5,576         | 5,534         | 5,576          | 5,534         |
| Reserves   |        | (273)         | (410)         | 286            | 358           |
| Retained profits                                       |        | 7,115         | 6,893         | 6,477          | 6,353         |
| <b>Equity available to Telstra Entity shareholders</b> |        | <b>12,418</b> | <b>12,017</b> | <b>12,339</b>  | <b>12,245</b> |
| Minority interests                                     |        | 263           | 228           | -              | -             |
| <b>Total equity</b>                                    |        | <b>12,681</b> | <b>12,245</b> | <b>12,339</b>  | <b>12,245</b> |

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

## Statement of Cash Flows

for the year ended 30 June 2009

|   | Note | Telstra Group      |                | Telstra Entity     |                |
|---|------|--------------------|----------------|--------------------|----------------|
|   |      | Year ended 30 June |                | Year ended 30 June |                |
|   |      | 2009<br>\$m        | 2008<br>\$m    | 2009<br>\$m        | 2008<br>\$m    |
| <b>Cash flows from operating activities</b>                                   |      |                    |                |                    |                |
| Receipts from customers (inclusive of goods and services tax (GST)) . . . . . |      | 27,719             | 27,246         | 24,076             | 23,762         |
| Payments to suppliers and to employees (inclusive of GST) . . . . .           |      | (17,074)           | (16,871)       | (13,829)           | (13,720)       |
| Net cash generated by operations . . . . .                                    |      | 10,645             | 10,375         | 10,247             | 10,042         |
| Income taxes paid . . . . .   |      | (1,647)            | (1,531)        | (1,599)            | (1,513)        |
| <b>Net cash provided by operating activities</b> . . . . . 20                 |      | <b>8,998</b>       | <b>8,844</b>   | <b>8,648</b>       | <b>8,529</b>   |
| <b>Cash flows from investing activities</b>                                   |      |                    |                |                    |                |
| Payments for:   |      |                    |                |                    |                |
| - property, plant and equipment . . . . .                                     |      | (3,263)            | (3,862)        | (2,967)            | (3,609)        |
| - intangible assets . . . . .   |      | (1,531)            | (1,465)        | (1,181)            | (1,208)        |
| Capital expenditure (before investments) . . . . .                            |      | (4,794)            | (5,327)        | (4,148)            | (4,817)        |
| - shares in controlled entities (net of cash acquired) . . . . . 20           |      | (240)              | (74)           | -                  | -              |
| - payments for other investments . . . . .                                    |      | (1)                | (1)            | (1)                | (1)            |
| Total capital expenditure . . . . .   |      | (5,035)            | (5,402)        | (4,149)            | (4,818)        |
| Proceeds from:  |      |                    |                |                    |                |
| - sale of property, plant and equipment . . . . .                             |      | 22                 | 28             | 35                 | 58             |
| - sale of intangible assets . . . . .   |      | 2                  | 1              | -                  | -              |
| - sale of shares in controlled entities (net of cash disposed) . . . . . 20   |      | 197                | 51             | -                  | -              |
| Proceeds from finance lease principal amounts . . . . .                       |      | 55                 | 52             | 55                 | 52             |
| Loans to jointly controlled and associated entities . . . . .                 |      | (4)                | -              | -                  | -              |
| Repayment of loan to jointly controlled and associated entities . . . . .     |      | -                  | 6              | -                  | -              |
| Interest received . . . . .   |      | 65                 | 72             | 60                 | 60             |
| Settlement of hedges in net investments . . . . .                             |      | (35)               | 73             | (35)               | 73             |
| Distributions received from FOXTEL . . . . . 6                                |      | 100                | 130            | -                  | -              |
| Dividends received from controlled entities . . . . . 6                       |      | -                  | -              | 100                | 127            |
| <b>Net cash used in investing activities</b> . . . . .                        |      | <b>(4,633)</b>     | <b>(4,989)</b> | <b>(3,934)</b>     | <b>(4,448)</b> |
| <b>Operating cash flows less investing cash flows</b> . . . . .               |      | <b>4,365</b>       | <b>3,855</b>   | <b>4,714</b>       | <b>4,081</b>   |
| <b>Cash flows from financing activities</b>                                   |      |                    |                |                    |                |
| Proceeds from borrowings . . . . .  |      | 3,118              | 3,559          | 3,185              | 3,703          |
| Repayment of borrowings . . . . .   |      | (2,288)            | (2,458)        | (2,719)            | (2,937)        |
| Repayment of finance lease principal amounts . . . . .                        |      | (36)               | (42)           | (36)               | (38)           |
| Staff repayments of share loans . . . . .                                     |      | 11                 | 15             | 11                 | 15             |
| Purchase of shares for employee share plans . . . . .                         |      | -                  | (129)          | -                  | (129)          |
| Finance costs paid . . . . .  |      | (1,221)            | (1,213)        | (1,207)            | (1,223)        |
| Dividends paid to equity holders of Telstra Entity . . . . . 4                |      | (3,474)            | (3,476)        | (3,474)            | (3,476)        |
| Dividends paid to minority interests . . . . .                                |      | (43)               | (22)           | -                  | -              |
| <b>Net cash used in financing activities</b> . . . . .                        |      | <b>(3,933)</b>     | <b>(3,766)</b> | <b>(4,240)</b>     | <b>(4,085)</b> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> . . . . .         |      | <b>432</b>         | <b>89</b>      | <b>474</b>         | <b>(4)</b>     |
| Cash and cash equivalents at the beginning of the year . . . . .              |      | 899                | 823            | 542                | 546            |
| Effects of exchange rate changes on cash and cash equivalents . . . . .       |      | 50                 | (13)           | -                  | -              |
| <b>Cash and cash equivalents at the end of the year</b> . . . . . 20          |      | <b>1,381</b>       | <b>899</b>     | <b>1,016</b>       | <b>542</b>     |

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

## Statement of Changes in Equity

for the year ended 30 June 2009

### Telstra Group

|  | Reserves                |  |  |  |                                   |                            |                              | Total<br>\$m |
|--|-------------------------|--|--|--|-----------------------------------|----------------------------|------------------------------|--------------|
|  | Share<br>capital<br>\$m | Foreign<br>currency<br>translation<br>(i)<br>\$m | Cash<br>flow<br>hedging<br>(ii)<br>\$m | Consolid-<br>ation<br>fair value<br>(iii)<br>\$m | General<br>reserve<br>(iv)<br>\$m | Retained<br>profits<br>\$m | Minority<br>interests<br>\$m |              |
| <b>Balance at 1 July 2007</b> . . . . .                            | 5,611                   | (325)  | 37                                     | 26   | 4                                 | 6,976                      | 251                          | 12,580       |
| - total comprehensive income for the year                          | -                       | (273)  | 127                                    | -  | -                                 | 3,387                      | -                            | 3,241        |
| - dividends . . . . .  | -                       | -  | -                                      | -  | -                                 | (3,476)                    | (43)                         | (3,519)      |
| - minority interest on acquisitions . . .                          | -                       | -  | -                                      | -  | -                                 | -                          | 20                           | 20           |
| - transfers to retained profits . . . . .                          | -                       | -  | -                                      | (6)  | -                                 | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 15                      | -  | -                                      | -  | -                                 | -                          | -                            | 15           |
| - prior year labour expense settled in<br>equity . . . . .         | 9                       | -  | -                                      | -  | -                                 | -                          | -                            | 9            |
| - additional shares purchased . . . . .                            | (129)                   | -  | -                                      | -  | -                                 | -                          | -                            | (129)        |
| - share-based payments . . . . .                                   | 28                      | -  | -                                      | -  | -                                 | -                          | -                            | 28           |
| <b>Balance at 30 June 2008</b> . . . . .                           | 5,534                   | (598)  | 164                                    | 20   | 4                                 | 6,893                      | 228                          | 12,245       |
| - total comprehensive income for the year                          | -                       | 214  | (71)                                   | -  | -                                 | 3,690                      | 26                           | 3,859        |
| - dividends . . . . .  | -                       | -  | -                                      | -  | -                                 | (3,474)                    | (39)                         | (3,513)      |
| - minority interest on acquisitions . . .                          | -                       | -  | -                                      | -  | -                                 | -                          | 48                           | 48           |
| - transfers to retained profits . . . . .                          | -                       | -  | -                                      | (6)  | -                                 | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 11                      | -  | -                                      | -  | -                                 | -                          | -                            | 11           |
| - prior year labour expense settled in<br>equity . . . . .         | 8                       | -  | -                                      | -  | -                                 | -                          | -                            | 8            |
| - share-based payments . . . . .                                   | 23                      | -  | -                                      | -  | -                                 | -                          | -                            | 23           |
| <b>Balance at 30 June 2009</b> . . . . .                           | 5,576                   | (384)  | 93                                     | 14   | 4                                 | 7,115                      | 263                          | 12,681       |

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

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

(iii) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets.

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

## Statement of Changes in Equity (continued)

for the year ended 30 June 2009

### Telstra Entity

|   | Share<br>capital<br>\$m | Cash flow<br>hedging<br>reserve<br>(ii)<br>\$m | General<br>reserve<br>(iv)<br>\$m | Retained<br>profits<br>\$m | Total<br>\$m  |
|---|-------------------------|--|-----------------------------------|----------------------------|---------------|
| <b>Balance at 1 July 2007</b> . . . . .                         | 5,611                   | 38   | 194                               | 6,310                      | 12,153        |
| - total comprehensive income for the year . . . . .             | -                       | 126  | -                                 | 3,519                      | 3,645         |
| - dividends . . . . .   | -                       | -  | -                                 | (3,476)                    | (3,476)       |
| - amounts repaid on share loans provided to employees . . . . . | 15                      | -  | -                                 | -                          | 15            |
| - prior year labour expense settled in equity . . . . .         | 9                       | -  | -                                 | -                          | 9             |
| - additional shares purchased . . . . .                         | (129)                   | -  | -                                 | -                          | (129)         |
| - share-based payments . . . . .                                | 28                      | -  | -                                 | -                          | 28            |
| <b>Balance at 30 June 2008</b> . . . . .                        | 5,534                   | 164  | 194                               | 6,353                      | 12,245        |
| - total comprehensive income for the year . . . . .             | -                       | (72)   | -                                 | 3,598                      | 3,526         |
| - dividends . . . . .   | -                       | -  | -                                 | (3,474)                    | (3,474)       |
| - amounts repaid on share loans provided to employees . . . . . | 11                      | -  | -                                 | -                          | 11            |
| - prior year labour expense settled in equity . . . . .         | 8                       | -  | -                                 | -                          | 8             |
| - share-based payments . . . . .                                | 23                      | -  | -                                 | -                          | 23            |
| <b>Balance at 30 June 2009</b> . . . . .                        | <b>5,576</b>            | <b>92</b>                                      | <b>194</b>                        | <b>6,477</b>               | <b>12,339</b> |

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

## Notes to the Financial Statements

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### 1. Basis of preparation

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

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

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2009 means fiscal 2009 and similarly for other fiscal years.

The financial report of the Telstra Group and the Telstra Entity for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Telstra Board of Directors on 13 August 2009.

The principal accounting policies used in preparing the financial report of the Telstra Group and the Telstra Entity as 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 in accordance with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia. This financial report also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board.

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

This financial report is prepared in accordance with historical cost, except for some categories of investments, and some financial assets and liabilities (including derivative instruments) which are recorded at fair value. Cost is the fair value of the consideration given in exchange for net assets acquired.

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

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

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

#### 1.2 Clarification of terminology used in our income statement

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

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our profit for the year prior to including the effect of net finance costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating performance.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt servicing and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

#### 1.3 Rounding

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

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies

#### 2.1 Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2009.

##### (a) Transfer of Assets from Customers

AASB Interpretation 18: "Transfer of Assets from Customers" was issued by the AASB in March 2009 and provides guidance in relation to the accounting for assets that are received from customers, either in the form of direct transfer of asset ownership or cash contributions received towards the construction or purchase of an asset. The interpretation outlines under what circumstances the transfer may be recognised as revenue upfront or when it must be deferred over the relevant service period.

Telstra receives contributions from a number of customers towards the construction of network assets, including construction in remote areas or where it is uneconomical for Telstra to incur the full capital cost. The level of contribution from the customer varies depending on the circumstances, but includes both full and partial contributions. Our previous accounting policy required these customer contributions to be deferred over the relevant service period.

We have elected to early adopt and apply AASB Interpretation 18 in our financial report for the year ended 30 June 2009. As a result, where the network construction does not result in additional obligations being imposed on Telstra to provide additional services, then the customer contribution is recognised as revenue when the construction is complete and the asset is ready for use.

In addition to the above change in accounting policy, we note the following new accounting standards and interpretations that are applicable for the year ended 30 June 2009.

- AASB Interpretation 12: "Service Concession Arrangements";
- AASB Interpretation 14: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation";
- AASB 2008-10: "Amendments to Australian Accounting Standards - Reclassification of Financial Assets"; and
- AASB 2008-12: "Amendments to Australian Accounting Standards - Reclassification of Financial Assets - Effective Date and Transition".

These new accounting standards and interpretations, including interpretation 18, 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.

Our consolidated retained profits include retained profits/accumulated losses of controlled entities from the time they became a controlled entity until control ceases. Minority interests in the results and equity of controlled entities are shown separately in our consolidated income statement and consolidated statement of financial position.

We account for the acquisition of our controlled entities using the purchase method of accounting. This involves recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair value at the date of acquisition. Any excess of the cost of acquisition over our interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recognised as goodwill. On initial acquisition, we apply management judgement to determine the appropriate allocation of purchase consideration to the assets being acquired, including goodwill and identifiable intangible assets.

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

#### 2.3 Foreign currency translation

##### (a) Transactions and balances

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

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 accounting policies (continued)

#### 2.3 Foreign currency translation (continued)

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

Refer to note 2.22 for details regarding our accounting policy for derivative financial instruments and foreign currency monetary items that are used to hedge our net investment in entities which have a functional currency not in Australian dollars.

#### 2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not greater than three months.

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

#### 2.5 Trade and other receivables

Trade debtors and other receivables are 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 debtors, based on a review of outstanding amounts at balance date. Bad debts specifically provided for in previous years are eliminated against the allowance for doubtful debts. In all other cases, bad debts are eliminated directly against the carrying amount and written off as an expense in the income statement.

#### 2.6 Inventories

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

For the majority of inventory items we assign cost using the weighted average cost basis. For materials used in the production of directories the 'first in first out' basis is used for assigning cost.

Net realisable value of items expected to be sold is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs incurred in marketing, selling and distribution. It approximates fair value less costs to sell.

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

#### 2.7 Construction contracts

##### (a) Valuation

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

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

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

##### (b) Recognition of profit

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

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

##### (c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings. Where progress billings exceed the balance of construction work in progress, the net amount is shown as a current liability within trade and other payables.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.8 Investments

##### (a) Controlled entities

Investments in controlled entities are recorded at cost less impairment of the investment value. Where we hedge the value of our investment in an overseas controlled entity, the hedge is accounted for in accordance with note 2.22.

##### (b) Jointly controlled and associated entities

###### (i) Jointly controlled entities

A jointly controlled entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in jointly controlled entities, including partnerships, are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Under the equity method of accounting, we adjust the initial recorded amount of the investment for our share of:

- profits or losses after tax for the year since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses;
- dividends or distributions received; and
- deferred profit brought to account.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not recommence until our share of profits and reserves exceeds the cumulative prior years share of losses and reserve reductions.

Where we have long term assets that in substance form part of our investment in equity accounted interests and the equity accounted amount of investment falls below zero, we reduce the value of these long term assets in proportion with our cumulative losses.

###### (ii) Associated entities

Where we hold an interest in the equity of an entity, generally of between 20% and 50%, and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

##### (c) Jointly controlled assets

A jointly controlled asset involves the joint control of one or more assets acquired and dedicated for the purpose of a joint venture. The assets are used to obtain benefits for the venturers. Where the asset is significant we record our share of the asset. We record expenses based on our percentage ownership interest of the jointly controlled asset.

##### (d) Listed securities and investments in other corporations

Our investments in listed securities and in other corporations are classified as 'available-for-sale' financial assets and are measured at fair value at each reporting date. Fair values are calculated on the following basis:

- for listed securities traded in an organised financial market, we use the current quoted market bid price at balance date; and
- for investments in unlisted entities whose securities are not traded in an organised financial market, we establish fair value by using valuation techniques, including reference to discounted cash flows and fair values of recent arms length transactions involving instruments that are substantially the same.

We remeasure the fair value of our investments in listed securities and other corporations at each reporting date. Any gains or losses are recognised in equity until we dispose of the investment, or we determine it to be impaired, at which time we transfer all cumulative gains and losses to the income statement.

Purchases and sales of investments are recognised on settlement date, being the date on which we receive or deliver an asset.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.9 Impairment

##### (a) Non-financial assets

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

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

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

In determining value in use, we apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates, terminal rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance.

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

For assets that do not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (CGU) to which that asset belongs. Our CGUs are determined according to the lowest level of aggregation for which an active market exists and the assets involved create largely independent cash inflows.

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

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

##### (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 equity are recognised in the income statement.

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

#### 2.10 Property, plant and equipment

##### (a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note (b). The cost of our constructed property, plant and equipment includes:

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

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

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

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (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        |                      |
|   | 2009                 | 2008                 |
| Property, plant and equipment                       | Service life (years) | Service life (years) |
| <b>Buildings</b> - building shell . . . . .         | <b>55</b>            | 55                   |
| - general purpose. . . . .                          | <b>8 - 40</b>        | 8 - 40               |
| - fitout . . . . .                                  | <b>10 - 20</b>       | 10 - 20              |
| <b>Communication assets</b>                         |                      |                      |
| Buildings - building shell . . . . .                | <b>55</b>            | 55                   |
| - network. . . . .                                  | <b>10 - 40</b>       | 8 - 40               |
| - fitout . . . . .                                  | <b>10 - 20</b>       | 10 - 20              |
| Customer premises equipment . . . . .               | <b>3 - 8</b>         | 3 - 8                |
| Transmission equipment. . . . .                     | <b>2 - 30</b>        | 1 - 30               |
| Switching equipment. . . . .                        | <b>1 - 6</b>         | 1 - 12               |
| Mobile equipment. . . . .                           | <b>2 - 10</b>        | 3 - 10               |
| Cables . . . . .                                    | <b>2 - 30</b>        | 3 - 30               |
| Ducts and pipes - main cables . . . . .             | <b>31</b>            | 32                   |
| - distribution . . . . .                            | <b>26</b>            | 27                   |
| Other communications plant . . . . .                | <b>2 - 30</b>        | 1 - 30               |
| <b>Other assets</b>                                 |                      |                      |
| Leasehold plant and equipment . . . . .             | <b>3 - 15</b>        | 3 - 15               |
| Other plant, equipment and motor vehicles . . . . . | <b>3 - 15</b>        | 3 - 15               |

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

The net effect of the reassessment of service lives for fiscal 2009 was a decrease in our depreciation expense of \$92 million (2008: \$166 million decrease) for the Telstra Group and a decrease of \$92 million (2008: \$243 million decrease) for the Telstra Entity.

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

#### 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 lease at the beginning of the lease term. Capitalised lease assets are depreciated on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

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

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

##### (b) Telstra as a lessor

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

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

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.12 Intangible assets

Intangible assets are assets that have value, but do not have physical substance. In order to be recognised, an intangible asset must be either separable or arise from contractual or other legal rights.

##### (a) Goodwill

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

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. When we acquire a jointly controlled or associated entity, the goodwill amount is included as part of the cost of the investment.

Goodwill is not amortised but is tested for impairment in accordance with note 2.9 on an annual basis or when an indication of impairment exists.

##### (b) Internally generated intangible assets

Research costs are recorded as an expense as incurred. Development costs are capitalised if the project is technically and commercially feasible, we are able to use or sell the asset, and we have sufficient resources and intent to complete the development.

##### Software assets

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

Costs included in software assets developed for internal use are:

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

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

##### (c) Acquired intangible assets

We acquire other intangible assets either as part of a business combination or through separate acquisition. Intangible assets acquired in a business combination are recorded at their fair value at the date of acquisition and recognised separately from goodwill. We apply management judgement to determine the appropriate fair value of identifiable intangible assets.

Intangible assets that are considered to have a finite life are amortised on a straight line basis over the period of expected benefit. Intangible assets that are considered to have an indefinite life are not amortised but tested for impairment in accordance with note 2.9 on an annual basis, or where an indication of impairment exists.

##### (d) Deferred expenditure

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

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

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

##### (e) Amortisation

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

|                                  | Telstra Group            |                          |
|----------------------------------|--------------------------|--------------------------|
|                                  | As at 30 June            |                          |
|                                  | 2009                     | 2008                     |
| Identifiable intangible assets   | Expected benefit (years) | Expected benefit (years) |
| Software assets . . . . .        | 8                        | 6                        |
| Patents and trademarks . . . . . | 19                       | 17                       |
| Licences . . . . .               | 15                       | 14                       |
| Brandnames . . . . .             | 18                       | 18                       |
| Customer bases . . . . .         | 10                       | 11                       |
| 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 2009 was a decrease in our amortisation expense of \$110 million (2008: \$19 million increase) for the Telstra Group and a decrease of \$110 million (2008: \$21 million increase) for the Telstra Entity.

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

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.13 Trade and other payables

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

#### 2.14 Provisions

Provisions are recognised when the group has:

- a present legal or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events;
- it is probable that a future sacrifice of economic benefits will arise; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

##### (a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated based on remuneration rates expected to be current at the date of settlement and include related on costs.

Certain employees who have been employed by Telstra for at least ten years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in our employee benefits provision.

We accrue liabilities for other employee benefits not expected to be paid or settled within 12 months of balance date, including long service leave, at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of 10 years, experience of employee departures and periods of service.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

We apply management judgement in estimating the following key assumptions used in the calculation of our long service leave provision at reporting date:

- weighted average projected increases in salaries; and
- weighted average discount rate.

Refer to note 16 for further details on the key management judgements used in the calculation of our long service leave provision.

##### (b) Workers' compensation

We self insure our workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on the risks specific to the liability with similar due dates.

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

##### (c) Redundancy and restructuring costs

We recognise a provision for redundancy costs when a detailed formal plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out in respect of those employees likely to be affected.

We recognise a provision for restructuring when a detailed formal plan has been approved and we have raised a valid expectation in those affected by the restructuring that the restructuring will be carried out.

#### 2.15 Borrowings

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

Borrowing costs are recognised as an expense in our income statement when incurred.

Our borrowings fall into two categories:

##### (a) Borrowings in a designated hedging relationship

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

Borrowings subject to fair value hedges are recognised initially at fair value. The carrying amount of our borrowings in fair value hedges (to hedge against changes in value due to interest rate or currency movements) is adjusted for fair value movements attributable to the hedged risk. Fair value is calculated using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve which is independently derived and representative of Telstra's cost of borrowing. These borrowings are remeasured each reporting period and the gains or losses are recognised in the income statement along with the associated gains or losses on the hedging instrument.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.15 Borrowings (continued)

##### (a) Borrowings in a designated hedging relationship (continued)

Borrowings subject to cash flow hedges (to hedge against currency movements) are recognised initially at fair value based on the applicable spot price plus any transaction costs that are directly attributable to the issue of the borrowing. These borrowings are subsequently carried at amortised cost, translated at the applicable spot exchange rate at reporting date. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds is recognised in the income statement over the borrowing period using the effective interest method.

Currency gains or losses on the borrowings are recognised in the income statement, along with the associated gains or losses on the hedging instrument, which have been transferred from the cash flow hedging reserve to the income statement at the completion of the transaction.

We use management judgement in determining the appropriate yield curve to use in the valuation, to appropriately designate our hedging relationships and to test for effectiveness.

##### (b) Borrowings not in a designated hedging relationship

Borrowings not in a designated hedging relationship include promissory notes borrowings, Telstra bonds and domestic loans, unsecured promissory notes and other borrowings.

All such instruments are initially recognised at fair value plus any transaction costs that are directly attributable to the issue of the instruments and are subsequently measured at amortised cost. Any difference between the final amount paid to discharge the borrowing and the initial borrowing proceeds (including transaction costs) is recognised in the income statement over the borrowing period using the effective interest method.

##### (c) Statement of cash flows presentation

Where our short term borrowings have a maturity period of three months or less, we report the cash receipts and subsequent repayments on a net basis in the statement of cash flows.

In fiscal 2008, certain short term borrowings were reported in the statement of cash flows on a gross basis. We have restated our comparatives to be consistent with this policy. This change has no impact on the overall net cash flows from borrowings.

#### 2.16 Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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

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

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

Refer to note 2.21 for further details regarding our accounting for employee share plans.

#### 2.17 Revenue recognition

Our categories of sales revenue are recorded after deducting sales returns, trade allowances, discounts, sales incentives, duties and taxes.

##### (a) Rendering of services

Revenue from the provision of our telecommunications services includes telephone calls and other services and facilities provided, such as internet and data.

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or on a straight line basis over the period of service provided, unless another method better represents the stage of completion.

Installation and connection fee revenues that are not considered to be separate units of accounting are deferred and recognised over the average estimated customer life. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life in accordance with note 2.12(d).

In relation to basic access installation and connection revenue, we apply management judgement to determine the estimated customer contract life. Based on our reviews of historical information and customer trends, we have determined that our average estimated customer life is 5 years (2008: 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.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.17 Revenue recognition (continued)

##### (c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue from providing access to the network is recorded on an accrual basis over the rental period.

##### (d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract.

Our construction contracts are classified according to their type. There are three types of construction contracts, these being material intensive, labour intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- $(\text{actual costs} / \text{planned costs}) \times \text{planned revenue}$  - for material intensive projects;
- $(\text{actual labour hours} / \text{planned labour hours}) \times \text{planned revenue}$  - for labour intensive projects; and
- short duration projects are those that are expected to be completed within a month and revenues and costs are recognised on completion.

##### (e) Advertising and directory services

Classified advertisements and display advertisements are published on a daily, weekly and monthly basis for which revenues are recognised at the time the advertisement is published.

All of our Yellow Pages and White Pages directory revenues are recognised on delivery of the published directories to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

##### (f) Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreements.

##### (g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument.

##### (h) Revenue arrangements with multiple deliverables

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. When the deliverables in a multiple deliverable arrangement are not considered to be separate units of accounting, the arrangement is accounted for as a single unit.

We allocate the consideration from the revenue arrangement to its separate units based on the relative fair values of each unit. If the fair value of the delivered item is not available, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item. The revenue allocated to each unit is then recognised in accordance with our revenue recognition policies described above.

#### 2.18 Taxation

##### (a) Income taxes

Our income tax expense represents the sum of current tax and deferred tax. Current tax is calculated on accounting profit after allowing for non-taxable and non-deductible items based on the amount expected to be paid to taxation authorities on taxable profit for the period. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Both our current tax and deferred tax are calculated using tax rates that have been enacted or substantively enacted at reporting date.

Our current and deferred tax is recognised as an expense in the income statement, except when it relates to items directly debited or credited to equity, in which case our current and deferred tax is also recognised directly in equity.

We apply the balance sheet liability method for calculating our deferred tax. Deferred tax is the expected tax payable or recoverable on all taxable and deductible temporary differences determined with reference to the tax bases of assets and liabilities and their carrying amount for financial reporting purposes as at the reporting date.

We generally recognise deferred tax liabilities for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither our accounting profit or taxable income at the time of the transaction.

In respect of our investments in subsidiaries, jointly controlled and associated entities, we recognise deferred tax liabilities for all taxable temporary differences, except where we are able to control the timing of our temporary difference reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.18 Taxation (continued)

##### (a) Income taxes (continued)

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 the entire deferred tax asset to be utilised. At each reporting date, we subsequently reassess our unrecognised deferred tax assets to determine whether it has become probable that future taxable profit will allow this deferred tax asset to be recovered.

The Telstra Entity and its Australian resident wholly owned entities 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.

Under our tax funding arrangements, amounts receivable (or payable) recognised by the Telstra Entity for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current. Amounts relating to unused tax losses and tax credits of the wholly owned entities assumed by the Telstra Entity are recorded as dividend revenue.

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

##### (b) Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

#### 2.19 Earnings per share

Basic earnings per share is determined by dividing the profit attributable to ordinary shareholders after tax, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary shareholders after tax by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of the instruments in the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plans).

#### 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.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.20 Post-employment benefits (continued)

##### (b) Defined benefit plans (continued)

The actuaries use the projected unit credit method to determine the present value of the defined benefit obligations of each plan. This method determines each year of service as giving rise to an additional unit of benefit entitlement. Each unit is measured separately to calculate the final obligation. The present value is determined by discounting the estimated future cash outflows using rates based on government guaranteed securities with similar due dates to these expected cash flows.

We recognise all our defined benefit costs in the income statement with the exception of actuarial gains and losses that are recognised directly in equity via retained profits. Components of defined benefit costs include current and past service cost, interest cost and expected return on assets. 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.

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 retained profits to reflect differences between actuarial assumptions of future outcomes applied at the current reporting date and the actual outcome in the next annual reporting period.

Refer to note 24 for details on the key estimates used in the calculation of our defined benefit 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, deferred shares, incentive shares, directshares and ownshares. Options and performance rights are subject to performance hurdles. Deferred shares and incentive shares are subject to a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for Growthshare. We also include the results, position and cash flows of Growthshare.

We recognise an expense for all share based remuneration determined with reference to the fair value at grant date of the equity instruments issued. The fair value of our equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

#### 2.22 Derivative financial instruments

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

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

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to fair value. The method of recognising the resulting remeasurement gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Where we hold derivative financial instruments that are not designated as hedges, they are categorised as 'held for trading' financial instruments. All of our derivative financial instruments are stated at fair value.

Derivative 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.

The carrying value of our cross currency and interest rate swaps refers to the fair value of our receivable or payable under the swap contract. We do not offset the receivable or payable with the underlying financial asset or financial liability being hedged, as the transactions are generally with different counterparties and are not generally settled on a net basis.

Where we have a legally recognised right to set off the financial asset and the financial liability, and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.22 Derivative financial instruments (continued)

Our derivative instruments that are held to hedge exposures can be classified into three different types, depending on the reason we are holding them - fair value hedges, cash flow hedges and hedges of net investment in foreign operations.

Hedge accounting can only be utilised where effectiveness tests are met on both a prospective and retrospective basis. Ineffectiveness may result in significant volatility in the income statement. For all of our hedging instruments, any gains or losses on remeasuring to fair value any portion of the instrument not considered to be effective are recognised directly in the income statement in the period in which they occur.

We formally designate and document at the inception of a transaction the relationship between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We also document our assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

Purchases and sales of derivative financial instruments are recognised on the date on which we commit to purchase or sell an asset.

##### (a) Fair value hedges

We use fair value hedges to mitigate the risk of changes in the fair value of our foreign currency borrowings from foreign currency and interest rate fluctuations over the hedging period.

Where a fair value hedge qualifies for hedge accounting, gains or losses from remeasuring the fair value of the hedging instrument are recognised in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the risks intended to be hedged.

##### (b) Cash flow hedges

We use cash flow hedges to mitigate the risk of variability of future cash flows attributable to foreign currency fluctuations over the hedging period. Cash flow hedges are used for our foreign currency borrowings and our ongoing business activities, predominantly where we have highly probable purchase or settlement commitments in foreign currencies.

Where a cash flow hedge qualifies for hedge accounting, the effective portion of gains or losses on remeasuring the fair value of the hedging instrument are recognised directly in equity in the cash flow hedging reserve until such time as the hedged item affects profit or loss, then the gains or losses are transferred to the income statement. However, in our hedges of forecast transactions, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset. Gains or losses on any portion of the hedge determined to be ineffective are recognised immediately in the income statement. The application of hedge accounting will create some volatility in equity reserve balances.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time remain in equity 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 equity 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 promissory notes in the relevant currency of the investment.

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

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

##### (d) Derivatives that are not in a designated hedging relationship

For any 'held for trading' derivative instruments, i.e. those which are not in a designated hedging relationship, any gains or losses on remeasuring the instruments to fair value are recognised directly in the income statement in the period in which they occur.

##### (e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

## Notes to the Financial Statements (continued)

### 2. Summary of accounting policies (continued)

#### 2.23 Fair value estimation

The fair value of our derivatives and some financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Valuation techniques include where applicable, reference to prices quoted in active markets, discounted cash flow analysis, fair value of recent arm's length transactions involving the same instruments or other instruments that are substantially the same, and option pricing models.

We calculate the fair value of our forward exchange contracts by reference to forward exchange market rates for contracts with similar maturity profiles at the time of valuation.

The net fair values of our cross currency and interest rate swaps and other financial assets and financial liabilities that are measured at fair value (apart from our listed investments) are determined using valuation techniques which utilise data from observable markets. Assumptions are based on market conditions existing at each balance date. The fair value is calculated as the present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived and representative of Telstra's cost of borrowing. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities less any adjustments for impairment with a short term to maturity are considered to approximate net fair value.

#### 2.24 Recently issued accounting standards to be applied in future reporting periods

The accounting standards and interpretations that have not been early adopted for the year ended 30 June 2009, but will be applicable to the Telstra Group and Telstra Entity in future reporting periods, are detailed below. Apart from these standards and interpretations, we have considered other accounting standards that will be applicable in future periods, however they have been considered insignificant to Telstra.

##### (a) Business combinations

AASB 3: "Business Combinations" and AASB 127: "Consolidated and Separate Financial Statements" were revised in March 2008, with the revised Standards becoming applicable to annual reporting periods beginning on or after 1 July 2009. A related omnibus standard AASB 2008-3: "Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127" makes a number of amendments to other accounting standards as a result of the revised AASB 3 and AASB 127 and must be adopted at the same time.

The standards make a number of amendments to the accounting for business combinations and consolidations, including requiring acquisition costs to be expensed, the clarification of the accounting treatment for changes in ownership interests and the fair value measurement of contingent consideration in the statement of financial position at acquisition date with subsequent changes reflected in the income statement. This accounting standard will only apply to acquisitions completed on or after 1 July 2009.

##### (b) Cost of an investment

The AASB issued AASB 2008-7: "Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate" in August 2008, applicable to annual reporting periods beginning on or after 1 January 2009. The amendments require all dividends, regardless of whether they are pre-acquisition or post-acquisition, to be recognised in profit and loss when the entity's right to receive the dividend has been established. These amendments are not expected to materially impact our financial results. Telstra will apply the new requirements from 1 July 2009.

##### (c) Borrowing costs

AASB 123: "Borrowing Costs" was revised in May 2007, with the revised standard becoming applicable to annual reporting periods beginning on or after 1 January 2009. A related omnibus standard AASB 2007-6: "Amendments to Australian Accounting Standards arising from AASB 123" makes a number of amendments to other accounting standards as a result of the revised AASB 123 and must be adopted at the same time.

This revised standard requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Under our current accounting policy we expense interest in the period it is incurred, as permitted under the existing version of AASB 123. The revisions to AASB 123 will decrease finance costs and increase the carrying value of our property, plant and equipment, with a resulting increase in depreciation expense.

The revised standard will be applied prospectively on any new capital expenditure on qualifying assets incurred from 1 July 2009.

##### (d) Improving financial instruments disclosures and embedded derivatives

The AASB has issued AASB 2009-2 "Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments." This standard is applicable to Telstra from 1 July 2009.

AASB 2009-2 requires enhanced disclosures about fair value measurements and liquidity risk and in particular, introduces a three-level hierarchy for making fair value measurements. We are currently assessing the impacts of these disclosures.

## Notes to the Financial Statements (continued)

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### 2. Summary of accounting policies (continued)

#### 2.24 Recently issued accounting standards to be applied in future reporting periods (continued)

##### (e) Other

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

- AASB Interpretation 16: "Hedges of Net Investments in a Foreign Operation";
- AASB 2008-1: "Amendments to Australian Accounting Standard - Share based Payments: Vesting Conditions and Cancellations";
- AASB 2008-8: "Amendments to Australian Accounting Standards - Eligible Hedged Items";
- AASB Interpretation 17: "Distributions of Non-Cash Assets to Owners";
- AASB 2008-13: "Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-Cash Assets to Owners";
- AASB 2008-5: "Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2008-6: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2009-3 "Amendments to Australian Accounting Standards - Embedded Derivatives";
- AASB 2009-4: "Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2009-5: "Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project";
- AASB 2009-6: "Amendments to Australian Accounting Standards" arising from editorial corrections; and
- AASB 2009-7: "Amendments to Australian Accounting Standards" arising from editorial corrections.

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                     |            |
|  | 2009                                   | 2008       |
|  | ¢                                      | ¢          |
| <b>Basic earnings per share</b> . . . . .  | <b>32.9</b>                            | 29.9       |
| <b>Diluted earnings per share</b> . . . . .  | <b>32.9</b>                            | 29.8       |
|  | <b>\$m</b>                             | <b>\$m</b> |
| <b>Earnings used in the calculation of basic and diluted earnings per share</b>                            |  |            |
| Profit for the year attributable to equity holders of Telstra Entity . . . . .                             | <b>4,073</b>                           | 3,692      |
|  | <b>Number of shares<br/>(millions)</b> |            |
| <b>Weighted average number of ordinary shares</b>  |  |            |
| Weighted average number of ordinary shares on issue . . . . .  | <b>12,443</b>                          | 12,443     |
| Effect of shares held by employee share plan trusts and TESOP (a)(b) . . . . .                             | <b>(75)</b>                            | (78)       |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share . . . . .   | <b>12,368</b>                          | 12,365     |
| Effect of dilutive employee share instruments (c) . . . . .  | <b>28</b>                              | 34         |
| Weighted average number of ordinary shares used in the calculation of diluted earnings per share . . . . . | <b>12,396</b>                          | 12,399     |

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

(b) Share options issued under the Telstra Employee Share Ownership Plan I (TESOP97) and II (TESOP99) are not considered outstanding for the purposes of computing basic earnings per share.

(c) In fiscal 2009 and fiscal 2008, the following equity instruments are considered dilutive to earnings per share:

- deferred share instruments issued under Telstra Growthshare Trust (Growthshare - for fiscal 2008 only);
- incentive shares granted under the Growthshare short term incentive scheme;
- certain performance rights granted under the Growthshare long term incentive scheme; and
- share options issued under TESOP97.

In fiscal 2009 and fiscal 2008, 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 |       |
|   | 2009               | 2008  |
|   | \$m                | \$m   |
| <b>Dividends paid</b>                       |                    |       |
| Previous year final dividend paid . . . . . | 1,737              | 1,740 |
| Interim dividend paid . . . . .             | 1,737              | 1,736 |
| Total dividends paid. . . . .               | 3,474              | 3,476 |
| <b>Dividends paid per ordinary share</b>    |                    |       |
|   | ¢                  | ¢     |
| Previous year final dividend paid . . . . . | 14.0               | 14.0  |
| Interim dividend paid . . . . .             | 14.0               | 14.0  |
| Total dividends paid. . . . .               | 28.0               | 28.0  |

Our dividends paid are fully franked at a tax rate of 30%.

Our dividends per share to be paid in respect of fiscal year are detailed below:

|                                     | Telstra Entity     |      |
|-------------------------------------|--------------------|------|
|                                     | Year ended 30 June |      |
|                                     | 2009               | 2008 |
|                                     | ¢                  | ¢    |
| <b>Dividends per ordinary share</b> |                    |      |
| Interim dividend . . . . .          | 14.0               | 14.0 |
| Final dividend (a) . . . . .        | 14.0               | 14.0 |
| Total dividends. . . . .            | 28.0               | 28.0 |

(a) As our final dividend for fiscal 2009 was not determined or publicly recommended by the Board as at 30 June 2009, no provision for dividend has been raised in the statement of financial position. Our final dividend has been reported as an event subsequent to balance date. Refer to note 30 for further details.

## Notes to the Financial Statements (continued)

### 4. Dividends (continued)

|  | Telstra Entity     |            |
|--|--------------------|------------|
|  | Year ended 30 June |            |
|  | 2009               | 2008       |
|  | \$m                | \$m        |
| <b>The combined amount of exempting and franking credits available to us for the next fiscal year are:</b> |                    |            |
| Franking account balance (a) . . . . .   | 178                | 70         |
| Exempting account (a) . . . . .  | 24                 | 24         |
| Franking credits that will arise from the payment of income tax payable as at 30 June (b) . . . . .        | 220                | 222        |
| Franking debits that will arise from the receipt of current tax receivable as at 30 June (b) . . . . .     | (100)              | -          |
| Exempting credits that we may be prevented from distributing in the next fiscal year . . . . .             | (24)               | (24)       |
|  | <b>298</b>         | <b>292</b> |
| <b>Franking debits that will arise on the payment of dividends resolved after 30 June (c)</b>              |                    |            |
| Final dividend . . . . .   | 745                | 744        |

(a) One franking account and one exempting account is maintained by the Telstra Entity for the tax consolidated group.

The franking account balance represents the amount of tax paid by the entity that is available for distribution to shareholders. In relation to our exempting account, there are statutory restrictions placed on the distribution of credits from this account. As a result of these restrictions, it is unlikely that we will be able to distribute our exempting credits.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2010, relating to the fiscal 2009 and 2010 income tax years. Franking credits will be used when the Telstra Entity pays its 2009 final ordinary dividend during fiscal 2010.

(b) Franking credits/debits that will arise from the payment/receipt of income tax are expressed at the 30% tax rate on a tax paid basis. These balances represent the current tax payable and current tax receivable as at 30 June 2009 for the tax consolidated group.

(c) The franking debits that will arise when we pay our final ordinary dividend are expressed as the amount of franking credits that will be attached to a fully franked distribution. Refer to note 30 for further details in relation to our dividends to be paid subsequent to year end.

We believe our current balance of franking credits combined with the franking credits that will arise on tax instalments expected to be paid during fiscal 2010, will be sufficient to cover the franking debits arising from our final 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 2009, the following changes were made to our operating segments:

- With the departure of the Chief Operations Officer during the year the Telstra Operations business segment no longer exists. As a result the following changes have occurred:
  - Telstra Networks and Services and Information Technology are now operating segments in their own right; and
  - Product Management, Procurement and Program Office are now recorded within our Corporate Areas.
- A new segment, Telstra Media, was formed to focus on online and mobile content. As a result, the previous Telstra Media segment has now been renamed Telstra Cable; and
- The Telstra Consumer Marketing and Channels segment has been renamed Telstra Consumer.

Segment results are reported according to the internal management reporting structure at balance date. Segment comparatives are restated to reflect the changes described above as well as any organisational changes which have occurred since the prior reporting period to present a like-for-like view.

The Trading Post business was transferred from Sensis and integrated into the Telstra Media operating segment during the year. As such, Trading Post segment results up to 31 March 2009 have been recorded within Sensis, and from 1 April 2009 to 30 June 2009 have been recorded within our Telstra Media operating segment.

The Telstra Group is organised into the following operating segments for internal management reporting purposes:

**Telstra Consumer (TC)** is responsible for:

- the provision of the full range of telecommunication products, services and communication solutions to consumers; and
- leading the mass market channels including inbound and outbound call centres, Telstra Shops and Telstra Dealers.

**Telstra Business (TB)** is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

**Telstra Enterprise and Government (TE&G)** is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to enterprise and government customers; and
- the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

**Telstra Networks and Services (TN&S)** is responsible for:

- leading the identification, analysis, validation, development and implementation of product, technology and information technology strategies for both the network infrastructure and customer solutions of our Company;
- overall planning, design, specification of standards, commissioning and decommissioning of our communication networks;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks; and
- operation, assurance and maintenance, including activation and restoration, of these networks.

**Telstra Wholesale (TW)** is responsible for:

- the provision of a wide range of telecommunication products and services delivered over our networks and associated support systems to non-Telstra branded carriers, carriage service providers and Internet service providers.

**Sensis** is responsible for:

- the management and growth of the directories and advertising business (excluding that undertaken by Telstra Media), including printed publications, voice and directory services, location and publishing products, and online products and services;
- the provision of China's largest online real estate, home furnishings and home improvements portal through the investment in SouFun; and
- the provision of automotive and digital device internet businesses in China through the investment in Norstar Media and Autohome/PCPop.

**CSL New World (CSL NW)** is our 76.4% owned subsidiary in Hong Kong responsible for:

- providing full mobile services including handset sales, voice and data products to the Hong Kong market.

**TelstraClear (TClear)** is our New Zealand subsidiary responsible for:

- providing full telecommunications services to the New Zealand market.

**Telstra Country Wide (TCW)** is responsible for:

- the local management and control of providing telecommunication products, services and solutions to all consumer customers, except those in Sydney and Melbourne, and small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

**Telstra Media** is responsible for:

- the management and control of our online and mobile content services and Trading Post classifieds website; and
- the provision of mobile value added services in China through ChinaM and Sharp Point which we acquired a 67% interest in during the year.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Operating segments (continued)

**Telstra Cable** is responsible for:

- the management of our investment in the FOXTEL partnerships; and
- the development and management of the hybrid fibre coaxial (HFC) cable network.

**Strategic Marketing** is responsible for:

- the co-ordination and delivery of strategy and marketing activities across our Company and market segments.

**Information Technology** is responsible for:

- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs.

**Corporate areas** include:

- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of corporate planning, accounting and administration, treasury, risk management and assurance, investor relations and procurement. It also includes providing financial support to all business units and financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group;
- The office of the Company Secretary;
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration;
- Product Management - development and lifecycle management of products and services over the networks, as well as application platforms and the online environment; and
- Program Office - coordination and execution of business improvement and transformation projects.

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:

- Telstra Country Wide;
- Telstra Media (new);
- Telstra Cable (previously Telstra Media);
- Strategic Marketing;
- Information Technology; and
- our Corporate areas.

Revenue for the “All Other” segment relates primarily to our revenue earned by Telstra Cable from providing access to our HFC network and other services to FOXTEL. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges as well as impairment of property, plant and equipment and software.

Segment assets for the “All Other” segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

#### Segment results and segment assets

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their “underlying EBIT contribution” to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. As such only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT in the financial statements.

Certain items are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- information technology costs for the Telstra Entity.

In addition, the following narrative further explains how some items are allocated and managed, and as a result how they are reflected in our segment results and segment assets:

- sales revenue associated with mobile handsets for TC, TB and TE&G are mainly allocated to the TC segment along with the associated goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC, TB and TE&G depending on the type of customer serviced;
- revenue derived from our Telstra Media Internet products and its related segment assets are recorded in the customer facing business segments of TC, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Networks and Services recognise certain expenses in relation to the installation and running of the broadband cable network;
- revenue derived from our TCW customers is recorded in our TC, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC, TB and TE&G; and
- doubtful debt expenses are allocated to each segment (previously recorded centrally by our corporate areas).

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Telstra Group

|  | TC            | TB           | TE&G         | TN&S           | TW           | Sensis       | CSL NW       | TClear       | All Other      | Total         |
|--|---------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|---------------|
| Year ended 30 June 2009                                  | \$m           | \$m          | \$m          | \$m            | \$m          | \$m          | \$m          | \$m          | \$m            | \$m           |
| Revenue from external customers . . .                    | 10,269        | 3,789        | 4,787        | 77             | 2,383        | 2,250        | 989          | 547          | 316            | 25,407        |
| Other income . . . . .                                   | 56            | 10           | (3)          | 7              | -            | 1            | -            | -            | 35             | 106           |
| <b>Total income</b> . . . . .                            | <b>10,325</b> | <b>3,799</b> | <b>4,784</b> | <b>84</b>      | <b>2,383</b> | <b>2,251</b> | <b>989</b>   | <b>547</b>   | <b>351</b>     | <b>25,513</b> |
| Labour expenses . . . . .                                | 441           | 191          | 521          | 1,273          | 67           | 504          | 85           | 95           | 954            | 4,131         |
| Goods and services purchased . . . . .                   | 2,510         | 704          | 801          | 243            | 81           | 187          | 466          | 264          | 57             | 5,313         |
| Other expenses . . . . .                                 | 1,057         | 163          | 166          | 1,468          | 21           | 387          | 199          | 80           | 1,686          | 5,227         |
| Share of equity accounted (profits)/<br>losses . . . . . | -             | -            | (4)          | -              | -            | -            | -            | -            | 1              | (3)           |
| Depreciation and amortisation . . . . .                  | -             | -            | 43           | 71             | -            | 122          | 342          | 121          | 3,691          | 4,390         |
| <b>EBIT contribution</b> . . . . .                       | <b>6,317</b>  | <b>2,741</b> | <b>3,257</b> | <b>(2,971)</b> | <b>2,214</b> | <b>1,051</b> | <b>(103)</b> | <b>(13)</b>  | <b>(6,038)</b> | <b>6,455</b>  |
| <b>Total assets as at 30 June 2009</b> . . . . .         | <b>1,591</b>  | <b>471</b>   | <b>1,336</b> | <b>2,136</b>   | <b>390</b>   | <b>2,346</b> | <b>2,037</b> | <b>1,066</b> | <b>28,589</b>  | <b>39,962</b> |

#### Telstra Group

|  | TC            | TB           | TE&G         | TN&S           | TW           | Sensis       | CSL NW       | TClear       | All Other      | Total         |
|--|---------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|---------------|
| Year ended 30 June 2008                          | \$m           | \$m          | \$m          | \$m            | \$m          | \$m          | \$m          | \$m          | \$m            | \$m           |
| Revenue from external customers . . .            | 9,963         | 3,619        | 4,651        | 88             | 2,512        | 2,127        | 917          | 562          | 259            | 24,698        |
| Other income . . . . .                           | 60            | 15           | 1            | 10             | 1            | -            | -            | -            | 48             | 135           |
| <b>Total income</b> . . . . .                    | <b>10,023</b> | <b>3,634</b> | <b>4,652</b> | <b>98</b>      | <b>2,513</b> | <b>2,127</b> | <b>917</b>   | <b>562</b>   | <b>307</b>     | <b>24,833</b> |
| Labour expenses . . . . .                        | 435           | 201          | 551          | 1,328          | 72           | 459          | 77           | 98           | 937            | 4,158         |
| Goods and services purchased . . . . .           | 2,519         | 693          | 789          | 277            | 17           | 172          | 416          | 272          | 26             | 5,181         |
| Other expenses . . . . .                         | 948           | 154          | 175          | 1,479          | 39           | 402          | 165          | 85           | 1,795          | 5,242         |
| Share of equity accounted losses . . .           | -             | -            | -            | -              | -            | -            | -            | -            | 1              | 1             |
| Depreciation and amortisation . . . . .          | -             | -            | 41           | 67             | -            | 150          | 246          | 127          | 3,559          | 4,190         |
| <b>EBIT contribution</b> . . . . .               | <b>6,121</b>  | <b>2,586</b> | <b>3,096</b> | <b>(3,053)</b> | <b>2,385</b> | <b>944</b>   | <b>13</b>    | <b>(20)</b>  | <b>(6,011)</b> | <b>6,061</b>  |
| <b>Total assets as at 30 June 2008</b> . . . . . | <b>1,548</b>  | <b>443</b>   | <b>1,562</b> | <b>2,312</b>   | <b>376</b>   | <b>2,559</b> | <b>1,873</b> | <b>1,099</b> | <b>26,149</b>  | <b>37,921</b> |

A reconciliation of EBIT contribution for reportable segments to Telstra Group reported EBIT is provided below:

|  | Telstra Group      |              |
|--|--------------------|--------------|
|  | Year ended 30 June |              |
|  | 2009               | 2008         |
|  | \$m                | \$m          |
| EBIT contribution for reportable segments . . . . .        | 12,493             | 12,072       |
| All other . . . . .  | (6,038)            | (6,011)      |
| <b>Total all segments</b> . . . . .                        | <b>6,455</b>       | <b>6,061</b> |
| <b>Amounts excluded from underlying results:</b>           |                    |              |
| - distribution from FOXTEL (a) . . . . .                   | 100                | 130          |
| - net gain on disposal of non current assets . . . . .     | -                  | 38           |
| - impairment in value of investments . . . . .             | (4)                | (5)          |
| - reversal of impairment in value of investments . . . . . | 6                  | -            |
| - other . . . . .  | 1                  | 2            |
| <b>Telstra Group EBIT (reported)</b> . . . . .             | <b>6,558</b>       | <b>6,226</b> |

(a) The \$100 million distribution received from FOXTEL (2008: \$130 million) has been recorded as revenue in the income statement.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

|  | Telstra Group      |               |
|--|--------------------|---------------|
|  | Year ended 30 June |               |
|  | 2009               | 2008          |
|  | \$m                | \$m           |
| <b>Information about our geographic operations (b)</b> |                    |               |
| <b>Revenue from external customers</b>                 |                    |               |
| Australian customers . . . . .                         | 23,298             | 22,884        |
| International customers . . . . .                      | 2,209              | 1,944         |
|  | <b>25,507</b>      | <b>24,828</b> |
| <b>Carrying amount of non-current assets (c)</b>       |                    |               |
| Located in Australia . . . . .                         | 28,882             | 28,574        |
| Located in international countries . . . . .           | 3,798              | 3,207         |
|  | <b>32,680</b>      | <b>31,781</b> |

(b) Our geographical operations are split between our Australian and international operations. Our international operations include CSL New World (Hong Kong), TelstraClear (New Zealand), the SouFun, Norstar Media and Autohome/PCPop businesses in China which are part of our Sensis segment, the ChinaM and Sharp Point businesses in China which are part of our Telstra Media segment, and our international business, including Telstra Europe (UK), that serves multi-national customers in the TE&G segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

(c) The carrying amount of our segment non current assets excludes derivative financial assets, defined benefit assets and deferred tax assets.

|  | Note | Telstra Group      |               |
|--|------|--------------------|---------------|
|  |      | Year ended 30 June |               |
|  |      | 2009               | 2008          |
|  |      | \$m                | \$m           |
| <b>Information about our products and services</b> |      |                    |               |
| PSTN products . . . . .                            |      | 6,337              | 6,666         |
| ISDN products . . . . .                            |      | 942                | 978           |
| Fixed internet . . . . .                           |      | 2,160              | 2,020         |
| Other fixed revenue . . . . .                      |      | 1,327              | 1,272         |
| Mobiles . . . . .                                  |      | 6,878              | 6,409         |
| IP and data access . . . . .                       |      | 1,733              | 1,603         |
| Business services and applications . . . . .       |      | 1,008              | 1,055         |
| Non service content . . . . .                      |      | 70                 | 15            |
| Pay TV bundling . . . . .                          |      | 467                | 426           |
| Advertising and directories . . . . .              |      | 2,259              | 2,116         |
| CSL New World . . . . .                            |      | 989                | 917           |
| TelstraClear . . . . .                             |      | 547                | 562           |
| Other offshore services revenue . . . . .          |      | 390                | 346           |
| Other sales revenue (d) . . . . .                  |      | 264                | 272           |
| Other revenue (e) . . . . .                        | .6   | 136                | 171           |
| <b>Total revenue</b> . . . . .                     | .6   | <b>25,507</b>      | <b>24,828</b> |

(d) Other sales revenue includes \$76 million relating to HFC cable usage (2008: \$77 million).

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

## Notes to the Financial Statements (continued)

### 6. Income

|   | Note | Telstra Group      |               | Telstra Entity     |               |
|---|------|--------------------|---------------|--------------------|---------------|
|   |      | Year ended 30 June |               | Year ended 30 June |               |
|   |      | 2009               | 2008          | 2009               | 2008          |
|   |      | \$m                | \$m           | \$m                | \$m           |
| <b>Sales revenue</b>                                      |      |                    |               |                    |               |
| Rendering of services . . . . .                           |      | 12,574             | 12,514        | 10,167             | 10,217        |
| Sale of goods . . . . .                                   |      | 1,159              | 1,195         | 912                | 948           |
| Rent of network facilities and access . . . . .           |      | 9,149              | 8,663         | 9,156              | 8,672         |
| Construction contracts . . . . .                          |      | 230                | 169           | 251                | 196           |
| Advertising and directory services . . . . .              |      | 2,259              | 2,116         | 844                | 769           |
| Procurement (a) . . . . .                                 |      | -                  | -             | 667                | 664           |
|   |      | <b>25,371</b>      | <b>24,657</b> | <b>21,997</b>      | <b>21,466</b> |
| <b>Other revenue (excluding finance income)</b>           |      |                    |               |                    |               |
| Dividends from controlled entities . . . . .              | 29   | -                  | -             | 146                | 256           |
| Distribution from FOXTEL Partnership . . . . .            | 29   | 100                | 130           | -                  | -             |
| Rent from property . . . . .                              |      | 36                 | 41            | 30                 | 36            |
|   |      | <b>136</b>         | <b>171</b>    | <b>176</b>         | <b>292</b>    |
| <b>Total revenue (excluding finance income)</b> . . . . . |      | <b>25,507</b>      | <b>24,828</b> | <b>22,173</b>      | <b>21,758</b> |
| <b>Other income</b>                                       |      |                    |               |                    |               |
| Net gain on disposal of:                                  |      |                    |               |                    |               |
| - property, plant and equipment . . . . .                 |      | -                  | -             | -                  | 2             |
| - intangibles . . . . .                                   |      | -                  | 1             | -                  | -             |
| - investments . . . . .                                   |      | -                  | 37            | -                  | -             |
|   |      | -                  | 38            | -                  | 2             |
| Other miscellaneous income . . . . .                      |      | 107                | 136           | 103                | 133           |
|   |      | <b>107</b>         | <b>174</b>    | <b>103</b>         | <b>135</b>    |
| <b>Total income (excluding finance income)</b> . . . . .  |      | <b>25,614</b>      | <b>25,002</b> | <b>22,276</b>      | <b>21,893</b> |
| <b>Finance income</b>                                     |      |                    |               |                    |               |
| - interest on cash and cash equivalents . . . . .         | 17   | 57                 | 60            | 50                 | 47            |
| - interest on finance lease receivable . . . . .          |      | 10                 | 12            | 10                 | 12            |
| - other . . . . .   |      | -                  | -             | 2                  | 1             |
|   |      | <b>67</b>          | <b>72</b>     | <b>62</b>          | <b>60</b>     |
| <b>Total income</b> . . . . .                             |      | <b>25,681</b>      | <b>25,074</b> | <b>22,338</b>      | <b>21,953</b> |

(a) The Telstra Entity receives procurement revenue from its controlled entity Sensis Pty Ltd for the use of Yellow™ and White Pages® trademarks. Refer to note 29 for further details on transactions involving our related parties.

## Notes to the Financial Statements (continued)

### 7. Profit from continuing operations

|   | Note | Telstra Group      |              | Telstra Entity     |              |
|---|------|--------------------|--------------|--------------------|--------------|
|   |      | Year ended 30 June |              | Year ended 30 June |              |
|   |      | 2009               | 2008         | 2009               | 2008         |
|   |      | \$m                | \$m          | \$m                | \$m          |
| <b>(a) Profit before income tax expense has been calculated after charging/(crediting) the following items:</b> |      |                    |              |                    |              |
| <b>Labour</b>   |      |                    |              |                    |              |
| Included in our labour expenses are the following:  |      |                    |              |                    |              |
| Employee redundancy . . . . .   |      | 219                | 238          | 210                | 229          |
| Share based payments . . . . .  |      | 23                 | 28           | 23                 | 28           |
| Defined benefit plan expense . . . . .  | 24   | 229                | 198          | 229                | 197          |
| <b>Goods and services purchased</b>   |      |                    |              |                    |              |
| Included in our goods and services purchased are the following:   |      |                    |              |                    |              |
| Cost of goods sold . . . . .  |      | 1,896              | 2,004        | 1,559              | 1,633        |
| Rental expense on managed services . . . . .  |      | 6                  | 9            | 2                  | 5            |
| <b>Other expenses</b>   |      |                    |              |                    |              |
| Impairment losses:  |      |                    |              |                    |              |
| - impairment in value of inventories . . . . .  |      | 18                 | 50           | 19                 | 50           |
| - impairment in value of trade and other receivables . . . . .  |      | 339                | 260          | 294                | 213          |
| - impairment in amounts owed by controlled entities (i) . . . . .   | 29   | -                  | -            | 220                | 247          |
| - impairment in value of investments (i) . . . . .  |      | 4                  | 5            | 54                 | 36           |
| - impairment in value of property, plant and equipment . . . . .  | 13   | 23                 | 43           | 23                 | 43           |
| - impairment in value of intangibles . . . . .  | 14   | 19                 | 12           | 19                 | 12           |
|   |      | <b>403</b>         | <b>370</b>   | <b>629</b>         | <b>601</b>   |
| Reversal of impairment losses:  |      |                    |              |                    |              |
| - reversal of impairment in value of trade and other receivables . . . . .                                      | 10   | (50)               | (9)          | (45)               | (9)          |
| - reversal of impairment in amounts owed by controlled entities . . . . .                                       | 29   | -                  | -            | -                  | (2)          |
| - reversal of impairment in value of investments . . . . .  |      | (6)                | -            | -                  | -            |
|   |      | <b>(56)</b>        | <b>(9)</b>   | <b>(45)</b>        | <b>(11)</b>  |
| Rental expense on operating leases . . . . .  |      | 614                | 609          | 483                | 503          |
| Net foreign currency translation losses/(gains) . . . . .   |      | 16                 | (13)         | 136                | (154)        |
| Service contracts and other agreements . . . . .  |      | 2,389              | 2,339        | 2,308              | 2,275        |
| Promotion and advertising . . . . .   |      | 379                | 457          | 286                | 349          |
| General and administration . . . . .  |      | 1,038              | 1,028        | 829                | 844          |
| Other operating expenses . . . . .  |      | 442                | 465          | 431                | 485          |
|   |      | <b>5,225</b>       | <b>5,246</b> | <b>5,057</b>       | <b>4,892</b> |

(i) We have recognised impairment losses relating to the value of our investments in controlled entities, jointly controlled and associated entities, and other entities based on the value in use calculation. The impairment loss in the value of investment in controlled entities was eliminated on consolidation of the Telstra Group.

## Notes to the Financial Statements (continued)

### 7. Profit from continuing operations (continued)

|   | Telstra Group      |              | Telstra Entity     |              |              |
|---|--------------------|--------------|--------------------|--------------|--------------|
|   | Year ended 30 June |              | Year ended 30 June |              |              |
| Note  | 2009<br>\$m        | 2008<br>\$m  | 2009<br>\$m        | 2008<br>\$m  |              |
| <b>(a) Profit before income tax expense has been calculated after charging/(crediting) the following items: (continued)</b> |                    |              |                    |              |              |
| <b>Depreciation of property, plant and equipment</b>  |                    |              |                    |              |              |
| - general purpose buildings including leasehold improvements . . . . .  | 13                 | 93           | 69                 | 76           | 59           |
| - communication assets including leasehold improvements . . . . .   | 13                 | 3,296        | 3,203              | 2,891        | 2,878        |
| - communication assets under finance lease . . . . .  | 13                 | 46           | 59                 | 46           | 59           |
| - other plant, equipment and motor vehicles . . . . .   | 13                 | 189          | 155                | 144          | 110          |
|   |                    | <b>3,624</b> | <b>3,486</b>       | <b>3,157</b> | <b>3,106</b> |
| <b>Amortisation of intangible assets</b>  |                    |              |                    |              |              |
| - software assets developed for internal use . . . . .  | 14                 | 633          | 584                | 534          | 469          |
| - patents and trademarks . . . . .  | 14                 | 1            | 1                  | -            | -            |
| - licences . . . . .  | 14                 | 60           | 57                 | 18           | 18           |
| - brandnames . . . . .  | 14                 | 17           | 13                 | -            | -            |
| - customer bases . . . . .  | 14                 | 53           | 45                 | -            | -            |
| - deferred expenditure . . . . .  |                    | 2            | 4                  | 28           | 28           |
|   |                    | <b>766</b>   | <b>704</b>         | <b>580</b>   | <b>515</b>   |
|   |                    | <b>4,390</b> | <b>4,190</b>       | <b>3,737</b> | <b>3,621</b> |
| <b>Finance costs</b>  |                    |              |                    |              |              |
| - interest on borrowings . . . . .  | 17                 | 1,208        | 1,248              | 1,214        | 1,259        |
| - unwinding of discount on liabilities recognised at present value . . . . .  |                    | 23           | 24                 | 3            | 9            |
| - gain on fair value hedges - effective (ii) . . . . .  |                    | (61)         | (171)              | (61)         | (171)        |
| - gain on cash flow hedges - ineffective . . . . .  |                    | (1)          | (4)                | (1)          | (4)          |
| - (gain)/loss on transactions not in a designated hedge relationship (iii) . . . . .  |                    | (77)         | 27                 | (77)         | 27           |
| - (gain)/loss on transactions de-designated from fair value hedge relationships (iii) . . . . .                             |                    | (145)        | 13                 | (145)        | 13           |
| - other . . . . .   |                    | 20           | 21                 | 20           | 19           |
|   |                    | <b>967</b>   | <b>1,158</b>       | <b>953</b>   | <b>1,152</b> |
| <b>Research and development</b>   |                    |              |                    |              |              |
| Research and development expenses . . . . .   |                    | 8            | 9                  | 8            | 9            |

(ii) A combination of the following factors has resulted in a net unrealised gain of \$61 million (2008: \$171 million) on our Australian dollar pay floating interest rate positions relating to the effective component of our fair value hedges:

- An increase in Telstra's long term borrowing margins;
- A reduction in base market rates;
- A reduction in the number of future interest flows as we approach maturity of the financial instrument; and
- Discount factor unwinding as the time to maturity shortens.

It is important to note that our intention is to hold our borrowings and associated derivative instruments to maturity and accordingly revaluation gains and losses will be recognised in our finance costs over the life of the financial instrument and will progressively unwind out to nil at maturity.

Refer to note 18 for further details regarding our hedging strategies.

(iii) We have recorded a gain of \$222 million (2008: \$40 million loss) associated with financial instruments that are either not in a designated hedge relationship or were previously designated in a hedge relationship and no longer qualify for hedge accounting. Notwithstanding that these 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. Refer to note 18 for further details.

The \$222 million gain comprises the following movements:

- The valuation impacts described at (ii) above for fair value hedges;
- The different measurement bases of the borrowings (measured at amortised cost) and the associated derivatives (measured at fair value), resulting in some disparity attributable to the discounting impact of future cash flows in the derivatives; and
- A net loss of \$20 million for the amortisation impact of unwinding previously recognised gains on those borrowings that were de-designated from hedge relationships.

## Notes to the Financial Statements (continued)

### 8. Remuneration of auditors

|   | Telstra Group      |       | Telstra Entity     |       |
|---|--------------------|-------|--------------------|-------|
|   | Year ended 30 June |       | Year ended 30 June |       |
|   | 2009               | 2008  | 2009               | 2008  |
|   | \$m                | \$m   | \$m                | \$m   |
| <b>Audit fees</b>   |                    |       |                    |       |
| Ernst & Young has charged the following amounts for auditing and reviewing the financial reports . . . . .                                | <b>6.672</b>       | 7.367 | <b>5.093</b>       | 5.488 |
| <b>Other services</b>   |                    |       |                    |       |
| In addition to auditing and reviewing the financial reports, other services were provided by Ernst & Young in their own right as follows: |                    |       |                    |       |
| Audit related (a) . . . . .   | <b>2.708</b>       | 1.854 | <b>2.378</b>       | 1.854 |
| Tax (b) . . . . .   | <b>0.129</b>       | 0.105 | <b>0.129</b>       | 0.077 |
| Other services (c). . . . .   | <b>1.389</b>       | 2.223 | <b>1.040</b>       | 0.614 |
| Total other services provided . . . . .   | <b>4.226</b>       | 4.182 | <b>3.547</b>       | 2.545 |

#### Other services

We have processes in place to maintain the independence of the external auditor, including the level of expenditure on non-audit services. Ernst & Young (EY) also has specific internal processes in place to ensure auditor independence.

Fees earned by EY for non-audit services are capped at a maximum of 1.0 times the total audit and audit related fees.

The Audit Committee approve the recurring audit and non-audit fees. The provision of additional audit and non-audit services by EY must be approved by the Chief Financial Officer, if not covered by the Audit Committee approval. The fees approved by the Chief Financial Officer are reviewed by the Audit Committee at each meeting.

(a) Audit related fees charged by EY are for services that are reasonably related to the performance of the audit or review of our financial statements and other assurance engagements. These services include our regulatory audit, additional control assessments around our transformation program, various accounting advice and additional audit services arising on the acquisition of newly acquired controlled entities.

(b) Tax fees charged by EY mainly relates to licence fee and technical services in relation to our tax return software.

(c) Other services relate to all additional services performed by EY, other than those disclosed as auditing and reviewing the financial report, audit related and tax. These services include various reviews and non assurance services across the Group.

## Notes to the Financial Statements (continued)

### 9. Income taxes

|  | Telstra Group |              | Telstra Entity |              |
|--|---------------|--------------|----------------|--------------|
|  | As at 30 June |              | As at 30 June  |              |
|  | 2009          | 2008         | 2009           | 2008         |
|  | \$m           | \$m          | \$m            | \$m          |
| <b>Major components of income tax expense</b>  |               |              |                |              |
| Current tax expense . . . . .  | 1,334         | 1,471        | 1,458          | 1,583        |
| Deferred tax resulting from the origination and reversal of temporary differences . . .                  | 283           | 6            | 242            | 38           |
| Over provision of tax in prior years . . . . .   | (35)          | (48)         | (25)           | (78)         |
|  | <b>1,582</b>  | <b>1,429</b> | <b>1,675</b>   | <b>1,543</b> |
| <b>Notional income tax expense on profit differs from actual income tax expense recorded as follows:</b> |               |              |                |              |
| Profit before income tax expense . . . . .   | 5,658         | 5,140        | 5,650          | 5,360        |
| Notional income tax expense calculated at the Australian tax rate of 30%: . . . . .                      | 1,697         | 1,542        | 1,695          | 1,608        |
| <b>Which is adjusted by the tax effect of:</b>   |               |              |                |              |
| Effect of different rates of tax on overseas income . . . . .  | 12            | (21)         | -              | -            |
| Non assessable and non deductible items . . . . .  | (92)          | (44)         | 5              | 13           |
| Over provision of tax in prior years . . . . .   | (35)          | (48)         | (25)           | (78)         |
| Income tax expense on profit . . . . .   | <b>1,582</b>  | <b>1,429</b> | <b>1,675</b>   | <b>1,543</b> |
| Income tax recognised directly in equity during the year. . . . .  | (230)         | (33)         | (194)          | (74)         |

## Notes to the Financial Statements (continued)

### 9. Income taxes (continued)

|  | Telstra Group  |                | Telstra Entity |                |
|--|----------------|----------------|----------------|----------------|
|  | As at 30 June  |                | As at 30 June  |                |
|  | 2009           | 2008           | 2009           | 2008           |
|  | \$m            | \$m            | \$m            | \$m            |
| <b>Deferred tax asset/(deferred tax liability)</b>                                   |                |                |                |                |
| <b>Deferred tax items recognised in income statement</b>                             |                |                |                |                |
| Property, plant and equipment . . . . .  | (1,745)        | (1,486)        | (1,742)        | (1,510)        |
| Intangible assets . . . . .  | (554)          | (656)          | (464)          | (547)          |
| Borrowings and derivative financial instruments . . . . .                            | (101)          | (24)           | (122)          | (27)           |
| Provision for employee entitlements . . . . .  | 260            | 255            | 243            | 231            |
| Revenue received in advance . . . . .  | 135            | 154            | 28             | 26             |
| Provision for workers' compensation . . . . .  | 51             | 54             | 49             | 52             |
| Allowance for doubtful debts . . . . .   | 70             | 62             | 61             | 52             |
| Defined benefit liability/asset (d) . . . . .  | 99             | 87             | 99             | 89             |
| Trade and other payables . . . . .   | 61             | 107            | 49             | 43             |
| Other provisions . . . . .   | 67             | 90             | 65             | 85             |
| Income tax losses (a) . . . . .  | 84             | 68             | -              | -              |
| Other . . . . .  | 22             | (22)           | 17             | (22)           |
|  | <b>(1,551)</b> | <b>(1,311)</b> | <b>(1,717)</b> | <b>(1,528)</b> |
| <b>Deferred tax items recognised in equity (b)</b>                                   |                |                |                |                |
| Defined benefit liability/asset (d) . . . . .  | 26             | (137)          | 26             | (137)          |
| Derivative financial instruments . . . . .   | (59)           | (126)          | (38)           | (69)           |
|  | <b>(33)</b>    | <b>(263)</b>   | <b>(12)</b>    | <b>(206)</b>   |
| <b>Net deferred tax liability</b> . . . . .  | <b>(1,584)</b> | <b>(1,574)</b> | <b>(1,729)</b> | <b>(1,734)</b> |
| <b>Our net deferred tax liability is split as follows (c):</b>                       |                |                |                |                |
| Deferred tax assets recognised in the statement of financial position . . . . .      | 9              | 1              | -              | -              |
| Deferred tax liabilities recognised in the statement of financial position . . . . . | (1,593)        | (1,575)        | (1,729)        | (1,734)        |
|  | <b>(1,584)</b> | <b>(1,574)</b> | <b>(1,729)</b> | <b>(1,734)</b> |

(a) We have recognised a deferred tax asset for the unused tax losses of our offshore controlled entities to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. We have prepared a management budget in line with our current knowledge of future events to support our view of sufficient future taxable profits being available to offset our unused tax losses.

(b) When the underlying transactions to which our deferred tax relates is recognised directly in equity, the temporary differences associated with these adjustments are also recognised directly in equity.

(c) We are able to offset deferred tax assets and deferred tax liabilities in the statement of financial position when they relate to income taxes levied by the same taxation authority and to the extent we intend to settle our current tax assets and liabilities on a net basis.

Our deferred tax assets and deferred tax liabilities are netted within the Australian tax consolidated group, as these deferred tax balances relate to income taxes levied by the Australian Taxation Office. We do not net deferred tax balances between controlled entities unless they are within the same tax jurisdiction and they are intended to be settled on a net basis.

(d) Our net deferred tax asset on our defined benefit liability for Telstra Group is \$125 million (2008: \$50 million liability) and for Telstra Entity is \$125 million (2008: \$48 million liability).

## Notes to the Financial Statements (continued)

### 9. Income taxes (continued)

|  | Telstra Group |            | Telstra Entity |            |
|--|---------------|------------|----------------|------------|
|  | As at 30 June |            | As at 30 June  |            |
|  | 2009          | 2008       | 2009           | 2008       |
|  | \$m           | \$m        | \$m            | \$m        |
| <b>Deferred tax assets not recognised (e):</b> |               |            |                |            |
| Income tax losses . . . . .                    | 49            | 68         | -              | -          |
| Capital tax losses . . . . .                   | 158           | 154        | 130            | 126        |
| Deductible temporary differences . . . . .     | 449           | 463        | 288            | 268        |
|  | <b>656</b>    | <b>685</b> | <b>418</b>     | <b>394</b> |

(e) Our deferred tax assets not recognised in the statement of financial position may be used in future years if the following criteria are met:

- our controlled entities have sufficient future taxable profit to enable the income tax losses and temporary differences to be offset against that taxable profit;
- the Telstra Entity and our controlled entities have sufficient future capital gains to be offset against those capital losses;
- we continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

As at 30 June 2009, the deferred tax assets not recognised in our statement of financial position are able to be carried forward indefinitely for both our domestic and offshore operations.

#### 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 \$24 million (2008: \$52 million) to the Telstra Entity and amounts payable by the Telstra Entity of \$186 million (2008: \$150 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 |              | Telstra Entity |              |
|--|------|---------------|--------------|----------------|--------------|
|  |      | As at 30 June |              | As at 30 June  |              |
|  |      | 2009<br>\$m   | 2008<br>\$m  | 2009<br>\$m    | 2008<br>\$m  |
| <b>Current</b>   |      |               |              |                |              |
| Trade receivables (a) . . . . .  |      | 3,283         | 3,161        | 2,527          | 2,382        |
| Allowance for doubtful debts (a) . . . . .   |      | (249)         | (221)        | (204)          | (174)        |
|  |      | <b>3,034</b>  | <b>2,940</b> | <b>2,323</b>   | <b>2,208</b> |
| Amounts owed by controlled entities (other than trade receivables) . . . . .         | .29  | -             | -            | 3,168          | 2,659        |
| Allowance for amounts owed by controlled entities (other than trade receivables) .29 |      | -             | -            | (2,487)        | (2,267)      |
|  |      | -             | -            | <b>681</b>     | <b>392</b>   |
| Finance lease receivable (b) . . . . .   |      | 52            | 50           | 52             | 50           |
| Accrued revenue . . . . .  |      | 880           | 878          | 827            | 820          |
| Bank deposits with maturity greater than 90 days . . . . .                           |      | 16            | 20           | -              | -            |
| Other receivables . . . . .  |      | 57            | 64           | 25             | 32           |
|  |      | <b>1,005</b>  | <b>1,012</b> | <b>904</b>     | <b>902</b>   |
|  |      | <b>4,039</b>  | <b>3,952</b> | <b>3,908</b>   | <b>3,502</b> |
| <b>Non current</b>   |      |               |              |                |              |
| Trade receivables (a) . . . . .  |      | 40            | 60           | 40             | 60           |
| Amounts owed by jointly controlled and associated entities . . . . .                 | .29  | 229           | 194          | 191            | 161          |
| Allowance for amounts owed by jointly controlled and associated entities . . . . .   | .29  | (191)         | (161)        | (191)          | (161)        |
|  |      | <b>38</b>     | <b>33</b>    | -              | -            |
| Amounts owed by controlled entities (other than trade receivables) . . . . .         | .29  | -             | -            | 179            | 162          |
| Finance lease receivable (b) . . . . .   |      | 74            | 94           | 74             | 94           |
| Other receivables . . . . .  |      | 11            | 11           | 2              | 2            |
|  |      | <b>85</b>     | <b>105</b>   | <b>76</b>      | <b>96</b>    |
|  |      | <b>163</b>    | <b>198</b>   | <b>295</b>     | <b>318</b>   |

## Notes to the Financial Statements (continued)

### 10. Trade and other receivables (continued)

#### (a) Trade receivables and allowance for doubtful debts

The ageing of current and non-current trade receivables is detailed below:

|                                  | Telstra Group |              |              |              | Telstra Entity |              |              |              |
|----------------------------------|---------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
|                                  | As at 30 June |              |              |              | As at 30 June  |              |              |              |
|                                  | 2009          |              | 2008         |              | 2009           |              | 2008         |              |
|                                  | Gross         | Allowance    | Gross        | Allowance    | Gross          | Allowance    | Gross        | Allowance    |
|                                  | \$m           | \$m          | \$m          | \$m          | \$m            | \$m          | \$m          | \$m          |
| Not past due . . . . .           | 1,792         | (5)          | 1,933        | (4)          | 1,359          | (5)          | 1,461        | (4)          |
| Past due 0 - 30 days . . . . .   | 878           | (2)          | 771          | (7)          | 672            | (2)          | 588          | (7)          |
| Past due 31 - 60 days . . . . .  | 187           | (11)         | 179          | (20)         | 152            | (11)         | 144          | (20)         |
| Past due 61 - 90 days . . . . .  | 99            | (21)         | 79           | (18)         | 81             | (20)         | 61           | (10)         |
| Past due 91 - 120 days . . . . . | 82            | (54)         | 80           | (41)         | 69             | (32)         | 50           | (18)         |
| Past 120 days . . . . .          | 285           | (156)        | 179          | (131)        | 234            | (134)        | 138          | (115)        |
|                                  | <b>3,323</b>  | <b>(249)</b> | <b>3,221</b> | <b>(221)</b> | <b>2,567</b>   | <b>(204)</b> | <b>2,442</b> | <b>(174)</b> |

The movement in the allowance for doubtful debts in respect of trade receivables is detailed below:

|  | Telstra Group      |              | Telstra Entity     |              |
|--|--------------------|--------------|--------------------|--------------|
|  | Year ended 30 June |              | Year ended 30 June |              |
|  | 2009               | 2008         | 2009               | 2008         |
|  | \$m                | \$m          | \$m                | \$m          |
| Opening balance . . . . .  | (221)              | (161)        | (174)              | (126)        |
| - additional allowance . . . . .   | (108)              | (92)         | (91)               | (67)         |
| - addition due to acquisition . . . . .                                      | (1)                | -            | -                  | -            |
| - reduction due to disposal . . . . .  | -                  | 1            | -                  | -            |
| - amounts used . . . . .   | 33                 | 19           | 23                 | 10           |
| - amounts reversed . . . . .   | 50                 | 9            | 45                 | 9            |
| - foreign currency exchange differences . . . . .                            | (2)                | 3            | -                  | -            |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . | -                  | -            | (7)                | -            |
| Closing balance . . . . .  | <b>(249)</b>       | <b>(221)</b> | <b>(204)</b>       | <b>(174)</b> |

Our policy requires customers to pay us in accordance with agreed payment terms. Depending on the customer segment, our settlement terms are generally 14 to 30 days from date of invoice. All credit and recovery risk associated with trade receivables has been provided for in the statement of financial position.

Our trade receivables include our customer deferred debt and White Pages® directory charges. Our customer deferred debt allows eligible post paid mobile customers the opportunity to repay the cost of their mobile handset and approved accessories monthly over 12, 18 or 24 months. The loan is provided interest free to our mobile postpaid customers. Similarly, the White Pages® directory entries can be repaid over 12 months.

Trade receivables have been aged according to their original due date in the above ageing analysis, including where repayment terms for certain long outstanding trade receivables have been renegotiated. For customers with amounts past due in more than one ageing bracket, all debt has been recorded in the oldest ageing category.

We hold security for a number of trade receivables in the form of guarantees, deeds of undertaking, letters of credit and deposits. During fiscal 2009 and 2008, 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 2009, trade receivables with a carrying amount of \$1,287 million (2008: \$1,071 million) for the Telstra Group and \$1,009 million (2008: \$811 million) for the Telstra Entity were past due but not impaired.

These trade receivables, along with our trade receivables that are neither past due nor impaired, comprise customers who have a good debt history and are considered recoverable.

## Notes to the Financial Statements (continued)

### 10. Trade and other receivables (continued)

#### (b) Finance lease receivable

We enter into finance leasing arrangements predominantly for communication assets dedicated to solutions management and outsourcing services that we provide to our customers. The average term of finance leases entered into is between 2 to 5 years (2008: 2 to 5 years).

|   | Telstra Group |      | Telstra Entity |      |
|---|---------------|------|----------------|------|
|   | As at 30 June |      | As at 30 June  |      |
|   | 2009          | 2008 | 2009           | 2008 |
|   | \$m           | \$m  | \$m            | \$m  |
| <b>Amounts receivable under finance leases</b>    |               |      |                |      |
| Within 1 year . . . . .                           | 58            | 63   | 58             | 63   |
| Within 1 to 5 years. . . . .                      | 82            | 95   | 82             | 95   |
| Total minimum lease payments . . . . .            | 140           | 158  | 140            | 158  |
| Less unearned finance income . . . . .            | (14)          | (14) | (14)           | (14) |
| Present value of minimum lease payments . . . . . | 126           | 144  | 126            | 144  |
| <b>Included in the financial statements as:</b>   |               |      |                |      |
| Current finance lease receivables . . . . .       | 52            | 50   | 52             | 50   |
| Non current finance lease receivables. . . . .    | 74            | 94   | 74             | 94   |
|   | 126           | 144  | 126            | 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 6.4% (2008: 8.0%) per annum.

## Notes to the Financial Statements (continued)

### 11. Inventories

|  | Telstra Group |       | Telstra Entity |       |
|--|---------------|-------|----------------|-------|
|  | As at 30 June |       | As at 30 June  |       |
|  | 2009          | 2008  | 2009           | 2008  |
|  | \$m           | \$m   | \$m            | \$m   |
| <b>Current</b>   |               |       |                |       |
| Finished goods recorded at cost . . . . .                          | 145           | 171   | 127            | 147   |
| Finished goods recorded at net realisable value . . . . .          | 61            | 104   | 55             | 93    |
| Total finished goods . . . . .                                     | 206           | 275   | 182            | 240   |
| Raw materials and stores recorded at cost . . . . .                | 12            | 15    | 8              | 5     |
| Construction contracts (a) . . . . .                               | 21            | 19    | 21             | 19    |
|  | 239           | 309   | 211            | 264   |
| <b>Non current</b>   |               |       |                |       |
| Finished goods recorded at net realisable value . . . . .          | 18            | 12    | 18             | 12    |
|  | 18            | 12    | 18             | 12    |
| <b>(a) Construction contract disclosures are shown as follows:</b> |               |       |                |       |
| Contract costs incurred and recognised profits . . . . .           | 217           | 135   | 217            | 135   |
| Progress billings . . . . .  | (196)         | (116) | (196)          | (116) |
|  | 21            | 19    | 21             | 19    |

## Notes to the Financial Statements (continued)

### 12. Investments

|   | Note | Telstra Group |             | Telstra Entity |             |
|---|------|---------------|-------------|----------------|-------------|
|   |      | As at 30 June |             | As at 30 June  |             |
|   |      | 2009<br>\$m   | 2008<br>\$m | 2009<br>\$m    | 2008<br>\$m |
| <b>Investments - accounted for using the equity method</b>              |      |               |             |                |             |
| Investments in jointly controlled entities . . . . .                    |      | 5             | 4           | 3              | 2           |
| Allowance for impairment in value . . . . .                             |      | (2)           | (2)         | (2)            | (2)         |
| Carrying amount of investments in jointly controlled entities . . . . . | .26  | 3             | 2           | 1              | -           |
| Investments in associated entities . . . . .                            |      | 38            | 39          | 15             | 22          |
| Allowance for impairment in value . . . . .                             |      | (25)          | (27)        | (5)            | (10)        |
| Carrying amount of investments in associated entities . . . . .         | .26  | 13            | 12          | 10             | 12          |
|   |      | 16            | 14          | 11             | 12          |
| <b>Investments - other</b>  |      |               |             |                |             |
| Investments in controlled entities . . . . .                            | .25  | -             | -           | 12,718         | 12,648      |
| Allowance for impairment in value . . . . .                             |      | -             | -           | (7,189)        | (7,188)     |
| Total investments in controlled entities . . . . .                      |      | -             | -           | 5,529          | 5,460       |
| Investments in other corporations . . . . .                             |      | 6             | 6           | 6              | 6           |
| Allowance for impairment in value . . . . .                             |      | (6)           | (5)         | (6)            | (5)         |
| Total investments in other corporations . . . . .                       |      | -             | 1           | -              | 1           |
|   |      | -             | 1           | 5,529          | 5,461       |

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment

|  | Telstra Group |          | Telstra Entity |          |
|--|---------------|----------|----------------|----------|
|  | As at 30 June |          | As at 30 June  |          |
|  | 2009          | 2008     | 2009           | 2008     |
|  | \$m           | \$m      | \$m            | \$m      |
| <b>Land and site improvements</b>                              |               |          |                |          |
| At cost . . . . .  | 29            | 31       | 28             | 29       |
| <b>Buildings (including leasehold improvements)</b>            |               |          |                |          |
| At cost . . . . .  | 1,049         | 982      | 889            | 843      |
| Accumulated depreciation/impairment . . . . .                  | (553)         | (498)    | (477)          | (434)    |
|  | 496           | 484      | 412            | 409      |
| <b>Communication assets (including leasehold improvements)</b> |               |          |                |          |
| At cost . . . . .  | 52,616        | 50,592   | 49,703         | 47,898   |
| Accumulated depreciation/impairment . . . . .                  | (30,154)      | (27,743) | (28,584)       | (26,448) |
|  | 22,462        | 22,849   | 21,119         | 21,450   |
| <b>Communication assets under finance lease</b>                |               |          |                |          |
| At cost . . . . .  | 858           | 858      | 858            | 858      |
| Accumulated depreciation/impairment . . . . .                  | (673)         | (627)    | (673)          | (627)    |
|  | 185           | 231      | 185            | 231      |
| <b>Other plant, equipment and motor vehicles</b>               |               |          |                |          |
| At cost . . . . .  | 1,560         | 1,424    | 1,156          | 1,016    |
| Accumulated depreciation/impairment . . . . .                  | (837)         | (708)    | (583)          | (470)    |
|  | 723           | 716      | 573            | 546      |
| <b>Equipment under finance lease</b>                           |               |          |                |          |
| At cost . . . . .  | 17            | 20       | -              | -        |
| Accumulated depreciation/impairment . . . . .                  | (17)          | (20)     | -              | -        |
|  | -             | -        | -              | -        |
| <b>Total property, plant and equipment</b>                     |               |          |                |          |
| At cost . . . . .  | 56,129        | 53,907   | 52,634         | 50,644   |
| Accumulated depreciation/impairment . . . . .                  | (32,234)      | (29,596) | (30,317)       | (27,979) |
|  | 23,895        | 24,311   | 22,317         | 22,665   |

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment (continued)

|   | Note | Telstra Group      |       | Telstra Entity     |       |
|---|------|--------------------|-------|--------------------|-------|
|   |      | Year ended 30 June |       | Year ended 30 June |       |
|   |      | 2009               | 2008  | 2009               | 2008  |
|   |      | \$m                | \$m   | \$m                | \$m   |
| <b>Land and site improvements</b>                   |      |                    |       |                    |       |
| Opening cost  |      | 31                 | 32    | 29                 | 29    |
| - additions   |      | -                  | -     | 1                  | -     |
| - disposals   |      | (2)                | (1)   | (2)                | -     |
| Closing cost  |      | 29                 | 31    | 28                 | 29    |
| <b>Buildings (including leasehold improvements)</b> |      |                    |       |                    |       |
| Opening cost  |      | 982                | 911   | 843                | 803   |
| - additions   |      | 107                | 105   | 92                 | 75    |
| - disposals   |      | (46)               | (39)  | (46)               | (35)  |
| - disposals through sale of a controlled entity     |      | (4)                | -     | -                  | -     |
| - foreign currency exchange differences             |      | 7                  | (14)  | -                  | -     |
| - other   |      | 3                  | 19    | -                  | -     |
| Closing cost  |      | 1,049              | 982   | 889                | 843   |
| Opening accumulated depreciation/impairment         |      | (498)              | (444) | (434)              | (397) |
| - disposals   |      | 39                 | 35    | 39                 | 35    |
| - disposals through sale of a controlled entity     |      | 4                  | -     | -                  | -     |
| - depreciation expense                              | 7    | (93)               | (69)  | (76)               | (59)  |
| - impairment losses                                 | 7    | (4)                | (13)  | (4)                | (13)  |
| - foreign currency exchange differences             |      | (2)                | 8     | -                  | -     |
| - other   |      | 1                  | (15)  | (2)                | -     |
| Closing accumulated depreciation/impairment         |      | (553)              | (498) | (477)              | (434) |
| Closing net book value                              |      | 496                | 484   | 412                | 409   |

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment (continued)

|  | Telstra Group      |             | Telstra Entity     |             |
|--|--------------------|-------------|--------------------|-------------|
|  | Year ended 30 June |             | Year ended 30 June |             |
| Note   | 2009<br>\$m        | 2008<br>\$m | 2009<br>\$m        | 2008<br>\$m |
| <b>Communication assets (including leasehold improvements) (a)</b> |                    |             |                    |             |
| <b>Opening cost</b> . . . . .                                      | <b>50,592</b>      | 49,029      | <b>47,898</b>      | 46,296      |
| - additions . . . . .  | <b>2,863</b>       | 3,057       | <b>2,611</b>       | 2,824       |
| - acquisition through business combinations . . . . .              | <b>3</b>           | -           | -                  | -           |
| - disposals . . . . .  | <b>(1,035)</b>     | (1,237)     | <b>(806)</b>       | (1,222)     |
| - foreign currency exchange differences . . . . .                  | <b>198</b>         | (256)       | -                  | -           |
| - other . . . . .  | <b>(5)</b>         | (1)         | -                  | -           |
| <b>Closing cost</b> . . . . .                                      | <b>52,616</b>      | 50,592      | <b>49,703</b>      | 47,898      |
| <b>Opening accumulated depreciation/impairment</b> . . . . .       | <b>(27,743)</b>    | (25,891)    | <b>(26,448)</b>    | (24,774)    |
| - disposals . . . . .  | <b>1,002</b>       | 1,232       | <b>771</b>         | 1,222       |
| - acquisition through business combinations . . . . .              | <b>(2)</b>         | -           | -                  | -           |
| - depreciation expense . . . . . 7                                 | <b>(3,296)</b>     | (3,203)     | <b>(2,891)</b>     | (2,878)     |
| - impairment losses . . . . . 7                                    | <b>(16)</b>        | (18)        | <b>(16)</b>        | (18)        |
| - foreign currency exchange differences . . . . .                  | <b>(107)</b>       | 130         | -                  | -           |
| - other . . . . .  | <b>8</b>           | 7           | -                  | -           |
| <b>Closing accumulated depreciation/impairment</b> . . . . .       | <b>(30,154)</b>    | (27,743)    | <b>(28,584)</b>    | (26,448)    |
| <b>Closing net book value</b> . . . . .                            | <b>22,462</b>      | 22,849      | <b>21,119</b>      | 21,450      |
| <b>Communication assets under finance lease</b>                    |                    |             |                    |             |
| <b>Opening and closing cost</b> . . . . .                          | <b>858</b>         | 858         | <b>858</b>         | 858         |
| <b>Opening accumulated depreciation/impairment</b> . . . . .       | <b>(627)</b>       | (568)       | <b>(627)</b>       | (568)       |
| - depreciation expense . . . . . 7                                 | <b>(46)</b>        | (59)        | <b>(46)</b>        | (59)        |
| <b>Closing accumulated depreciation/impairment</b> . . . . .       | <b>(673)</b>       | (627)       | <b>(673)</b>       | (627)       |
| <b>Closing net book value</b> . . . . .                            | <b>185</b>         | 231         | <b>185</b>         | 231         |

(a) Includes certain network land and buildings which are essential to the operation of our communication assets.

## Notes to the Financial Statements (continued)

### 13. Property, plant and equipment (continued)

|  | Note | Telstra Group      |       | Telstra Entity     |       |
|--|------|--------------------|-------|--------------------|-------|
|  |      | Year ended 30 June |       | Year ended 30 June |       |
|  |      | 2009               | 2008  | 2009               | 2008  |
|  |      | \$m                | \$m   | \$m                | \$m   |
| <b>Other plant, equipment and motor vehicles</b>                             |      |                    |       |                    |       |
| <b>Opening cost</b> . . . . .  |      | <b>1,424</b>       | 1,395 | <b>1,016</b>       | 928   |
| - additions . . . . .  |      | <b>205</b>         | 227   | <b>170</b>         | 196   |
| - disposals . . . . .  |      | <b>(66)</b>        | (166) | <b>(42)</b>        | (108) |
| - acquisitions through business combinations . . . . .                       |      | <b>3</b>           | 2     | -                  | -     |
| - disposals through sale of a controlled entity . . . . .                    |      | <b>(19)</b>        | -     | -                  | -     |
| - foreign currency exchange differences . . . . .                            |      | <b>8</b>           | (25)  | -                  | -     |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . |      | -                  | -     | <b>12</b>          | -     |
| - other . . . . .  |      | <b>5</b>           | (9)   | -                  | -     |
| <b>Closing cost</b> . . . . .  |      | <b>1,560</b>       | 1,424 | <b>1,156</b>       | 1,016 |
| <b>Opening accumulated depreciation/impairment</b> . . . . .                 |      | <b>(708)</b>       | (717) | <b>(470)</b>       | (454) |
| - disposals . . . . .  |      | <b>63</b>          | 158   | <b>39</b>          | 106   |
| - acquisitions through business combinations . . . . .                       |      | <b>(2)</b>         | -     | -                  | -     |
| - disposals through sale of a controlled entity . . . . .                    |      | <b>12</b>          | -     | -                  | -     |
| - depreciation expense . . . . . 7   |      | <b>(189)</b>       | (155) | <b>(144)</b>       | (110) |
| - impairment losses . . . . . 7  |      | <b>(3)</b>         | (12)  | <b>(3)</b>         | (12)  |
| - foreign currency exchange differences . . . . .                            |      | <b>(8)</b>         | 17    | -                  | -     |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . |      | -                  | -     | <b>(5)</b>         | -     |
| - other . . . . .  |      | <b>(2)</b>         | 1     | -                  | -     |
| <b>Closing accumulated depreciation/impairment</b> . . . . .                 |      | <b>(837)</b>       | (708) | <b>(583)</b>       | (470) |
| <b>Closing net book value</b> . . . . .                                      |      | <b>723</b>         | 716   | <b>573</b>         | 546   |
| <b>Equipment under finance lease</b>   |      |                    |       |                    |       |
| <b>Opening cost</b> . . . . .  |      | <b>20</b>          | 27    | -                  | 2     |
| - disposals . . . . .  |      | <b>(2)</b>         | (6)   | -                  | -     |
| - disposals through sale of a controlled entity . . . . .                    |      | <b>(1)</b>         | -     | -                  | -     |
| - foreign currency exchange differences . . . . .                            |      | -                  | (1)   | -                  | -     |
| - other . . . . .  |      | -                  | -     | -                  | (2)   |
| <b>Closing cost</b> . . . . .  |      | <b>17</b>          | 20    | -                  | -     |
| <b>Opening accumulated depreciation/impairment</b> . . . . .                 |      | <b>(20)</b>        | (25)  | -                  | -     |
| - disposals . . . . .  |      | <b>2</b>           | 5     | -                  | -     |
| - disposals through sale of a controlled entity . . . . .                    |      | <b>1</b>           | -     | -                  | -     |
| <b>Closing accumulated depreciation/impairment</b> . . . . .                 |      | <b>(17)</b>        | (20)  | -                  | -     |
| <b>Closing net book value</b> . . . . .                                      |      | <b>-</b>           | -     | <b>-</b>           | -     |

#### Work in progress

As at 30 June 2009, the Telstra Group has property, plant and equipment under construction amounting to \$1,567 million (2008: \$1,720 million) and the Telstra Entity has property, plant and equipment under construction amounting to \$1,406 million (2008: \$1,519 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  |         | Telstra Entity |         |
|--|----------------|---------|----------------|---------|
|  | As at 30 June  |         | As at 30 June  |         |
|  | 2009           | 2008    | 2009           | 2008    |
|  | \$m            | \$m     | \$m            | \$m     |
| <b>Goodwill</b> . . . . .                                | <b>2,346</b>   | 2,017   | <b>16</b>      | 16      |
| <b>Internally generated intangible assets</b>            |                |         |                |         |
| Software assets developed for internal use (a) . . . . . | <b>6,224</b>   | 5,349   | <b>5,384</b>   | 4,399   |
| Accumulated amortisation . . . . .                       | <b>(2,022)</b> | (1,902) | <b>(1,756)</b> | (1,470) |
|  | <b>4,202</b>   | 3,447   | <b>3,628</b>   | 2,929   |
| <b>Acquired intangible assets</b>                        |                |         |                |         |
| Mastheads (b) . . . . .                                  | <b>337</b>     | 337     | <b>337</b>     | -       |
| Patents and trademarks . . . . .                         | <b>34</b>      | 37      | <b>7</b>       | 7       |
| Accumulated amortisation . . . . .                       | <b>(8)</b>     | (11)    | <b>(7)</b>     | (7)     |
|  | <b>26</b>      | 26      | <b>-</b>       | -       |
| Licences . . . . .                                       | <b>868</b>     | 747     | <b>271</b>     | 266     |
| Accumulated amortisation . . . . .                       | <b>(357)</b>   | (289)   | <b>(186)</b>   | (168)   |
|  | <b>511</b>     | 458     | <b>85</b>      | 98      |
| Customer bases . . . . .                                 | <b>836</b>     | 702     | <b>70</b>      | 70      |
| Accumulated amortisation . . . . .                       | <b>(522)</b>   | (434)   | <b>(70)</b>    | (70)    |
|  | <b>314</b>     | 268     | <b>-</b>       | -       |
| Brandnames . . . . .                                     | <b>265</b>     | 242     | <b>-</b>       | -       |
| Accumulated amortisation . . . . .                       | <b>(90)</b>    | (66)    | <b>-</b>       | -       |
|  | <b>175</b>     | 176     | <b>-</b>       | -       |
| <b>Total acquired intangible assets</b> . . . . .        | <b>1,363</b>   | 1,265   | <b>422</b>     | 98      |
| <b>Deferred expenditure</b>                              |                |         |                |         |
| Deferred expenditure . . . . .                           | <b>1,015</b>   | 2,211   | <b>1,269</b>   | 2,461   |
| Accumulated amortisation . . . . .                       | <b>(510)</b>   | (1,695) | <b>(611)</b>   | (1,766) |
|  | <b>505</b>     | 516     | <b>658</b>     | 695     |
| <b>Total intangible assets</b>                           |                |         |                |         |
| At cost . . . . .  | <b>11,925</b>  | 11,642  | <b>7,354</b>   | 7,219   |
| Accumulated amortisation . . . . .                       | <b>(3,509)</b> | (4,397) | <b>(2,630)</b> | (3,481) |
|  | <b>8,416</b>   | 7,245   | <b>4,724</b>   | 3,738   |

## Notes to the Financial Statements (continued)

### 14. Intangible assets (continued)

|  | Note | Telstra Group |             | Telstra Entity |             |
|--|------|---------------|-------------|----------------|-------------|
|  |      | As at 30 June |             | As at 30 June  |             |
|  |      | 2009<br>\$m   | 2008<br>\$m | 2009<br>\$m    | 2008<br>\$m |
| <b>Goodwill</b>  |      |               |             |                |             |
| Opening cost . . . . .   |      | 2,017         | 2,126       | 16             | 16          |
| - acquisitions through business combinations . . . . .                       |      | 228           | 68          | -              | -           |
| - disposals through sale of a controlled entity . . . . .                    |      | (127)         | (10)        | -              | -           |
| - foreign currency exchange differences . . . . .                            |      | 228           | (167)       | -              | -           |
| Closing cost . . . . .   |      | 2,346         | 2,017       | 16             | 16          |
| <b>Internally generated intangible assets</b>                                |      |               |             |                |             |
| <b>Software assets developed for internal use (a)</b>                        |      |               |             |                |             |
| Opening cost . . . . .   |      | 5,349         | 4,214       | 4,399          | 3,516       |
| - additions . . . . .  |      | 1,402         | 1,499       | 1,180          | 1,224       |
| - disposals . . . . .  |      | (525)         | (333)       | (275)          | (319)       |
| - acquisitions through business combinations . . . . .                       |      | 4             | 12          | -              | -           |
| - disposals through sale of a controlled entity . . . . .                    |      | (7)           | (4)         | -              | -           |
| - impairment losses . . . . . 7  |      | (19)          | (12)        | (19)           | (12)        |
| - foreign currency exchange differences . . . . .                            |      | 16            | (27)        | -              | -           |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . |      | -             | -           | 99             | -           |
| - other . . . . .  |      | 4             | -           | -              | (10)        |
| Closing cost . . . . .   |      | 6,224         | 5,349       | 5,384          | 4,399       |
| Opening accumulated amortisation . . . . .                                   |      | (1,902)       | (1,664)     | (1,470)        | (1,311)     |
| - disposals . . . . .  |      | 523           | 325         | 269            | 310         |
| - disposals through sale of a controlled entity . . . . .                    |      | 1             | 4           | -              | -           |
| - amortisation expense . . . . . 7   |      | (633)         | (584)       | (534)          | (469)       |
| - foreign currency exchange differences . . . . .                            |      | (11)          | 19          | -              | -           |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . |      | -             | -           | (21)           | -           |
| - other . . . . .  |      | -             | (2)         | -              | -           |
| Closing accumulated amortisation . . . . .                                   |      | (2,022)       | (1,902)     | (1,756)        | (1,470)     |
| Closing net book value . . . . .   |      | 4,202         | 3,447       | 3,628          | 2,929       |
| <b>Acquired intangible assets</b>  |      |               |             |                |             |
| <b>Mastheads (b)</b>   |      |               |             |                |             |
| Opening cost . . . . .   |      | 337           | 337         | -              | -           |
| - transfer of Trading Post business to Telstra Corporation Limited . . . . . |      | -             | -           | 337            | -           |
| Closing cost . . . . .   |      | 337           | 337         | 337            | -           |

## Notes to the Financial Statements (continued)

### 14. Intangible assets (continued)

|   | Note | Telstra Group |              | Telstra Entity |              |
|---|------|---------------|--------------|----------------|--------------|
|   |      | As at 30 June |              | As at 30 June  |              |
|   |      | 2009<br>\$m   | 2008<br>\$m  | 2009<br>\$m    | 2008<br>\$m  |
| <b>Patents and trademarks</b>                             |      |               |              |                |              |
| <b>Opening cost</b> . . . . .                             |      | 37            | 34           | 7              | 7            |
| - disposals . . . . .                                     |      | (2)           | -            | -              | -            |
| - acquisitions through business combinations . . . . .    |      | -             | 3            | -              | -            |
| - disposals through sale of a controlled entity . . . . . |      | (1)           | -            | -              | -            |
| <b>Closing cost</b> . . . . .                             |      | <b>34</b>     | <b>37</b>    | <b>7</b>       | <b>7</b>     |
| <b>Opening accumulated amortisation</b> . . . . .         |      | (11)          | (10)         | (7)            | (7)          |
| - disposals . . . . .                                     |      | 2             | -            | -              | -            |
| - disposals through sale of a controlled entity . . . . . |      | 1             | -            | -              | -            |
| - amortisation expense . . . . . 7                        |      | (1)           | (1)          | -              | -            |
| - other . . . . .   |      | 1             | -            | -              | -            |
| <b>Closing accumulated amortisation</b> . . . . .         |      | <b>(8)</b>    | <b>(11)</b>  | <b>(7)</b>     | <b>(7)</b>   |
| <b>Closing net book value</b> . . . . .                   |      | <b>26</b>     | <b>26</b>    | <b>-</b>       | <b>-</b>     |
| <b>Licences</b>   |      |               |              |                |              |
| <b>Opening cost</b> . . . . .                             |      | 747           | 778          | 266            | 266          |
| - additions . . . . .                                     |      | 98            | -            | -              | -            |
| - disposals . . . . .                                     |      | -             | (6)          | -              | -            |
| - acquisitions through business combinations . . . . .    |      | 5             | -            | -              | -            |
| - foreign currency exchange differences . . . . .         |      | 12            | (25)         | -              | -            |
| - other . . . . .   |      | 6             | -            | 5              | -            |
| <b>Closing cost</b> . . . . .                             |      | <b>868</b>    | <b>747</b>   | <b>271</b>     | <b>266</b>   |
| <b>Opening accumulated amortisation</b> . . . . .         |      | (289)         | (240)        | (168)          | (150)        |
| - disposals . . . . .                                     |      | -             | 1            | -              | -            |
| - amortisation expense . . . . . 7                        |      | (60)          | (57)         | (18)           | (18)         |
| - foreign currency exchange differences . . . . .         |      | (5)           | 7            | -              | -            |
| - other . . . . .   |      | (3)           | -            | -              | -            |
| <b>Closing accumulated amortisation</b> . . . . .         |      | <b>(357)</b>  | <b>(289)</b> | <b>(186)</b>   | <b>(168)</b> |
| <b>Closing net book value</b> . . . . .                   |      | <b>511</b>    | <b>458</b>   | <b>85</b>      | <b>98</b>    |

## Notes to the Financial Statements (continued)

### 14. Intangible assets (continued)

|   | Note | Telstra Group |             | Telstra Entity |             |
|---|------|---------------|-------------|----------------|-------------|
|   |      | As at 30 June |             | As at 30 June  |             |
|   |      | 2009<br>\$m   | 2008<br>\$m | 2009<br>\$m    | 2008<br>\$m |
| <b>Customer bases</b>                                     |      |               |             |                |             |
| <b>Opening cost</b> . . . . .                             |      | <b>702</b>    | 774         | <b>70</b>      | 70          |
| - disposals . . . . .                                     |      | (3)           | (7)         | -              | -           |
| - acquisitions through business combinations . . . . .    |      | 147           | 6           | -              | -           |
| - disposals through sale of a controlled entity . . . . . |      | (55)          | -           | -              | -           |
| - foreign currency exchange differences . . . . .         |      | 38            | (73)        | -              | -           |
| - other . . . . .   |      | 7             | 2           | -              | -           |
| <b>Closing cost</b> . . . . .                             |      | <b>836</b>    | 702         | <b>70</b>      | 70          |
| <b>Opening accumulated amortisation</b> . . . . .         |      | <b>(434)</b>  | (438)       | <b>(70)</b>    | (70)        |
| - disposals . . . . .                                     |      | 1             | 2           | -              | -           |
| - disposals through sale of a controlled entity . . . . . |      | 20            | -           | -              | -           |
| - amortisation expense . . . . . 7                        |      | (53)          | (45)        | -              | -           |
| - foreign currency exchange differences . . . . .         |      | (56)          | 47          | -              | -           |
| <b>Closing accumulated amortisation</b> . . . . .         |      | <b>(522)</b>  | (434)       | <b>(70)</b>    | (70)        |
| <b>Closing net book value</b> . . . . .                   |      | <b>314</b>    | 268         | <b>-</b>       | -           |
| <b>Brandnames</b>   |      |               |             |                |             |
| <b>Opening cost</b> . . . . .                             |      | <b>242</b>    | 239         | -              | -           |
| - acquisitions through business combinations . . . . .    |      | -             | 27          | -              | -           |
| - disposals through sale of a controlled entity . . . . . |      | (4)           | -           | -              | -           |
| - foreign currency exchange differences . . . . .         |      | 35            | (24)        | -              | -           |
| - other . . . . .   |      | (8)           | -           | -              | -           |
| <b>Closing cost</b> . . . . .                             |      | <b>265</b>    | 242         | <b>-</b>       | -           |
| <b>Opening accumulated amortisation</b> . . . . .         |      | <b>(66)</b>   | (61)        | -              | -           |
| - disposals through sale of a controlled entity . . . . . |      | 2             | -           | -              | -           |
| - amortisation expense . . . . . 7                        |      | (17)          | (13)        | -              | -           |
| - foreign currency exchange differences . . . . .         |      | (9)           | 8           | -              | -           |
| <b>Closing accumulated amortisation</b> . . . . .         |      | <b>(90)</b>   | (66)        | <b>-</b>       | -           |
| <b>Closing net book value</b> . . . . .                   |      | <b>175</b>    | 176         | <b>-</b>       | -           |

## Notes to the Financial Statements (continued)

### 14. Intangible assets (continued)

|   | Telstra Group  |             | Telstra Entity |             |
|---|----------------|-------------|----------------|-------------|
|   | As at 30 June  |             | As at 30 June  |             |
|   | 2009<br>\$m    | 2008<br>\$m | 2009<br>\$m    | 2008<br>\$m |
| <b>Deferred expenditure (c)</b>                   |                |             |                |             |
| <b>Opening cost</b> . . . . .                     | <b>2,211</b>   | 1,915       | <b>2,461</b>   | 2,165       |
| - additions . . . . .                             | <b>383</b>     | 313         | <b>343</b>     | 313         |
| - amounts written off (d) . . . . .               | <b>(1,572)</b> | (2)         | <b>(1,529)</b> | (2)         |
| - foreign currency exchange movements . . . . .   | -              | 1           | -              | -           |
| - other . . . . .                                 | <b>(7)</b>     | (16)        | <b>(6)</b>     | (15)        |
| <b>Closing cost</b> . . . . .                     | <b>1,015</b>   | 2,211       | <b>1,269</b>   | 2,461       |
| <b>Opening accumulated amortisation</b> . . . . . | <b>(1,695)</b> | (1,365)     | <b>(1,766)</b> | (1,404)     |
| - amortisation expense (e) . . . . .              | <b>(378)</b>   | (330)       | <b>(369)</b>   | (362)       |
| - amounts written off (d) . . . . .               | <b>1,567</b>   | -           | <b>1,527</b>   | -           |
| - other . . . . .                                 | <b>(4)</b>     | -           | <b>(3)</b>     | -           |
| <b>Closing accumulated amortisation</b> . . . . . | <b>(510)</b>   | (1,695)     | <b>(611)</b>   | (1,766)     |
| <b>Closing net book value</b> . . . . .           | <b>505</b>     | 516         | <b>658</b>     | 695         |

(a) As at 30 June 2009, the Telstra Group had software assets under development amounting to \$1,419 million (2008: \$1,602 million) and the Telstra Entity had software assets under development amounting to \$989 million (2008: \$1,258 million). As these assets were not installed and ready for use there is no amortisation being charged on the amounts.

(b) We do not currently amortise the cost of our mastheads as they have been assessed to have an indefinite useful life. Our mastheads were transferred into Telstra Entity during the year as part of the integration of Trading Post operations into Telstra Corporation Limited. Refer to note 21 for further details.

From 1 July 2009 the mastheads have been assigned a finite life and will be amortised from that date.

(c) During fiscal 2005, we entered into an arrangement with our jointly controlled entity, Reach Ltd (Reach), and our co-shareholder PCCW, whereby Reach's international cable capacity was allocated between us and PCCW under an indefeasible right of use (IRU) agreement, including committed capital expenditure for the period until 2022.

The IRU is amortised over the contract periods for the capacity on the various international cable systems, which range from 5 to 22 years. The Telstra Entity has recorded the IRU within deferred expenditure. For the Telstra Group, the IRU is deemed to be an extension of our investment in Reach. The IRU has a carrying value of \$nil in the consolidated financial statements due to the recognition of equity accounted losses in Reach.

(d) Amounts written off in fiscal 2009 mostly relate to the write off of fully written down deferred expenditure.

(e) The majority of the deferred expenditure relates to the deferral of basic access installation costs, which are amortised to goods and services purchased in the income statement.

## Notes to the Financial Statements (continued)

### 15. Trade and other payables

|  | Note | Telstra Group |              | Telstra Entity |              |
|--|------|---------------|--------------|----------------|--------------|
|  |      | As at 30 June |              | As at 30 June  |              |
|  |      | 2009          | 2008         | 2009           | 2008         |
|  |      | \$m           | \$m          | \$m            | \$m          |
| <b>Current</b>   |      |               |              |                |              |
| Trade creditors (a) . . . . .  |      | 811           | 699          | 698            | 595          |
| Accrued expenses . . . . .   |      | 1,556         | 1,698        | 1,225          | 1,339        |
| Accrued capital expenditure . . . . .                                      |      | 652           | 867          | 572            | 773          |
| Accrued interest . . . . .   |      | 305           | 305          | 305            | 305          |
| Deferred consideration for capital expenditure . . . . .                   |      | 90            | 26           | -              | -            |
| Other creditors (a) . . . . .  |      | 320           | 335          | 245            | 253          |
| Amounts owed to controlled entities (other than trade creditors) . . . . . | 29   | -             | -            | 189            | 155          |
|  |      | <b>3,734</b>  | <b>3,930</b> | <b>3,234</b>   | <b>3,420</b> |
| <b>Non current</b>   |      |               |              |                |              |
| Deferred consideration for capital expenditure . . . . .                   |      | 177           | 124          | -              | -            |
| Other creditors . . . . .  |      | 68            | 57           | 53             | 56           |
|  |      | <b>245</b>    | <b>181</b>   | <b>53</b>      | <b>56</b>    |

(a) Trade creditors and other creditors are non interest bearing liabilities. We generally process trade creditor payments once they have reached 30 days from the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

## Notes to the Financial Statements (continued)

### 16. Provisions

|   | Telstra Group |              | Telstra Entity |              |
|---|---------------|--------------|----------------|--------------|
|   | As at 30 June |              | As at 30 June  |              |
|   | 2009          | 2008         | 2009           | 2008         |
|   | \$m           | \$m          | \$m            | \$m          |
| <b>Current</b>  |               |              |                |              |
| Employee benefits (a) . . . . .                       | 298           | 305          | 266            | 256          |
| Workers' compensation (b) . . . . .                   | 29            | 29           | 26             | 27           |
| Restructuring (b) . . . . .                           | 43            | 51           | 43             | 51           |
| Redundancy (a) (b) . . . . .                          | 4             | 10           | 4              | 9            |
| Other (b) . . . . .                                   | 121           | 140          | 81             | 114          |
|   | <b>495</b>    | <b>535</b>   | <b>420</b>     | <b>457</b>   |
| <b>Non current</b>                                    |               |              |                |              |
| Employee benefits (a) . . . . .                       | 565           | 538          | 543            | 514          |
| Workers' compensation (b) . . . . .                   | 140           | 152          | 136            | 148          |
| Restructuring (b) . . . . .                           | 6             | 34           | 6              | 34           |
| Other (b) . . . . .                                   | 50            | 52           | 38             | 43           |
|   | <b>761</b>    | <b>776</b>   | <b>723</b>     | <b>739</b>   |
| <b>(a) Aggregate employee benefits</b>                |               |              |                |              |
| Current provision for employee benefits . . . . .     | 298           | 305          | 266            | 256          |
| Non current provision for employee benefits . . . . . | 565           | 538          | 543            | 514          |
| Current provision for redundancy . . . . .            | 4             | 10           | 4              | 9            |
| Accrued labour and on-costs (i) . . . . .             | 376           | 454          | 306            | 378          |
|   | <b>1,243</b>  | <b>1,307</b> | <b>1,119</b>   | <b>1,157</b> |

(i) Accrued labour and related on-costs are included within our current trade and other payables (refer to note 15).

Provision for employee benefits consist of amounts for annual leave and long service leave accrued by employees.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring this amount:

|   | Telstra Group |      | Telstra Entity |      |
|---|---------------|------|----------------|------|
|   | As at 30 June |      | As at 30 June  |      |
|   | 2009          | 2008 | 2009           | 2008 |
| Weighted average projected increase in salaries, wages and associated on-costs. . . . . | 4.0%          | 4.0% | 4.0%           | 4.0% |
| Discount rates . . . . .  | 5.0%          | 6.1% | 5.0%           | 6.2% |

## Notes to the Financial Statements (continued)

### 16. Provisions (continued)

#### (b) Movement in provisions, other than employee benefits

|  | Telstra Group      |             | Telstra Entity     |             |
|--|--------------------|-------------|--------------------|-------------|
|  | Year ended 30 June |             | Year ended 30 June |             |
|  | 2009<br>\$m        | 2008<br>\$m | 2009<br>\$m        | 2008<br>\$m |
| <b>Workers' compensation (c)</b>                                   |                    |             |                    |             |
| Opening balance  | 181                | 196         | 175                | 191         |
| - additional provisions  | 9                  | 6           | 9                  | 4           |
| - amount used  | (27)               | (28)        | (26)               | (27)        |
| - unwinding of discount on liabilities recognised at present value | 10                 | 10          | 9                  | 10          |
| - effect of any change in the discount rate                        | 9                  | (3)         | 9                  | (3)         |
| - reversal of amounts unused                                       | (13)               | -           | (14)               | -           |
| Closing balance  | 169                | 181         | 162                | 175         |
| <b>Restructuring (c)</b>   |                    |             |                    |             |
| Opening balance  | 85                 | 179         | 85                 | 179         |
| - additional provisions  | -                  | 16          | -                  | 16          |
| - amount used  | (33)               | (83)        | (33)               | (83)        |
| - unwinding of discount on liabilities recognised at present value | 3                  | 6           | 3                  | 6           |
| - reversal of amounts unused                                       | (6)                | (33)        | (6)                | (33)        |
| Closing balance  | 49                 | 85          | 49                 | 85          |
| <b>Redundancy (c)</b>  |                    |             |                    |             |
| Opening balance  | 10                 | 39          | 9                  | 39          |
| - additional provisions  | 10                 | 5           | 4                  | -           |
| - amount used  | (16)               | (30)        | (9)                | (26)        |
| - reversal of amounts unused                                       | -                  | (4)         | -                  | (4)         |
| Closing balance  | 4                  | 10          | 4                  | 9           |
| <b>Other (c)</b>   |                    |             |                    |             |
| Opening balance  | 192                | 159         | 157                | 132         |
| - additional provisions  | 97                 | 135         | 40                 | 109         |
| - amount used  | (104)              | (86)        | (72)               | (77)        |
| - reversal of amounts unused                                       | (9)                | (9)         | (6)                | (6)         |
| - unwinding of discount on liabilities recognised at present value | -                  | 2           | -                  | 2           |
| - disposal of a controlled entity                                  | (1)                | (4)         | -                  | -           |
| - foreign currency exchange differences                            | (4)                | (5)         | -                  | (3)         |
| Closing balance  | 171                | 192         | 119                | 157         |

## Notes to the Financial Statements (continued)

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### 16. Provisions (continued)

#### (c) Information about our provisions, other than provision for employee benefits

##### Workers' compensation

We self insure for our workers' compensation liabilities. We provide for our obligations through an assessment of accidents and estimated claims incurred. The provision is based on a semi-annual actuarial review of our workers' compensation liability. Actual compensation paid may vary where accidents and claims incurred vary from those estimated. The timing of these payments may vary, however the average time payments are expected for is 9 years (2008: 9 years).

Certain controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation.

##### Restructuring and redundancy

A provision exists only for those restructuring and redundancy costs where a detailed formal plan has been approved and we have raised a valid expectation in those affected that the plan will be carried out. Only those costs that are not associated with the ongoing activities of the Company have been included. The costs included in the restructuring and redundancy provision are based on current estimates of the likely amounts to be incurred and include:

- an estimate of the termination benefits that affected employees will be entitled to;
- costs associated with shutting down certain networks, platforms and applications; and
- property rationalisation and other onerous lease costs.

The execution of these detailed formal plans, for which the restructuring provision has been raised, is expected to be completed by fiscal 2011.

##### Other

Other provisions include provision for Reach Ltd's committed capital expenditure, provision for lease incentives, provision for restoration costs, provision for onerous leases and other provisions.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial assets and financial liabilities.

Section (a) includes details on our gearing, interest expense and interest rate yields.

Section (b) sets out the carrying values, fair values and contractual face values of our financial assets and financial liabilities. The amounts provided in this section are prior to netting offsetting risk positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Sections (d) and (e) provides further details on our borrowings and derivative financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 18.

#### (a) Capital management

Our objectives when managing capital are to safeguard the Telstra Group's ability to continue as a going concern and continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During 2009, we paid dividends of \$3,474 million (2008: \$3,476 million). Refer to note 4 for further details.

#### Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

#### Gearing

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial assets (excluding finance lease receivables) and financial liabilities, including derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity as shown in the statement of financial position plus net debt.

During 2009, our strategy was to target the net debt gearing ratio within 55 to 75 percent (2008: 55 to 75 percent). The gearing ratios were as follows:

| Table A                 | Telstra Group |        | Telstra Entity |        |
|-------------------------|---------------|--------|----------------|--------|
|                         | As at 30 June |        | As at 30 June  |        |
|                         | 2009          | 2008   | 2009           | 2008   |
|                         | \$m           | \$m    | \$m            | \$m    |
| Net debt . . . . .      | 15,655        | 15,386 | 16,240         | 15,921 |
| Total equity . . . . .  | 12,681        | 12,245 | 12,339         | 12,245 |
| Total capital . . . . . | 28,336        | 27,631 | 28,579         | 28,166 |
| Gearing ratio . . . . . | 55.2%         | 55.7%  | 56.8%          | 56.5%  |

Net debt included in the table above is based on the carrying values of our financial assets and financial liabilities which are provided in Table C and Table D in the following section (b).

We are not subject to any externally imposed capital requirements.

#### Interest and yields

The effective yield (effective interest rate) on our net debt at 30 June 2009 was 6.67% (2008: 7.72%) for the Telstra Group and 6.47% (2008: 7.59%) for the Telstra Entity. This yield is a weighted average yield calculated on the interest rates and net debt carrying values as at 30 June. It should be noted that these yields are calculated based on interest rates applicable as at balance date.

The average yield on average net debt during the year was 7.14% (2008: 7.31%) for the Telstra Group and 6.97% (2008: 7.22%) for the Telstra Entity.

The net interest on borrowings is shown in Table B below. Where applicable, finance costs are assigned to categories on the basis of the hedged item. Despite an increase in the average volume of debt over the year and higher refinancing yields on new debt raised there has been a year-on-year decrease in net interest on borrowings. This decrease in interest on borrowings arises from a combination of the following factors:

- Reduction in interests costs arising from:
  - a reduction in the average yield on debt; and
  - reductions in short-term market base interest rates during the year which resulted in lower costs on the floating rate debt component of our debt portfolio; offset by
- Increase in interest costs arising from:
  - an increase in the average volume of debt over the period;
  - higher yields driven by an increase in Telstra's borrowing margins which have impacted our refinancing yields; and
  - replacement of short term borrowings with long term debt.

The significant deterioration in global economic conditions during fiscal 2009 resulted in de-leveraging by financial institutions and consequent increases in borrowing margins. This has resulted in higher absolute yields on new debt raisings during the year.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (a) Capital management (continued)

#### Interest and yields (continued)

|   | Note | Telstra Group |              | Telstra Entity |              |
|---|------|---------------|--------------|----------------|--------------|
|   |      | As at 30 June |              | As at 30 June  |              |
|   |      | 2009          | 2008         | 2009           | 2008         |
|   |      | \$m           | \$m          | \$m            | \$m          |
| <b>Interest on borrowings (i)</b>   |      |               |              |                |              |
| <b>Financial instruments in hedge relationships</b>                         |      |               |              |                |              |
| Domestic loans in cash flow hedges (ii)                                     |      | 19            | 19           | 19             | 19           |
| Offshore loans in cash flow hedges (ii)                                     |      | 416           | 433          | 416            | 433          |
| Offshore loans in fair value hedges (ii)                                    |      | 246           | 254          | 246            | 254          |
| Promissory notes in fair value hedges (ii)                                  |      | 66            | 110          | 66             | 110          |
| Derivatives and borrowings hedging net foreign investments (ii)             |      | 12            | 13           | 12             | 13           |
| <b>Available for sale</b>   |      |               |              |                |              |
| Promissory notes  |      | 20            | 31           | 20             | 31           |
| <b>Other financial instruments</b>  |      |               |              |                |              |
| Offshore loans not in a hedge relationships (ii), (iii)                     |      | 67            | 20           | 67             | 20           |
| Offshore loans de-designated from fair value hedge relationships (ii), (iv) |      | 88            | 108          | 88             | 108          |
| Telstra bonds and domestic loans  |      | 262           | 247          | 262            | 247          |
| Loans from controlled entities  | 29   | -             | -            | 11             | 15           |
| Other   |      | 3             | 2            | 1              | 2            |
| Finance leases  |      | 9             | 11           | 6              | 7            |
|   |      | <b>1,208</b>  | <b>1,248</b> | <b>1,214</b>   | <b>1,259</b> |
| <b>Finance income on net debt</b>   |      |               |              |                |              |
| Cash and cash equivalents   |      | 57            | 60           | 50             | 47           |
| Loans to controlled entities  | 29   | -             | -            | 1              | 1            |
|   |      | <b>57</b>     | <b>60</b>    | <b>51</b>      | <b>48</b>    |
| <b>Net interest on net debt</b>   |      | <b>1,151</b>  | <b>1,188</b> | <b>1,163</b>   | <b>1,211</b> |

(i) The interest expense as shown in Table B 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 hedging instruments.

(iii) Offshore loans not in a designated hedge relationship comprises a Euro bond issue entered into in fiscal 2008 and two offshore variable rate syndicated loans denominated in Australian dollars entered into during May 2009.

(iv) A number of offshore borrowings which were in fair value hedges were de-designated from the hedge relationship for hedge accounting purposes. These borrowings comprise a United States dollar denominated borrowing de-designated as at 1 January 2009 and a number of borrowings de-designated in prior financial years denominated in Euro and British pounds sterling. These borrowings are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. Refer to note 18 for further details.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (b) Financial assets and financial liabilities

The carrying amounts, fair values and face values of our financial assets and financial liabilities for each category of financial instrument are shown in Table C and Table D below. The amounts disclosed are prior to netting offsetting risk positions of financial assets and financial liabilities in a hedge relationship.

We also have potential financial liabilities not included in the tables below which may arise from certain contingencies disclosed in note 23. However, we do not expect those potential liabilities to crystallise into obligations.

Unless there is evidence to suggest otherwise, the nominal value of financial assets and financial liabilities, less any adjustments for impairment, with a short-term to maturity are considered to approximate net fair value.

For interest bearing financial instruments we adopt a 'clean price' whereby the reported balance of our borrowings and derivative instruments excludes accrued interest. Accrued interest is recorded in current 'trade and other receivables' and current 'trade and other payables' in the statement of financial position.

Revaluation gains or losses on financial instruments in fair value hedges is included in the fair value hedge result within finance costs (refer to note 7). The effective portion of revaluation gains and losses on financial instruments in cash flow hedges are included in equity in the cash flow hedging reserve, with the ineffective portion taken to the income statement.

The carrying value of our financial assets and financial liabilities reflects a mixed measurement basis. Financial instruments are carried at cost or amortised cost except for derivative financial instruments which are carried at fair value and non-derivative financial instruments in a fair value hedge relationship which are adjusted for fair value movements attributable to the hedged risk. Refer to note 2.15, 2.22 and 2.23 for further information regarding our accounting policy.

We have revised the definition of our net debt to exclude interest bearing receivables which are non-derivative financial instruments comprising finance lease debtors and amounts owed by controlled entities. This results in better alignment of our net debt reporting with our cash flow reporting of financing activities. Our comparatives have been restated to reflect this change.

As shown in the following tables, the carrying and fair value amount of net debt is lower than that based on contractual face values. This is primarily due to the impact of revaluation gains on our debt portfolio as a result of having locked in lower debt margins on our borrowings as compared to market rates applicable as at 30 June.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (b) Financial assets and financial liabilities (continued)

| Table C  | Telstra Group          |                 |                 | Telstra Group          |                 |                 |
|--|------------------------|-----------------|-----------------|------------------------|-----------------|-----------------|
|  | As at 30 June 2009     |                 |                 | As at 30 June 2008     |                 |                 |
|  | Carrying amount        | Fair value      | Face value      | Carrying amount        | Fair value      | Face value      |
|  | Receivable / (Payable) |                 |                 | Receivable / (Payable) |                 |                 |
|  | \$m                    | \$m             | \$m             | \$m                    | \$m             | \$m             |
| <b>Financial instruments included in net debt</b>                    |                        |                 |                 |                        |                 |                 |
| Cash at bank and on hand . . . . .                                   | 462                    | 462             | 462             | 426                    | 426             | 426             |
| <b>Available for sale - at fair value</b>                            |                        |                 |                 |                        |                 |                 |
| Bank deposits, bills of exchange and promissory notes . . . . .      | 935                    | 935             | 941             | 493                    | 493             | 494             |
| <b>In designated hedge relationships - at fair value</b>             |                        |                 |                 |                        |                 |                 |
| Cross currency swap receivable - hedging instrument . . . . .        | 572                    | 572             | 490             | 117                    | 117             | 119             |
| Cross currency swap payable - hedging instrument . . . . .           | (597)                  | (597)           | (624)           | (840)                  | (840)           | (874)           |
| Interest rate swap receivable - hedging instrument . . . . .         | 407                    | 407             | -               | 347                    | 347             | -               |
| Interest rate swap payable - hedging instrument . . . . .            | (186)                  | (186)           | -               | (183)                  | (183)           | -               |
| Forward contract asset - hedging instrument . . . . .                | 1                      | 1               | 1               | 1                      | 1               | 1               |
| Forward contract liability - hedging instrument . . . . .            | (83)                   | (83)            | (95)            | (26)                   | (26)            | (34)            |
| Promissory notes - hedged item . . . . .                             | (15)                   | (15)            | (16)            | (929)                  | (932)           | (935)           |
| Offshore loans - hedged item . . . . .                               | (3,924)                | (3,944)         | (3,849)         | (2,932)                | (2,960)         | (3,020)         |
| <b>In designated hedge relationships - at amortised cost</b>         |                        |                 |                 |                        |                 |                 |
| Offshore loans - hedged item . . . . .                               | (5,452)                | (5,544)         | (5,468)         | (4,866)                | (4,601)         | (4,887)         |
| Telstra bonds and domestic loans - hedged item . . . . .             | (273)                  | (244)           | (275)           | (274)                  | (257)           | (275)           |
| Promissory notes - hedging instrument . . . . .                      | (284)                  | (284)           | (287)           | (320)                  | (325)           | (328)           |
| Offshore loans - hedging instrument . . . . .                        | (202)                  | (202)           | (205)           | (158)                  | (147)           | (158)           |
| <b>Not in designated hedge relationship - at fair value</b>          |                        |                 |                 |                        |                 |                 |
| Forward contract liability . . . . .                                 | (3)                    | (3)             | (3)             | (10)                   | (10)            | (12)            |
| Forward contract asset . . . . .                                     | 4                      | 4               | 4               | -                      | -               | -               |
| Cross currency swap payable . . . . .                                | (61)                   | (61)            | (85)            | (112)                  | (112)           | (120)           |
| Cross currency swap receivable . . . . .                             | 129                    | 129             | 103             | 33                     | 33              | 39              |
| Interest rate swap receivable . . . . .                              | 88                     | 88              | -               | -                      | -               | -               |
| Interest rate swap payable . . . . .                                 | -                      | -               | -               | (133)                  | (133)           | -               |
| <b>De-designated from hedge relationship - at amortised cost</b>     |                        |                 |                 |                        |                 |                 |
| Offshore loans . . . . .   | (1,438)                | (1,544)         | (1,576)         | (1,174)                | (1,163)         | (1,323)         |
| <b>Other financial liabilities - at amortised cost</b>               |                        |                 |                 |                        |                 |                 |
| Finance lease payable . . . . .                                      | (95)                   | (95)            | (128)           | (107)                  | (107)           | (145)           |
| Promissory notes . . . . .   | -                      | -               | -               | (203)                  | (205)           | (207)           |
| Offshore loans (i) . . . . .   | (1,133)                | (1,196)         | (1,142)         | (815)                  | (805)           | (820)           |
| Telstra bonds and domestic loans . . . . .                           | (4,507)                | (4,405)         | (4,534)         | (3,721)                | (3,514)         | (3,749)         |
| <b>Telstra Group net debt</b> . . . . .                              | <b>(15,655)</b>        | <b>(15,805)</b> | <b>(16,286)</b> | <b>(15,386)</b>        | <b>(14,903)</b> | <b>(15,808)</b> |
| <b>Other financial instruments</b>                                   |                        |                 |                 |                        |                 |                 |
| <b>Loans and receivables</b>   |                        |                 |                 |                        |                 |                 |
| Finance lease receivable . . . . .                                   | 126                    | 126             | 140             | 144                    | 144             | 158             |
| Trade/other receivables and accrued revenue . . . . .                | 4,022                  | 4,022           | 4,271           | 3,953                  | 3,953           | 4,174           |
| Amounts owed by jointly controlled and associated entities . . . . . | 38                     | 38              | 229             | 33                     | 33              | 194             |
| <b>Financial liabilities at amortised cost</b>                       |                        |                 |                 |                        |                 |                 |
| Trade/other creditors and accrued expenses . . . . .                 | (3,712)                | (3,712)         | (3,712)         | (3,961)                | (3,961)         | (3,961)         |
| Deferred consideration for capital expenditure . . . . .             | (267)                  | (267)           | (400)           | (150)                  | (150)           | (259)           |
| <b>Net financial liabilities</b> . . . . .                           | <b>(15,448)</b>        | <b>(15,598)</b> | <b>(15,758)</b> | <b>(15,367)</b>        | <b>(14,884)</b> | <b>(15,502)</b> |
| Total financial assets . . . . .                                     | 6,784                  | 6,784           | 6,641           | 5,547                  | 5,547           | 5,605           |
| Total financial liabilities . . . . .                                | (22,232)               | (22,382)        | (22,399)        | (20,914)               | (20,431)        | (21,107)        |
| <b>Net financial liabilities</b> . . . . .                           | <b>(15,448)</b>        | <b>(15,598)</b> | <b>(15,758)</b> | <b>(15,367)</b>        | <b>(14,884)</b> | <b>(15,502)</b> |

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (b) Financial assets and financial liabilities (continued)

|   | Telstra Entity         |                 |                 | Telstra Entity         |                 |                 |
|---|------------------------|-----------------|-----------------|------------------------|-----------------|-----------------|
|   | As at 30 June 2009     |                 |                 | As at 30 June 2008     |                 |                 |
|   | Carrying amount        | Fair value      | Face value      | Carrying amount        | Fair value      | Face value      |
|   | Receivable / (Payable) |                 |                 | Receivable / (Payable) |                 |                 |
|   | \$m                    | \$m             | \$m             | \$m                    | \$m             | \$m             |
| <b>Financial instruments included in net debt</b>                           |                        |                 |                 |                        |                 |                 |
| Cash at bank and on hand . . . . .  | 105                    | 105             | 105             | 84                     | 84              | 84              |
| <b>Available for sale - at fair value</b>                                   |                        |                 |                 |                        |                 |                 |
| Bank deposits, bills of exchange and promissory notes . . . . .             | 911                    | 911             | 917             | 458                    | 458             | 459             |
| <b>In designated hedge relationships - at fair value</b>                    |                        |                 |                 |                        |                 |                 |
| Cross currency swap receivable - hedging instrument . . . . .               | 572                    | 572             | 490             | 117                    | 117             | 119             |
| Cross currency swap payable - hedging instrument . . . . .                  | (597)                  | (597)           | (624)           | (840)                  | (840)           | (874)           |
| Interest rate swap receivable - hedging instrument . . . . .                | 407                    | 407             | -               | 347                    | 347             | -               |
| Interest rate swap payable - hedging instrument . . . . .                   | (186)                  | (186)           | -               | (183)                  | (183)           | -               |
| Forward contract asset - hedging instrument . . . . .                       | 1                      | 1               | 1               | 1                      | 1               | 1               |
| Forward contract liability - hedging instrument . . . . .                   | (83)                   | (83)            | (95)            | (26)                   | (26)            | (34)            |
| Promissory notes - hedged item . . . . .                                    | (15)                   | (15)            | (16)            | (929)                  | (932)           | (935)           |
| Offshore loans - hedged item . . . . .                                      | (3,924)                | (3,944)         | (3,849)         | (2,932)                | (2,960)         | (3,020)         |
| <b>In designated hedge relationship - at amortised cost</b>                 |                        |                 |                 |                        |                 |                 |
| Offshore loans - hedged item . . . . .                                      | (5,452)                | (5,544)         | (5,468)         | (4,866)                | (4,601)         | (4,887)         |
| Telstra bonds and domestic loans - hedged item . . . . .                    | (273)                  | (244)           | (275)           | (274)                  | (257)           | (275)           |
| Promissory notes - hedging instrument . . . . .                             | (284)                  | (284)           | (287)           | (320)                  | (325)           | (328)           |
| Offshore loans - hedging instrument . . . . .                               | (202)                  | (202)           | (205)           | (158)                  | (147)           | (158)           |
| <b>Not in designated hedge relationship - at fair value</b>                 |                        |                 |                 |                        |                 |                 |
| Forward contract liability . . . . .  | (3)                    | (3)             | (3)             | (10)                   | (10)            | (12)            |
| Forward contract asset . . . . .  | 4                      | 4               | 4               | -                      | -               | -               |
| Cross currency swap payable . . . . .                                       | (61)                   | (61)            | (85)            | (112)                  | (112)           | (120)           |
| Cross currency swap receivable . . . . .                                    | 129                    | 129             | 103             | 33                     | 33              | 39              |
| Interest rate swap receivable . . . . .                                     | 88                     | 88              | -               | -                      | -               | -               |
| Interest rate swap payable . . . . .  | -                      | -               | -               | (133)                  | (133)           | -               |
| <b>Borrowings de-designated from hedge relationship - at amortised cost</b> |                        |                 |                 |                        |                 |                 |
| Offshore loans . . . . .  | (1,438)                | (1,544)         | (1,576)         | (1,174)                | (1,163)         | (1,323)         |
| <b>Other financial liabilities at amortised cost</b>                        |                        |                 |                 |                        |                 |                 |
| Finance lease payable . . . . .   | (70)                   | (70)            | (77)            | (81)                   | (81)            | (90)            |
| Promissory notes . . . . .  | -                      | -               | -               | (203)                  | (205)           | (207)           |
| Offshore loans (i) . . . . .  | (1,133)                | (1,196)         | (1,142)         | (815)                  | (805)           | (820)           |
| Loans from controlled entities - interest bearing . . . . .                 | (229)                  | (229)           | (229)           | (184)                  | (184)           | (184)           |
| Telstra bonds and domestic loans . . . . .                                  | (4,507)                | (4,405)         | (4,534)         | (3,721)                | (3,514)         | (3,749)         |
| <b>Telstra Entity net debt</b> . . . . .                                    | <b>(16,240)</b>        | <b>(16,390)</b> | <b>(16,845)</b> | <b>(15,921)</b>        | <b>(15,438)</b> | <b>(16,314)</b> |
| <b>Other financial instruments</b>  |                        |                 |                 |                        |                 |                 |
| <b>Loans and receivables</b>  |                        |                 |                 |                        |                 |                 |
| Finance lease receivable . . . . .  | 126                    | 126             | 140             | 144                    | 144             | 158             |
| Trade/other receivables and accrued revenue . . . . .                       | 3,217                  | 3,217           | 3,421           | 3,122                  | 3,122           | 3,296           |
| Amounts owed by jointly controlled and associated entities . . . . .        | -                      | -               | 191             | -                      | -               | 161             |
| Amounts owed by controlled entities - non interest bearing . . . . .        | 860                    | 860             | 3,347           | 554                    | 554             | 2,821           |
| <b>Financial liabilities at amortised cost</b>                              |                        |                 |                 |                        |                 |                 |
| Trade/other creditors and accrued expenses . . . . .                        | (3,098)                | (3,098)         | (3,098)         | (3,321)                | (3,321)         | (3,321)         |
| Loans from controlled entities - non interest bearing . . . . .             | (877)                  | (877)           | (877)           | (246)                  | (246)           | (246)           |
| Amounts owed to controlled entities - non interest bearing . . . . .        | (189)                  | (189)           | (189)           | (155)                  | (155)           | (155)           |
| <b>Net financial liabilities</b> . . . . .                                  | <b>(16,201)</b>        | <b>(16,351)</b> | <b>(13,910)</b> | <b>(15,823)</b>        | <b>(15,340)</b> | <b>(13,600)</b> |
| Total financial assets . . . . .  | 6,420                  | 6,420           | 8,719           | 4,860                  | 4,860           | 7,138           |
| Total financial liabilities . . . . .                                       | (22,621)               | (22,771)        | (22,629)        | (20,683)               | (20,200)        | (20,738)        |
| <b>Net financial liabilities</b> . . . . .                                  | <b>(16,201)</b>        | <b>(16,351)</b> | <b>(13,910)</b> | <b>(15,823)</b>        | <b>(15,340)</b> | <b>(13,600)</b> |

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (b) Financial assets and financial liabilities (continued)

(i) This includes our Euro bond issue in fiscal 2008 not in a designated hedge relationship and two offshore syndicated loans entered into during fiscal 2009 denominated in Australian dollars.

The increase in the carrying amount (including net cash inflow) of our net debt during the year of \$269 million for the Telstra Group (30 June 2008: \$663 million) is represented by the movements shown in Table E below:

**Table E: Movements in Net Debt**

|   | Telstra Group      |                |
|---|--------------------|----------------|
|   | Year ended 30 June |                |
|   | 2009               | 2008           |
|   | \$m                | \$m            |
| New offshore and domestic loans . . . . .                                       | (2,627)            | (2,474)        |
| Net short term borrowing maturities/(borrowings) . . . . .                      | 1,186              | (49)           |
| Net offshore and domestic loan maturities . . . . .                             | 611                | 1,422          |
| Finance lease repayments. . . . .   | 36                 | 42             |
| <b>Net cash inflow</b> . . . . .  | <b>(794)</b>       | <b>(1,059)</b> |
| Revaluations affecting cash flow hedging reserve . . . . .                      | (103)              | 180            |
| Revaluations affecting foreign currency translation hedging reserve . . . . .   | (84)               | 100            |
| Finance lease additions . . . . .   | (24)               | (31)           |
| Revaluation gains / (losses) affecting other expenses in income statement . . . | 11                 | (37)           |
| Revaluation gains affecting finance costs in income statement (i) . . . . .     | 243                | 108            |
|   | 43                 | 320            |
| <b>Total movements in gross debt</b> . . . . .                                  | <b>(751)</b>       | <b>(739)</b>   |
| Net movement in cash and cash equivalents . . . . .                             | 482                | 76             |
| <b>Total movements in net debt</b> . . . . .                                    | <b>(269)</b>       | <b>(663)</b>   |

(i) The revaluation gains affecting finance costs includes \$61 million (2008: \$171 million) of gains from fair value hedges, as well as \$222 million (2008: \$40 million loss) from transactions either not designated or de-designated from hedge relationships (refer to note 7 for further detail). These amounts are offset by \$40 million (2008: \$23 million) largely comprising amortisation of discounts (recorded in interest on borrowings in note 7) and other adjustments.

As a result of the global financial market pressures during fiscal 2009 and our decision to reduce short term borrowings with long term debt, we have entered into the following new long term debt funding during the year:

- \$251 million 2 year Euro bond in July 2008;
- \$433 million 3 year domestic syndicated loans in September 2008;
- \$320 million 5 year Swiss Franc bond in October 2008;
- \$46 million 6 year New Zealand bond issue in October 2008;
- \$293 million 7.5 year Japanese Yen bond in November 2008;
- \$846 million 3 year domestic syndicated loan in January 2009;
- \$160 million 5 year offshore syndicated loan (denominated in Australian Dollars) in May 2009; and
- \$278 million 3 year offshore syndicated loans (denominated in United States Dollars and Australian Dollars) in May 2009.

These term borrowings, which total \$2,627 million have enabled us to replace the majority of our short term funding comprising unsecured promissory notes and have strengthened our refinancing situation. Our unsecured promissory notes are used principally to support working capital and short term liquidity, as well as hedging certain offshore investments.

We have no further long term debt maturities to refinance until March 2010 and June 2010, and our short term unsecured promissory notes will continue to be supported by liquid financial assets and ongoing credit standby lines.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (c) Net position on a contractual face value basis

The amounts disclosed in Table F represent the net contractual face values of our financial assets and financial liabilities on a post hedge basis. The objective of this table is to represent our economic residual position after netting offsetting risks of our derivative and non-derivative financial instruments in a hedge relationship.

Accordingly, consistent with our policy to swap foreign currency borrowings into Australian dollars, only our Australian dollar end positions are included in the table below, except for a small proportion of foreign currency borrowings / cross currency swaps used to hedge translation foreign exchange risk associated with our offshore investments and some cash balances / 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 F agrees to the face value of our financial assets and financial liabilities included in net debt in Table C and Table D. The face values of our financial instruments in a hedge relationship included in the table below represents the end hedge position as described in our hedge relationships in note 18. 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.

**Table F**

|  |          |                    | Telstra Group   |                 | Telstra Entity  |                 |
|--|----------|--------------------|-----------------|-----------------|-----------------|-----------------|
|  |          |                    | As at 30 June   |                 | As at 30 June   |                 |
|  |          |                    | Face values     |                 | Face values     |                 |
|  |          |                    | 2009            | 2008            | 2009            | 2008            |
|  |          |                    | \$m             | \$m             | \$m             | \$m             |
|  |          | Currency           |                 |                 |                 |                 |
| <b>Interest bearing financial assets included in net debt</b>      |          |                    |                 |                 |                 |                 |
| Cash and cash equivalents  | Floating | Australian dollar  | 970             | 527             | 953             | 482             |
| Cash and cash equivalents held in foreign currencies               | Floating | Various            | 334             | 312             | -               | -               |
| Bank deposits with maturity greater than 90 days                   | Floating | Chinese renminbi   | 16              | 20              | -               | -               |
| Forward contract asset   | Floating | Australian dollar  | 940             | 421             | 940             | 421             |
|  |          |                    | <b>2,260</b>    | <b>1,280</b>    | <b>1,893</b>    | <b>903</b>      |
| <b>Interest bearing financial liabilities included in net debt</b> |          |                    |                 |                 |                 |                 |
| Cross currency & interest rate swap payable                        | Fixed    | Australian dollar  | (6,020)         | (5,672)         | (6,020)         | (5,672)         |
| Cross currency swap payable  | Floating | Australian dollar  | (5,467)         | (4,930)         | (5,467)         | (4,930)         |
| Cross currency swap payable (i)                                    | Floating | Hong Kong dollar   | (668)           | (559)           | (668)           | (559)           |
| Promissory notes   | Floating | Australian dollar  | -               | (207)           | -               | (207)           |
| Finance lease payable  | Fixed    | Australian dollar  | (77)            | (90)            | (77)            | (90)            |
| Finance lease payable  | Fixed    | Foreign            | (51)            | (55)            | -               | -               |
| Loans from wholly owned controlled entities                        | Floating | Foreign            | -               | -               | (221)           | (176)           |
| Loans from wholly owned controlled entities                        | Floating | Australian dollar  | -               | -               | (8)             | (8)             |
| Telstra bonds and domestic loans                                   | Floating | Australian dollar  | (2,785)         | (1,500)         | (2,785)         | (1,500)         |
| Telstra bonds and domestic loans                                   | Fixed    | Australian dollar  | (1,749)         | (2,249)         | (1,749)         | (2,249)         |
| Forward contract liability   | Floating | Australian dollar  | (1,049)         | (1,400)         | (1,049)         | (1,400)         |
| Offshore loans   | Floating | Australian dollar  | (272)           | -               | (272)           | -               |
| Offshore loans (i)   | Fixed    | New Zealand dollar | (205)           | (158)           | (205)           | (158)           |
| Promissory notes (i)   | Floating | New Zealand dollar | (287)           | (328)           | (287)           | (328)           |
|  |          |                    | <b>(18,630)</b> | <b>(17,148)</b> | <b>(18,808)</b> | <b>(17,277)</b> |
| Net interest bearing debt  |          |                    | <b>(16,370)</b> | <b>(15,868)</b> | <b>(16,915)</b> | <b>(16,374)</b> |
| Non-interest bearing cash included in net debt                     |          | Various            | 84              | 60              | 70              | 60              |
| <b>Net debt - based on contractual face values</b>                 |          |                    | <b>(16,286)</b> | <b>(15,808)</b> | <b>(16,845)</b> | <b>(16,314)</b> |

(i) Used to hedge net foreign investments.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (d) Borrowings

Our borrowings are unsecured, except for finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us. We have no assets pledged as security for our borrowings.

The carrying value of our current and non-current borrowings are shown in Table G below. All our borrowings are interest bearing, except for some loans from wholly owned controlled entities. Details of interest rates and maturity profiles are included in note 18.

|   | Note  | Telstra Group |               | Telstra Entity |               |
|---|-------|---------------|---------------|----------------|---------------|
|   |       | As at 30 June |               | As at 30 June  |               |
|   |       | 2009<br>\$m   | 2008<br>\$m   | 2009<br>\$m    | 2008<br>\$m   |
| <b>Current</b>  |       |               |               |                |               |
| <b>Short term debt</b>  |       |               |               |                |               |
| Promissory notes (i) . . . . .  |       | 299           | 1,452         | 299            | 1,452         |
| Loans from wholly owned controlled entities . . . . .                             | 29    | -             | -             | 1,106          | 430           |
|   |       | <b>299</b>    | <b>1,452</b>  | <b>1,405</b>   | <b>1,882</b>  |
| <b>Long term debt - current portion</b>   |       |               |               |                |               |
| Telstra bonds . . . . .   |       | 500           | 500           | 500            | 500           |
| Offshore loans (ii) . . . . .   |       | 1,149         | 69            | 1,149          | 69            |
| Finance leases . . . . .  | 22    | 31            | 34            | 30             | 33            |
|   |       | <b>1,680</b>  | <b>603</b>    | <b>1,679</b>   | <b>602</b>    |
|   |       | <b>1,979</b>  | <b>2,055</b>  | <b>3,084</b>   | <b>2,484</b>  |
| <b>Non current</b>  |       |               |               |                |               |
| <b>Long term debt</b>   |       |               |               |                |               |
| Telstra bonds and domestic loans (iii) . . . . .                                  |       | 4,280         | 3,495         | 4,280          | 3,495         |
| Offshore loans (ii) . . . . .   |       | 11,000        | 9,876         | 11,000         | 9,876         |
| Finance leases . . . . .  | 22    | 64            | 73            | 40             | 48            |
|   |       | <b>15,344</b> | <b>13,444</b> | <b>15,320</b>  | <b>13,419</b> |
|   |       | <b>17,323</b> | <b>15,499</b> | <b>18,404</b>  | <b>15,903</b> |
| Short term debt . . . . .   |       | 299           | 1,452         | 1,405          | 1,882         |
| Long term debt (including current portion) . . . . .                              |       | 17,024        | 14,047        | 16,999         | 14,021        |
| <b>Total debt</b> . . . . .   |       | <b>17,323</b> | <b>15,499</b> | <b>18,404</b>  | <b>15,903</b> |
| Net derivative financial instruments (receivable) / payable . . . . .             | 17(e) | (271)         | 806           | (271)          | 806           |
| Bank deposits with maturity greater than 90 days . . . . .                        | 10    | (16)          | (20)          | -              | -             |
| Less loans from wholly owned controlled entities - non-interest bearing . . . . . |       | -             | -             | (877)          | (246)         |
| <b>Gross debt</b> . . . . .   |       | <b>17,036</b> | <b>16,285</b> | <b>17,256</b>  | <b>16,463</b> |
| Cash and cash equivalents . . . . .   | 20    | 1,381         | 899           | 1,016          | 542           |
| <b>Net debt</b> . . . . .   |       | <b>15,655</b> | <b>15,386</b> | <b>16,240</b>  | <b>15,921</b> |

#### (i) Promissory notes

We have on issue at 30 June 2009 promissory notes of \$299 million (2008: \$1,452 million) to financial institutions comprising \$284 million with an original maturity of less than 90 days and \$15 million with an original maturity of one year. At 30 June 2009, \$284 million (2008: \$1,452 million) of the promissory notes mature in less than three months and \$15 million (2008: nil) of the promissory notes mature in less than four months.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (d) Borrowings (continued)

##### (ii) Offshore loans

Offshore loans comprise debt raised overseas. The carrying amounts of offshore loans are denominated in the following currencies:

| Table H                    | Telstra Group |              | Telstra Entity |              |
|----------------------------|---------------|--------------|----------------|--------------|
|                            | As at 30 June |              | As at 30 June  |              |
|                            | 2009          | 2008         | 2009           | 2008         |
|                            | \$m           | \$m          | \$m            | \$m          |
| Australian dollar. . . . . | 517           | 247          | 517            | 247          |
| Euro . . . . .             | 8,022         | 7,146        | 8,022          | 7,146        |
| United States dollar. . .  | 1,777         | 1,362        | 1,777          | 1,362        |
| British pound sterling. .  | 408           | 411          | 408            | 411          |
| Japanese yen. . . . .      | 585           | 316          | 585            | 316          |
| New Zealand dollar. . .    | 202           | 158          | 202            | 158          |
| Swiss francs. . . . .      | 638           | 305          | 638            | 305          |
|                            | <b>12,149</b> | <b>9,945</b> | <b>12,149</b>  | <b>9,945</b> |

Derivative financial instruments for the Telstra Group and the Telstra Entity as at balance date are shown in Table I and Table J below. The amounts included in these tables are presented according to the hedge type and represent the fair value which is calculated as the present value of estimated future cash flows using an appropriate market based yield curve. For these derivative instruments the fair value equates to the carrying amounts in the statement of financial position which differs from the face values which are also provided in other tables within this note. The face values represent the undiscounted contractual liability on maturity of the financial instrument.

The fair value of a hedging derivative is classified as a non current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

##### (iii) Telstra bonds and domestic loans

Telstra bonds currently on issue relate to wholesale investors and mature up until the year 2020. During fiscal 2009 nil (2008: nil) Telstra bonds matured. Domestic loans entered into during fiscal 2009 comprise two bank loans totalling \$1,279 million with terms of 2 to 3 years. In fiscal 2008, a \$1,000 million bank loan was entered into with a term of 5 years. During fiscal 2009 a domestic bank loan for \$500 million matured (2008: nil).

#### (e) Derivative financial instruments

All our derivatives are in designated hedge relationships which satisfy the requirements for hedge accounting, except for some cross currency and interest rate swaps hedging certain offshore borrowings and some forward foreign currency contracts hedging trade and other creditors denominated in a foreign currency. These derivatives are not in designated hedge relationships for hedge accounting purposes and are classified as held for trading. The cross currency and interest rate swaps classified as held for trading are hedging offshore borrowings denominated in United States dollars, Euro and British pounds sterling which are either not in a designated hedge relationship for hedge accounting purposes or were de-designated from a hedge relationship because they did not meet hedge effectiveness requirements. Notwithstanding that held for trading derivatives are not in designated hedge relationships for hedge accounting purposes, they are all in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction.

Refer to note 18 for details on hedging relationships. Information regarding interest rate, foreign exchange and liquidity risk is also disclosed in note 18.

## Notes to the Financial Statements (continued)

### 17. Capital management, financial assets and financial liabilities (continued)

#### (e) Derivative financial instruments (continued)

|   | Cross currency swaps |              | Interest rate swaps |              | Forward contracts |             | Total        | Total        | Total      |
|---|----------------------|--------------|---------------------|--------------|-------------------|-------------|--------------|--------------|------------|
|   | Asset                | Liability    | Asset               | Liability    | Asset             | Liability   | Asset        | Liability    | Net        |
|   | \$m                  | \$m          | \$m                 | \$m          | \$m               | \$m         | \$m          | \$m          | \$m        |
| <b>Current</b>  |                      |              |                     |              |                   |             |              |              |            |
| Fair value hedge . . . . .                                | 112                  | -            | 11                  | -            | -                 | (1)         | 123          | (1)          | 122        |
| Cash flow hedge (i) . . . . .                             | -                    | -            | -                   | -            | 1                 | (82)        | 1            | (82)         | (81)       |
| Hedge of net investment in<br>foreign operation . . . . . | -                    | (25)         | -                   | -            | -                 | -           | -            | (25)         | (25)       |
| Held for trading (ii) . . . . .                           | -                    | -            | -                   | -            | 4                 | (3)         | 4            | (3)          | 1          |
|   | <b>112</b>           | <b>(25)</b>  | <b>11</b>           | <b>-</b>     | <b>5</b>          | <b>(86)</b> | <b>128</b>   | <b>(111)</b> | <b>17</b>  |
| <b>Non current</b>  |                      |              |                     |              |                   |             |              |              |            |
| Fair value hedge . . . . .                                | 190                  | (152)        | 114                 | -            | -                 | -           | 304          | (152)        | 152        |
| Cash flow hedge (i) . . . . .                             | 221                  | (408)        | 282                 | (186)        | -                 | -           | 503          | (594)        | (91)       |
| Hedge of net investment in<br>foreign operation . . . . . | 49                   | (12)         | -                   | -            | -                 | -           | 49           | (12)         | 37         |
| Held for trading (ii) . . . . .                           | 129                  | (61)         | 88                  | -            | -                 | -           | 217          | (61)         | 156        |
|   | <b>589</b>           | <b>(633)</b> | <b>484</b>          | <b>(186)</b> | <b>-</b>          | <b>-</b>    | <b>1,073</b> | <b>(819)</b> | <b>254</b> |
|   | <b>701</b>           | <b>(658)</b> | <b>495</b>          | <b>(186)</b> | <b>5</b>          | <b>(86)</b> | <b>1,201</b> | <b>(930)</b> | <b>271</b> |

|   | Cross currency swaps |              | Interest rate swaps |              | Forward contracts |             | Total      | Total          | Total        |
|---|----------------------|--------------|---------------------|--------------|-------------------|-------------|------------|----------------|--------------|
|   | Asset                | Liability    | Asset               | Liability    | Asset             | Liability   | Asset      | Liability      | Net          |
|   | \$m                  | \$m          | \$m                 | \$m          | \$m               | \$m         | \$m        | \$m            | \$m          |
| <b>Current</b>  |                      |              |                     |              |                   |             |            |                |              |
| Fair value hedge . . . . .                                | -                    | (26)         | -                   | -            | -                 | (24)        | -          | (50)           | (50)         |
| Cash flow hedge (i) . . . . .                             | -                    | (20)         | -                   | -            | 1                 | (2)         | 1          | (22)           | (21)         |
| Hedge of net investment in<br>foreign operation . . . . . | 53                   | -            | -                   | -            | -                 | -           | 53         | -              | 53           |
| Held for trading (ii) . . . . .                           | -                    | -            | -                   | -            | -                 | (10)        | -          | (10)           | (10)         |
|   | <b>53</b>            | <b>(46)</b>  | <b>-</b>            | <b>-</b>     | <b>1</b>          | <b>(36)</b> | <b>54</b>  | <b>(82)</b>    | <b>(28)</b>  |
| <b>Non current</b>  |                      |              |                     |              |                   |             |            |                |              |
| Fair value hedge . . . . .                                | 37                   | (282)        | 15                  | (40)         | -                 | -           | 52         | (322)          | (270)        |
| Cash flow hedge (i) . . . . .                             | -                    | (512)        | 332                 | (143)        | -                 | -           | 332        | (655)          | (323)        |
| Hedge of net investment in<br>foreign operation . . . . . | 27                   | -            | -                   | -            | -                 | -           | 27         | -              | 27           |
| Held for trading (ii) . . . . .                           | 33                   | (112)        | -                   | (133)        | -                 | -           | 33         | (245)          | (212)        |
|   | <b>97</b>            | <b>(906)</b> | <b>347</b>          | <b>(316)</b> | <b>-</b>          | <b>-</b>    | <b>444</b> | <b>(1,222)</b> | <b>(778)</b> |
|   | <b>150</b>           | <b>(952)</b> | <b>347</b>          | <b>(316)</b> | <b>1</b>          | <b>(36)</b> | <b>498</b> | <b>(1,304)</b> | <b>(806)</b> |

(i) Gains or losses recognised in the cash flow hedging reserve in equity on cross currency swap and interest rate swap contracts will be continuously released to the income statement until the underlying borrowings are repaid. Gains or losses recognised in the cash flow hedging reserve on forward exchange contracts will be released to the income statement when the underlying forecast transaction occurs and affects profit and loss. However, where the underlying forecast transaction is a purchase of a non financial asset (for example a fixed asset) the gain or loss in the cash flow hedging reserve will be transferred and included in the measurement of the initial cost of the asset at the date the asset is recognised.

(ii) Derivatives which are classified as held for trading are in economic relationships but are not in a designated hedge relationship for hedge accounting purposes. These derivatives include cross currency and interest rate swaps associated with a long term Euro bond issue not in a designated hedge relationship and with a number of offshore borrowings denominated in United States dollars, Euro and British pounds sterling which were in fair value hedges and were de-designated from the hedge relationship for hedge accounting purposes as they did not meet requirements for hedge effectiveness. Notwithstanding that these held for trading derivatives do not satisfy the requirements for hedge accounting, it is important to note that these relationships are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction. Also included in held for trading derivatives are forward contracts hedging trade creditors and other liabilities denominated in a foreign currency.

## Notes to the Financial Statements (continued)

### 18. Financial risk management

#### Financial risk management

We undertake transactions in a range of financial instruments including:

- cash assets;
- receivables;
- payables;
- deposits;
- bills of exchange and promissory notes;
- listed investments and investments in other corporations;
- various forms of borrowings, including medium term notes, promissory notes, bank loans and private placements; and
- derivatives.

Our activities result in exposure to operational risk and a number of financial risks, including market risk (interest rate risk, foreign currency risk), credit risk and liquidity risk. Our investments in listed and unlisted securities are immaterial and hence we are not exposed to equity securities price risk.

Our overall risk management program seeks to mitigate these risks and reduce volatility on our financial performance and support the delivery of our financial targets. We manage our risks with a view to the outcomes of both our financial results and the underlying economic position. Financial risk management is carried out centrally by our Treasury department, which is part of our corporate areas, under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non derivative financial instruments, and the investment of excess liquidity.

We enter into derivative transactions in accordance with Board approved policies to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. These derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative instruments that we use to hedge risks such as interest rate and foreign currency movements include:

- cross currency swaps;
- interest rate swaps; and
- forward foreign currency contracts.

We do not speculatively trade in derivative instruments. Our derivative transactions are entered into to hedge the risks relating to underlying physical positions arising from our business activities.

Section (a) of this note sets out the key financial risk factors that arise from our activities, including our policies for managing these risks.

Section (b) provides details of our hedging strategies that are used for financial risk management. In particular, this section provides additional context around our hedge transactions and the resulting economic and risk positions.

#### (a) Risk and mitigation

The risks associated with our main financial instruments and our policies for minimising these risks are detailed below. These risks comprise market risk, credit risk and liquidity risk.

##### Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. Components of market risk to which we are exposed are discussed below.

##### (i) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

Interest rate risk arises from interest bearing financial assets and liabilities that we use. Non derivative interest bearing assets are predominantly short term liquid assets. Our interest rate liability risk arises primarily from long term foreign debt issued at fixed rates which exposes us to fair value interest rate risk. Our borrowings which have a variable interest rate attached gives rise to cash flow interest rate risk.

Our debt is sourced from a number of financial markets covering domestic and offshore, short term and long term funding. The majority of our debt consists of foreign currency denominated borrowings. We manage our debt in accordance with targeted currency, interest rate, liquidity, and debt portfolio maturity profiles. Specifically, we manage interest rate risk on our net debt portfolio by:

- 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 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 F for our residual post hedge fixed and floating interest positions on a contractual face value basis.

We hedge interest rate and currency risk on most of our foreign currency borrowings by entering into cross currency principal swaps and interest rate swaps when required, which have the economic effect of converting foreign currency borrowings to Australian dollar borrowings. 'Hedging strategies' contained in section (b) of this note provides further information.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (i) Interest rate risk (continued)

The weighted average interest rates on our fixed and floating rate financial instruments as at 30 June which do not have offsetting risk positions and the principal/notional amounts on which interest is calculated are shown in Table A below. Interest rate positions on our foreign cross currency and foreign interest rate swaps and on the majority of our foreign borrowings are fully offset.

Accordingly, the majority of our instruments 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, D and F).

| TABLE A  | Telstra Group  |                              |  |                              | Telstra Entity   |                              |  |                              |
|--|--|------------------------------|--|------------------------------|--|------------------------------|--|------------------------------|
|  | As at 30 June 2009                                       |                              | As at 30 June 2008                                       |                              | As at 30 June 2009                                       |                              | As at 30 June 2008                                       |                              |
|  | Principal /<br>notional<br>receivable / (payable)<br>\$m | Weighted<br>average<br>% (*) |
| <b>Fixed rate instruments - Australian interest rate</b>       |  |                              |  |                              |  |                              |  |                              |
| Cross currency & interest rate swap payable . . . . .          | (6,020)  | 6.31                         | (5,672)  | 6.34                         | (6,020)  | 6.31                         | (5,672)  | 6.34                         |
| Finance lease payable . . . . .                                | (70)   | 5.89                         | (81)   | 7.93                         | (70)   | 5.89                         | (81)   | 7.93                         |
| Telstra bonds and domestic loans . . . . .                     | (1,727)  | 7.16                         | (2,222)  | 7.21                         | (1,727)  | 7.16                         | (2,222)  | 7.21                         |
| <b>Fixed rate instruments - Foreign interest rates</b>         |  |                              |  |                              |  |                              |  |                              |
| Bank deposits with maturity greater than 90 days               | 16   | 2.10                         | 20   | 4.14                         | -  | -                            | -  | -                            |
| Finance lease payable . . . . .                                | (25)   | 12.19                        | (26)   | 11.44                        | -  | -                            | -  | -                            |
| Offshore loans (#) . . . . .                                   | (202)  | 7.38                         | (158)  | 7.11                         | (202)  | 7.38                         | (158)  | 7.11                         |
|  | <b>(8,028)</b>   |                              | <b>(8,139)</b>   |                              | <b>(8,019)</b>   |                              | <b>(8,133)</b>   |                              |
| <b>Variable rate instruments - Australian interest rates</b>   |  |                              |  |                              |  |                              |  |                              |
| <b>Contractual repricing or maturity 6 months or less</b>      |  |                              |  |                              |  |                              |  |                              |
| Cash and cash equivalents (^) . . . . .                        | 964  | 3.23                         | 527  | 7.40                         | 947  | 3.23                         | 482  | 7.40                         |
| Cross currency swap receivable (#) . . . . .                   | 680  | 3.14                         | 640  | 7.69                         | 680  | 3.14                         | 640  | 7.69                         |
| Cross currency swap payable . . . . .                          | (6,147)  | 4.33                         | (5,570)  | 8.95                         | (6,147)  | 4.33                         | (5,570)  | 8.95                         |
| Telstra bonds and domestic loans . . . . .                     | (2,280)  | 4.01                         | (1,499)  | 7.45                         | (2,280)  | 4.01                         | (1,499)  | 7.45                         |
| Loans from wholly owned controlled entities . . .              | -  | -                            | -  | -                            | (8)  | 3.00                         | (8)  | 7.25                         |
| Promissory notes . . . . .                                     | -  | -                            | (203)  | 7.85                         | -  | -                            | (203)  | 7.85                         |
| Offshore loans . . . . .                                       | (269)  | 5.03                         | -  | -                            | (269)  | 5.03                         | -  | -                            |
| <b>Contractual repricing or maturity within 0 to 12 months</b> |  |                              |  |                              |  |                              |  |                              |
| Forward contract liability - net . . . . .                     | (109)  | 1.63                         | (979)  | 3.96                         | (109)  | 1.63                         | (979)  | 3.96                         |
| Telstra bonds and domestic loans . . . . .                     | (500)  | 7.39                         | -  | -                            | (500)  | 7.39                         | -  | -                            |
| <b>Variable rate instruments - Foreign interest rates</b>      |  |                              |  |                              |  |                              |  |                              |
| <b>Contractual repricing or maturity 6 months or less</b>      |  |                              |  |                              |  |                              |  |                              |
| Cash and cash equivalents (^) . . . . .                        | 333  | 0.55                         | 312  | 1.27                         | -  | -                            | -  | -                            |
| Cross currency swap payable (#) . . . . .                      | (668)  | 0.26                         | (559)  | 1.80                         | (668)  | 0.26                         | (559)  | 1.80                         |
| Loans from wholly owned controlled entities . . .              | -  | -                            | -  | -                            | (222)  | 2.35                         | (176)  | 7.92                         |
| Promissory notes (#) . . . . .                                 | (284)  | 3.45                         | (320)  | 9.22                         | (284)  | 3.45                         | (320)  | 9.22                         |
|  | <b>(8,280)</b>   |                              | <b>(7,651)</b>   |                              | <b>(8,860)</b>   |                              | <b>(8,192)</b>   |                              |
| <b>Net interest bearing debt . . . . .</b>                     | <b>(16,308)</b>  |                              | <b>(15,790)</b>  |                              | <b>(16,879)</b>  |                              | <b>(16,325)</b>  |                              |

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (i) Interest rate risk (continued)

(\*) The average rate is calculated as the weighted average (based on principal / notional value) effective interest rate.

(#) These instruments are used to hedge our net foreign investments.

(^) Rates on cash at bank balances represent average rates earned on net positive cash balances after taking into account bank set-off arrangements.

##### (ii) Sensitivity analysis - interest rate risk

The sensitivity analysis included in this section is based on the interest rate risk exposures on our net debt portfolio as at balance date. Our net debt portfolio at balance date does not differ significantly from our average net debt portfolio during the year.

A sensitivity of plus or minus 10 per cent has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. For example, a 10 per cent increase would move short term interest rates (cash) at 30 June 2009 from 3.00% (2008: 7.25%) to 3.30% (2008: 7.975%) representing a 30 (2008: 72.5) basis points shift. This basis points shift is considered reasonable taking into account the absolute rates as at 30 June and current market conditions.

The results in this sensitivity analysis reflect the net impact on a hedged basis which will be primarily reflecting the Australian dollar floating or Australian dollar fixed position from our cross currency and interest rate swap hedges and therefore the movement in the Australian dollar interest rates is an important 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.

These first two factors above partially offset the third factor. For example, if interest rates were 10% higher, the increase in interest on floating rate debt, and the reduction of our derivatives associated with borrowing de-designated from a fair value hedge relationship or not in a hedge relationship, results in an increase in expense and the ineffectiveness component from our fair value hedges results in a gain.

The carrying value of borrowings de-designated from fair value hedge relationships or not in a hedge relationship is not adjusted for fair value movements attributable to interest rate risk. Accordingly, the revaluation gain or loss on our derivatives associated with these borrowings will not have an offsetting gain or loss attributable to interest rate movements on the underlying borrowing.

It 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 particularly given current financial market conditions. Therefore, the following sensitivity analysis assumes a constant margin and parallel shifts in interest rates across all currencies.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (ii) Sensitivity analysis - interest rate risk (continued)

The following sensitivity analysis is based on our interest rate exposures comprising:

- The revaluation impact on our derivatives and borrowings from a 10 per cent movement in interest rates based on the net debt balances as at balance date; and
- The effect on interest expense on our floating rate borrowings from a 10 per cent movement in interest rates at each reset date during the year.

Concurrent movements in interest rates and parallel shifts in the yield curves are assumed.

At 30 June, if interest rates had moved as illustrated in Table B below, with all other variables held constant and taking into account all underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

TABLE B

#### Telstra Group and Telstra Entity

|  | +10%               |             |                                    |           | -10%               |           |                                    |             |
|--|--------------------|-------------|------------------------------------|-----------|--------------------|-----------|------------------------------------|-------------|
|  | Net profit (*)     |             | Equity (cash flow hedging reserve) |           | Net profit (*)     |           | Equity (cash flow hedging reserve) |             |
|  | Year ended 30 June |             | As at 30 June                      |           | Year ended 30 June |           | As at 30 June                      |             |
|  | Gain/(loss)        |             | Gain/(loss)                        |           | Gain/(loss)        |           | Gain/(loss)                        |             |
|  | 2009               | 2008        | 2009                               | 2008      | 2009               | 2008      | 2009                               | 2008        |
|  | \$m                | \$m         | \$m                                | \$m       | \$m                | \$m       | \$m                                |             |
| Revaluation of derivatives & borrowings - fair value hedges of offshore loans (i) . . . . .                      | 11                 | 12          | -                                  | -         | (11)               | (12)      | -                                  | -           |
| Revaluation of derivatives - borrowings de-designated from fair value hedges or not in a hedge relationship (ii) | (17)               | (34)        | -                                  | -         | 17                 | 35        | -                                  | -           |
| Revaluation of derivatives - cash flow hedges of offshore loans . . . . .  | -                  | -           | 51                                 | 52        | -                  | -         | (51)                               | (56)        |
| Floating rate Australian dollar instruments (iii). . . . .   | (44)               | (35)        | -                                  | -         | 44                 | 35        | -                                  | -           |
|  | <b>(50)</b>        | <b>(57)</b> | <b>51</b>                          | <b>52</b> | <b>50</b>          | <b>58</b> | <b>(51)</b>                        | <b>(56)</b> |

(\*) The before tax impact is included within finance costs.

(i) The sensitivity on our derivatives in our cash flow and fair value hedges does not significantly differ from prior year.

(ii) The lower sensitivity in 2009 when compared to 2008 is primarily due to the impact of lower market interest rates as at 30 June 2009.

It should be noted that these borrowings are in an effective economic relationship using cross currency and interest rate swap derivatives.

(iii) Increases in the dollar value of our floating rate borrowings as at 30 June 2009 resulting from new borrowings undertaken during the year has resulted in a higher sensitivity in 2009 when compared to 2008.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risk and mitigation (continued)

##### (iii) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment, 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 a foreign currency;
- firm commitments or highly probable forecast transactions for receipts and payments settled in foreign currencies or with prices dependent on foreign currencies; and
- net investments in foreign operations.

We are exposed to foreign exchange risk from various currency exposures, including:

- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Euro;
- Swiss francs;
- Hong Kong dollars;
- Chinese renminbi; and
- Japanese yen.

Our economic foreign currency risk is assessed for each individual currency and for each hedge type, calculated by aggregating the net exposure for that currency for that hedge type.

We minimise our exposure to foreign currency risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where this is not possible we manage our exposure as follows.

Cash flow foreign currency risk arises primarily from foreign currency overseas borrowings. We hedge this risk on the major part of our foreign currency denominated borrowings by entering into cross currency swaps at inception to maturity, effectively converting them to Australian dollar borrowings. A relatively small proportion of our foreign currency borrowings are not swapped into Australian dollars where they are used as hedges for foreign exchange exposure such as translation foreign exchange risk from our offshore business investments. Refer to note 17 Table F 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 each currency in accordance with our risk management policy.

Foreign currency risk also arises on translation of the net assets of our non Australian controlled entities which have a functional currency other than Australian dollars. The foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve in equity. We manage this translation foreign exchange risk with forward foreign currency contracts, cross currency swaps and/or borrowings denominated in the currency of the entity concerned. We currently hedge our net investments in TelstraClear Limited and Hong Kong CSL Limited in New Zealand dollars and Hong Kong dollars respectively, where the amount hedged is in the range of 40% to 50%.

In addition, our subsidiaries may hedge foreign exchange transactions such as exposures from asset/liability balances or forecast sales/purchases in currencies other than their functional currency. Where this occurs, external foreign exchange contracts are designated at the group level as hedges of foreign exchange risk on the specific asset/liability balance or forecast transaction. These amounts were not significant in the current or prior year.

We also hedge a proportion of foreign currency risk associated with trade and other creditor balances using forward foreign currency contracts. These balances are not material.

Also refer to section (b) 'Hedging strategies' contained in this note for further information.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### (iv) Sensitivity analysis - foreign currency risk

The sensitivity analysis included in this section is based on foreign currency risk exposures on our financial instruments and net foreign investment balances as at balance date. Foreign currency risk arising from our financial instruments represents a financial risk.

We have operational risk associated with our investments in foreign operations. The translation of these foreign investments from their functional currency to Australian dollars represents a translation risk rather than a financial risk. Nevertheless, in this sensitivity analysis we have included the translation impact on our foreign currency translation reserve from movements in the exchange rate. In so doing, this sensitivity analysis reflects the impact on equity from a movement in the exchange rate associated with both the underlying hedged investment and the financial instruments hedging the translation currency risk.

Adverse versus favourable movements are determined relative to the underlying exposure. An adverse movement in exchange rates implies an increase in our foreign currency risk exposure and a worsening of our financial position. A favourable movement in exchange rates implies a reduction in our foreign currency risk exposure and an improvement of our financial position.

A sensitivity of 10 per cent has been selected as this is considered reasonable 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 United States dollar, the year end rate of 0.81145 (2008: 0.96305) would generate a 10 per cent favourable position of 0.89259 (2008: 1.0594) and an adverse position of 0.73768 (2008: 0.8755). 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 United States dollars has traded in the range 0.6010 to 0.9849 (2008: 0.6342 to 0.9557).

Foreign currency risk exposure from recognised assets and liabilities arises primarily from our long term borrowings denominated in foreign currencies. There is no significant impact on profit from foreign currency movements associated with these borrowings as they are effectively hedged. Apart from a small proportion of foreign currency borrowings and derivatives used to hedge translation foreign exchange risk associated with our offshore investments, our foreign currency borrowings are swapped into Australian dollars.

There is some volatility in profit from exchange rate movements associated with our borrowings de-designated or not in hedge relationships and associated with our forecast transactions denominated in foreign currency.

After hedging, we have no significant exposure on our profit from foreign currency movements. 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 Euro and with our offshore investments is predominantly Hong Kong dollars, New Zealand dollars and Chinese renminbi (relating to our investments in Hong Kong CSL Limited, TelstraClear Limited, SouFun Holdings Limited, Sequel Limited and Telstra Octave Holdings Limited).

Other balances, such as trade and other creditors denominated in foreign currencies are not significant. Hence, profit is not materially impacted.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

#### (iv) Sensitivity analysis - foreign currency risk (continued)

The following sensitivity analysis is based on our foreign currency risk exposures comprising the revaluation impact on our derivatives and borrowings and net foreign investments from a 10% adverse/favourable movement in foreign exchange rates based on our balances as at balance date. At 30 June, had the Australian dollar against all applicable currencies moved as illustrated in Table C and Table D below, with all other variables held constant and taking into account identified underlying exposures and related hedges, profit and equity after tax would have been affected as follows:

TABLE C

|   | Telstra Group        |      |   |       |                                    |      |                         |      |   |      |                                    |      |
|---|----------------------|------|---|-------|------------------------------------|------|-------------------------|------|---|------|------------------------------------|------|
|   | 10% adverse movement |      |   |       |                                    |      | 10% favourable movement |      |   |      |                                    |      |
|   | Net profit           |      | Equity (foreign currency translation reserve) |       | Equity (cash flow hedging reserve) |      | Net profit              |      | Equity (foreign currency translation reserve) |      | Equity (cash flow hedging reserve) |      |
|   | Year ended 30 June   |      | As at 30 June                                 |       | As at 30 June                      |      | Year ended 30 June      |      | As at 30 June                                 |      | As at 30 June                      |      |
|   | Gain/(loss)          |      | Gain/(loss)                                   |       | Gain/(loss)                        |      | Gain/(loss)             |      | Gain/(loss)                                   |      | Gain/(loss)                        |      |
|   | 2009                 | 2008 | 2009  | 2008  | 2009                               | 2008 | 2009                    | 2008 | 2009  | 2008 | 2009                               | 2008 |
| \$m   | \$m                  | \$m  | \$m   | \$m   | \$m                                | \$m  | \$m                     | \$m  | \$m   | \$m  | \$m                                |      |
| Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship . . . . | (6)                  | (9)  | -   | -     | -                                  | -    | 7                       | 8    | -   | -    | -                                  | -    |
| Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (i) . . . . .            | (10)                 | -    | -   | -     | -                                  | -    | 7                       | -    | -   | -    | -                                  | -    |
| Revaluation of derivatives - cash flow hedges of offshore loans . . . . .   | -                    | -    | -   | -     | (9)                                | (18) | -                       | -    | -   | -    | 11                                 | 15   |
| Net foreign investments . . . . .   | -                    | -    | (156)   | (123) | -                                  | -    | -                       | -    | 190   | 151  | -                                  | -    |

TABLE D

|   | Telstra Entity       |      |                                    |      |                         |      |                                    |      |
|---|----------------------|------|------------------------------------|------|-------------------------|------|------------------------------------|------|
|   | 10% adverse movement |      |                                    |      | 10% favourable movement |      |                                    |      |
|   | Net profit           |      | Equity (cash flow hedging reserve) |      | Net profit              |      | Equity (cash flow hedging reserve) |      |
|   | Year ended 30 June   |      | As at 30 June                      |      | Year ended 30 June      |      | As at 30 June                      |      |
|   | Gain/(loss)          |      | Gain/(loss)                        |      | Gain/(loss)             |      | Gain/(loss)                        |      |
|   | 2009                 | 2008 | 2009                               | 2008 | 2009                    | 2008 | 2009                               | 2008 |
| \$m   | \$m                  | \$m  | \$m                                | \$m  | \$m                     | \$m  | \$m                                |      |
| Revaluation of derivatives and borrowings - de-designated from fair value hedges or not in a hedge relationship . . . . . | (6)                  | (9)  | -                                  | -    | 7                       | 8    | -                                  | -    |
| Revaluation of derivatives and underlying exposure - cash flow hedges of forecast transactions (i) . . . . .              | (10)                 | -    | -                                  | -    | 7                       | -    | -                                  | -    |
| Revaluation of derivatives - cash flow hedges of offshore loans . . . . .   | -                    | -    | (9)                                | (18) | -                       | -    | 11                                 | 15   |
| Revaluation of derivatives and borrowings hedging net foreign investments . . . . .                                       | (74)                 | (80) | -                                  | -    | 90                      | 66   | -                                  | -    |

(i) There was no significant exposure in fiscal 2008.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### (iv) Sensitivity analysis - foreign currency risk (continued)

The impact of some of our borrowings not being in fair value hedge relationships has resulted in some volatility in profit and loss. Whilst the revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings there will be some profit impact due to the fact that the derivatives are recorded at fair value and hence the foreign exchange movements are recognised at present value. However, the borrowings which are accounted for on an amortised cost basis will reflect revaluation movements for changes in the spot exchange rate which are not discounted. Therefore, the impact on profit and loss is primarily attributable to the discounting effect of the foreign exchange gains and losses on the hedging derivatives.

The net gain or loss in the cash flow hedging reserve reflects the result of exchange rate movements on the derivatives used in our cash flow hedges of offshore loans which will be released to the income statement in the future as the underlying hedged items affect profit.

For the Telstra Group, our foreign currency translation risk associated with our foreign investments results in some volatility to the foreign currency translation reserve. The impact on the foreign currency translation reserve relates to translation of the net assets of our foreign controlled entities including the impact of hedging. The net gain or loss in the sensitivity analysis takes into account the related hedges and represents the impact of the unhedged portion. Our significant offshore controlled entities include investments in TelstraClear Limited denominated in New Zealand dollars, Hong Kong CSL Limited denominated in Hong Kong dollars and our Chinese businesses SouFun Holdings Limited, Sequel Limited and Telstra Octave Holdings Limited denominated in Chinese renminbi. Hong Kong CSL Limited and TelstraClear Limited are hedged in the range of 40% to 50%. A significant contributing factor to the higher sensitivity in 2009 when compared to 2008 is due to the acquisition of Octave during the year.

For the Telstra Entity the sensitivity analysis results in a profit or loss volatility resulting from the hedging instruments used to hedge our net foreign investments. This amount is transferred to the foreign currency translation reserve in the Telstra Group and hence there is no impact on profit for the Telstra Group.

#### Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position, comprising cash and cash equivalents, trade and other receivables, available-for-sale financial assets, finance lease receivables and derivative instruments. To help manage this risk:

- we have a policy for performing credit risk assessments on new and existing customers and where required, establishing credit limits and payment terms for entities we deal with;

- we monitor exposure to high risk debtors on a predictive and proactive basis;
- we may require collateral where appropriate; and
- we manage exposure to individual entities we either transact with or enter into derivative contracts with (through a system of credit limits).

Trade and other receivables consist of a large number of customers, spread across the consumer, business, enterprise, government and international sectors. We do not have any significant credit risk exposure to a single customer or groups of customers. Ageing analyses and ongoing credit evaluation is performed on the financial condition of our customers and, where appropriate, an allowance for doubtful debtors is raised. In addition, receivable balances are monitored on an ongoing basis with the result that our exposure to bad debts is not significant. For further details regarding our trade and other receivables refer to note 10.

Our maximum exposure to credit risk is based on the recorded amounts of our financial assets, net of any applicable provisions for loss (refer to note 17, Table C and Table D). Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. We may also be subject to credit risk for transactions which are not included in the statement of financial position, such as when we provide a guarantee for another party. Details of our contingent liabilities are disclosed in note 23.

The Telstra Group and the Telstra Entity are also exposed to credit risk arising from our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout (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 risk relating to these instruments is to monitor our exposure by country of financial institution based on a value at risk (VaR) methodology. Value at risk calculations 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.

Our credit risk exposure on financial instruments (excluding trade and other receivables) such as money market transactions, foreign currency contracts, cross currency and interest rate swap transactions is derived with reference to the current market value, where it is in-the-money, of the transaction combined with a potential credit factor which is based on VaR methodology. It is important to note that the amounts included in Table E below include the in-the-money market values combined with a potential credit calculation and will therefore not equate to either the accounting carrying value, fair value or face value of the transactions as disclosed in note 17.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Credit risk (continued)

In determining the potential credit limit factors to be used in these calculations, the following should be noted:

- Reference is made to the historical volatility factors relevant to the particular currencies / interest rates applicable to the instruments;
- In determining the volatility factors, reference has been made to the holding period or in this case the maturity of the instrument. In some cases the transaction can have a maturity of up to 10 years and the potential volatility needs to reflect the possible movements over this time period given historical observations; and
- We have used 99% confidence levels to determine the applicable potential credit limit factors.

The VaR based methodology employed has the following limitations:

- The use of historical data as a proxy for estimating future events may not cover all potential events, in particular this is relevant when trying to estimate potential volatility over a long holding period such as 10 years; and
- The use of a 99% confidence level, by definition, may not take into account movements that may occur outside of this confidence threshold.

| Table E                     | Telstra Group                          |              |                    |              |              | Telstra Entity                         |              |                    |  |  |
|-----------------------------|--|--------------|--------------------|--------------|--------------|--|--------------|--------------------|--|--|
|                             | Credit risk concentrations (VaR based) |              |                    |              |              | Credit risk concentrations (VaR based) |              |                    |  |  |
|                             | As at 30 June 2009                     |              | As at 30 June 2008 |              |              | As at 30 June 2009                     |              | As at 30 June 2008 |  |  |
|                             | %                                      | \$m          | %                  | \$m          | %            | \$m                                    | %            | \$m                |  |  |
| Australia . . . . .         | 21.2                                   | 1,664        | 38.6               | 2,425        | 21.9         | 1,638                                  | 40.1         | 2,380              |  |  |
| United States . . . . .     | 22.2                                   | 1,743        | 20.1               | 1,262        | 23.2         | 1,738                                  | 21.0         | 1,246              |  |  |
| Japan . . . . .             | 3.5                                    | 271          | 2.0                | 125          | 3.6          | 269                                    | 2.1          | 124                |  |  |
| Europe . . . . .            | 21.0                                   | 1,642        | 16.6               | 1,042        | 21.9         | 1,642                                  | 17.6         | 1,042              |  |  |
| United Kingdom . . . . .    | 23.9                                   | 1,878        | 11.1               | 696          | 24.8         | 1,855                                  | 11.5         | 680                |  |  |
| Canada . . . . .            | 0.8                                    | 63           | 1.2                | 78           | 0.8          | 63                                     | 1.3          | 78                 |  |  |
| Switzerland . . . . .       | 3.0                                    | 236          | 4.0                | 251          | 3.2          | 236                                    | 4.2          | 251                |  |  |
| China / Hong Kong . . . . . | 4.1                                    | 321          | 6.0                | 380          | 0.6          | 49                                     | 2.2          | 131                |  |  |
| Singapore . . . . .         | 0.1                                    | 9            | 0.1                | 6            | -            | -                                      | -            | -                  |  |  |
| New Zealand . . . . .       | 0.2                                    | 16           | 0.3                | 22           | -            | -                                      | -            | -                  |  |  |
|                             | <b>100.0</b>                           | <b>7,843</b> | <b>100.0</b>       | <b>6,287</b> | <b>100.0</b> | <b>7,490</b>                           | <b>100.0</b> | <b>5,932</b>       |  |  |

## Notes to the Financial Statements (continued)

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### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Liquidity risk

Liquidity risk includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle a financial liability or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place;
- generally use instruments that are tradeable in highly liquid markets; and
- have a liquidity portfolio structure that requires surplus funds to be invested within various bands of liquid instruments ranging from ultra liquid, highly liquid and liquid instruments.

We monitor rolling forecasts of liquidity reserves on the basis of expected cash flow. Our objective is to maintain a balance between continuity of funding and flexibility through the use of liquid instruments, borrowings and committed available credit lines.

At 30 June 2009, based on contractual face values, 9% of the Telstra Group's and the Telstra Entity's debt, comprising offshore borrowings, Telstra bonds and domestic loans and excluding promissory notes, will mature in less than one year (2008: 4%).

The contractual maturity of our fixed and floating rate financial liabilities and derivatives and the corresponding carrying values are shown in Table F and Table G. The contractual maturity amounts (nominal cash flows) represent the future undiscounted principal and interest cash flows and therefore do not equate to the carrying values.

We have also included derivative financial assets in the following tables on the basis that these assets have a direct relationship with an underlying financial liability and both the asset and the liability are managed in conjunction.

For floating rate instruments, the amount disclosed is determined by reference to the current market pricing for interest rates over the period to maturity.

Also affecting liquidity are cash at bank, available for sale financial assets and other non-interest bearing financial assets. Liquidity risk associated with these financial instruments is represented by the face values as shown in note 17 Table C and Table D.

## 18. Financial risk management (continued)

### (a) Risks and mitigation (continued)

#### Liquidity risk (continued)

TABLE F

Telstra Group

|  | As at 30 June 2009 |   |              |              |              |          | As at 30 June 2008 |   |              |              |              |          |
|--|--------------------|---|--------------|--------------|--------------|----------|--------------------|---|--------------|--------------|--------------|----------|
|  | Carrying amount    | Contractual maturity (nominal cash flows) |              |              |              |          | Carrying amount    | Contractual maturity (nominal cash flows) |              |              |              |          |
|  |                    | Less than one year                        | 1 to 2 years | 2 to 5 years | over 5 years | Total    |                    | Less than one year                        | 1 to 2 years | 2 to 5 years | over 5 years | Total    |
|  | \$m                | \$m                                       | \$m          | \$m          | \$m          | \$m      | \$m                | \$m                                       | \$m          | \$m          | \$m          | \$m      |
| <b>Derivative financial liabilities</b>          |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Interest rate swaps - pay fixed (i)              | (186)              | (164)                                     | (86)         | 23           | (27)         | (254)    | -                  | -   | -            | -            | -            | -        |
| Interest rate swaps - pay variable (i)           | -                  | -   | -            | -            | -            | -        | (303)              | (72)                                      | (72)         | (115)        | (2)          | (261)    |
| Cross currency swaps - foreign leg variable (ii) | (668)              | (321)                                     | (353)        | -            | -            | (674)    | (557)              | (304)                                     | (271)        | -            | -            | (575)    |
| Cross currency swaps - AUD leg fixed (ii)        | (257)              | (18)                                      | (18)         | (144)        | (172)        | (352)    | (238)              | (18)                                      | (18)         | (152)        | (182)        | (370)    |
| Cross currency swaps - AUD leg variable (ii)     | (10,915)           | (1,536)                                   | (3,142)      | (4,731)      | (5,023)      | (14,432) | (10,185)           | (1,045)                                   | (1,701)      | (6,626)      | (5,670)      | (15,042) |
| Forward foreign currency contracts (ii)          | (1,106)            | (1,114)                                   | -            | -            | -            | (1,114)  | (1,382)            | (1,460)                                   | -            | -            | -            | (1,460)  |
| <b>Derivative financial assets</b>               |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Interest rate swaps - received fixed (i)         | 484                | 274                                       | 215          | 93           | 71           | 653      | 23                 | 13  | 14           | 18           | 19           | 64       |
| Interest rate swaps - receive variable (i)       | 11                 | 9   | (1)          | 2            | 1            | 11       | 311                | 88  | 83           | 145          | 21           | 337      |
| Cross currency swaps - foreign leg fixed (ii)    | 794                | 26  | 65           | 175          | 699          | 965      | 410                | 14  | 14           | 100          | 402          | 530      |
| Cross currency swaps - foreign leg variable (ii) | 10,409             | 1,364                                     | 2,882        | 3,809        | 4,198        | 12,253   | 9,129              | 600                                       | 1,354        | 5,284        | 4,842        | 12,080   |
| Cross currency swaps - AUD leg variable (ii)     | 680                | 311                                       | 397          | -            | -            | 708      | 639                | 384                                       | 305          | -            | -            | 689      |
| Forward foreign currency contracts (ii)          | 1,025              | 1,020                                     | -            | -            | -            | 1,020    | 1,347              | 1,415                                     | -            | -            | -            | 1,415    |
| <b>Non-derivative financial liabilities</b>      |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Telstra bonds and domestic loans                 | (4,780)            | (764)                                     | (260)        | (3,794)      | (1,179)      | (5,997)  | (3,995)            | (780)                                     | (762)        | (2,112)      | (1,775)      | (5,429)  |
| Trade/other creditors and accrued expenses       | (3,712)            | (3,644)                                   | (2)          | (33)         | (33)         | (3,712)  | (3,961)            | (3,904)                                   | (5)          | (19)         | (33)         | (3,961)  |
| Offshore loans                                   | (12,149)           | (1,714)                                   | (3,206)      | (4,769)      | (5,098)      | (14,787) | (9,945)            | (588)                                     | (1,343)      | (5,676)      | (5,348)      | (12,955) |
| Finance leases                                   | (95)               | (38)                                      | (27)         | (31)         | (32)         | (128)    | (107)              | (41)                                      | (30)         | (38)         | (36)         | (145)    |
| Promissory notes                                 | (299)              | (303)                                     | -            | -            | -            | (303)    | (1,452)            | (1,470)                                   | -            | -            | -            | (1,470)  |
| Deferred consideration for capital expenditure   | (267)              | (90)                                      | (44)         | (87)         | (179)        | (400)    | (150)              | (26)                                      | (12)         | (58)         | (179)        | (275)    |

(i) Net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

## 18. Financial risk management (continued)

### (a) Risks and mitigation (continued)

#### Liquidity risk (continued)

TABLE G

|  | As at 30 June 2009 |   |              |              |              |          | As at 30 June 2008 |   |              |              |              |          |
|--|--------------------|---|--------------|--------------|--------------|----------|--------------------|---|--------------|--------------|--------------|----------|
|  | Carrying amount    | Contractual maturity (nominal cash flows) |              |              |              |          | Carrying amount    | Contractual maturity (nominal cash flows) |              |              |              |          |
|  |                    | Less than one year                        | 1 to 2 years | 2 to 5 years | over 5 years | Total    |                    | Less than one year                        | 1 to 2 years | 2 to 5 years | over 5 years | Total    |
| \$m  | \$m                | \$m                                       | \$m          | \$m          | \$m          | \$m      | \$m                | \$m                                       | \$m          | \$m          | \$m          |          |
| <b>Derivative financial liabilities</b>          |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Interest rate swaps - pay fixed (i)              | (186)              | (164)                                     | (86)         | 23           | (27)         | (254)    | -                  | -   | -            | -            | -            | -        |
| Interest rate swaps - pay variable (i)           | -                  | -   | -            | -            | -            | -        | (303)              | (72)                                      | (72)         | (115)        | (2)          | (261)    |
| Cross currency swaps - foreign leg variable (ii) | (668)              | (321)                                     | (353)        | -            | -            | (674)    | (557)              | (304)                                     | (271)        | -            | -            | (575)    |
| Cross currency swaps - AUD leg fixed (ii)        | (257)              | (18)                                      | (18)         | (144)        | (172)        | (352)    | (238)              | (18)                                      | (18)         | (152)        | (182)        | (370)    |
| Cross currency swaps - AUD leg variable (ii)     | (10,915)           | (1,536)                                   | (3,142)      | (4,731)      | (5,023)      | (14,432) | (10,185)           | (1,045)                                   | (1,701)      | (6,626)      | (5,670)      | (15,042) |
| Forward foreign currency contracts (ii)          | (1,106)            | (1,114)                                   | -            | -            | -            | (1,114)  | (1,382)            | (1,460)                                   | -            | -            | -            | (1,460)  |
| <b>Derivative financial assets</b>               |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Interest rate swaps - received fixed (i)         | 484                | 274                                       | 215          | 93           | 71           | 653      | 23                 | 13  | 14           | 18           | 19           | 64       |
| Interest rate swaps - receive variable (i)       | 11                 | 9   | (1)          | 2            | 1            | 11       | 311                | 88  | 83           | 145          | 21           | 337      |
| Cross currency swaps - foreign leg fixed (ii)    | 794                | 26  | 65           | 175          | 699          | 965      | 410                | 14  | 14           | 100          | 402          | 530      |
| Cross currency swaps - foreign leg variable (ii) | 10,409             | 1,364                                     | 2,882        | 3,809        | 4,198        | 12,253   | 9,129              | 600                                       | 1,354        | 5,284        | 4,842        | 12,080   |
| Cross currency swaps - AUD leg variable (ii)     | 680                | 311                                       | 397          | -            | -            | 708      | 639                | 384                                       | 305          | -            | -            | 689      |
| Forward foreign currency contracts (ii)          | 1,025              | 1,020                                     | -            | -            | -            | 1,020    | 1,347              | 1,415                                     | -            | -            | -            | 1,415    |
| <b>Non-derivative financial liabilities</b>      |                    |   |              |              |              |          |                    |   |              |              |              |          |
| Telstra bonds and domestic loans                 | (4,780)            | (764)                                     | (260)        | (3,794)      | (1,179)      | (5,997)  | (3,995)            | (780)                                     | (762)        | (2,112)      | (1,775)      | (5,429)  |
| Trade/other creditors and accrued expenses       | (3,098)            | (3,046)                                   | (2)          | (17)         | (33)         | (3,098)  | (3,321)            | (3,265)                                   | (4)          | (19)         | (33)         | (3,321)  |
| Offshore loans                                   | (12,149)           | (1,714)                                   | (3,206)      | (4,769)      | (5,098)      | (14,787) | (9,945)            | (588)                                     | (1,343)      | (5,676)      | (5,348)      | (12,955) |
| Finance leases                                   | (70)               | (34)                                      | (23)         | (20)         | -            | (77)     | (81)               | (37)                                      | (26)         | (27)         | -            | (90)     |
| Promissory notes                                 | (299)              | (303)                                     | -            | -            | -            | (303)    | (1,452)            | (1,470)                                   | -            | -            | -            | (1,470)  |
| Amounts owed to controlled entities              | (189)              | (189)                                     | -            | -            | -            | (189)    | (155)              | (155)                                     | -            | -            | -            | (155)    |
| Loans from wholly owned controlled entities      | (1,106)            | (1,106)                                   | -            | -            | -            | (1,106)  | (430)              | (430)                                     | -            | -            | -            | (430)    |

(i) Net amounts for interest rate swaps for which net cash flows are exchanged.

(ii) Contractual amounts to be exchanged representing gross cash flows to be exchanged.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (a) Risks and mitigation (continued)

##### Liquidity risk (continued)

##### Financing arrangements

Table H

|  | Telstra Group |      | Telstra Entity |      |
|--|---------------|------|----------------|------|
|  | As at 30 June |      | As at 30 June  |      |
|  | 2009          | 2008 | 2009           | 2008 |
|  | \$m           | \$m  | \$m            | \$m  |
| We have access to the following lines of credit:   |               |      |                |      |
| <b>Credit standby arrangements (i)</b>   |               |      |                |      |
| Unsecured committed cash standby facilities which are subject to annual review . . . . . | 438           | 758  | 438            | 758  |
| Amount of credit unused. . . . .   | 438           | 758  | 438            | 758  |

(i) Our credit standby arrangements have reduced compared to fiscal 2008 which is in line with our reduced reliance on promissory notes for ongoing funding.

We have promissory note facilities in place in the United States, Europe, Australia and New Zealand under which we may nominally issue up to \$11,212 million (2008: \$10,226 million). As at 30 June 2009, we had on issue \$299 million (2008: \$1,452 million) under these facilities. As at 30 June 2009, our subsidiary CSL Limited had a bank bill acceptance facility of \$107 million (2008: \$4 million) of which \$105 million was issued (2008: nil). 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 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 instruments are similar to the terms and conditions of the underlying hedged items to maximise hedge effectiveness.

#### Borrowings de-designated from fair value hedge relationships

In fiscal 2009, five tranches of a United States dollar denominated borrowing which were in fair value hedges were de-designated from hedge relationships because they did not meet the requirements for hedge effectiveness and accordingly we discontinued fair value hedge accounting for these borrowings at the de-designation date of 1 January 2009. During fiscal 2008, a number of Euro borrowings which were in fair value hedges were also de-designated from hedge relationships because they did not meet the requirements for hedge effectiveness. Prior to de-designation, the gains and losses from re-measuring the associated derivatives to fair value and from re-measuring the borrowings for fair value movements attributable to the hedged risk were included within finance costs in the income statement.

From the date of de-designation the derivatives continue to be recognised at fair value and the borrowings are 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 in the category '(gain)/loss on transactions de-designated from fair value hedge relationships' on the basis that the net result primarily reflects the impact of movements in interest rates on the derivatives.

The cumulative gains or losses previously recognised from the re-measurement of these borrowings as at the date of de-designation will be unwound and amortised to the income statement over the remaining life of the borrowing. This amortisation expense is also included within finance costs in the category '(gain)/loss on transactions de-designated from fair value hedge relationships'.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (b) Hedging strategies (continued)

##### Borrowings de-designated from fair value hedge relationships (continued)

In fiscal 2009, the impact on our income statement for the Telstra Group and Telstra Entity relating to borrowings de-designated from fair value hedge relationships was a gain of \$145 million (2008: loss of \$13 million). This result represents the revaluation impact from the date of de-designation and comprises the gain or loss on the borrowings attributable to movements in the spot exchange rate and the gain or loss from movements in the fair value on the associated derivatives. Also included in this result is the amortisation impact of unwinding previously recognised gains or losses on the borrowing.

Derivatives in hedge relationships de-designated from fair value hedge relationships are classified as 'held for trading'.

All our borrowings de-designated for hedge accounting purposes are in effective economic relationships based on contractual face value amounts and cash flows over the life of the transaction. Refer to Table J and Table K for details on our economic relationships.

##### Borrowings not in a designated hedge relationship

Our long term Euro bond issue during fiscal 2008 is not in a designated hedge relationship for hedge accounting purposes. This borrowing is accounted for on an amortised cost basis. Notwithstanding that this borrowing is not in a designated hedge relationship for hedge accounting purposes it is in an effective economic relationship based on contractual face value amounts and cash flows over the life of the transaction. The derivatives hedging this Euro borrowing are recognised at fair value and are classified as 'held for trading'. The gains or losses on both the borrowings and derivatives are included within finance costs on the basis that the net result primarily reflects the impact of movements in interest rates on the derivatives. The revaluation impact attributable to foreign exchange movements will largely offset between the derivatives and the borrowings.

The gain on transactions not in a designated hedge relationship as disclosed in note 7 was \$77 million for the Telstra Group and Telstra Entity (2008: loss \$27 million) comprises the revaluation of this Euro borrowing attributable to movements in the spot exchange rate and the revaluation impact from movements in the fair value on the associated derivatives.

With the exception of borrowings de-designated from hedge relationships and our Euro borrowing not in a designated hedge relationship, all other hedge relationships met hedge effectiveness requirements for hedge accounting purposes at the reporting date.

Forward currency contracts that are held for trading are subject to fair value movements through profit and loss within other expenses or other income. These held for trading forward contracts are not significant and are used to hedge fair value movements for changes in foreign exchange rates associated with trade creditors and other liabilities denominated in a foreign currency. Notwithstanding that these held for trading derivatives are not in a designated hedge relationship, they are in effective economic relationships based on contractual amounts and cash flows over the life of the transaction.

##### Fair value hedges

During the period we held cross currency principal and interest rate swaps to mitigate our exposure to changes in the fair value of foreign denominated debt from fluctuations in foreign currency and interest rates. The hedged items designated were a portion of our foreign currency denominated borrowings. The changes in the fair values of the hedged items resulting from movements in exchange rates and interest rates are offset against the changes in the fair value of the cross currency and interest rate swaps. The objective of this hedging is to convert foreign currency borrowings to floating Australian dollar borrowings.

Gains or losses from remeasuring the fair value of the hedge instruments are recognised within 'finance costs' in the income statement, together with gains and losses in relation to the hedged item where those gains or losses relate to the hedged risks. This net result largely represents ineffectiveness attributable to movements in Telstra's borrowing margins. For the Telstra Group and the Telstra Entity the re-measurement of the hedged items resulted in a loss before tax of \$573 million (2008: loss of \$41 million) and the changes in the fair value of the hedging instruments resulted in a gain before tax of \$634 million (2008: gain of \$212 million). This results in a net gain before tax of \$61 million and after tax of \$43 million (2008: net gain before tax of \$171 million and after tax of \$120 million).

The effectiveness of the hedging relationship is tested prospectively, both on inception and in subsequent periods, and retrospectively by means of statistical methods using a regression analysis. Regression analysis is used to analyse the relationship between the derivative instruments (the dependent variable) and the underlying borrowings (the independent variable). The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in fair values achieved by the hedge.

Refer to note 17 Table I and Table J for the value of our derivatives designated as fair value hedges.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (b) Hedging strategies (continued)

##### Cash flow hedges

Cash flow hedges are used to hedge exposures relating to our borrowings and our ongoing business activities where we have highly probable purchase or settlement commitments in foreign currencies.

During the year, we entered into cross currency and interest rate swaps as cash flow hedges of future payments denominated in foreign currency resulting from our long term offshore borrowings. The hedged items designated were a portion of the outflows associated with these foreign denominated borrowings. The objective of this hedging is to hedge foreign currency risks arising from spot rate changes and thereby mitigate the risk of payment fluctuations as a result of exchange rate movements.

We also entered into forward foreign currency contracts as cash flow hedges to hedge forecast transactions denominated in foreign currency which hedge foreign currency risk arising from spot rate changes. The hedged items comprised highly probable forecast payments for operating and capital items 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 instruments in a cash flow hedge are regressed against the hypothetical derivative. The primary objective is to determine if changes to the hedged item and derivative are highly correlated and, thus, supportive of the assertion that there will be a high degree of offset in cash flows achieved by the hedge.

The effectiveness of our hedges relating to highly probable forecast transactions is assessed prospectively based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected. An effectiveness test is carried out retrospectively using the cumulative dollar-offset method. For this, the changes in the fair values of the hedging instrument and the hedged item attributable to exchange rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective.

In relation to our offshore borrowings ineffectiveness on our cash flow hedges is recognised in the income statement to the extent that the change in the fair value of the hedging derivatives in the cash flow hedge exceed the change in value of the underlying borrowings in the cash flow hedge during the hedging period. During the year there was no material ineffectiveness attributable to our cash flow hedges (refer to note 7). Also during the year there was no material impact on profit as a result of discontinuing hedge accounting for forecast transactions no longer expected to occur.

For hedge gains or losses transferred to and from the cash flow hedge reserve refer to the statement of comprehensive income.

Refer to note 17 Table I and Table J for the value of our derivatives designated as cash flow hedges.

The following table shows the maturities of the payments in our cash flow hedges, that is when the cash flows are expected to occur.

|  | Nominal cash outflows |         |                |         |
|--|-----------------------|---------|----------------|---------|
|  | Telstra Group         |         | Telstra Entity |         |
|  | As at 30 June         |         | As at 30 June  |         |
|  | 2009                  | 2008    | 2009           | 2008    |
|  | \$m                   | \$m     | \$m            | \$m     |
| <b>Highly probable forecast transactions</b> |                       |         |                |         |
| <b>Non-capital items (i)</b>                 |                       |         |                |         |
| - less than one year . . . . .               | (473)                 | (192)   | (466)          | (184)   |
| <b>Capital items (ii)</b>                    |                       |         |                |         |
| - less than one year . . . . .               | (102)                 | (209)   | (102)          | (209)   |
|  | (575)                 | (401)   | (568)          | (393)   |
| <b>Borrowings (iii)</b>                      |                       |         |                |         |
| - less than one year . . . . .               | (284)                 | (314)   | (284)          | (314)   |
| - one to five years . . . . .                | (3,355)               | (3,259) | (3,355)        | (3,259) |
| - greater than five years . . . . .          | (3,553)               | (3,241) | (3,553)        | (3,241) |
|  | (7,192)               | (6,814) | (7,192)        | (6,814) |

(i) These amounts will affect our income statement in the same period as the cash flows are expected to occur.

(ii) For purchases of fixed assets the gains and losses on the associated hedging instruments are included in the measurement of the initial cost of the asset. The hedged asset purchases affect profit as the assets are depreciated over their useful lives. Refer to note 2 on our depreciation policies for property, plant and equipment.

(iii) The impact on our income statement from foreign currency movements associated with these hedged borrowings will affect profit over the life of the borrowing, however the impact on profit is expected to be nil as the borrowings are effectively hedged.

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (b) Hedging strategies (continued)

##### Hedges of net investments in foreign operations

We have exposure to foreign currency risk as a result of our investments in offshore activities, including our investments in TelstraClear Limited and Hong Kong CSL Limited. This risk is created by the translation of the net assets of these entities from their functional currency to Australian dollars. We hedge our investments in foreign operations to mitigate exposure to this risk using forward foreign currency contracts, cross currency swaps and/or borrowings in the relevant currency of the investment.

The effectiveness of the hedging relationship is tested using prospective and retrospective effectiveness tests. In a retrospective effectiveness test, the changes in the fair value of the hedging instruments and the change in the value of the hedged net investment from spot rate changes are calculated and a ratio is created. If this ratio is between 80 and 125 per cent, the hedge is effective. The prospective effectiveness test is performed based on matching of critical terms. As both the nominal volumes and currencies of the hedged item and the hedging instrument are identical, a highly effective hedging relationship is expected.

During the year there was no material ineffectiveness attributable to our hedges of net foreign investments.

In the consolidated statement of comprehensive income, net losses before tax of \$120 million and after tax of \$84 million (2008: gains before tax of \$144 million and after tax of \$100 million) on our hedging instruments were taken directly to equity during the year in the foreign currency translation reserve.

Refer to note 17 Table I and Table J for the value of our derivatives designated as hedges of net foreign investments.

#### (c) Hedge relationships

The following tables provide additional context around our hedge transactions and in particular describes how we arrive at our economic residual risk position as a result of the hedges executed. It should be noted that the economic residual position in each of the following tables will not be equal to the carrying values.

Table J and Table K describes each of our hedge relationships, using cross currency and interest rate swaps as the hedging instruments and comprise effective economic relationships based on contractual face value amounts and cash flows, including hedge relationships that have been de-designated for hedge accounting purposes and 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 and our offshore investment in Hong Kong CSL Limited. Outlined in the following table is the pre hedge underlying exposure, each leg of our cross currency and interest rate swaps and the end post hedge position. This post hedge position represents our net final currency and interest positions and is represented in our residual economic position as described in note 17 Table F.

## 18. Financial risk management (continued)

### (c) Hedge relationships (continued)

Table J Telstra Group and Telstra Entity - 30 June 2009

| Pre hedge underlying exposure                  | Derivative hedging instruments - cross currency and interest rate swaps |   |   |   |                               |  |  |                     | Final currency & interest positions |                       |     |
|--|---|---|---|---|-------------------------------|--|--|---------------------|-------------------------------------|-----------------------|-----|
|  | Face value  | Notional / Face value                     |   |   |                               | Notional value                                 |  |                     |                                     | Face / Notional Value |     |
|  | Native currency   | Native currency                           |   |   |                               | Final leg - Australian dollar                  |  |                     |                                     | Australian dollar     |     |
|  |   | \$m                                       | \$m                                       | \$m                                       | \$m                           | \$m  | \$m  | \$m                 | \$m                                 | \$m                   | \$m |
| Interest rate swap receive fixed / (pay) float | Cross currency swap receive / (pay) float                               | Cross currency swap receive / (pay) float | Cross currency swap receive / (pay) float | Cross currency swap receive / (pay) float | Cross currency swap pay fixed | Interest rate swap receive float / (pay) fixed | Interest rate swap receive fixed / (pay) float | (Pay)/receive float | Pay fixed                           |                       |     |
| <b>In hedge relationships</b>                  |   |   |   |   |                               |  |  |                     |                                     |                       |     |
| <b>Offshore borrowings - fixed</b>             |   |   |   |   |                               |  |  |                     |                                     |                       |     |
| Swiss francs . . . . .                         | (550)   | (550)                                     | 550                                       | -   | (599)                         | -  | (328)  | -                   | (271)                               | (328)                 |     |
| Euro . . . . .                                 | (4,000)   | (4,000)                                   | 4,000                                     | -   | (6,669)                       | -  | (3,640)  | -                   | (3,029)                             | (3,640)               |     |
| British pound . . . . .                        | (200)   | (200)                                     | 200                                       | -   | (584)                         | -  | (360)  | -                   | (224)                               | (360)                 |     |
| Japanese yen . . . . .                         | (46,000)  | -   | -   | 46,000                                    | (512)                         | (163)  | (348)  | -                   | (164)                               | (511)                 |     |
| United States dollar . . . . .                 | (670)   | (500)                                     | 500                                       | 170                                       | (1,177)                       | -  | (550)  | -                   | (627)                               | (550)                 |     |
| <b>Offshore borrowings - floating</b>          |   |   |   |   |                               |  |  |                     |                                     |                       |     |
| Australian dollar . . . . .                    | (250)   | -   | -   | -   | -                             | -  | (250)  | -                   | -                                   | (250)                 |     |
| Euro . . . . .                                 | (650)   | (500)                                     | 650                                       | -   | (1,026)                       | -  | -  | -                   | (1,026)                             | -                     |     |
| United States dollar . . . . .                 | (791)   | -   | 791                                       | -   | (806)                         | (106)  | -  | -                   | (806)                               | (106)                 |     |
| <b>Domestic loans - floating</b>               |   |   |   |   |                               |  |  |                     |                                     |                       |     |
| Australian dollar . . . . .                    | (275)   | -   | -   | -   | -                             | -  | (275)  | -                   | -                                   | (275)                 |     |
| <b>Net foreign investments</b>                 |   |   |   |   |                               |  |  |                     |                                     |                       |     |
| Hong Kong dollar . . . . .                     | 4,200   | -   | (4,200)                                   | -   | 680                           | -  | -  | -                   | 680                                 | -                     |     |
|  |   |   |   |   | (10,693)                      | (269)  | (5,751)  | -                   | (5,467)                             | (6,020)               |     |

Notes to the Financial Statements (continued)

## 18. Financial risk management (continued)

### (c) Hedge Relationships (continued)

| Table K                               |   | Telstra Group and Telstra Entity - 30 June 2008 |                             |                               |                               |                            |                            |               |                       | Final currency & interest positions |  |
|---------------------------------------|---|---|-----------------------------|-------------------------------|-------------------------------|----------------------------|----------------------------|---------------|-----------------------|-------------------------------------|--|
| Face value                            | Derivative hedging instruments - cross currency and interest rate swaps |   |                             |                               |                               |                            |                            |               | Face / Notional Value |                                     |  |
|                                       | Notional / Face value   |   |                             |                               | Notional value                |                            |                            |               |                       |                                     |  |
| Pre hedge underlying exposure         | Interest rate swap receive  | Cross currency swap receive/                    | Cross currency swap receive | Cross currency swap receive / | Cross currency swap pay       | Interest rate swap receive | Interest rate swap receive | (Pay)/receive | float                 | Pay fixed                           |  |
|                                       | fixed /(pay) float  | swap receive/ (pay) float                       | swap receive fixed          | swap receive / (pay) float    | swap pay fixed                | float /(pay) fixed         | fixed /(pay) float         |               |                       |                                     |  |
| Native currency                       | Native currency   |   |                             |                               | Final leg - Australian dollar |                            |                            |               | Australian dollar     |                                     |  |
| \$m                                   | \$m   | \$m   | \$m                         | \$m                           | \$m                           | \$m                        | \$m                        | \$m           | \$m                   | \$m                                 |  |
| <b>In hedge relationships</b>         |   |   |                             |                               |                               |                            |                            |               |                       |                                     |  |
| <b>Offshore borrowings - fixed</b>    |   |   |                             |                               |                               |                            |                            |               |                       |                                     |  |
| Swiss francs . . . . .                | (300)   | (300)   | 300                         | -                             | (328)                         | -                          | (328)                      | -             | -                     | (328)                               |  |
| Euro . . . . .                        | (4,500)   | (4,500)   | 4,500                       | -                             | (7,450)                       | -                          | (3,640)                    | -             | (3,810)               | (3,640)                             |  |
| British pound . . . . .               | (200)   | (200)   | 200                         | -                             | (584)                         | -                          | (360)                      | -             | (224)                 | (360)                               |  |
| Japanese yen . . . . .                | (26,000)  | -   | -                           | 26,000                        | (164)                         | (163)                      | -                          | -             | (164)                 | (163)                               |  |
| United States dollar . . . . .        | (670)   | (500)   | 500                         | 170                           | (1,177)                       | -                          | (550)                      | -             | (627)                 | (550)                               |  |
| <b>Offshore borrowings - floating</b> |   |   |                             |                               |                               |                            |                            |               |                       |                                     |  |
| Australian dollar . . . . .           | (250)   | -   | -                           | -                             | -                             | -                          | (250)                      | -             | -                     | (250)                               |  |
| Japanese yen . . . . .                | (7,000)   | -   | 7,000                       | -                             | (115)                         | -                          | -                          | -             | (115)                 | -                                   |  |
| United States dollar . . . . .        | (655)   | -   | 655                         | -                             | (630)                         | (106)                      | -                          | -             | (630)                 | (106)                               |  |
| <b>Domestic loans - floating</b>      |   |   |                             |                               |                               |                            |                            |               |                       |                                     |  |
| Australian dollar . . . . .           | (275)   | -   | -                           | -                             | -                             | -                          | (275)                      | -             | -                     | (275)                               |  |
| <b>Net foreign investments</b>        |   |   |                             |                               |                               |                            |                            |               |                       |                                     |  |
| Hong Kong dollar . . . . .            | 4,200   | -   | (4,200)                     | -                             | 640                           | -                          | -                          | -             | 640                   | -                                   |  |
|                                       |   |   |                             |                               | (9,808)                       | (269)                      | (5,403)                    | -             | (4,930)               | (5,672)                             |  |

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (c) Hedge Relationships (continued)

Table L describes each of our hedge relationships, where forward foreign currency exchange contracts are used as the hedging instruments. These relationships comprise effective economic relationships based on contractual face value amounts and cash flows, including relationships that are not in a designated hedge relationship for hedge accounting purposes. These hedging instruments are used to hedge our promissory notes, forecast transactions denominated in foreign currency, foreign currency trade and other creditors.

Outlined in the following table is the pre hedge underlying exposure, each leg of the forward foreign currency contract and the end post hedge position. This post hedge position represents our net final currency positions and is represented in our residual economic position as described in note 17 Table F.

Table L

|   | Telstra Group and Telstra Entity        |                 |                          |                    |                                  |                |                       |         |
|---|---|-----------------|--------------------------|--------------------|----------------------------------|----------------|-----------------------|---------|
|   | Derivative hedging instruments          |                 |                          |                    |                                  |                |                       |         |
|   | - forward foreign currency contracts    |                 |                          |                    |                                  |                |                       |         |
|   | Face value                              |                 | Notional value           |                    |                                  |                | Average exchange rate |         |
|   | Pre hedge underlying exposure (payable) |                 | Forward contract receive |                    | Forward contract pay - final leg |                |                       |         |
| Native Currency   |   | Native currency |                          | Australian dollars |                                  |                |                       |         |
| 2009  | 2008                                    | 2009            | 2008                     | 2009               | 2008                             | 2009           | 2008                  |         |
| \$m   | \$m                                     | \$m             | \$m                      | \$m                | \$m                              |                |                       |         |
| <b>Forward contracts hedging interest bearing debt</b>                                  |   |                 |                          |                    |                                  |                |                       |         |
| <b>Promissory notes</b>   |   |                 |                          |                    |                                  |                |                       |         |
| United States dollar - contractual maturity 0-3 months (2008: 0-3 months) . . . . .     | -                                       | (900)           | -                        | 900                | -                                | (962)          | -                     | 0.93540 |
| New Zealand dollars - contractual maturity 3-12 months (2008: nil) . . . . .            | (20)                                    | -               | 20                       | -                  | (18)                             | -              | <b>1.13310</b>        | -       |
| <b>Loans from wholly owned controlled entities</b>                                      |   |                 |                          |                    |                                  |                |                       |         |
| British pounds sterling - contractual maturity 0-3 months (2008: 3-12 months) . . . . . | (3)                                     | (4)             | 3                        | 4                  | (6)                              | (8)            | <b>0.46806</b>        | 0.47876 |
| New Zealand dollars - contractual maturity 0-3 months (2008: 3-12 months) . . . . .     | (253)                                   | (204)           | 253                      | 204                | (200)                            | (172)          | <b>1.26368</b>        | 1.22454 |
| United States dollars - contractual maturity 0-3 months (2008: 3-12 months) . . . . .   | (22)                                    | (13)            | 22                       | 13                 | (28)                             | (13)           | <b>0.78608</b>        | 0.93830 |
| <b>Forward contracts hedging non-financial items</b>                                    |   |                 |                          |                    |                                  |                |                       |         |
| <b>Forecast transactions</b>  |   |                 |                          |                    |                                  |                |                       |         |
| United States dollar - contractual maturity 0-12 months (2008: 0-3 months) . . . . .    | (495)                                   | (196)           | 495                      | 196                | (709)                            | (227)          | <b>0.69761</b>        | 0.93078 |
| Euro - contractual maturity 0 - 12 months (2008: nil) . . . . .                         | (2)                                     | -               | 2                        | -                  | (4)                              | -              | <b>0.55541</b>        | -       |
| Hong Kong dollar - contractual maturity 0-3 months (2008: nil) . . . . .                | (3)                                     | -               | 3                        | -                  | (1)                              | -              | <b>5.98057</b>        | -       |
| <b>Provisions and trade creditors - non interest bearing</b>                            |   |                 |                          |                    |                                  |                |                       |         |
| United states dollars- contractual maturity 0-12 months (2008: 3-12 months) . . . . .   | (63)                                    | (31)            | 63                       | 31                 | (79)                             | (18)           | <b>0.79123</b>        | 0.94311 |
| Euro- contractual maturity 0-3 months (2008: nil) . . . . .                             | (2)                                     | -               | 2                        | -                  | (4)                              | -              | <b>0.57435</b>        | -       |
|   |   |                 |                          |                    | <b>(1,049)</b>                   | <b>(1,400)</b> |                       |         |

## Notes to the Financial Statements (continued)

### 18. Financial risk management (continued)

#### (c) Hedge Relationships (continued)

Table M describes our hedge relationships where offshore loans and promissory notes are used as the hedging instruments. These hedging instruments are used to hedge net foreign investment in TelstraClear. Outlined in the following table is the pre hedge underlying exposure, the face value of the hedging instruments (New Zealand denominated borrowings and promissory notes) and the end post hedge position as at 30 June 2009 and is represented in our residual economic position as described in note 17 Table F.

**Table M**

|  | Non-derivative hedging instruments |      |  |       |                              |       |
|--|------------------------------------|------|--|-------|------------------------------|-------|
|  | Face value                         |      |  |       |                              |       |
|  | Hedged amount (i)                  |      | Offshore loans and promissory notes (ii) |       |                              |       |
|  | New Zealand dollars                |      | New Zealand dollars (payable)            |       | Australian dollars (payable) |       |
|  | 2009                               | 2008 | 2009                                     | 2008  | 2009                         | 2008  |
|  | \$m                                | \$m  | \$m                                      | \$m   | \$m                          | \$m   |
| <b>Net foreign investments</b>               |                                    |      |  |       |                              |       |
| TelstraClear Ltd (New Zealand dollars) . . . | 612                                | 614  | (612)                                    | (614) | (492)                        | (486) |

(i) Amount hedged represents portion of carrying value of net assets.

(ii) At 30 June 2009 the Australian dollar face value of offshore loans was \$205 million (2008: \$158 million) and the Australian dollar value of promissory notes was \$287 million (2008: \$328 million).

## Notes to the Financial Statements (continued)

### 19. Share capital

|   | Telstra Group |              | Telstra Entity |              |
|---|---------------|--------------|----------------|--------------|
|   | As at 30 June |              | As at 30 June  |              |
|   | 2009          | 2008         | 2009           | 2008         |
|   | \$m           | \$m          | \$m            | \$m          |
| Contributed equity . . . . .                              | 5,793         | 5,793        | 5,793          | 5,793        |
| Share loan to employees. . . . .                          | (87)          | (98)         | (87)           | (98)         |
| Shares held by employee share plans. . . . .              | (165)         | (197)        | (165)          | (197)        |
| Net services received under employee share plans. . . . . | 35            | 36           | 35             | 36           |
|   | <b>5,576</b>  | <b>5,534</b> | <b>5,576</b>   | <b>5,534</b> |

#### Contributed equity

Our contributed equity represents our authorised and issued fully paid ordinary shares. Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

We have 12,443,074,357 (30 June 2008: 12,443,074,357) authorised fully paid ordinary shares on issue.

#### Share loan to employees

The share loan to employees account represents the outstanding balance of the non recourse loans provided to our employees under the Telstra Employee Share Ownership Plans (TESOP 97 and TESOP 99). Refer to note 27 for further details regarding these plans.

#### Shares held by employee share plan trusts

The shares held by employee share plan trusts account represents the cost of shares held by the Telstra Growthshare Trust (Growthshare) in Telstra Corporation Limited. The purchase of these shares has been fully funded by Telstra Corporation Limited. As at 30 June 2009 the number of shares totalled 33,466,467 (2008: 39,765,621). These shares are excluded from the calculation of basic and diluted earnings per share.

#### Net services received under employee share plans

The net services received under employee share plans account is used to record the cumulative value of our incentive shares, options, restricted shares, performance rights and deferred shares issued under Growthshare. Contributions by Telstra Corporation Limited to Growthshare are also included in this account. These contributions are used by the Trust to purchase Telstra shares on market to underpin the issue of our equity instruments.

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows

|   | Note | Telstra Group      |             | Telstra Entity     |             |
|---|------|--------------------|-------------|--------------------|-------------|
|   |      | Year ended 30 June |             | Year ended 30 June |             |
|   |      | 2009<br>\$m        | 2008<br>\$m | 2009<br>\$m        | 2008<br>\$m |
| <b>(a) Reconciliation of profit to net cash provided by operating activities</b>        |      |                    |             |                    |             |
| Profit for the year . . . . .   |      | <b>4,076</b>       | 3,711       | <b>3,975</b>       | 3,817       |
| <b>Add/(subtract) the following transactions</b>  |      |                    |             |                    |             |
| Depreciation and amortisation . . . . .   | 7    | <b>4,390</b>       | 4,190       | <b>3,737</b>       | 3,621       |
| Finance income . . . . .  | 6    | <b>(67)</b>        | (72)        | <b>(62)</b>        | (60)        |
| Finance costs . . . . .   | 7    | <b>967</b>         | 1,158       | <b>953</b>         | 1,152       |
| Dividend revenue . . . . .  | 6    | -                  | -           | <b>(146)</b>       | (256)       |
| Distribution from FOXTEL partnership . . . . .  | 6    | <b>(100)</b>       | (130)       | -                  | -           |
| Share based payments . . . . .  | 7    | <b>23</b>          | 28          | <b>23</b>          | 28          |
| Defined benefit plan expense . . . . .  | 7    | <b>229</b>         | 198         | <b>229</b>         | 197         |
| Net gain on disposal of property, plant and equipment . . . . .                         | 6    | -                  | -           | -                  | (2)         |
| Net gain on disposal of intangibles . . . . .   | 6    | -                  | (1)         | -                  | -           |
| Net gain on disposal of investments . . . . .   | 6    | -                  | (37)        | -                  | -           |
| Share of net (profits)/losses from jointly controlled and associated entities . . . . . | 26   | <b>(3)</b>         | 1           | -                  | -           |
| Impairment losses (excluding inventories, trade and other receivables) . . . . .        | 7    | <b>46</b>          | 60          | <b>316</b>         | 338         |
| Reversal of impairment losses (excluding trade and other receivables) . . . . .         | 7    | <b>(6)</b>         | -           | -                  | (2)         |
| Foreign exchange differences . . . . .  |      | <b>16</b>          | (13)        | <b>136</b>         | (100)       |
| <b>Cash movements in operating assets and liabilities</b>                               |      |                    |             |                    |             |
| <b>(net of acquisitions and disposals of controlled entity balances)</b>                |      |                    |             |                    |             |
| (Increase)/decrease in trade and other receivables . . . . .                            |      | <b>(60)</b>        | (110)       | <b>(150)</b>       | (155)       |
| (Increase)/decrease in inventories . . . . .  |      | <b>47</b>          | 13          | <b>48</b>          | 2           |
| (Increase)/decrease in prepayments and other assets . . . . .                           |      | <b>(68)</b>        | (11)        | <b>93</b>          | 2           |
| (Increase)/decrease in net defined benefit . . . . .                                    |      | <b>(196)</b>       | -           | <b>(194)</b>       | -           |
| Increase/(decrease) in trade and other payables . . . . .                               |      | <b>(113)</b>       | 88          | <b>(88)</b>        | 54          |
| Increase/(decrease) in revenue received in advance . . . . .                            |      | <b>(84)</b>        | 44          | <b>(79)</b>        | 24          |
| Increase/(decrease) in net taxes payable . . . . .                                      |      | <b>(65)</b>        | (102)       | <b>(87)</b>        | 30          |
| Increase/(decrease) in provisions . . . . .   |      | <b>(34)</b>        | (171)       | <b>(56)</b>        | (161)       |
| <b>Net cash provided by operating activities</b> . . . . .                              |      | <b>8,998</b>       | 8,844       | <b>8,648</b>       | 8,529       |
| <b>(b) Cash and cash equivalents</b>  |      |                    |             |                    |             |
| Cash at bank and on hand . . . . .  |      | <b>462</b>         | 426         | <b>105</b>         | 84          |
| Bank deposits, bills of exchange and promissory notes . . . . .                         |      | <b>919</b>         | 473         | <b>911</b>         | 458         |
| <b>Total cash and cash equivalents</b> . . . . .  |      | <b>1,381</b>       | 899         | <b>1,016</b>       | 542         |

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### (c) Acquisitions

##### Octave Investments Holdings Limited

On 9 February 2009, our controlled entity Telstra Octave Holdings Limited acquired 67% of the issued capital of Octave Investments Holdings Limited for a total consideration of \$292 million including acquisition costs, with \$103 million of this consideration deferred and contingent upon the subsidiaries achieving certain pre-determined revenue and EBITDA targets in the year ending 31 December 2009. Total deferred contingent consideration is based on the foreign exchange rate at 30 June 2009.

Octave Investments Holdings Limited acquired 100% of two businesses being Beauty Sunshine Investments Limited (ChinaM) and Sharp Point Group Limited (Sharp Point). ChinaM is a leading supplier of consumer mobile content and Sharp Point provides technical services for China Mobile's rapidly growing central mobile music platform.

The effect of the acquisition is detailed below:

|  | Octave Investments Holdings |                       |
|--|-----------------------------|-----------------------|
|  | 2009<br>\$m                 | 2009<br>\$m           |
| <b>Consideration for acquisition</b>   |                             |                       |
| Cash consideration for acquisition . . . . .                                       | 185                         |                       |
| Deferred contingent consideration for acquisition . . . . .                        | 103                         |                       |
| Costs of acquisition . . . . .   | 4                           |                       |
| <b>Total purchase consideration . . . . .</b>                                      | <b>292</b>                  |                       |
| Cash balances acquired . . . . .   | (20)                        |                       |
| Consideration deferred . . . . .   | (103)                       |                       |
| <b>Outflow of cash on acquisition . . . . .</b>                                    | <b>169</b>                  |                       |
|  | <b>Fair value</b>           | <b>Carrying value</b> |
| <b>Assets/(liabilities) at acquisition date</b>                                    |                             |                       |
| Cash and cash equivalents . . . . .  | 20                          | 20                    |
| Trade and other receivables . . . . .  | 27                          | 27                    |
| Property, plant and equipment . . . . .  | 2                           | 2                     |
| Intangible assets . . . . .  | 156                         | 4                     |
| Trade and other payables . . . . .   | (16)                        | (16)                  |
| Deferred tax liabilities . . . . .   | (38)                        | -                     |
| Net assets . . . . .   | 151                         | 37                    |
| Adjustment to reflect minority interests   | (50)                        |                       |
| <b>Goodwill on acquisition . . . . .</b>   | <b>191</b>                  |                       |
|  | <b>292</b>                  |                       |
| Profit after minority interests from acquisition date until 30 June 2009 . . . . . | 10                          |                       |

At 30 June 2009, we have estimated that \$103 million of the total contingent consideration will become payable and is recorded as a liability within trade and other payables.

We have recognised goodwill of \$191 million on acquisition of ChinaM and Sharp Point. The following factors contributed to the recognition of goodwill:

- forecast revenues and profitability of ChinaM and Sharp Point; and
- strategic benefits to the operations of the Telstra Group.

We have identified and measured any significant intangible assets separately from goodwill on acquisition of ChinaM and Sharp Point.

If the ChinaM and Sharp Point acquisition had occurred on 1 July 2008, our adjusted consolidated income and consolidated profit before income tax expense for the year ended 30 June 2009 for the Telstra Group would have been \$25,675 million and \$5,685 million respectively.

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### Fiscal 2008 acquisitions

##### Sequel Limited

On 27 June 2008, our controlled entity Telstra Holdings Pty Ltd acquired 55% of the issued capital of Sequel Limited who acquired 100% of the issued capital of the Cheerbright International Holdings Limited Group, the China Topside Limited Group and the Norstar Advertising Media Holdings Limited Group (Norstar Media and Autohome/PCPop) for a total consideration of \$147 million including acquisition costs.

Norstar Media and Autohome/PCPop are internet businesses with leading positions in the fast-growing online auto and digital device advertising sectors in China.

The effect of the acquisition is detailed below:

|   | <b>Norstar Media and<br/>Autohome/PCPop</b> |                       |
|---|---|-----------------------|
|   | <b>2008</b>                                 | <b>2008</b>           |
|   | <b>\$m</b>                                  | <b>\$m</b>            |
| <b>Consideration for acquisition</b>  |   |                       |
| Initial cash consideration paid in fiscal 2008. . . . .                           | 76  |                       |
| Additional cash consideration paid in fiscal 2009 . . . . .                       | 68  |                       |
| Costs of acquisition paid in fiscal 2009. . . . .                                 | 3   |                       |
| <b>Total purchase consideration</b> . . . . .                                     | <u>147</u>                                  |                       |
| Cash balances acquired . . . . .  | (6)   |                       |
| <b>Total outflow of cash</b> . . . . .  | <u>141</u>                                  |                       |
|   | <b>Fair value</b>                           | <b>Carrying value</b> |
| <b>Assets/(liabilities) at acquisition date</b>                                   |   |                       |
| Cash and cash equivalents . . . . .   | 6   | 6                     |
| Trade and other receivables . . . . .   | 13  | 13                    |
| Property, plant and equipment. . . . .  | 3   | 3                     |
| Intangible assets. . . . .  | 38  | 1                     |
| Trade and other payables . . . . .  | (11)  | (11)                  |
| Deferred tax liabilities . . . . .  | (9)   | -                     |
| Net assets . . . . .  | 40  | 12                    |
| Adjustment to reflect minority interests . . . . .                                | (18)  |                       |
| <b>Goodwill on acquisition</b> . . . . .  | <u>125</u>                                  |                       |
|   | <u>147</u>                                  |                       |
| Profit after minority interests from acquisition date until 30 June 2008. . . . . | -   |                       |

In fiscal 2008 we accrued deferred contingent consideration of \$15 million and recognised goodwill of \$68 million on acquisition. In fiscal 2009 certain pre-determined revenue and EBITDA targets were achieved and an additional \$68 million was paid. This, along with the finalisation of the acquisition balance sheet, has increased goodwill on acquisition to \$125 million.

#### Other fiscal 2008 acquisitions

On 6 February 2008, our controlled entity 1300 Australia Pty Ltd acquired 100% of the issued capital of Alpha Phone Words Pty Ltd for \$3 million, of which \$1 million is deferred consideration. The effect on the Telstra Group of this acquisition was an increase in intangibles of \$3 million.

Refer to note 25 for further details on our acquisitions.

## Notes to the Financial Statements (continued)

### 20. Notes to the statement of cash flows (continued)

#### (d) Disposals

The following disposals occurred during fiscal 2009:

- On 2 July 2008, our controlled entity Telstra International HK Limited sold its 100% shareholding in Damovo Hong Kong Limited for nominal consideration; and
- On 30 April 2009, our controlled entity Telstra Service Solutions Holdings sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Limited for a total consideration of \$205 million (net of cash balances of the disposed entities).

The cash flow effect on the Telstra Group of these disposals is detailed below:

|  | <b>Total disposals</b> |
|--|------------------------|
|  | <b>Year ended 30</b>   |
|  | <b>June 2009</b>       |
|  | <b>\$m</b>             |
| <b>Consideration on disposal</b>                 |                        |
| Total consideration on disposal . . . . .        | 208                    |
| Cash and cash equivalents disposed of . . . . .  | (3)                    |
|  | 205                    |
| Deferred consideration for the disposal. . . . . | (8)                    |
| <b>Inflow of cash on disposal . . . . .</b>      | <b>197</b>             |

The following disposals occurred during fiscal 2008:

- On 31 July 2007, our controlled entity KAZ Group Pty Limited sold its 100% shareholding in KAZ Business Services Pty Ltd, KAZ Software Solutions Pty Ltd and Enhanced Processing Technologies Pty Ltd for a total consideration of \$2 million (net of cash balances of the disposed entities).
- On 15 August 2007, our controlled entity Sensis Pty Ltd sold its 100% shareholding in Invizage Pty Ltd for a total cash consideration of \$1 million (net of cash balances of the disposed entity).
- On 22 December 2007, our controlled entity Telstra Services Solutions Holdings Limited sold its 100% shareholding in Telstra eBusiness Services Pty Limited for a total cash consideration of \$48 million (net of cash balances of the disposed entity).

The cash flow effect on the Telstra Group of these disposals is detailed below:

|   | <b>Total disposals</b> |
|---|------------------------|
|   | <b>Year ended 30</b>   |
|   | <b>June 2008</b>       |
|   | <b>\$m</b>             |
| <b>Consideration on disposal</b>                |                        |
| Cash consideration for disposal . . . . .       | 53                     |
| Cash and cash equivalents disposed of . . . . . | (2)                    |
| <b>Inflow of cash on disposal . . . . .</b>     | <b>51</b>              |

#### (e) Significant financing and investing activities that involve components of non cash

##### Acquisition of assets by means of finance leases

|   | <b>Telstra Group</b> |      | <b>Telstra Entity</b> |      |
|---|----------------------|------|-----------------------|------|
|   | <b>Year ended</b>    |      | <b>Year ended</b>     |      |
|   | <b>30 June</b>       |      | <b>30 June</b>        |      |
|   | <b>2009</b>          | 2008 | <b>2009</b>           | 2008 |
|   | <b>\$m</b>           | \$m  | <b>\$m</b>            | \$m  |
| Acquisition of plant & equipment by means of finance leases . . . | 24                   | 31   | 24                    | 31   |

## Notes to the Financial Statements (continued)

### 21. Impairment

#### Cash generating units

For the purposes of undertaking our impairment testing, we identify cash generating units (CGUs). Our CGUs are determined according to the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The carrying amount of our goodwill and intangible assets with an indefinite useful life are detailed below:

|   | Goodwill      |              | Intangible assets with indefinite useful lives |            |
|---|---------------|--------------|--|------------|
|   | As at 30 June |              | As at 30 June                                  |            |
|   | 2009          | 2008         | 2009   | 2008       |
|   | \$m           | \$m          | \$m  | \$m        |
| <b>CGUs</b>   |               |              |  |            |
| CSL New World Group . . . . .   | 1,160         | 972          | -  | -          |
| TelstraClear Group . . . . .  | 134           | 132          | -  | -          |
| Telstra Europe Group . . . . .  | 93            | 94           | -  | -          |
| Sensis Group (a) . . . . .  | 215           | 215          | -  | -          |
| Location Publishing Group (formerly Universal Publishers Pty Ltd) (f) . . . . . | 15            | 15           | 10   | 10         |
| Adstream Group . . . . .  | 24            | 28           | -  | -          |
| Telstra Business Systems Pty Ltd (b) . . . . .                                  | -             | 30           | -  | -          |
| SouFun Group . . . . .  | 342           | 287          | -  | -          |
| 1300 Australia Pty Ltd . . . . .  | 16            | 16           | 12   | 12         |
| Sequel Group . . . . .  | 126           | 68           | -  | -          |
| Beauty Sunshine / Sharp Point (Octave Group) (c) . . . . .                      | 158           | -            | -  | -          |
| KAZ Group (d) . . . . .   | -             | 127          | -  | -          |
| Telstra Entity CGU (e) . . . . .  | 63            | 33           | 337  | -          |
|   | <b>2,346</b>  | <b>2,017</b> | <b>359</b>                                     | <b>22</b>  |
| <b>Individual assets</b>  |               |              |  |            |
| Trading Post mastheads (b) . . . . .  | -             | -            | -  | 337        |
|   | <b>2,346</b>  | <b>2,017</b> | <b>359</b>                                     | <b>359</b> |

(a) Our assessment of the Sensis Group CGU excludes Location Publishing Group, Adstream Group, SouFun Group and the Sequel Group that form part of the Sensis reportable segment. These CGUs are assessed separately.

(b) The operations of Trading Post and Telstra Business Systems (TBS) have been integrated into Telstra Corporation Limited. As a result, Trading Post and TBS cease to be separate CGUs. The Trading Post mastheads and the TBS goodwill, are assessed within Telstra Corporation Limited (Telstra Entity CGU).

(c) On 9 February 2009, our controlled entity Telstra Octave Holdings Limited acquired 67% of the issued capital of Octave Investment Holdings Limited which acquired 100% of the issued capital of Beauty Sunshine Investments Limited and Sharp Point Group Limited for a total consideration of \$288 million excluding transaction costs. Refer to note 20 for further details.

(d) The KAZ Group was disposed of on 30 April 2009. Refer to note 20 for further details

(e) The Telstra Entity CGU consists of our ubiquitous telecommunications infrastructure network in Australia, excluding the Hybrid Fibre Coaxial cable network (HFC network) that we consider not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network are considered to be working together to generate our net cash flows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

As noted in (b) above, the Telstra Entity CGU also includes the Trading Post mastheads and TBS goodwill.

(f) During fiscal 2009 the digital mapping business of Sensis was managed and reported as a combined CGU with the former Universal Publishers Pty Ltd.

## Notes to the Financial Statements (continued)

### 21. Impairment (continued)

#### Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite life intangible assets has been allocated:

|                                     | Discount rate<br>(g) |      | Terminal value<br>growth rate (h) |      |
|-------------------------------------|----------------------|------|-----------------------------------|------|
|                                     | As at 30 June        |      | As at 30 June                     |      |
|                                     | 2009                 | 2008 | 2009                              | 2008 |
|                                     | %                    | %    | %                                 | %    |
| CSL New World Group . . . . .       | 11.2                 | 10.7 | 2.0                               | 2.0  |
| TelstraClear Group . . . . .        | 13.0                 | 14.0 | 3.0                               | 3.0  |
| Telstra Europe Group . . . . .      | 9.5                  | 9.3  | 3.0                               | 3.0  |
| Sensis Group . . . . .              | 13.0                 | 13.3 | 3.0                               | 3.0  |
| Location Publishing Group . . . . . | 13.9                 | 14.0 | 3.0                               | 3.0  |
| Adstream Group . . . . .            | 13.2                 | 14.1 | 3.0                               | 3.0  |
| Telstra Business Systems Pty Ltd    | -                    | 15.6 | -                                 | 3.0  |
| SouFun Group . . . . .              | 15.0                 | 17.8 | 5.0                               | 5.0  |
| 1300 Australia Pty Ltd . . . . .    | 13.6                 | 16.2 | 3.0                               | 3.0  |
| Sequel Group . . . . .              | 17.3                 | -    | 5.0                               | -    |
| Octave Group . . . . .              | 19.5                 | -    | 5.0                               | -    |
| KAZ Group . . . . .                 | -                    | 14.8 | -                                 | 3.0  |
| Trading Post mastheads . . . . .    | -                    | 14.7 | -                                 | 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 was 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 growth rates for the Australian CGUs are aligned at three percent.

#### Telstra Entity CGU and HFC Network

With the integration of the Trading Post mastheads and TBS to the Telstra Entity CGU, we are now required to test this CGU for impairment on an annual basis.

The HFC network is only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Our impairment testing of the Telstra Entity CGU as at 30 June 2009 compares the carrying value of the CGU with its recoverable amount determined using a value in use calculation. We have applied a pre tax discount rate of 14.1% to the cash flow projections of the CGU. The discount rate reflects the market determined, risk adjusted, discount rate which was adjusted for specific risks relating to the CGU. The cash flows have been extrapolated over the weighted average remaining service life of our ubiquitous network of 9.24 years.

The cashflow projections and discount rate used in the impairment testing of the Telstra Entity CGU, and our assessment of the HFC network, are based on Telstra's current operating model. As such, they exclude any potential impact of the proposed National Broadband Network (NBN). Given the significant level of uncertainty that currently exists, the potential impacts of NBN on the Telstra Entity CGU and the HFC network are unknown at this time.

## Notes to the Financial Statements (continued)

### 22. Expenditure commitments

|  | Telstra Group |              | Telstra Entity |              |
|--|---------------|--------------|----------------|--------------|
|  | As at 30 June |              | As at 30 June  |              |
|  | 2009          | 2008         | 2009           | 2008         |
|  | \$m           | \$m          | \$m            | \$m          |
| <b>(a) Capital expenditure commitments</b>   |               |              |                |              |
| Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements: |               |              |                |              |
| <b>Property, plant and equipment commitments</b>   |               |              |                |              |
| Within 1 year . . . . .  | 577           | 568          | 541            | 527          |
| Within 1 to 5 years. . . . .   | 35            | 21           | 35             | 7            |
|  | <b>612</b>    | <b>589</b>   | <b>576</b>     | <b>534</b>   |
| <b>Intangible assets commitments</b>   |               |              |                |              |
| Within 1 year . . . . .  | 59            | 243          | 27             | 193          |
| Within 1 to 5 years. . . . .   | 185           | 222          | 163            | 179          |
|  | <b>244</b>    | <b>465</b>   | <b>190</b>     | <b>372</b>   |
| <b>(b) Operating lease commitments</b>   |               |              |                |              |
| Future lease payments for non-cancellable operating leases not recorded in the financial statements:               |               |              |                |              |
| Within 1 year . . . . .  | 423           | 413          | 325            | 329          |
| Within 1 to 5 years. . . . .   | 1,040         | 858          | 925            | 748          |
| After 5 years . . . . .  | 809           | 363          | 779            | 327          |
|  | <b>2,272</b>  | <b>1,634</b> | <b>2,029</b>   | <b>1,404</b> |

In addition, in fiscal 2009 the Telstra Group had total future commitments under cancellable operating leases of \$186 million (2008: \$216 million). In fiscal 2009, the Telstra Entity had total future commitments under cancellable operating leases of \$185 million (2008: \$215 million).

#### Description of our operating leases

We have operating leases for the following types of assets:

- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers, and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The weighted average lease term is:

- 6 years for land and buildings;
- 2 years for motor vehicles, 4 years for light commercial vehicles and 7 to 12 years for trucks and mechanical aids; and
- 3 years for personal computers and related equipment.

The majority of our operating leases relate to land and buildings. We have several subleases with total minimum lease payments of \$19 million (2008: \$22 million) for the Telstra Group and \$10 million (2008: \$10 million) for the Telstra Entity. Our property operating leases generally contain escalation clauses, which are fixed increases generally between 3% and 5%, or increases subject to the consumer price index or market rate. We do not have any significant purchase options.

Contingent rental payments exist for motor vehicles and are not significant compared with total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, additional fittings and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

A number of our operating leases are considered onerous due to our transformation project and as such, have been provided for in our financial statements. Refer to note 16 for further details.

## Notes to the Financial Statements (continued)

### 22. Expenditure commitments (continued)

|  | Note | Telstra Group |      | Telstra Entity |      |
|--|------|---------------|------|----------------|------|
|  |      | As at 30 June |      | As at 30 June  |      |
|  |      | 2009          | 2008 | 2009           | 2008 |
|  |      | \$m           | \$m  | \$m            | \$m  |
| <b>(c) Finance lease commitments</b>                         |      |               |      |                |      |
| Within 1 year . . . . .                                      |      | 38            | 41   | 34             | 37   |
| Within 1 to 5 years. . . . .                                 |      | 58            | 68   | 43             | 53   |
| After 5 years . . . . .                                      |      | 32            | 36   | -              | -    |
| Total minimum lease payments . . . . .                       |      | 128           | 145  | 77             | 90   |
| Future finance charges on finance leases . . . . .           |      | (33)          | (38) | (7)            | (9)  |
| Present value of net future minimum lease payments . . . . . |      | 95            | 107  | 70             | 81   |
| <b>Included in the financial statements as:</b>              |      |               |      |                |      |
| Current borrowings . . . . .                                 | .17  | 31            | 34   | 30             | 33   |
| Non current borrowings . . . . .                             | .17  | 64            | 73   | 40             | 48   |
| Total finance lease liabilities . . . . .                    | .17  | 95            | 107  | 70             | 81   |

#### 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 14 years; and
- 5 years for computer mainframes and associated equipment.

Interest rates for our finance leases are:

- property leases interest rate of 11.25%; and
- computer mainframes, computer processing equipment and associated equipment weighted average interest rate of 5.1%.

In addition to the above finance lease commitments, we previously entered into US finance leases for communications exchange equipment with various entities denominated in US dollars. We have prepaid all lease rentals due under the terms of these leases and have no additional payment obligations.

These entities lease the communications equipment from the ultimate lessor and then sublease the equipment to us. We have guaranteed that the lease payments will be paid by these entities to the ultimate lessor as scheduled over the lease terms (refer to note 23 for further information).

We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 13 for further details on communication assets and equipment that are held under finance lease.

## Notes to the Financial Statements (continued)

### 22. Expenditure commitments (continued)

|   | Telstra Group |              | Telstra Entity |              |
|---|---------------|--------------|----------------|--------------|
|   | As at 30 June |              | As at 30 June  |              |
|   | 2009          | 2008         | 2009           | 2008         |
|   | \$m           | \$m          | \$m            | \$m          |
| <b>(d) Other commitments</b>  |               |              |                |              |
| Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are: |               |              |                |              |
| Within 1 year . . . . .   | 576           | 527          | 557            | 507          |
| Within 1 to 5 years. . . . .  | 1,013         | 824          | 986            | 794          |
| After 5 years . . . . .   | 515           | 210          | 509            | 204          |
|   | <b>2,104</b>  | <b>1,561</b> | <b>2,052</b>   | <b>1,505</b> |

Our other expenditure commitments include contracts for printing, engineering and operational support services, information technology services and building maintenance.

Information regarding our share of our jointly controlled and associated entities' commitments is included in note 26.

## Notes to the Financial Statements (continued)

### 23. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2009. The details and maximum amounts (where reasonable estimates can be made) are set out below for our contingent liabilities.

#### Telstra Entity

##### Common law claims

Certain common law claims by employees and third parties are yet to be resolved. As at 30 June 2009, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows. The maximum amount of these contingent liabilities cannot be reasonably estimated.

Included in our common law claims is the following litigation case:

In November 2002, Seven Network Limited and C7 Pty Limited ('Seven') commenced litigation against us and various other parties ('the respondents') in relation to the contracts and arrangements between us and some of those other parties relating to the right to broadcast Australian Football League and National Rugby League, the contract between FOXTEL and us for the provision of HFC cable services (the Broadband Co-operation Agreement) and other matters.

Seven sought damages and other relief, including that some of these contracts and arrangements are void. Seven also sought orders which would, in effect, require a significant restructuring of the subscription television/sports rights markets in Australia.

On 27 July 2007 the Federal Court dismissed Seven's case on all grounds. Final orders were made and in December 2007 Seven paid Telstra \$13 million in costs. Seven has appealed some aspects of the decision. The appeal hearing was completed in November 2008 and the Court's decision was reserved.

##### Unconditioned Local Loop Service (ULLS) and Line Sharing Service (LSS)

A number of Telstra competitors have notified access disputes in relation to ULLS and LSS. The ACCC has made interim determinations in most of these disputes setting access prices for LSS at \$2.50 per month and the key Band 2 ULL price of \$16 per month. We expect the ACCC to make final determinations in these disputes in late 2009.

Telstra filed judicial review applications in the Federal Court of Australia challenging a number of the previous ULL and LSS final determinations made by the ACCC in 2007 and early 2008. The Federal Court has now heard all of these applications. The Court found in Telstra's favour in one application challenging a non-price ULLS provisioning final determination. An aspect of this decision was appealed by the ACCC and Optus to the Full Court of the Federal Court. That appeal was allowed but it did not impact upon the original Court orders. In July 2009, Telstra was not successful in relation to applications concerning 14 other access seekers.

##### Exchange Capping

On 19 March 2009 the ACCC issued proceedings against Telstra in the Federal Court of Australia in relation to 30 separate refusals by Telstra to provide competitors with access to main distribution frame facilities in seven of Telstra's telephone exchanges between January 2006 and February 2008. The ACCC alleges these refusals amounted to breaches by Telstra of certain access obligations under the Telecommunications Act 1997 and the Trade Practices Act 1974. The ACCC also alleges that Telstra engaged in related conduct which was misleading and deceptive in breach of the Trade Practices Act. The ACCC is seeking declarations, pecuniary penalties and injunctions. The case is continuing and is not expected to have a material impact.

##### Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of \$309 million (2008: \$350 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was \$263 million (2008: \$277 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 \$28 million (2008: \$55 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 \$14 million (2008: \$14 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 \$522 million (US\$424 million) (2008: \$490 million (US\$472 million)). We hold an early buyout option that we could exercise in fiscal 2011 and fiscal 2013, otherwise the relevant lease period ends during fiscal 2015 and fiscal 2016. Refer to note 22 for further details on the above finance leases.

## Notes to the Financial Statements (continued)

### 23. Contingent liabilities and contingent assets (continued)

#### Telstra Entity (continued)

##### Indemnities, performance guarantees and financial support (continued)

- 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 2009, this guarantee has still been provided and \$142 million (2008: \$142 million) of the \$210 million guarantee facility remains unused.

Upon sale of our shareholding in IBMGSA and under the deed of indemnity between shareholders, our liability under these performance guarantees has been indemnified for all guarantees that were in place at the time of sale. Therefore, the overall net exposure to any loss associated with a claim has effectively been offset.

#### Other

##### FOXTEL minimum subscriber guarantees and other obligations

The Telstra Entity and its partners, News Corporation Limited and Publishing and Broadcasting Limited, and Telstra Media Pty Ltd and its partner, Sky Cable Pty Ltd, have entered into agreements relating to pay television programming with various parties and other miscellaneous contracts. Our share of commitments under these agreements relate mainly to minimum subscriber guarantees (MSG) (refer to note 26 for details of MSG commitments).

As we are subject to joint and several liability in relation to certain agreements entered into by the FOXTEL partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from FOXTEL's MSG and other agreements are \$1,906 million (2008: \$1,828 million).

##### 3GIS Partnership

During fiscal 2005, Telstra OnAir Holdings Pty Ltd and its partner, Hutchison 3G Australia Pty Ltd entered into agreements relating to the occupation of premises to provide 3GSM radio access network services.

As we are subject to joint and several liability in relation to agreements entered into by the 3GIS partnership, we would be contingently liable if our partners in this relationship failed to meet any of their obligations. As a result, our contingent liabilities arising from the above agreements are \$116 million (2008: \$130 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. The next investigation will be carried out as at 30 June 2009, and work on this has commenced.

#### HK CSL Retirement Scheme

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme. This scheme was established under the Occupational Retirement Schemes Ordinance (ORSO) and is administered by an independent trustee. The scheme has three defined benefit sections and one defined contribution section. Actuarial investigations are undertaken annually for this scheme.

The benefits received by members of the defined benefit schemes are based on the employees' remuneration and length of service.

#### Measurement dates

For Telstra Super actual membership data as at 30 April was used to value precisely the defined obligations as at that date. Details of assets, contributions, benefit payments and other cash flows as at 31 May were also provided in relation to Telstra Super. These April and May figures were then rolled up to 30 June to allow for changes in the membership and actual asset return.

Actual membership data as at 31 May was used to precisely measure the defined benefit liability as at that date for the HK CSL Retirement Scheme. Details of assets, contributions, benefit payments and other cash flows as at 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 is determined by our actuary. The details of the defined benefit divisions are set out in the following pages.

#### Other defined contribution schemes

A number of our subsidiaries also participate in defined contribution schemes which receive employer and employee contributions based on a percentage of the employees' salaries. The Telstra Group made contribution to these schemes of \$26 million for fiscal 2009 (2008: \$23 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:

|  | <b>Telstra Group</b> |       |       |       |       |
|--|----------------------|-------|-------|-------|-------|
|  | <b>As at 30 June</b> |       |       |       |       |
|  | <b>2009</b>          | 2008  | 2007  | 2006  | 2005  |
|  | <b>\$m</b>           | \$m   | \$m   | \$m   | \$m   |
| Fair value of defined benefit plan assets (c) . . . . .                                | <b>2,503</b>         | 3,205 | 4,342 | 4,553 | 4,518 |
| Present value of the defined benefit obligation (d). . . . .                           | <b>2,847</b>         | 3,048 | 3,646 | 3,675 | 4,308 |
| <b>Net defined benefit (liability) / asset before adjustment for contributions tax</b> | <b>(344)</b>         | 157   | 696   | 878   | 210   |
| Adjustment for contributions tax . . . . .   | <b>(62)</b>          | 25    | 118   | 151   | 37    |
| <b>Net defined benefit (liability) / asset at 30 June</b> . . . . .                    | <b>(406)</b>         | 182   | 814   | 1,029 | 247   |
| Comprises of: . . . . .  |                      |       |       |       |       |
| Defined benefit asset . . . . .  | <b>8</b>             | 182   | 814   | 1,029 | 247   |
| Defined benefit liability . . . . .  | <b>(414)</b>         | -     | -     | -     | -     |
|  | <b>(406)</b>         | 182   | 814   | 1,029 | 247   |
| <b>Experience adjustments:</b>   |                      |       |       |       |       |
| Experience adjustments arising on defined benefit plan assets - (loss)/gain .          | <b>(593)</b>         | (525) | 261   | 480   | 155   |
| Experience adjustments arising on defined benefit obligations - gain/(loss) .          | <b>72</b>            | 41    | 69    | (206) | (44)  |

|  | <b>Telstra Entity</b> |       |       |       |       |
|--|-----------------------|-------|-------|-------|-------|
|  | <b>As at 30 June</b>  |       |       |       |       |
|  | <b>2009</b>           | 2008  | 2007  | 2006  | 2005  |
|  | <b>\$m</b>            | \$m   | \$m   | \$m   | \$m   |
| Fair value of defined benefit plan assets (c) . . . . .                                | <b>2,430</b>          | 3,127 | 4,244 | 4,458 | 4,439 |
| Present value of the defined benefit obligation (d). . . . .                           | <b>2,782</b>          | 2,990 | 3,578 | 3,605 | 4,234 |
| <b>Defined benefit (liability) / asset before adjustment for contributions tax . .</b> | <b>(352)</b>          | 137   | 666   | 853   | 205   |
| Adjustment for contributions tax . . . . .   | <b>(62)</b>           | 24    | 117   | 151   | 37    |
| <b>Defined benefit (liability) / asset at 30 June</b> . . . . .                        | <b>(414)</b>          | 161   | 783   | 1,004 | 242   |
| <b>Experience adjustments:</b>   |                       |       |       |       |       |
| Experience adjustments arising on defined benefit plan assets - (loss)/gain .          | <b>(574)</b>          | (526) | 252   | 474   | 152   |
| Experience adjustments arising on defined benefit obligations - gain/(loss) .          | <b>74</b>             | 41    | 70    | (206) | (47)  |

#### (b) Reconciliation of net defined benefit liability / asset

|  | <b>Telstra Group</b> |       | <b>Telstra Entity</b> |       |
|--|----------------------|-------|-----------------------|-------|
|  | <b>As at 30 June</b> |       | <b>As at 30 June</b>  |       |
|  | <b>2009</b>          | 2008  | <b>2009</b>           | 2008  |
|  | <b>\$m</b>           | \$m   | \$m                   | \$m   |
| <b>Net defined benefit asset at beginning of period</b>          | <b>182</b>           | 814   | <b>161</b>            | 783   |
| Defined benefit expense - recognised in the income statement (e) | <b>(132)</b>         | (198) | <b>(132)</b>          | (197) |
| Actuarial (loss)/gain - recognised directly in equity (e)        | <b>(553)</b>         | (434) | <b>(540)</b>          | (425) |
| Employer cash contributions - defined benefit divisions          | <b>99</b>            | 1     | <b>97</b>             | -     |
| Foreign exchange differences                                     | <b>(2)</b>           | (1)   | -                     | -     |
| <b>Net defined benefit (liability)/asset at end of period</b>    | <b>(406)</b>         | 182   | <b>(414)</b>          | 161   |

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (c) Reconciliation of changes in fair value of plan assets

|   | Telstra Group |       | Telstra Entity |       |
|---|---------------|-------|----------------|-------|
|   | As at 30 June |       | As at 30 June  |       |
|   | 2009          | 2008  | 2009           | 2008  |
|   | \$m           | \$m   | \$m            | \$m   |
| <b>Fair value of defined benefit plan assets at beginning of year</b> | <b>3,205</b>  | 4,342 | <b>3,127</b>   | 4,244 |
| Expected return on plan assets  | 252           | 321   | 244            | 315   |
| Employer contributions  | 99            | 1     | 97             | -     |
| Contributions tax   | (15)          | -     | (15)           | -     |
| Member contributions  | 44            | 36    | 44             | 36    |
| Notional transfer of funds for defined contribution benefits          | (45)          | (142) | (45)           | (142) |
| Benefits paid (i)   | (450)         | (806) | (441)          | (790) |
| Actuarial loss  | (593)         | (525) | (574)          | (526) |
| Plan expenses after tax   | (7)           | (10)  | (7)            | (10)  |
| Foreign currency exchange differences                                 | 13            | (12)  | -              | -     |
| <b>Fair value of defined benefit plan assets at end of year</b>       | <b>2,503</b>  | 3,205 | <b>2,430</b>   | 3,127 |

The actual return on defined benefit plan assets was -11.6% (2008: -5.7%) for Telstra Super and -11.7% (2008: 1.88%) for HK CSL Retirement Scheme.

#### (d) Reconciliation of changes in present value of wholly funded defined benefit obligation

|   | Telstra Group |       | Telstra Entity |       |
|---|---------------|-------|----------------|-------|
|   | As at 30 June |       | As at 30 June  |       |
|   | 2009          | 2008  | 2009           | 2008  |
|   | \$m           | \$m   | \$m            | \$m   |
| <b>Present value of defined benefit obligation at beginning of year</b>         | <b>3,048</b>  | 3,646 | <b>2,990</b>   | 3,578 |
| Current service cost  | 143           | 175   | 139            | 171   |
| Interest cost   | 167           | 183   | 164            | 180   |
| Member contributions  | 31            | 13    | 31             | 13    |
| Benefits paid (i)   | (450)         | (806) | (441)          | (790) |
| Actuarial gain  | (121)         | (155) | (115)          | (165) |
| Curtailment loss  | 14            | 3     | 14             | 3     |
| Foreign currency exchange differences   | 15            | (11)  | -              | -     |
| <b>Present value of wholly funded defined benefit obligation at end of year</b> | <b>2,847</b>  | 3,048 | <b>2,782</b>   | 2,990 |

(i) Benefits paid include \$425 million (2008: \$760 million) of entitlements (to exiting defined benefit members) which have been retained in Telstra Super but transferred to the defined contribution scheme.

For fiscal 2010, we expect to pay total benefit payments of \$296 million (including benefits retained) to defined benefit members of Telstra Super and HK CSL Retirement Scheme.

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (e) Amounts recognised in the income statement and in equity

|  | Note     | Telstra Group      |              | Telstra Entity     |              |
|--|----------|--------------------|--------------|--------------------|--------------|
|  |          | Year ended 30 June |              | Year ended 30 June |              |
|  |          | 2009               | 2008         | 2009               | 2008         |
|  |          | \$m                | \$m          | \$m                | \$m          |
| <b>The components of defined benefit plan expense recognised in the income statement within labour expenses are as follows:</b>          |          |                    |              |                    |              |
| Current service cost . . . . .   |          | 143                | 175          | 139                | 171          |
| Interest cost . . . . .  |          | 167                | 183          | 164                | 180          |
| Expected return on plan assets . . . . .   |          | (252)              | (321)        | (244)              | (315)        |
| Member contributions . . . . .   |          | (13)               | (24)         | (13)               | (24)         |
| Curtailment loss . . . . .   |          | 14                 | 3            | 14                 | 3            |
| Plan expenses after tax . . . . .  |          | 7                  | 10           | 7                  | 10           |
| Notional transfer of funds for defined contribution benefits . . . . .   |          | 45                 | 142          | 45                 | 142          |
| Adjustment for contributions tax . . . . .   |          | 21                 | 30           | 20                 | 30           |
|  |          | <b>132</b>         | <b>198</b>   | <b>132</b>         | <b>197</b>   |
| Employer contributions - defined contribution divisions . . . . .  |          | 97                 | -            | 97                 | -            |
| <b>Total expense recognised in the income statement . . . . .</b>  | <b>7</b> | <b>229</b>         | <b>198</b>   | <b>229</b>         | <b>197</b>   |
| <b>The movements in the defined benefit plans recognised directly in equity in the statement of comprehensive income are as follows:</b> |          |                    |              |                    |              |
| Actuarial loss on plan assets due to decreasing asset values and asset returns . . . . .   |          | (593)              | (525)        | (574)              | (526)        |
| Actuarial gain on obligation due to change in assumptions . . . . .  |          | 49                 | 114          | 41                 | 125          |
| Actuarial gain on obligation due to experience . . . . .   |          | 72                 | 41           | 74                 | 40           |
| Adjustment for contributions tax . . . . .   |          | (81)               | (64)         | (81)               | (64)         |
|  |          | <b>(553)</b>       | <b>(434)</b> | <b>(540)</b>       | <b>(425)</b> |
| Attributable to:   |          |                    |              |                    |              |
| Equity holders of Telstra Entity . . . . .   |          | (546)              | (434)        | (540)              | (425)        |
| Minority interest . . . . .  |          | (7)                | -            | -                  | -            |
|  |          | <b>(553)</b>       | <b>(434)</b> | <b>(540)</b>       | <b>(425)</b> |
| Cumulative actuarial (losses)/gains recognised directly in equity . . . . .  |          | <b>(92)</b>        | 461          | <b>(88)</b>        | 452          |

#### (f) Categories of plan assets

The weighted average asset allocation as a percentage of the fair value of total plan assets as at 30 June are as follows:

|                                     | Telstra Super |            |            |            |            | HK CSL Retirement Scheme |            |            |        |   |
|-------------------------------------|---------------|------------|------------|------------|------------|--------------------------|------------|------------|--------|---|
|                                     | As at 30 June |            |            |            |            | As at 30 June            |            |            |        |   |
|                                     | 2009          |            | 2008       |            |            | 2009                     |            | 2008       |        |   |
|                                     | Target        | Actual     | Target     | Actual     | %          | Target                   | Actual     | Target     | Actual | % |
|                                     | %             | %          | %          | %          | %          | %                        | %          | %          | %      | % |
| <b>Asset allocations</b>            |               |            |            |            |            |                          |            |            |        |   |
| Equity instruments . . . . .        | 35            | 32         | 35         | 33         | 60         | 59                       | 60         | 61         |        |   |
| Debt instruments . . . . .          | 18            | 5          | 18         | 5          | 35         | 36                       | 35         | 33         |        |   |
| Property . . . . .                  | 10            | 25         | 10         | 20         | -          | -                        | -          | -          |        |   |
| Cash . . . . .                      | 2             | 3          | 2          | 16         | 5          | 5                        | 5          | 6          |        |   |
| Private equity . . . . .            | 11            | 22         | 11         | 12         | -          | -                        | -          | -          |        |   |
| Infrastructure . . . . .            | 5             | 5          | 5          | 4          | -          | -                        | -          | -          |        |   |
| International hedge funds . . . . . | 19            | 8          | 19         | 10         | -          | -                        | -          | -          |        |   |
|                                     | <b>100</b>    | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b>               | <b>100</b> | <b>100</b> |        |   |

Telstra Super's investments in debt and equity instruments include bonds issued by and shares in Telstra Corporation Limited. Refer to note 29 for further details.

## Notes to the Financial Statements (continued)

### 24. Post employment benefits (continued)

#### (g) 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       |      |
|  | 2009               | 2008      | 2009                     | 2008 |
|  | %                  | %         | %                        | %    |
| Discount rate . . . . .                                | 5.5                | 5.1       | 3.8                      | 4.75 |
| Expected rate of return on plan assets (i) . . . . .   | 8.0                | 8.0       | 6.3                      | 7.4  |
| Expected rate of increase in future salaries . . . . . | 4.0                | 3.5 - 4.0 | 4.5                      | 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       |      |
|  | 2009               | 2008 | 2009                     | 2008 |
|  | %                  | %    | %                        | %    |
| Discount rate (ii) . . . . .                                 | 5.52               | 5.5  | 3.0                      | 3.8  |
| Expected rate of increase in future salaries (iii) . . . . . | 2.9 - 4.0          | 4.0  | 1.0 - 4.0                | 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.

(ii) The present value of our defined benefit obligations is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used the 10-year Australian government bond rate as it has the closest term that one could get from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years.

For the HK CSL Retirement Scheme we have extrapolated the 7 year and 10 year yields of the Hong Kong Exchange Fund Notes to 16 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 2.9% and 4% thereafter which is reflective of our long term expectation for salary increases. The salary inflation rate for HK CSL Retirement Scheme is 2% in fiscal 2010, 3% in fiscal 2011 and 4% thereafter which reflects the long term expectations for salary increases.

## Notes to the Financial Statements (continued)

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### 24. Post employment benefits (continued)

#### (h) Employer contributions

##### Telstra Super

During the financial year, Telstra recommenced making cash contributions to the Telstra Superannuation Scheme (Telstra Super). This has occurred due to the reduction in the market values of investments triggering the funding deed we have with Telstra Super. This funding deed 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 2009, the VBI was 82% (30 June 2008: 104%). In accordance with the funding deed we have paid contributions totalling \$260 million for the year ended 30 June 2009. Note that this includes employees pre-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 2009, is 27%.

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately \$500 million in fiscal 2010.

##### HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

Employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2009 was \$2 million (2008: \$1 million). We expect to contribute \$2 million to our HK CSL Retirement Scheme in fiscal 2010.

Annual actuarial investigations are currently undertaken for this scheme by Mercer Hong Kong Limited.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities

Below is a list of our investments in controlled entities.

| Name of entity  | Country of incorporation | Telstra Entity's recorded amount of investment (#) |             | % of equity held by immediate parent |           |
|---|--------------------------|--|-------------|--------------------------------------|-----------|
|   |                          | As at 30 June                                      |             | As at 30 June                        |           |
|   |                          | 2009<br>\$m  | 2008<br>\$m | 2009<br>%                            | 2008<br>% |
| <b>Parent entity</b>                                      |                          |  |             |                                      |           |
| Telstra Corporation Limited (a) . . . . .                 | Australia                |  |             |                                      |           |
| <b>Controlled entities</b>                                |                          |  |             |                                      |           |
| Telstra Finance Limited (a) . . . . .                     | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Corporate Services Pty Limited (a)(b) . . . . .   | Australia                | 5  | 5           | 100.0                                | 100.0     |
| Transport Communications Australia Pty Ltd . . . . .      | Australia                | 4  | 4           | 100.0                                | 100.0     |
| Telstra ESOP Trustee Pty Limited . . . . .                | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Growthshare Pty Ltd . . . . .                     | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Media Pty Limited . . . . .                       | Australia                | 393  | 393         | 100.0                                | 100.0     |
| Telstra Multimedia Pty Limited (a) . . . . .              | Australia                | 2,678  | 2,678       | 100.0                                | 100.0     |
| Telstra International Limited (a) . . . . .               | Australia                | 2  | 2           | 100.0                                | 100.0     |
| Telstra New Wave Pty Ltd (b) . . . . .                    | Australia                | 1  | 1           | -                                    | 100.0     |
| Telstra Pay TV Pty Ltd (a) . . . . .                      | Australia                | -  | -           | 100.0                                | 100.0     |
| Hypertokens Pty Ltd (b) . . . . .                         | Australia                | -  | -           | -                                    | 100.0     |
| Hypermax Holdings Pty Ltd . . . . .                       | Australia                | 8  | 8           | 100.0                                | 100.0     |
| Chief Entertainment Pty Ltd . . . . .                     | Australia                | -  | -           | 100.0                                | 100.0     |
| Data & Text Mining Technologies Pty Ltd (b) . . . . .     | Australia                | -  | -           | -                                    | 100.0     |
| Telstra 3G Spectrum Holdings Pty Ltd . . . . .            | Australia                | 302  | 302         | 100.0                                | 100.0     |
| Telstra OnAir Holdings Pty Ltd . . . . .                  | Australia                | 478  | 478         | 100.0                                | 100.0     |
| Converged Networks Pty Ltd (b) . . . . .                  | Australia                | 1  | 1           | 100.0                                | 100.0     |
| Telstra Payment Solutions Pty Limited (b) . . . . .       | Australia                | -  | 56          | -                                    | 100.0     |
| Telstra Business Systems Pty Ltd (a) . . . . .            | Australia                | 69   | 69          | 100.0                                | 100.0     |
| Telstra Plus Pty Ltd . . . . .                            | Australia                | -  | -           | 100.0                                | 100.0     |
| Clayton 770 Pty Ltd . . . . .                             | Australia                | -  | -           | 100.0                                | 100.0     |
| 1300 Australia Pty Ltd . . . . .                          | Australia                | 20   | 20          | 85.0                                 | 85.0      |
| • Alpha Phone Words Pty Ltd . . . . .                     | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Communications Limited (a) . . . . .              | Australia                | 29   | 29          | 100.0                                | 100.0     |
| • Telecom Australia (Saudi) Company Limited (c)(d)(e) . . | Saudi Arabia             | -  | -           | 50.0                                 | 50.0      |
| Telstra Rewards Pty Ltd (b) . . . . .                     | Australia                | 10   | 14          | 100.0                                | 100.0     |
| • Telstra Visa Card Trust (b) . . . . .                   | Australia                | -  | -           | -                                    | 100.0     |
| • Qantas Telstra Card Trust (b) . . . . .                 | Australia                | -  | -           | -                                    | 100.0     |
| • Telstra Visa Business Card Trust (b) . . . . .          | Australia                | -  | -           | -                                    | 100.0     |
| Communications Network Holdings Pty Ltd (b) . . . . .     | Australia                | 4  | 4           | 100.0                                | 100.0     |
| • Advanced Digital Communications (WA) Pty Ltd (b) . . .  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Western Communication Solutions Pty Ltd (b) . . . . .   | Australia                | -  | -           | 100.0                                | 100.0     |
| Adstream (Aust) Pty Ltd . . . . .                         | Australia                | 22   | 23          | 64.4                                 | 58.0      |
| • Adstream Limited . . . . .                              | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • Quickcut (Aust) Pty Ltd . . . . .                       | Australia                | -  | -           | 100.0                                | 100.0     |

(continued over page)

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

| Name of entity  | Country of incorporation | Telstra Entity's recorded amount of investment (#) |             | % of equity held by immediate parent |           |
|---|--------------------------|--|-------------|--------------------------------------|-----------|
|   |                          | As at 30 June                                      |             | As at 30 June                        |           |
|   |                          | 2009<br>\$m  | 2008<br>\$m | 2009<br>%                            | 2008<br>% |
| <b>Controlled entities (continued)</b>                                    |                          |  |             |                                      |           |
| Telstra Holdings Pty Ltd (a) . . . . .                                    | Australia                | 7,307  | 7,176       | 100.0                                | 100.0     |
| • Telstra International Holdings Limited . . . . .                        | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • SouFun Holdings Limited (c)(d) . . . . .                                | Cayman Islands           | -  | -           | 55.0                                 | 55.0      |
| • SouFun.com (Shenzhen) Ltd (c) . . . . .                                 | China                    | -  | -           | 100.0                                | 100.0     |
| • SouFun.com (Tianjin) Ltd (c) . . . . .                                  | China                    | -  | -           | 100.0                                | 100.0     |
| • SouFun.com (Chongqing) Ltd (c) . . . . .                                | China                    | -  | -           | 100.0                                | 100.0     |
| • SouFun.com (Guangzhou) Ltd (c) . . . . .                                | China                    | -  | -           | 100.0                                | 100.0     |
| • SouFun.com (Shanghai) Ltd (c) . . . . .                                 | China                    | -  | -           | 100.0                                | 100.0     |
| • Beijing SouFun Information Consultancy Co. Ltd (c) . . . . .            | China                    | -  | -           | 90.0                                 | 90.0      |
| • China Index Academy Limited (c) . . . . .                               | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • Selovo Investments Limited (c) . . . . .                                | British Virgin Islands   | -  | -           | 100.0                                | 100.0     |
| • Max Impact Investments Limited (c) . . . . .                            | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • Zhongzhishizheng DataTechnology (Beijing) Co. Ltd (c) . . . . .         | China                    | -  | -           | 100.0                                | 100.0     |
| • Pendiary Investments Limited (c) . . . . .                              | British Virgin Islands   | -  | -           | 100.0                                | 100.0     |
| • Bravo Work Investments Limited (c) . . . . .                            | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • SouFun Media Technology (Beijing) Co. Ltd (c) . . . . .                 | China                    | -  | -           | 100.0                                | 100.0     |
| • SouFun Network Technology (Beijing) Co. Limited (c) . . . . .           | China                    | -  | -           | 100.0                                | 100.0     |
| • KAZ Computer Services Hongkong Limited (e) . . . . .                    | Hong Kong                | -  | -           | 75.0                                 | 75.0      |
| • Sequel Limited (c)(d) . . . . .   | Cayman Islands           | -  | -           | 55.0                                 | 55.0      |
| • Cheerbright International Holdings Limited (c) . . . . .                | British Virgin Islands   | -  | -           | 100.0                                | 100.0     |
| • Beijing Cheerbright Technologies Co. Ltd (c) . . . . .                  | China                    | -  | -           | 100.0                                | 100.0     |
| • China Topside Limited (c) . . . . .                                     | British Virgin Islands   | -  | -           | 100.0                                | 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     |
| • Beijing Gold Norstar 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)(f) . . . . .                          | British Virgin Islands   | -  | -           | 100.0                                | -         |
| • Telstra Octave Holdings Limited (c)(d)(f) . . . . .                     | British Virgin Islands   | -  | -           | 100.0                                | -         |
| • Octave Investments Holdings Limited (c)(f) . . . . .                    | British Virgin Islands   | -  | -           | 67.0                                 | -         |
| • Beauty Sunshine Investments Limited (c)(f) . . . . .                    | British Virgin Islands   | -  | -           | 100.0                                | -         |
| • Beijing Wireless Permanence Technology Company Limited (c)(f) . . . . . | China                    | -  | -           | 100.0                                | -         |
| • Sharp Point Group Limited (c)(f) . . . . .                              | British Virgin Islands   | -  | -           | 100.0                                | -         |
| • Beijing Liang Dian Shi Jian Technology Company Limited (c)(f) . . . . . | China                    | -  | -           | 100.0                                | -         |
| • Reach Holdings Limited (c)(e)(f) . . . . .                              | Mauritius                | -  | -           | 100.0                                | -         |
| • Reach Network India Private Limited (c)(e)(f) . . . . .                 | India                    | -  | -           | 99.9                                 | -         |
| • Reach Data Services India Private Limited (c)(e)(f) . . . . .           | India                    | -  | -           | 99.9                                 | -         |

(continued over page)

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

| Name of entity   | Country of incorporation | Telstra Entity's recorded amount of investment (#) |             | % of equity held by immediate parent |           |
|--|--------------------------|--|-------------|--------------------------------------|-----------|
|  |                          | As at 30 June                                      |             | As at 30 June                        |           |
|  |                          | 2009<br>\$m  | 2008<br>\$m | 2009<br>%                            | 2008<br>% |
| <b>Controlled entities (continued)</b>   |                          |  |             |                                      |           |
| • Beijing Australia Telecommunications Technical Consulting Services Company Limited (c) | China                    | -  | -           | 100.0                                | 100.0     |
| • Telstra Holdings (Bermuda) No. 2 Limited   | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • CSL New World Mobility Limited   | Bermuda                  | -  | -           | 76.4                                 | 76.4      |
| • Bestclass Holdings Ltd (b)   | British Virgin Islands   | -  | -           | 100.0                                | 100.0     |
| • 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 (f)  | Hong Kong                | -  | -           | 100.0                                | -         |
| • One2Free PersonalCom Ltd   | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • Integrated Business Systems Limited  | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • New World PCS Limited  | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • New World Mobility Limited   | Hong Kong                | -  | -           | 60.0                                 | 100.0     |
| • 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     |
| • Damovo Hong Kong Limited (g)   | Hong Kong                | -  | -           | -                                    | 100.0     |
| • Telstra Japan Retail KK  | Japan                    | -  | -           | 100.0                                | 100.0     |
| • Telstra International Holdings No. 2 Limited   | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • Telstra Singapore Pte Ltd  | Singapore                | -  | -           | 100.0                                | 100.0     |
| • Telstra Global Limited   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • PT Telstra Nusantara   | 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) Limited   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • Telstra (CTE) Limited  | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • Cable Telecommunication Ltd  | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • PSINet Datacentre UK Ltd   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • Inteligen Communications Limited   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • PSINet Jersey Limited  | Jersey                   | -  | -           | 100.0                                | 100.0     |
| • PSINet Hosting Centre Limited  | Jersey                   | -  | -           | 100.0                                | 100.0     |
| • Cordoba Holdings Limited   | Jersey                   | -  | -           | 100.0                                | 100.0     |
| • London Hosting Centre Ltd  | Jersey                   | -  | -           | 100.0                                | 100.0     |
| • Telstra Inc  | United States            | -  | -           | 100.0                                | 100.0     |
| • Telstra India (Private) Limited (c)  | India                    | -  | -           | 100.0                                | 100.0     |
| • Telstra NZ Limited   | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • Telstra New Zealand Holdings Limited   | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • TelstraClear Limited   | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • Sytec Resources (Australia) Pty Ltd (b)  | Australia                | -  | -           | -                                    | 100.0     |
| • DMZ Global (Australia) Pty Ltd (b)   | Australia                | -  | -           | -                                    | 100.0     |
| • CLEAR Communications Limited   | New Zealand              | -  | -           | 100.0                                | 100.0     |

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## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

| Name of entity  | Country of incorporation | Telstra Entity's recorded amount of investment (#) |             | % of equity held by immediate parent |           |
|---|--------------------------|--|-------------|--------------------------------------|-----------|
|   |                          | As at 30 June                                      |             | As at 30 June                        |           |
|   |                          | 2009<br>\$m  | 2008<br>\$m | 2009<br>%                            | 2008<br>% |
| <b>Controlled entities (continued)</b>                |                          |  |             |                                      |           |
| Network Design and Construction Limited (a)           | Australia                | 20   | 20          | 100.0                                | 100.0     |
| • NDC Global Holdings Pty Limited (a)                 | Australia                | -  | -           | 100.0                                | 100.0     |
| • NDC Telecommunications India Private Limited (b)(c) | India                    | -  | -           | 98.0                                 | 98.0      |
| • PT NDC Indonesia (b)                                | Indonesia                | -  | -           | 95.0                                 | 95.0      |
| • NDC Global Services Pty Limited (a)                 | Australia                | -  | -           | 100.0                                | 100.0     |
| • NDC Telecommunications India Private Limited (b)(c) | India                    | -  | -           | 2.0                                  | 2.0       |
| Telstra Services Solutions Holdings Limited (a)       | Australia                | 514  | 514         | 100.0                                | 100.0     |
| • KAZ Group Pty Limited (g)                           | Australia                | -  | -           | -                                    | 100.0     |
| • Enhanced Processing Technologies Inc (b)            | United States            | -  | -           | -                                    | 100.0     |
| • KAZ Technology Services Pty Ltd (g)                 | Australia                | -  | -           | -                                    | 100.0     |
| Sensis Pty Ltd (a)                                    | Australia                | 851  | 851         | 100.0                                | 100.0     |
| • Just Listed Pty Limited (a)                         | Australia                | -  | -           | 100.0                                | 100.0     |
| • Location Navigation Pty Ltd (f)                     | Australia                | -  | -           | 100.0                                | -         |
| • Research Resources Pty Ltd                          | Australia                | -  | -           | 100.0                                | 100.0     |
| • CitySearch Australia Pty Ltd                        | Australia                | -  | -           | 100.0                                | 100.0     |
| • Trading Post (Australia) Holdings Pty Ltd (a)       | Australia                | -  | -           | 100.0                                | 100.0     |
| • Trading Post Group Pty Limited (a)                  | Australia                | -  | -           | 100.0                                | 100.0     |
| • The Melbourne Trading Post Pty Ltd (a)              | Australia                | -  | -           | 100.0                                | 100.0     |
| • The National Trading Post Pty Ltd (a)               | Australia                | -  | -           | 100.0                                | 100.0     |
| • Australian Retirement Publications Pty Limited      | Australia                | -  | -           | 100.0                                | 100.0     |
| • Collectormania Australia Pty Ltd (a)(b)             | Australia                | -  | -           | 100.0                                | 100.0     |
| • The Personal Trading Post Pty Limited (a)           | Australia                | -  | -           | 100.0                                | 100.0     |
| • Auto Trader Australia Pty Ltd (a)                   | Australia                | -  | -           | 100.0                                | 100.0     |
| • WA Auto Trader Pty Ltd (a)                          | Australia                | -  | -           | 100.0                                | 100.0     |
| • Trading Post (TCA) Pty Limited (a)                  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Trading Post Australia Pty Limited (a)              | Australia                | -  | -           | 100.0                                | 100.0     |
| • Sensis Holdings Pty Ltd (a)                         | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra Sensis (Beijing) Co Limited (c)(e)(f)       | China                    | -  | -           | 100.0                                | -         |
| • Universal Publishers Pty Limited (a)                | Australia                | -  | -           | 100.0                                | 100.0     |
| • Sensis (Victoria) Pty Ltd                           | Australia                | -  | -           | 100.0                                | 100.0     |
| Total investment in consolidated entities             |                          | 12,718   | 12,648      |                                      |           |

#The amounts recorded are before any provision for reduction in value.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (a) ASIC deed of cross guarantee

A deed of cross guarantee was entered into on 28 June 2006, pursuant to an ASIC Order dated 22 June 2006 (ASIC Order).

The following companies are part of the deed of cross guarantee:

- Telstra Corporation Limited;
- Telstra Multimedia Pty Limited;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra Holdings Pty Ltd;
- Network Design and Construction Limited;
- NDC Global Services Pty Limited;
- NDC Global Holdings Pty Limited;
- Telstra Services Solutions Holdings Limited;
- Sensis Pty Ltd;
- Universal Publishers Pty Limited;
- Sensis Holdings Pty Ltd;
- Telstra Pay TV Pty Ltd; and
- Telstra Business Systems Pty Ltd.

KAZ Group Pty Limited was sold during the year and removed from the deed by way of notice of disposal on 7 May 2009. Refer to (g) for further details.

The following entities were removed from the deed by way of a revocation deed on 28 October 2008:

- Collectormania Australia Pty Ltd;
- Trading Post (Australia) Holdings Pty Ltd;
- Trading Post Group Pty Limited;
- The Melbourne Trading Post Pty Ltd;
- The National Trading Post Pty Ltd;
- The Personal Trading Post Pty Limited;
- Auto Trader Australia Pty Ltd;
- WA Auto Trader Pty Ltd;
- Just Listed Pty Limited;
- Trading Post (TCA) Pty Limited;
- Trading Post Australia Pty Limited; and
- Telstra Corporate Services Pty Limited (23 December 2008).

Telstra Finance Limited is trustee. However, it is not a group entity under the Deed.

The relevant group entities under the deed:

- form a closed group and extended closed group as defined in the ASIC Class Order 98/1418 (Class Order) and the ASIC Order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other parties to the deed in the event of their winding up.

#### ASIC deed of cross guarantee financial information

The consolidated income statement and statement of financial position of the closed group is presented according to the Class Order as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (a) ASIC deed of cross guarantee financial information (continued)

| Closed group statement of financial position                  | Closed group  |               |
|---|---------------|---------------|
|   | As at 30 June |               |
|   | 2009          | 2008          |
|   | \$m           | \$m           |
| <b>Current assets</b>   |               |               |
| Cash and cash equivalents . . . . .                           | 1,035         | 587           |
| Trade and other receivables . . . . .                         | 3,715         | 3,662         |
| Inventories . . . . .   | 226           | 283           |
| Derivative financial assets . . . . .                         | 128           | 54            |
| Current tax receivables . . . . .                             | 100           | -             |
| Prepayments . . . . .   | 244           | 260           |
| <b>Total current assets</b>                                   | <b>5,448</b>  | <b>4,846</b>  |
| <b>Non current assets</b>                                     |               |               |
| Trade and other receivables . . . . .                         | 1,193         | 1,141         |
| Inventories . . . . .   | 18            | 12            |
| Investments - accounted for using the equity method . . . . . | 13            | 12            |
| Investments - other . . . . .                                 | 3,545         | 3,261         |
| Property, plant and equipment . . . . .                       | 22,423        | 22,781        |
| Intangible assets . . . . .                                   | 5,543         | 4,980         |
| Derivative financial assets . . . . .                         | 1,073         | 444           |
| Non current tax receivables . . . . .                         | 172           | -             |
| Defined benefit assets . . . . .                              | -             | 161           |
| <b>Total non current assets</b>                               | <b>33,980</b> | <b>32,792</b> |
| <b>Total assets</b>   | <b>39,428</b> | <b>37,638</b> |
| <b>Current liabilities</b>                                    |               |               |
| Trade and other payables . . . . .                            | 3,223         | 3,538         |
| Provisions . . . . .  | 448           | 502           |
| Borrowings . . . . .  | 2,390         | 2,325         |
| Derivative financial liabilities . . . . .                    | 111           | 82            |
| Current tax payables . . . . .                                | 220           | 222           |
| Revenue received in advance . . . . .                         | 1,062         | 1,171         |
| <b>Total current liabilities</b>                              | <b>7,454</b>  | <b>7,840</b>  |
| <b>Non current liabilities</b>                                |               |               |
| Trade and other payables . . . . .                            | 53            | 56            |
| Provisions . . . . .  | 750           | 768           |
| Borrowings . . . . .  | 15,361        | 13,431        |
| Derivative financial liabilities . . . . .                    | 819           | 1,222         |
| Deferred tax liabilities . . . . .                            | 1,506         | 1,503         |
| Revenue received in advance . . . . .                         | 353           | 354           |
| Defined benefit liability . . . . .                           | 414           | -             |
| <b>Total non current liabilities</b>                          | <b>19,256</b> | <b>17,334</b> |
| <b>Total liabilities</b>                                      | <b>26,710</b> | <b>25,174</b> |
| <b>Net assets</b>   | <b>12,718</b> | <b>12,464</b> |
| <b>Equity</b>   |               |               |
| Share capital . . . . .                                       | 5,576         | 5,534         |
| Reserves . . . . .  | 96            | 168           |
| Retained profits . . . . .                                    | 7,046         | 6,762         |
| <b>Equity available to the closed group</b>                   | <b>12,718</b> | <b>12,464</b> |

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (a) ASIC deed of cross guarantee financial information (continued)

| Closed group income statement and retained profits reconciliation                                | Closed group       |               |
|--|--------------------|---------------|
|  | Year ended 30 June |               |
|  | 2009               | 2008          |
|  | \$m                | \$m           |
| <b>Income</b>  |                    |               |
| Revenue (excluding finance income) . . . . .   | 23,384             | 22,987        |
| Other income . . . . .   | 104                | 173           |
|  | <b>23,488</b>      | <b>23,160</b> |
| <b>Expenses</b>  |                    |               |
| Labour . . . . .   | 3,803              | 3,891         |
| Goods and services purchased . . . . .   | 4,333              | 4,300         |
| Other expenses . . . . .   | 5,066              | 4,986         |
|  | <b>13,202</b>      | <b>13,177</b> |
| Share of net (profit)/loss from jointly controlled and associated entities . . . . .             | (3)                | 1             |
|  | <b>13,199</b>      | <b>13,178</b> |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . .   | 10,289             | 9,982         |
| Depreciation and amortisation . . . . .  | 3,832              | 3,745         |
| Earnings before interest and income tax expense (EBIT) . . . . .                                 | <b>6,457</b>       | <b>6,237</b>  |
| Finance income . . . . .   | 124                | 123           |
| Finance costs . . . . .  | 953                | 1,152         |
| Net finance costs . . . . .  | <b>829</b>         | <b>1,029</b>  |
| <b>Profit before income tax expense</b> . . . . .  | <b>5,628</b>       | <b>5,208</b>  |
| Income tax expense . . . . .   | 1,549              | 1,461         |
| <b>Profit for the year available to the closed group</b> . . . . .                               | <b>4,079</b>       | <b>3,747</b>  |
| Retained profits at the beginning of the financial year available to the closed group . . . . .  | 6,762              | 6,819         |
| Actuarial loss on defined benefit plans (net of tax effect) . . . . .                            | (377)              | (298)         |
| Effect on retained profits from removal of entities from the closed group . . . . .              | 56                 | (30)          |
| <b>Total available for distribution</b> . . . . .  | <b>10,520</b>      | <b>10,238</b> |
| Dividends paid . . . . .   | (3,474)            | (3,476)       |
| <b>Retained profits at the end of the financial year available to the closed group</b> . . . . . | <b>7,046</b>       | <b>6,762</b>  |

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (b) Liquidations and deregistrations

The following companies were liquidated or deregistered during fiscal 2009:

- Bestclass Holdings Ltd;
- Telstra New Wave Pty Ltd;
- Hypertokens Pty Ltd;
- Data & Text Mining Technologies Pty Ltd;
- Telstra Payment Solutions Pty Limited;
- Telstra Visa Card Trust;
- Qantas Telstra Card Trust;
- Telstra Visa Business Card Trust;
- Sytec Resources (Australia) Pty Ltd;
- DMZ Global (Australia) Pty Ltd; and
- Enhanced Processing Technologies Inc.

The following companies have applied to the ASIC for deregistration during fiscal 2009:

- Telstra Corporate Services Pty Limited;
- Collectormania Australia Pty Ltd;
- Communications Network Holdings Pty Ltd;
- Converged Networks Pty Ltd;
- Advanced Digital Communications (WA) Pty Ltd;
- Western Communication Solutions Pty Ltd; and
- Telstra Rewards Pty Ltd (deregistered on 1 July 2009).

At 30 June 2009, the following companies were in voluntary liquidation:

- NDC Telecommunications India Private Limited; and
- PT NDC Indonesia.

#### (c) Controlled entities with different balance dates

The following companies have balance dates that differ from our balance date of 30 June for fiscal 2009:

- Telecom Australia (Saudi) Company Limited - 31 December;
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December;
- Telstra India (Private) Limited - 31 March;
- NDC Telecommunications India Private Limited - 31 March;
- SouFun Holdings Limited and its controlled entities - 31 December;
- Sequel Limited and its controlled entities - 31 December;
- Telstra Sensis (Beijing) Co Limited - 31 December;
- Telstra Asia Holdings Limited and its controlled entities - 31 December;
- Reach Holdings Limited - 31 December;
- Reach Network India Private Limited - 31 March; and
- Reach Data Services India Private Limited - 31 March.

Financial reports prepared as at 30 June are used for consolidation purposes.

#### (d) Controlled entities in which our equity ownership is less than or equal to 50%

- We have no direct equity interest in the following entities within the SouFun Group:

- Beijing Jia Tian Xia Advertising Co. Ltd;
- Beijing SouFun Internet Information Service Co. Ltd;
- Beijing SouFun Science and Technology Development Co. Ltd;
- Beijing China Index Information Co. Ltd;
- Shanghai Jia Biao Tang Advertising Co. Ltd;
- Shanghai SouFun Advertising Co. Ltd;
- Beijing Century Jia Tian Xia Technology Development Co. Ltd;
- Shanghai China Index Consultancy Co. Ltd; and
- Tianjin Jia Tian Xia Advertising Co. Ltd.

The purpose of these entities is to hold the licenses and approvals required to operate SouFun Holdings Limited's internet content provision and advertising business respectively. SouFun Holdings Limited has the decision-making powers to control these entities. SouFun Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We have no direct equity interest in the following entities within the Sequel Group:

- Beijing Haochen Domain Information Technology Co. Ltd;
- Lianhe Shangqing (Beijing) Advertisement Co. Ltd;
- Beijing Autohome Information Technology Co. Ltd;
- Beijing POP Information Technology Co. Ltd;
- Shijiazhuang Xinfeng Advertising Co. Ltd; and
- Shijiazhuang Xinrong Advertising Co. Ltd.

In addition, our controlled entity 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 Limited's internet content provision and advertising business respectively. Sequel Limited has the decision-making powers to control these entities. Sequel Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

## Notes to the Financial Statements (continued)

### 25. Investments in controlled entities (continued)

#### (d) Controlled entities in which our equity ownership is less than or equal to 50% (continued)

- We have no direct equity interest in the following entities within the Octave Investments Holdings Limited Group:
  - Beijing Jun Yuan Zhi Ye Information Technology Company Limited;
  - Beijing Shan Lian Hu Dong Network Technology Company Limited;
  - Beijing Shan Lian Chuang Yi Digital Technology Company Limited;
  - Beijing Chuang Yi He Xian Technology and Trading Company Limited;
  - Beijing Shan Lian Xun Tong Digital Technology Company Limited;
  - Hunan Zhi Yuan Information Network Technology Development Co Limited;
  - Beijing Xunjie Yingxiang Network Technology Company Ltd;
  - Beijing Rui Xin Zai Xian System Technology Company Limited;
  - Guangzhou Rui Yin Digital Technology Company Limited;
  - Shijiazhuang Ruixin Yin Shang Digital Technology Company Limited; and
  - Wuhan Rui Yin Zai Xian Digital Technology Company Limited.

The purpose of these entities is to hold the licenses and approvals required to operate Octave Investments Holdings Limited's internet content provision and mobile value added services. Octave Investments Holdings Limited has the decision-making powers to control these entities. Octave Investments Holdings Limited is one of our controlled entities and therefore we have consolidated the financial results, position and cash flows of these entities into our group financial report.

- We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the Board of Directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

#### (e) Controlled entities not individually audited by Ernst & Young

Companies not audited by Ernst & Young, our Australian statutory auditor.

#### (f) New incorporations and business combinations

- On 9 February 2009, we acquired 67% of the issued capital of Octave Investments Holdings Limited for a total consideration of \$292 million including acquisition costs. Refer to note 20 for further details.

Octave Investments Holdings Limited acquired 100% of the issued capital of Beauty Sunshine Investments Limited and Sharp Point Group Limited along with their controlled entities. These entities are internet businesses with leading positions in the mobile content and online music sectors.

- Two new controlled entities were established within the Sensis Group during the year:
  - Location Navigation Pty Ltd on 2 February 2009; and
  - Telstra Sensis (Beijing) Co. Limited on 13 August 2008.
- During the year, 100% of the issued capital of the following entities was acquired for minimal consideration:
  - Reach Holdings Limited and its controlled entities, acquired by our controlled entity Telstra Holdings Pty Ltd; and
  - Big Bang Holdings Limited, acquired by our controlled entity CSL Limited.

#### (g) Sales and disposals

- On 30 April 2009, our controlled entity Telstra Service Solutions Holdings Limited sold its 100% shareholding in KAZ Group Pty Limited and KAZ Technology Services Pty Ltd for a total consideration of \$205 million (net of cash balances of the disposed entities).
- On 2 July 2008, our controlled entity Telstra International HK Limited sold its 100% shareholding in Damovo Hong Kong Limited for minimal consideration.

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities

Our investments in jointly controlled and associated entities are listed below:

| Name of Entity   | Principal activities                        | Ownership interest |           | Telstra Group's carrying amount of investment (*) |             | Telstra Entity's carrying amount of investment (*) |             |
|--|---|--------------------|-----------|---|-------------|--|-------------|
|  |   | As at 30 June      |           | As at 30 June                                     |             | As at 30 June                                      |             |
|  |   | 2009<br>%          | 2008<br>% | 2009<br>\$m                                       | 2008<br>\$m | 2009<br>\$m  | 2008<br>\$m |
| <b>Jointly controlled entities</b>   |   |                    |           |   |             |  |             |
| FOXTEL Partnership (g)(h)  | Pay television                              | 50.0               | 50.0      | -   | -           | -  | -           |
| FOXTEL Television Partnership (g)(h)                                       | Pay television                              | 50.0               | 50.0      | -   | -           | -  | -           |
| Customer Services Pty Limited (g)(h)                                       | Customer service                            | 50.0               | 50.0      | -   | -           | -  | -           |
| FOXTEL Management Pty Limited (g)(h)                                       | Management services                         | 50.0               | 50.0      | -   | -           | -  | -           |
| FOXTEL Cable Television Pty Ltd (a)(g)(h)                                  | Pay television                              | 80.0               | 80.0      | -   | -           | -  | -           |
| Reach Ltd (incorporated in Bermuda) (e) (g)(h)                             | International connectivity services         | 50.0               | 50.0      | -   | -           | -  | -           |
| TNAS Limited (incorporated in New Zealand) (e) (g)(h)                      | Toll free number portability in New Zealand | 33.3               | 33.3      | -   | -           | -  | -           |
| 3GIS Pty Ltd (e)(g)  | Management services                         | 50.0               | 50.0      | -   | -           | -  | -           |
| 3GIS Partnership (e)(g)  | 3G network services                         | 50.0               | 50.0      | -   | -           | -  | -           |
| Bridge Mobile Pte Ltd (incorporated in Singapore) (e)(g)                   | Regional roaming provider                   | 10.0               | 10.0      | 2   | 2           | -  | -           |
| m.Net Corporation Limited (g)  | Mobile phone content provider               | 25.2               | 25.2      | 1   | -           | 1  | -           |
|  |   |                    |           | <b>3</b>  | <b>2</b>    | <b>1</b>   | <b>-</b>    |
| <b>Associated entities</b>   |   |                    |           |   |             |  |             |
| Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (e)(g)(h) | Network cable provider                      | 46.9               | 46.9      | -   | -           | -  | -           |
| Telstra Super Pty Ltd (a)(g)(h)  | Superannuation trustee                      | 100.0              | 100.0     | -   | -           | -  | -           |
| Keycorp Limited (c) (d)(f)(g)  | Electronic transactions solutions           | 48.2               | 48.2      | 13  | 9           | 10   | 9           |
| Telstra Foundation Ltd (a)   | Charitable trustee organisation             | 100.0              | 100.0     | -   | -           | -  | -           |
| LinkMe Pty Ltd (b) (f)(g)  | Internet recruitment provider               | -                  | 46.0      | -   | 3           | -  | 3           |
|  |   |                    |           | <b>13</b>   | <b>12</b>   | <b>10</b>  | <b>12</b>   |

Unless otherwise noted, all investments have a balance date of 30 June, are incorporated in Australia and our voting power is the same as our ownership interest.

(\*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any accumulated impairment loss.

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (a) Jointly controlled and associated entities in which we own more than 50% equity

- We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a jointly controlled entity as the other equity shareholders have participating rights that prevent us from dominating the decision making of the Board of Directors. Effective voting power is restricted to 50% and we have joint control.
- We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd as we do not control the Board of Directors. We have equal representation with employee representatives on the Board. Our voting power is limited to 44%, which is equivalent to our representation on the Board. The entity is therefore classified as an associated entity as we have significant influence over it.
- We own 100% of the equity of Telstra Foundation Ltd (TFL). TFL is limited by guarantee (guaranteed to \$100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra Kids Fund. We do not consolidate TFL as we do not control the Board. However, due to our Board representation we significantly influence this entity. Our voting power is limited to 43%, which is equivalent to our representation on the Board.

#### (b) Other changes in jointly controlled and associated entities

- On 28 February 2009 we sold our investment in LinkMe Pty Ltd for nominal consideration.

#### (c) Fair value of investments in listed jointly controlled and associated entities

- The fair value of our investment in Keycorp Limited at 30 June 2009 is \$13 million (2008: \$9 million).

#### (d) Dividends received

- A \$2 million dividend was received from Keycorp Limited during the year (2008: nil).

#### (e) Jointly controlled and associated entities with different balance dates

The following jointly controlled and associated entities have different balance dates to our balance date of 30 June for fiscal 2009:

- Reach Ltd - 31 December;
- TNAS Limited - 31 March;
- 3GIS Pty Ltd - 31 December;
- 3GIS Partnership - 31 December;
- Bridge Mobile Pte Ltd - 31 March; and
- Australia-Japan Cable Holdings Limited - 31 December.

Financial reports prepared as at 30 June are used for equity accounting purposes. Our ownership interest in jointly controlled and associated entities with different balance dates is the same at that balance date as 30 June unless otherwise noted.

#### (f) Share of net profits/(losses)

|   | Telstra Group      |            |
|---|--------------------|------------|
|   | Year ended 30 June |            |
|   | 2009               | 2008       |
|   | \$m                | \$m        |
| Net profit/(loss) from jointly controlled and associated entities has been contributed by the following entities: |                    |            |
| <b>Associated entities</b>  |                    |            |
| - Keycorp Limited . . . . .   | 4                  | -          |
| - LinkMe Pty Ltd . . . . .  | (1)                | (1)        |
|   | <b>3</b>           | <b>(1)</b> |

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (g) Other disclosures for jointly controlled and associated entities

The movements in the consolidated equity accounted amount of our jointly controlled and associated entities are summarised as follows:

|   | Jointly controlled entities<br>Telstra Group |              | Associated entities<br>Telstra Group |             |             |
|---|--|--------------|--------------------------------------|-------------|-------------|
|   | Year ended/As at<br>30 June                  |              | Year ended/As at<br>30 June          |             |             |
|   | Note   | 2009<br>\$m  | 2008<br>\$m                          | 2009<br>\$m | 2008<br>\$m |
| Carrying amount of investments at beginning of year . . . . .   |  | 2            | 1                                    | 12          | 15          |
| Additional investments made during the year . . . . .   |  | -            | -                                    | 1           | 1           |
|   |  | <b>2</b>     | <b>1</b>                             | <b>13</b>   | <b>16</b>   |
| Share of net profits/(losses) for the year . . . . .  |  | -            | -                                    | 3           | (1)         |
| Share of foreign currency translation reserve and movements due to exchange rate translations. . . . .  |  | 1            | 1                                    | -           | -           |
| Dividends received. . . . .   |  | -            | -                                    | (2)         | -           |
| Sale, transfers and reductions of investments during the year . . . . .   |  | -            | -                                    | (3)         | -           |
| Carrying amount of investments before reduction to recoverable amount . . . . .   |  | <b>3</b>     | <b>2</b>                             | <b>11</b>   | <b>15</b>   |
| Impairment losses reversed/(recognised) during the year . . . . .   |  | -            | -                                    | 2           | (3)         |
| <b>Carrying amount of investments at end of year . . . . .</b> 12   |  | <b>3</b>     | <b>2</b>                             | <b>13</b>   | <b>12</b>   |
| Our share of contingent liabilities of jointly controlled and associated entities. . . . .  |  | 15           | -                                    | -           | -           |
| Our share of capital commitments contracted for by our jointly controlled and associated entities. . . . .  |  | 23           | 7                                    | 1           | 1           |
| Our share of other expenditure commitments contracted for by our jointly controlled and associated entities (other than the supply of inventories) (i) (ii) . . . . . |  | <b>2,043</b> | <b>1,983</b>                         | <b>1</b>    | <b>2</b>    |

(i) Our jointly controlled entity, FOXTEL, has other commitments amounting to approximately \$3,812 million (2008: \$3,655 million). The majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 25 years and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation, as well as foreign currency movements. In addition to our MSG, FOXTEL has other commitments including obligations for satellite transponder costs and digital set top box units.

(ii) Our jointly controlled entity, 3GIS Partnership, has other commitments amounting to \$232 million (2008: \$260 million). The majority of our 50% share of these commitments relate to property leases. These leases are for periods of between 5 and 30 years and are based on future property payments under agreements entered into between the 3GIS Partnership and various other parties.

Under the Telstra Network Access Contract dated 6 December 2004, we are charged a 3G Network Access Charge that includes our 50% share of the Partnerships operational expenditure. As we are obligated through this agreement to fund our share of the Partnerships operating expenditure we are also responsible for our share of its expenditure commitments.

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (g) Other disclosures for jointly controlled and associated entities (continued)

Summarised presentation of all of our jointly controlled and associated entities' assets, liabilities, revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended):

|   | Jointly controlled entities<br>Telstra Group |             | Associated entities<br>Telstra Group |             |
|---|--|-------------|--------------------------------------|-------------|
|   | Year ended/As at<br>30 June                  |             | Year ended/As at<br>30 June          |             |
|   | 2009<br>\$m                                  | 2008<br>\$m | 2009<br>\$m                          | 2008<br>\$m |
| Current assets . . . . .  | 500  | 386         | 59                                   | 69          |
| Non current assets. . . . .   | 1,103  | 947         | 282                                  | 278         |
| Total assets . . . . .  | 1,603  | 1,333       | 341                                  | 347         |
| Current liabilities . . . . .   | 613  | 1,142       | 197                                  | 92          |
| Non current liabilities. . . . .  | 1,532  | 677         | 355                                  | 426         |
| Total liabilities . . . . .   | 2,145  | 1,819       | 552                                  | 518         |
| Net assets . . . . .  | (542)  | (486)       | (211)                                | (171)       |
| Total income . . . . .  | 4,484  | 3,957       | 80                                   | 95          |
| Total expenses . . . . .  | 4,354  | 3,798       | 82                                   | 121         |
| Profit/(loss) before income tax expense. . . . .  | 130  | 159         | (2)                                  | (26)        |
| Income tax (benefit)/expense. . . . .   | (2)  | (3)         | 1                                    | -           |
| Profit/(loss) for the year . . . . .  | 132  | 162         | (3)                                  | (26)        |
| Summarised presentation of our share of all our jointly controlled and associated entities revenue and expense items (including jointly controlled and associated entities where equity accounting has been suspended): |  |             |                                      |             |
| Total income . . . . .  | 2,598  | 2,292       | 38                                   | 45          |
| Total expenses . . . . .  | 2,544  | 2,214       | 39                                   | 57          |
| Profit/(loss) before income tax expense. . . . .  | 54   | 78          | (1)                                  | (12)        |
| Income tax (benefit)/expense. . . . .   | (1)  | (1)         | 1                                    | -           |
| Profit/(loss) for the year . . . . .  | 55   | 79          | (2)                                  | (12)        |

## Notes to the Financial Statements (continued)

### 26. Investments in jointly controlled and associated entities (continued)

#### (h) Suspension of equity accounting

Our unrecognised share of (profits)/losses for the period and cumulatively, for our entities where equity accounting has ceased and the investment is recorded at zero due to losses made by these entities and/or reductions in the equity accounted carrying amount, is shown below:

|  | Telstra Group         |                           |                       |                           |
|--|-----------------------|---------------------------|-----------------------|---------------------------|
|  | Year ended 30 June    |                           |                       |                           |
|  | Period<br>2009<br>\$m | Cumulative<br>2009<br>\$m | Period<br>2008<br>\$m | Cumulative<br>2008<br>\$m |
| <b>Jointly controlled entities</b>               |                       |                           |                       |                           |
| FOXTEL (*) . . . . .                             | (68)                  | 164                       | (78)                  | 135                       |
| Reach Ltd . . . . .                              | -                     | 590                       | (5)                   | 590                       |
| <b>Associated entities</b>                       |                       |                           |                       |                           |
| Australia-Japan Cable Holdings Limited . . . . . | 5                     | 167                       | 9                     | 162                       |
|  | <b>(63)</b>           | <b>921</b>                | <b>(74)</b>           | <b>887</b>                |

Equity accounting has also been suspended for the following jointly controlled and associated entities:

- TNAS Limited; and
- Telstra Super Pty Ltd.

There are no significant unrecognised profits/losses in these entities.

(\*) FOXTEL includes the FOXTEL Partnership, the FOXTEL Television Partnership, Customer Services Pty Limited, FOXTEL Management Pty Limited and FOXTEL Cable Television Pty Ltd.

A \$100 million distribution was received from FOXTEL during the year (2008: \$130 million). This has been recorded as revenue in the income statement and has increased our cumulative share of unrecognised losses in FOXTEL to \$164 million after taking into account our share of FOXTEL's profit for the year of \$68 million and other adjustments of \$3 million.

## Notes to the Financial Statements (continued)

### 27. Employee share plans

The Company has a number of employee share plans that are available for directors, executives and employees. These include:

- those conducted through the Telstra Growthshare Trust; and
- the Telstra Employee Share Ownership Plans (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below:

#### Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans; and
- directshare and ownshare plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2009, we recorded an expense of \$23 million for our share based payment plans operated by the Telstra Growthshare Trust (2008: \$28 million). As at 30 June 2009, we had an estimated total expense yet to be recognised of \$38 million (2008: \$51 million), which is expected to be recognised over a weighted average of 1.5 years (2008: 2 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

#### Incentive shares (fiscal 2009 and 2008 (all eligible executives except former CEO)):

Historically, as part of the short term incentive scheme, the Board allocated 25% of executives' actual short term incentives as Telstra shares. As the recent changes to tax laws governing employee share schemes have created uncertainty regarding the future tax treatment of shares acquired under such schemes, the Board has determined that the allocation of STI payments as Telstra shares will not apply to STI payments for fiscal 2009. Instead all STI payments will be provided to Senior Executives as cash. Telstra is considering the future structure of its STI plan for Senior Executives and will confirm its position once the proposed Federal legislation in relation to equity plans is finalised.

In relation to prior year allocations of incentive shares, the incentive shares vested immediately, and the executive is able to use the incentive shares to vote and receive dividends as and from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are released from the restriction period.

Vested incentive shares are released from trust on the earliest of:

- five years from the date of effective allocation;
- when the minimum level of executive shareholding has been achieved and the Board approves removal of the five year restriction period;
- upon the ceasing of employment by the executive; or
- a date the Board determines (in response to an actual or likely change of control). Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive.

In relation to fiscal 2008, the allocation date of these instruments was 21 August 2008.

#### Deferred incentive shares (fiscal 2008 and 2007 (former CEO only)):

In relation to fiscal 2008 and 2007, the Board allocated 50% of the former CEO's actual short term incentive as deferred incentive shares. The grant date of these deferred incentive shares was 21 August 2008 and 17 August 2007. These shares vested immediately, and the former CEO is able to use the shares to vote as and from the vesting date. Prior to settlement, any dividends paid by the Company increased the number of vested deferred incentive shares allocated to the former CEO, based on the volume weighted average price of Telstra shares for the 5 days prior to the dividend payment date. In addition, the former CEO was restricted from dealing with the vested deferred incentive shares until after they were settled.

As at 30 June 2009, all deferred incentive shares issued to the former CEO were settled and the Telstra shares have been transferred to the former CEO.

As the former CEO left the Company prior to the end of the financial year, his fiscal 2009 STI was paid as cash. Refer to the Remuneration Report for further details.

#### Incentive shares (fiscal 2005):

In fiscal 2005, the Board allocated the executives half of their short term incentive payments as rights to acquire Telstra shares. These incentive shares vest in equal parts over a period of one, two and three years on the anniversary of their allocation date, subject to the executives' continued employment with any entity that forms part of the Telstra Group. Any instruments that have not been exercised within two years of the applicable vesting date will lapse. The executives can exercise their vested incentive shares at a cost of \$1 in total for all of the incentive shares exercised on a particular day.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (a) Short term incentive plans (STI) plans (continued)

###### (i) Description of equity instruments (continued)

Once the vested incentive shares are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the incentive shares (or vested incentive shares) to vote or receive dividends. Any dividends paid by the Company prior to exercise will increase the number of incentive shares allocated to the executive.

###### (ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and deferred incentive shares under our STI plans and are detailed in the following table:

|   | Incentive shares (^) |                                 |
|---|----------------------|---------------------------------|
|   | Number               | Weighted average fair value (*) |
| <b>Outstanding as at 30 June 2007</b> . . . . .     | 1,524,761            | \$4.77                          |
| Granted . . . . .                                   | 1,361,870            | \$4.36                          |
| Forfeited . . . . .                                 | (133,260)            | \$4.77                          |
| Exercised . . . . .                                 | (647,881)            | \$4.77                          |
| <b>Outstanding as at 30 June 2008</b> . . . . .     | 2,105,490            | \$4.50                          |
| Granted (#) . . . . .                               | <b>1,437,525</b>     | <b>\$4.31</b>                   |
| Exercised . . . . .                                 | <b>(672,511)</b>     | <b>\$4.77</b>                   |
| <b>Outstanding as at 30 June 2009 (^)</b> . . . . . | <b>2,870,504</b>     | <b>\$4.34</b>                   |
| <b>Exercisable as at 30 June 2009</b> . . . . .     | <b>128,351</b>       | <b>\$4.77</b>                   |

(^ ) Incentive shares includes both incentive shares and deferred incentive shares. The incentive shares "exercisable" includes incentive shares held by those executives who have been made redundant and are then consequently entitled to the incentive shares. The weighted average share price for incentive shares exercised during the financial year was \$4.35 (2008: \$4.27).

(\*) The fair value of incentive shares granted in fiscal 2009 is based on the market value of Telstra shares on allocation date.

(#) The incentive shares granted during the year relate to incentive shares allocated under the fiscal 2008 STI plan and incentive shares granted under the dividend reinvestment plan for the fiscal 2005 STI plan.

(^^) The number outstanding includes incentives shares that are subject to a restriction period. These amount to 2,742,153 as at 30 June 2009.

##### (b) Long term incentive (LTI) plans

The purpose of the long term incentive (LTI) plans is to align key executives' rewards with shareholders' interests, and reward performance improvement whilst supporting business plans and corporate strategies. The Telstra Growthshare Trust Board administers the plans and determines who is invited to participate in these plans.

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.

## 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

Allocations have been made over a number of years in the form of performance rights, restricted shares and options under our LTI plan. These represent a right to acquire a share in Telstra. Further information regarding each type LTI plan that were outstanding during the year are detailed in the following table:

|  | Effective<br>allocation date | Performance<br>period |                    | Exercise<br>price        | Expiry date         |
|--|------------------------------|-----------------------|--------------------|--------------------------|---------------------|
|  |                              | from                  | to                 |                          |                     |
| <b>Growthshare 2002 - Sept 2001 allocation</b>     |                              |                       |                    |                          |                     |
| TSR options . . . . .                              | 6 Sept 2001                  | 6 Sept 2004           | 6 Sept 2006        | \$4.90                   | 6 Sept 2011         |
| <b>Growthshare 2003 - Mar 2003 allocation</b>      |                              |                       |                    |                          |                     |
| TSR performance rights . . . . .                   | 7 Mar 2003                   | 7 Mar 2006            | 7 Mar 2008         | \$1 per parcel exercised | 7 Jun 2008          |
| <b>Growthshare 2004 - Sept 2003 allocation</b>     |                              |                       |                    |                          |                     |
| Deferred shares . . . . .                          | 5 Sept 2003                  | n/a                   | n/a                | \$1 per parcel exercised | 5 Sept 2008         |
| TSR performance rights . . . . .                   | 5 Sept 2003                  | 5 Sept 2006           | 5 Sept 2008        | \$1 per parcel exercised | 5 Dec 2008          |
| <b>Growthshare 2004 - Feb 2004 allocation</b>      |                              |                       |                    |                          |                     |
| TSR performance rights . . . . .                   | 20 Feb 2004                  | 20 Feb 2007           | 20 Feb 2009        | \$1 per parcel exercised | 20 May 2009         |
| <b>Growthshare 2005 - Aug 2004 allocation</b>      |                              |                       |                    |                          |                     |
| TSR performance rights . . . . .                   | 20 Aug 2004                  | 20 Aug 2007           | 20 Aug 2009        | \$1 per parcel exercised | 20 Nov 2009         |
| <b>Growthshare 2006 - Feb 2006 allocation</b>      |                              |                       |                    |                          |                     |
| TSR, OEG, RG, NT & ITT performance rights. . . . . | 24 Feb 2006                  | 1 Jul 2005            | 30 Jun 2010        | \$1 per parcel exercised | 19 Aug 2012         |
| ROI performance rights. . . . .                    | 24 Feb 2006                  | 1 Jul 2005            | 30 Jun 2008        | \$1 per parcel exercised | 19 Aug 2012         |
| <b>Growthshare 2007</b>                            |                              |                       |                    |                          |                     |
| TSR, RG, NGN & ITT & SEBITDA options . . . . .     | 31 Jan 2007                  | 1 Jul 2006            | 30 Jun 2010        | \$3.67                   | 30 Jun 2012         |
| ROI options . . . . .                              | 31 Jan 2007                  | 1 Jul 2008            | 30 Jun 2010        | \$3.67                   | 30 Jun 2012         |
| <b>Growthshare 2007 - former CEO (*)</b>           |                              |                       |                    |                          |                     |
| TSR, RG, NGN, & ITT options - tranche 1. . . . .   | 31 Jan 2007                  | 1 Jul 2006            | 30 Jun 2008        | \$3.67                   | 31 Dec 2009         |
| TSR, RG, NGN, & ITT options - tranche 2. . . . .   | 1 Jul 2007                   | 1 Jul 2007            | 30 Jun 2008        | \$4.34                   | 30 Jun 2011         |
| TSR, RG, NGN, & ITT options - tranche 3. . . . .   | <b>1 Jul 2008</b>            | <b>1 Jul 2008</b>     | <b>30 Jun 2009</b> | <b>\$4.36</b>            | <b>30 June 2012</b> |
| <b>Growthshare 2008</b>                            |                              |                       |                    |                          |                     |
| ESOP options . . . . .                             | 10 Dec 2007                  | n/a                   | n/a                | \$4.34                   | 17 Aug 2012         |
| TSR options . . . . .                              | 8 Nov 2007                   | 1 Jul 2007            | 30 Jun 2011        | \$4.34                   | 30 Jun 2013         |
| ROI options . . . . .                              | 8 Nov 2007                   | 1 Jul 2008            | 30 Jun 2011        | \$4.34                   | 30 Jun 2013         |
| <b>Growthshare 2009</b>                            |                              |                       |                    |                          |                     |
| ESOP options . . . . .                             | <b>1 Jul 2008</b>            | <b>n/a</b>            | <b>n/a</b>         | <b>\$4.36</b>            | <b>21 Aug 2013</b>  |
| US ESOP options                                    | <b>21 Aug 2008</b>           | <b>n/a</b>            | <b>n/a</b>         | <b>\$4.25</b>            | <b>21 Aug 2013</b>  |
| RTSR options . . . . .                             | <b>1 July 2008</b>           | <b>1 Jul 2008</b>     | <b>30 Jun 2012</b> | <b>\$4.36</b>            | <b>30 Jun 2014</b>  |
| ROI restricted shares . . . . .                    | <b>1 July 2008</b>           | <b>1 Jul 2009</b>     | <b>30 Jun 2012</b> | <b>nil</b>               | <b>21 Aug 2014</b>  |

(\*) The tranche 2 and 3 allocations of options to the former CEO have expired due to not meeting the TSR Gateway hurdle associated with these allocations. As such, these plans are no longer outstanding as at 1 July 2009.

## 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 2009, fiscal 2008 and fiscal 2007 equity instruments to make them consistent with the changed circumstances resulting from the occurrence of one or more of the following factors:

- a material change in the strategic business plan;
- a material regulatory change occurs; or
- a significant out-of-plan business development occurs (this could include a major acquisition outside the current business plan resulting in a significant change to the business of Telstra or the Telstra group (in relation to the fiscal 2008 and fiscal 2009 plans), or a material change to EBITDA (in relation to the fiscal 2007 plan) - this could be either a positive or adverse change for Telstra, but does not include improved or deteriorated operating or financial performance of Telstra's existing businesses).

In fiscal 2009 the Board did not reset the hurdles governing the equity instruments issued in fiscal 2009, fiscal 2008 or fiscal 2007.

###### (ii) Description of equity instruments

###### Restricted shares

In respect of restricted shares, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the restricted shares vest. 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 become restricted trust shares.

In relation to restricted shares issued in fiscal 2009, once the restricted shares vest they 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 at expiration of the restriction period (unless forfeited).

We have the following restricted shares issued and outstanding in fiscal 2009:

- return on investment (ROI) restricted shares - are based on an increase in the earnings before interest and tax for Telstra relative to the average investment.

#### 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.

We have the following options issued and outstanding in fiscal 2009:

##### Employee options:

- ESOP options - based on the completion of three years continuous service by the participant (are not subject to any performance conditions); and
- US ESOP options - based on the completion of three years continuous service by the participant (are not subject to any performance conditions).

##### Executive LTI options:

- relative total shareholder return options (RTSR options) - based on growth in Telstra's total shareholder return relative to the growth in total shareholder return of the companies in the Peer Group;
- total shareholder return options (TSR options) - based on growth in Telstra's total shareholder return;
- return on investment options (ROI options) - based on an increase in the earnings before interest and tax for Telstra relative to the average investment;
- revenue growth options (RG options) - based on increases in Telstra's revenue;
- next generation network options (NGN options) - based on completion of certain elements associated with Telstra's next generation network;
- information technology transformation options (ITT options) - based on completion of certain elements in Telstra's transformation program and the rationalisation of the number of business support systems (BSS) and operational support systems (OSS) used by companies in the Telstra Group; and
- Stretch EBITDA options (SEBITDA options) - based on increases in Telstra's earnings before interest, tax, depreciation and amortisation (EBITDA).

## 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)

##### Performance rights

In respect of performance rights, an executive has no legal or beneficial interest in the underlying shares, no entitlement to dividends received from the shares and no voting rights in relation to the shares until the performance rights 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.

Once the vested performance rights are exercised, at a cost of \$1 in total for all of the performance rights exercised on a particular day, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the performance rights (or vested performance rights) to vote or receive dividends.

We have the following performance rights issued and outstanding in fiscal 2009:

- return on investment (ROI) performance rights - are based on an increase in the earnings before interest and tax for Telstra relative to the average investment;
- total shareholder return (TSR) performance rights - are based on growth in Telstra's total shareholder return;
- operating expense growth (OEG) performance rights - are based on a reduction in Telstra's operating expenses;
- revenue growth (RG) performance rights - are based on increases in Telstra's revenue;
- network transformation (NT) performance rights - are based on completion of certain elements in Telstra's network transformation program; and
- information technology transformation (ITT) performance rights - are based on the rationalisation of the number of business support systems and operational support systems used by Telstra.

#### (iii) Performance hurdles

##### Restricted Shares

Details of the relevant performance hurdles in relation to restricted shares, are set out below:

##### Return on Investment (ROI) restricted shares (fiscal 2009 for all executives except the former CEO)

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 targets, then the number of vested restricted shares for that period is scaled proportionately between 50% and 100%;
- if the stretch target is achieved, then 100% of the restricted shares for that period will vest.

Any restricted shares that vest become restricted trust shares. Any restricted shares which do not vest in their respective performance periods will lapse.

##### 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 commencement date of the options, the options will vest. These options are not subject to any performance hurdles.

##### Relative Total Shareholder Return (RTSR) options (fiscal 2009 for all executives except the former CEO)

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 become exercisable 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.

## 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)

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 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 50th percentile and the rank achieved in the second performance period, the remaining unvested options from the second performance period will vest.

The number of additional unvested options which may vest is also determined by using a linear scale.

If Telstra achieves a rank of less than the 50th percentile for the third performance period, then no options will vest for the third performance period. Furthermore, any remaining unvested options which do not vest or lapse following the third performance period will lapse following the end of the third performance period.

#### Total Shareholder Return (TSR) options (fiscal 2008 and 2007 for all executives except former CEO, and fiscal 2009 to 2007 for the former CEO)

For TSR options allocated to each performance period, the applicable performance hurdle is based on the market value of Telstra shares and the value of any other benefits paid or made available to Telstra shareholders, including dividends. This performance hurdle is set by the Board.

The TSR hurdle has been measured over the following three performance periods (except for the former CEO):

|   | Performance Period             |                                |                                |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | 1st                            | 2nd                            | 3rd                            |
| All eligible executives (except former CEO) | 1 July 2006 to<br>30 June 2008 | 1 July 2006 to<br>30 June 2009 | 1 July 2006 to<br>30 June 2010 |
| Growthshare 2007 . . . . .                  | 1 July 2007 to<br>30 June 2009 | 1 July 2007 to<br>30 June 2010 | 1 July 2007 to<br>30 June 2011 |

The result for each performance period is separately measured. These TSR options vest if the growth in Telstra's total shareholder return meets or exceeds certain targets over the relevant performance period. The performance period result is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of options for that period will vest;
- if the result achieved is between the threshold and stretch targets, then the number of vested options is scaled proportionately between 50% and 100%; or
- if the stretch target is achieved, then 100% of the options will vest.

For the third performance period (for eligible executives other than the former CEO) the number of options that will vest is based on the performance period result. Further, if the threshold target in the third performance period is met (for eligible executives other than the former CEO), then:

- if the stretch target is achieved in the third performance period, 100% of options that did not vest in the first and second performance periods will also vest (provided they have not lapsed); or
- if the threshold target is not achieved in the first and/or second performance period respectively, and the result achieved in the third performance period is less than the stretch target (but more than the threshold target), 50% of the options that did not vest in the first and/or second performance period respectively will also vest (provided they have not lapsed)

#### Return on Investment (ROI) options (fiscal 2008 and 2007) and Revenue Growth (RG), Next Generation Network (NGN), Information Technology Transformation (ITT) options (fiscal 2007 for all executives except the former CEO, and fiscal 2009 to 2007 for the former CEO)

Allocations of ROI, RG, NGN and ITT options are tested at set intervals over the following periods (except for the former CEO):

|   | Performance Period             |                                |                                |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | 1st                            | 2nd                            | 3rd                            |
| All eligible executives (except former CEO) |                                |                                |                                |
| Growthshare 2007 (ROI) . . . . .            | n/a                            | 1 July 2008 to<br>30 June 2009 | 1 July 2009 to<br>30 June 2010 |
| Growthshare 2007 (RG, NGN, ITT) . . . . .   | 1 July 2006 to<br>30 June 2008 | 1 July 2006 to<br>30 June 2009 | 1 July 2006 to<br>30 June 2010 |
| Growthshare 2008 (ROI)                      | 1 July 2008 to<br>30 June 2009 | 1 July 2009 to<br>30 June 2010 | 1 July 2010 to<br>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%; or
- if the stretch target is achieved, then 100% of the options will vest.

The maximum number of options that can vest is limited to the initial number allocated less any options that may have expired.

## 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)

During fiscal 2009, the Board approved a change to the Growthshare 2007 LTI Plan in accordance with its terms. This change related to the removal of the NGN-Soft Switch Build and Migration performance measure and the replacement of it with a NGN-Unified Messaging measure. This change was made because the NGN-Soft Switch performance measure, although achievable, was no longer relevant to Telstra's strategic direction, nor was it the best use of shareholder funds. The new NGN-Unified Messaging measure is measured against Telstra's success of developing an integrated webmail service for email, voicemail, picture messaging (MMS) and short message service (SMS). It is also measured against Telstra's success at deploying Unified Messaging in fiscal 2010 across a set of technology platforms to significantly improve Telstra's customer experience. There was no impact on the fair value of these equity instruments as a result of this change.

#### Stretch EBITDA (SEBITDA) options (fiscal 2007 for all executives except the former CEO)

For allocations of SEBITDA options, the applicable performance hurdles are based on stretch EBITDA targets being reached or exceeded. These stretch targets are measured each year from 30 June 2007 to 30 June 2010 and the number of SEBITDA options that will vest is calculated as follows:

- if, at the end of either the first (1 July 2006 to 30 June 2008), second (1 July 2008 to 30 June 2009) or third (1 July 2009 to 30 June 2010) performance period, the stretch target is achieved two years in a row, then 20% of the allocated options will vest at the end of the relevant performance period;
- if, at the end of either the second or third performance period, the stretch target is achieved three years in a row, then a further 30% of the allocated options will vest at the end of the relevant performance period; and
- if, at the end of the third performance period, the stretch target is achieved four years in a row, then the final 50% of the allocated options will vest at the end of the third performance period.

In addition, 75% of the options that do not vest, based on the calculations above, will subsequently vest if the stretch target for the four year period to 30 June 2010 is met.

#### Fiscal 2007 options - Gateway Hurdle

In addition to the performance hurdles described above, a gateway TSR hurdle is applicable for the fiscal 2007 allocation of options. For all eligible executives, if the hurdle is not met at 30 June 2010 (30 June 2008 and 30 June 2009 respectively for the former CEO), none of the options granted under the plan will be exercisable, irrespective of whether any options have previously vested.

#### Performance rights

Details of the relevant performance hurdles in relation to performance rights are set out below:

#### Total Shareholder Return (TSR) and Return on Investment (ROI) performance rights (fiscal 2006)

For TSR and ROI performance rights, there are the following performance periods:

- TSR performance rights - 1 July 2005 to 30 June 2010;
- ROI performance rights - 1 July 2005 to 30 June 2008.

For the relevant performance period, the number of performance rights that will vest is calculated as follows:

- if the threshold target is achieved, then 50% of the allocation of performance rights for that period will become exercisable (except for the former CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the threshold and stretch targets, the number of exercisable performance rights for that period is scaled proportionately between 50% and 100% (with the exception of the former CEO whose number of performance rights is scaled proportionately between 75% and 100%); or
- if the stretch target is achieved or exceeded, then 100% of the performance rights for that period will become exercisable.

If the result achieved is less than the threshold target for the ROI performance rights, 25% of the performance rights for that period will lapse. The remaining 75% of these performance rights will be tested against the TSR performance hurdle in the subsequent performance period.

In the subsequent performance period, if the result achieved is less than the threshold TSR target, then all of the remaining performance rights will lapse including any remaining ROI performance rights.

During fiscal 2009, the fiscal 2006 LTI plan failed to satisfy the ROI performance hurdles. As such, 25 percent of the performance rights allocated to this measure lapsed and 75 percent have been transferred to the subsequent performance period.

## Notes to the Financial Statements (continued)

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### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (b) Long term incentive (LTI) plans (continued)

###### (iii) Performance hurdles (continued)

Operating Expense Growth (OEG), Revenue Growth (RG), Network Transformation (NT) and Information Technology Transformation (ITT) performance rights (fiscal 2006)

During fiscal 2009, the fiscal 2006 LTI plan satisfied the RG and NT performance hurdles and failed to satisfy the OEG and ITT performance hurdles for the initial performance period. As such, 100 per cent of the performance rights allocated to the RG and NT measures in the initial performance period vested and 25 percent of the performance rights allocated to OEG and ITT measures in the initial performance period lapsed.

Of the performance rights that did not vest in the initial performance period, 75% will be tested again in the subsequent performance period. The performance targets for the subsequent performance period (1 July 2005 to 30 June 2010) are:

- if the threshold target is achieved, 50% of the allocation will become exercisable (except for the former CEO, who will receive 75% of the allocated performance rights);
- if the result achieved is between the threshold and stretch targets, then the number of exercisable performance rights is scaled proportionately between 50% and 100% (with the exception of the former CEO whose number of performance rights is scaled proportionately between 75% and 100%); or
- if the stretch target is achieved or exceeded, then 100% of the performance rights will become exercisable.

If the threshold target is not met in the subsequent performance period, all OEG, RG, NT and ITT performance rights will lapse.

Total Shareholder Return (TSR) performance rights (fiscal 2003 to 2005)

As at 30 June 2009, all TSR performance rights allocated between fiscal 2003 and fiscal 2005 are either all exercisable or no longer outstanding.

## 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<br>at<br>30 June 2009 | Exercisable<br>at<br>30 June 2009 |
|--|-----------------------------------|------------|---------------|-------------|-------------|------------|-----------------------------------|-----------------------------------|
|  | Outstanding<br>at<br>30 June 2008 | Granted    | Forfeited (*) | Exercised   | Expired (^) |            |                                   |                                   |
| <b>Growthshare 2002 - Sept 2001 allocation</b>     |                                   |            |               |             |             |            |                                   |                                   |
| TSR options . . . . .                              | 11,836,000                        | -          | (1,558,000)   | -           | -           | 10,278,000 | 10,278,000                        |                                   |
| <b>Growthshare 2003 - Mar 2003 allocation</b>      |                                   |            |               |             |             |            |                                   |                                   |
| TSR performance rights . . . . .                   | 18,094                            | -          | -             | (18,094)    | -           | -          | -                                 |                                   |
| <b>Growthshare 2004 - Sept 2003 allocation</b>     |                                   |            |               |             |             |            |                                   |                                   |
| Deferred shares . . . . .                          | 87,925                            | -          | -             | (76,025)    | (11,900)    | -          | -                                 |                                   |
| TSR performance rights . . . . .                   | 1,730,823                         | -          | -             | (1,653,189) | (77,634)    | -          | -                                 |                                   |
| <b>Growthshare 2004 - Feb 2004 allocation</b>      |                                   |            |               |             |             |            |                                   |                                   |
| TSR performance rights . . . . .                   | 8,298                             | -          | -             | (8,298)     | -           | -          | -                                 |                                   |
| <b>Growthshare 2005 - Aug 2004 allocation</b>      |                                   |            |               |             |             |            |                                   |                                   |
| TSR performance rights . . . . .                   | 997,740                           | -          | -             | (902,896)   | -           | 94,844     | 94,844                            |                                   |
| <b>Growthshare 2006 - Feb 2006 allocation (**)</b> |                                   |            |               |             |             |            |                                   |                                   |
| TSR performance rights . . . . .                   | 508,934                           | 632,062    | (24,653)      | -           | -           | 1,116,343  | -                                 |                                   |
| OEG performance rights . . . . .                   | 1,019,799                         | -          | (64,666)      | -           | (127,779)   | 827,354    | -                                 |                                   |
| RG performance rights . . . . .                    | 1,019,797                         | -          | (38,170)      | (363,995)   | -           | 617,632    | 146,831                           |                                   |
| NT performance rights . . . . .                    | 760,594                           | -          | (19,098)      | (363,995)   | -           | 377,501    | 146,831                           |                                   |
| ITT performance rights . . . . .                   | 760,592                           | -          | (45,593)      | -           | (127,779)   | 587,220    | -                                 |                                   |
| ROI performance rights . . . . .                   | 1,033,489                         | (632,062)  | (51,472)      | -           | (258,428)   | 91,527     | -                                 |                                   |
| <b>Growthshare 2007 (#)</b>                        |                                   |            |               |             |             |            |                                   |                                   |
| TSR options . . . . .                              | 21,486,080                        | 1,034,483  | (1,270,132)   | -           | (2,327,586) | 18,922,845 | -                                 |                                   |
| RG options . . . . .                               | 18,248,077                        | 1,293,104  | (704,231)     | -           | (1,293,106) | 17,543,844 | 8,200,978                         |                                   |
| NGN options . . . . .                              | 19,024,066                        | 1,034,482  | (704,250)     | -           | (1,551,723) | 17,802,575 | 8,718,325                         |                                   |
| ITT options . . . . .                              | 19,024,037                        | 517,241    | (595,601)     | -           | (6,963,280) | 11,982,397 | 4,309,814                         |                                   |
| ROI options . . . . .                              | 14,368,875                        | 1,293,104  | (952,599)     | -           | -           | 14,709,380 | -                                 |                                   |
| SEBITDA options . . . . .                          | 33,527,339                        | -          | (2,222,724)   | -           | -           | 31,304,615 | -                                 |                                   |
| <b>Growthshare 2008</b>                            |                                   |            |               |             |             |            |                                   |                                   |
| ESOP options . . . . .                             | 15,471,154                        | -          | (1,531,507)   | (1,459)     | -           | 13,938,188 | -                                 |                                   |
| TSR options . . . . .                              | 17,489,847                        | -          | (1,496,449)   | -           | -           | 15,993,398 | -                                 |                                   |
| ROI options . . . . .                              | 17,489,847                        | -          | (1,496,452)   | -           | -           | 15,993,395 | -                                 |                                   |
| <b>Growthshare 2009</b>                            |                                   |            |               |             |             |            |                                   |                                   |
| ESOP options . . . . .                             | -                                 | 16,401,963 | (724,484)     | -           | -           | 15,677,479 | -                                 |                                   |
| US ESOP options . . . . .                          | -                                 | 69,500     | -             | -           | -           | 69,500     | -                                 |                                   |
| RTSR options . . . . .                             | -                                 | 18,355,596 | -             | -           | -           | 18,355,596 | -                                 |                                   |
| ROI restricted shares . . . . .                    | -                                 | 5,818,222  | -             | -           | -           | 5,818,222  | -                                 |                                   |

(\*) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(^ ) Expired refers to the performance hurdle not being met.

(\*\*) During fiscal 2009, 632,062 ROI performance rights were added to the TSR performance rights category in accordance with the terms of the plan.

(#) The options granted in fiscal 2007 include those granted to the former CEO. There are three performance periods and options have been allocated to each period. The options granted in fiscal 2009 are part of the tranche 3 allocation and appear as additions to the Growthshare 2007 plan.

## 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<br>at<br>30 June 2008 | Exercisable<br>at<br>30 June 2008 |
|--|-----------------------------------|------------|---------------|-----------|-------------|-----------------------------------|-----------------------------------|
|  | Outstanding<br>at<br>30 June 2007 | Granted    | Forfeited (*) | Exercised | Expired (^) |                                   |                                   |
| <b>Growthshare 2002 - Sept 2001 allocation</b> |                                   |            |               |           |             |                                   |                                   |
| TSR options . . . . .                          | 11,836,000                        | -          | -             | -         | -           | 11,836,000                        | 11,836,000                        |
| <b>Growthshare 2003 - Sept 2002 allocation</b> |                                   |            |               |           |             |                                   |                                   |
| Deferred shares . . . . .                      | 89,490                            | -          | (78,490)      | (11,000)  | -           | -                                 | -                                 |
| TSR performance rights . . . . .               | 1,610,852                         | -          | -             | -         | (1,610,852) | -                                 | -                                 |
| <b>Growthshare 2003 - Mar 2003 allocation</b>  |                                   |            |               |           |             |                                   |                                   |
| TSR performance rights . . . . .               | 18,094                            | -          | -             | -         | -           | 18,094                            | -                                 |
| <b>Growthshare 2004 - Sept 2003 allocation</b> |                                   |            |               |           |             |                                   |                                   |
| Deferred shares . . . . .                      | 279,750                           | -          | -             | (191,825) | -           | 87,925                            | 87,925                            |
| TSR performance rights . . . . .               | 1,772,870                         | -          | (42,047)      | -         | -           | 1,730,823                         | -                                 |
| <b>Growthshare 2004 - Feb 2004 allocation</b>  |                                   |            |               |           |             |                                   |                                   |
| Deferred shares . . . . .                      | 4,600                             | -          | -             | (4,600)   | -           | -                                 | -                                 |
| TSR performance rights . . . . .               | 18,298                            | -          | (10,000)      | -         | -           | 8,298                             | -                                 |
| <b>Growthshare 2005 - Aug 2004 allocation</b>  |                                   |            |               |           |             |                                   |                                   |
| TSR performance rights . . . . .               | 2,061,664                         | -          | (47,400)      | -         | (1,016,524) | 997,740                           | -                                 |
| EPS performance rights . . . . .               | 2,100,299                         | -          | (43,800)      | -         | (2,056,499) | -                                 | -                                 |
| <b>Growthshare 2006 - Feb 2006 allocation</b>  |                                   |            |               |           |             |                                   |                                   |
| TSR performance rights . . . . .               | 535,263                           | -          | (26,329)      | -         | -           | 508,934                           | -                                 |
| OEG performance rights . . . . .               | 1,069,007                         | -          | (49,208)      | -         | -           | 1,019,799                         | -                                 |
| RG performance rights . . . . .                | 1,069,007                         | -          | (49,210)      | -         | -           | 1,019,797                         | -                                 |
| NT performance rights . . . . .                | 797,577                           | -          | (36,983)      | -         | -           | 760,594                           | -                                 |
| ITT performance rights . . . . .               | 797,575                           | -          | (36,983)      | -         | -           | 760,592                           | -                                 |
| ROI performance rights . . . . .               | 1,076,611                         | -          | (43,122)      | -         | -           | 1,033,489                         | -                                 |
| <b>Growthshare 2007 (#)</b>                    |                                   |            |               |           |             |                                   |                                   |
| TSR options . . . . .                          | 7,677,589                         | 14,349,163 | (540,672)     | -         | -           | 21,486,080                        | -                                 |
| RG options . . . . .                           | 5,758,177                         | 12,895,415 | (405,515)     | -         | -           | 18,248,077                        | -                                 |
| NGN options . . . . .                          | 5,758,198                         | 13,671,372 | (405,504)     | -         | -           | 19,024,066                        | -                                 |
| ITT options . . . . .                          | 5,758,194                         | 13,671,344 | (405,501)     | -         | -           | 19,024,037                        | -                                 |
| ROI options . . . . .                          | 5,758,191                         | 9,016,188  | (405,504)     | -         | -           | 14,368,875                        | -                                 |
| SEBITDA options . . . . .                      | 13,435,778                        | 24,043,167 | (1,056,972)   | -         | (2,894,634) | 33,527,339                        | -                                 |
| <b>Growthshare 2008</b>                        |                                   |            |               |           |             |                                   |                                   |
| ESOP options . . . . .                         | -                                 | 16,538,157 | (1,066,283)   | (720)     | -           | 15,471,154                        | -                                 |
| TSR options . . . . .                          | -                                 | 17,489,847 | -             | -         | -           | 17,489,847                        | -                                 |
| ROI options . . . . .                          | -                                 | 17,489,847 | -             | -         | -           | 17,489,847                        | -                                 |

(\*) Forfeited refers to either cessation of employment or the instrument lapsing unexercised.

(^) Expired refers to the performance hurdle not being met.

(#) The options granted in fiscal 2007 only included those granted to our senior executives as they were notified prior to 30 June 2007. The options to the remaining participants, including the former CEO, were not granted until fiscal 2008 and therefore these options appear as additions to the Growthshare 2007 plan.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

#### (b) Long term incentive (LTI) plans (continued)

#### (iv) Summary of movements and other information (continued)

|                           | Options (*)         |                                  | Deferred shares |                                  | Performance rights (^) |                                  | Restricted shares (#) |                                  |
|---------------------------|---------------------|----------------------------------|-----------------|----------------------------------|------------------------|----------------------------------|-----------------------|----------------------------------|
|                           | Number              | Weighted average fair value (**) | Number          | Weighted average fair value (**) | Number                 | Weighted average fair value (**) | Number                | Weighted average fair value (**) |
| <b>Outstanding</b>        |                     |                                  |                 |                                  |                        |                                  |                       |                                  |
| <b>as at 30 June 2007</b> | 55,982,127          | \$0.91                           | 373,840         | \$4.32                           | 12,927,117             | \$3.13                           | -                     | -                                |
| Granted                   | 139,164,500         | \$0.68                           | -               | -                                | -                      | -                                | -                     | -                                |
| Forfeited                 | (4,285,951)         | \$0.75                           | (78,490)        | \$4.41                           | (385,082)              | \$3.05                           | -                     | -                                |
| Exercised (^)             | (720)               | \$0.43                           | (207,425)       | \$4.29                           | -                      | -                                | -                     | -                                |
| Expired                   | (2,894,634)         | \$0.90                           | -               | -                                | (4,683,875)            | \$3.43                           | -                     | -                                |
| <b>Outstanding</b>        |                     |                                  |                 |                                  |                        |                                  |                       |                                  |
| <b>as at 30 June 2008</b> | 187,965,322         | \$0.74                           | 87,925          | \$4.29                           | 7,858,160              | \$2.95                           | -                     | -                                |
| Granted                   | <b>39,999,473</b>   | <b>\$0.20</b>                    | -               | -                                | -                      | -                                | <b>5,818,222</b>      | <b>\$2.83</b>                    |
| Forfeited                 | <b>(13,256,429)</b> | <b>\$0.73</b>                    | -               | -                                | <b>(243,652)</b>       | <b>\$2.97</b>                    | -                     | -                                |
| Exercised (##)            | <b>(1,459)</b>      | <b>\$0.43</b>                    | <b>(76,025)</b> | <b>\$4.29</b>                    | <b>(3,310,467)</b>     | <b>\$2.97</b>                    | -                     | -                                |
| Expired                   | <b>(12,135,695)</b> | <b>\$0.85</b>                    | <b>(11,900)</b> | <b>\$4.29</b>                    | <b>(591,620)</b>       | <b>\$3.25</b>                    | -                     | -                                |
| <b>Outstanding</b>        |                     |                                  |                 |                                  |                        |                                  |                       |                                  |
| <b>as at 30 June 2009</b> | <b>202,571,212</b>  | <b>\$0.63</b>                    | -               | -                                | <b>3,712,421</b>       | <b>\$2.87</b>                    | <b>5,818,222</b>      | <b>\$2.83</b>                    |
| <b>Exercisable</b>        |                     |                                  |                 |                                  |                        |                                  |                       |                                  |
| <b>as at 30 June 2009</b> | <b>31,507,117</b>   | <b>\$0.98</b>                    | -               | -                                | <b>388,506</b>         | <b>\$3.05</b>                    | -                     | -                                |

(\*) Options include RTSR, TSR, RG, NGN, ITT, ROI, SEBITDA and 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, EPS, OEG, RG, NT, ITT and ROI performance rights.

(#) Restricted shares relate to ROI restricted shares.

(\*\*) The fair value of these instruments is calculated using an option pricing model that takes into account various factors, including the exercise price and expected life of the instrument, the current price of the underlying share and its expected volatility, expected dividends, the risk-free rate for the expected life of the instrument, and the expected average volatility of Telstra's peer group companies.

(^^) The weighted average share price for instruments exercised during fiscal 2008 was \$4.44 for the September 2002, September 2003 and February 2004 allocation of deferred shares respectively and \$4.68 for the ESOP options. These share prices were based on the closing market price on the exercise dates.

(##) The weighted average share price for instruments exercised during fiscal 2009 was \$4.05 for the fiscal 2008 ESOP allocation of options, \$4.32 for the fiscal 2004 allocation of deferred shares, and \$4.30 for fiscal 2003, fiscal 2004, fiscal 2005 and fiscal 2006 allocation of performance rights respectively. These share prices were based on the closing market price on the exercise dates

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

#### (b) Long term incentive (LTI) plans (continued)

#### (v) Fair value of equity instruments granted

The fair value of LTI instruments granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The following weighted average assumptions were used in determining the valuation:

|   | Growthshare LTI options (former CEO) | Growthshare ESOP options | US ESOP options | Growthshare LTI options | Growthshare LTI restricted shares | Growthshare LTI options (former CEO) | Growthshare ESOP options | Growthshare LTI options |
|---|--------------------------------------|--------------------------|-----------------|-------------------------|-----------------------------------|--------------------------------------|--------------------------|-------------------------|
|   | Aug 2008                             | Jan 2009                 | Aug 08          | May 09                  | May 09                            | Aug 2007                             | Dec 2007                 | March 2008              |
| Share price . . . . .   | \$4.39                               | \$3.58                   | \$4.39          | \$3.23                  | \$3.23                            | \$4.24                               | \$4.65                   | \$4.37                  |
| Risk free rate . . . . .  | 5.65%                                | 3.39%                    | 5.67%           | 4.21%                   | 4.21%                             | 6.14% / 6.08%                        | 6.48%                    | 6.20%                   |
| Dividend yield . . . . .  | 6.0%                                 | 6.0%                     | 6.0%            | 6.0%                    | 6.0%                              | 6.0%                                 | 6.0%                     | 6.0%                    |
| Expected stock volatility . . . . .                               | 21%                                  | 23%                      | 21%             | 23%                     | 23%                               | 19%                                  | 19%                      | 20%                     |
| Expected life . . . . .   | (*)                                  | (*)                      | (*)             | (*)                     | (*)                               | (*)                                  | (*)                      | (*)                     |
| Expected rate of achievement of TSR performance hurdles . . . . . | 17%                                  | n/a                      | n/a             | 52%                     | n/a                               | 28%                                  | n/a                      | 32%                     |

(\*) The date the instruments become exercisable.

For the LTI options (former CEO), the fair value has been measured at a grant date of 21 August 2008 and has been allocated over the period for which the service is received which commenced 1 July 2008 for the tranche 3 allocation.

For the ESOP options, the fair value has been measured at a grant date of 22 January 2009 and has been allocated over the period for which the service is received which commenced on 1 July 2008.

For the US ESOP options, the fair value has been measured at a grant date of 21 August 2008 and has been allocated over the period for which the service is received which commenced on grant date.

For the LTI options (in relation to executives other than the former CEO), the fair value has been measured at a grant date of 8 May 2009 and has been allocated over the period for which the service is received which commenced 1 July 2008.

For the LTI restricted shares (in relation to executives other than the former CEO), the fair value has been measured at a grant date of 8 May 2009 and has been allocated over the period for which the service is received which commenced 1 July 2008.

The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

## Notes to the Financial Statements (continued)

### 27. Employee share plans (continued)

#### Telstra Growthshare Trust (continued)

##### (c) Telstra Directshare and Ownshare

###### (i) Nature of Telstra Directshare and Ownshare

###### Telstra Directshare

Non-executive directors were required to offer to receive a minimum of 20% of their total remuneration as restricted Telstra shares, known as Directshares. Shares are acquired by the trustee from time to time. The trustee may determine to allocate shares to the participating directors on a six monthly basis, on dates determined by the trustee at its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period on Directshare already allocated continues until the earliest of:

- 10 years (2008: five years) from the date of allocation of the shares;
- the participating director is no longer a director of, or is no longer employed by, a company in the Telstra Group; and
- the Trustee determines that an 'event' has occurred.

At the end of the restriction period, the Directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for directors' remuneration.

As a result of the changes to tax laws governing employee share schemes, creating uncertainty in relation to the future tax treatment of shares acquired under employee share schemes, the Board has determined that non-executive directors will not be required to receive a minimum of 20% of their total remuneration as Directshares from 1 July 2009. 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. Such shares are to be acquired over a five year period from 1 July 2009 to further align the remuneration structure with the interests of shareholders.

###### Telstra Ownshare

Certain eligible employees may, at their election, be provided part of their remuneration in Telstra shares. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues until the earliest of:

- three years from the date of allocation (depending on the elections available to the participant at the time of allocation);
- the participant ceases employment with the Telstra Group; and
- the Board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the Ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

###### (ii) Instruments granted during the financial year

The fair value of the instruments granted under the Directshare and Ownshare plans is determined by the remuneration foregone by the participant. On the grant of Directshares and Ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. The 15 September 2008 grant of Ownshares relates to employees short term incentive payments and the 24 October 2008 grant relates to shares acquired through salary sacrifice by employees.

The weighted average fair value of fully paid shares granted to directors and executives under the Directshare and Ownshare plans as at 30 June 2009 was \$4.08 (2008: \$4.63) and \$4.21 (2008: \$4.47) respectively. The total fair value of shares granted during 30 June 2009 was \$648,839 (2008: \$421,243) for the Directshare and \$2,721,513 (2008: \$2,652,676) for the Ownshare plan.

## 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<br>at 30 June<br>2007 | Granted<br>(*) | Distributed<br>(^) | Outstanding<br>at 30 June<br>2008 | Granted<br>(*) | Distributed<br>(^) | Outstanding<br>at 30 June<br>2009 |
| <b>Directshares</b>                    |                                   |                |                    |                                   |                |                    |                                   |
| 5 September 2002 allocation . . . . .  | 7,598                             | -              | (7,598)            | -                                 | -              | -                  | -                                 |
| 7 March 2003 allocation . . . . .      | 20,108                            | -              | (20,108)           | -                                 | -              | -                  | -                                 |
| 5 September 2003 allocation . . . . .  | 15,524                            | -              | (1,158)            | 14,366                            | -              | -                  | 14,366                            |
| 20 February 2004 allocation. . . . .   | 17,134                            | -              | (1,699)            | 15,435                            | -              | -                  | 15,435                            |
| 20 August 2005 allocation . . . . .    | 5,080                             | -              | (458)              | 4,622                             | -              | -                  | 4,622                             |
| 19 February 2005 allocation. . . . .   | 17,405                            | -              | (1,701)            | 15,704                            | -              | -                  | 15,704                            |
| 19 August 2005 allocation . . . . .    | 16,516                            | -              | (2,293)            | 14,223                            | -              | -                  | 14,223                            |
| 17 February 2006 allocation. . . . .   | 25,599                            | -              | (3,577)            | 22,022                            | -              | -                  | 22,022                            |
| 18 August 2006 allocation . . . . .    | 36,431                            | -              | (4,560)            | 31,871                            | -              | -                  | 31,871                            |
| 23 February 2007 allocation. . . . .   | 38,209                            | -              | (4,095)            | 34,114                            | -              | -                  | 34,114                            |
| 17 August 2007 allocation . . . . .    | -                                 | 37,961         | (3,913)            | 34,048                            | -              | -                  | 34,048                            |
| 29 February 2008 allocation. . . . .   | -                                 | 53,104         | (1,671)            | 51,433                            | -              | -                  | 51,433                            |
| 21 August 2008 allocation . . . . .    | -                                 | -              | -                  | -                                 | 61,113         | -                  | 61,113                            |
| 6 March 2009 allocation . . . . .      | -                                 | -              | -                  | -                                 | 97,797         | -                  | 97,797                            |
|  | 199,604                           | 91,065         | (52,831)           | 237,838                           | 158,910        | -                  | 396,748                           |
| <b>Ownshares</b>                       |                                   |                |                    |                                   |                |                    |                                   |
| 20 August 2004 allocation . . . . .    | 256,372                           | -              | (256,372)          | -                                 | -              | -                  | -                                 |
| 29 October 2004 allocation . . . . .   | 175,130                           | -              | (175,130)          | -                                 | -              | -                  | -                                 |
| 19 August 2005 allocation . . . . .    | 419,462                           | -              | (48,129)           | 371,333                           | -              | (371,333)          | -                                 |
| 28 October 2005 allocation . . . . .   | 231,319                           | -              | (15,604)           | 215,715                           | -              | (215,715)          | -                                 |
| 18 August 2006 allocation . . . . .    | 393,244                           | -              | (52,241)           | 341,003                           | -              | (38,936)           | 302,067                           |
| 27 October 2006 allocation . . . . .   | 177,596                           | -              | (24,600)           | 152,996                           | -              | (9,025)            | 143,971                           |
| 27 September 2007 allocation . . . . . | -                                 | 402,067        | (17,857)           | 384,210                           | -              | (27,579)           | 356,631                           |
| 26 October 2007 allocation . . . . .   | -                                 | 192,198        | (17,814)           | 174,384                           | -              | (32,195)           | 142,189                           |
| 15 September 2008 allocation . . . . . | -                                 | -              | -                  | -                                 | 441,706        | (24,426)           | 417,280                           |
| 24 October 2008 allocation . . . . .   | -                                 | -              | -                  | -                                 | 205,341        | (2,545)            | 202,796                           |
|  | 1,653,123                         | 594,265        | (607,747)          | 1,639,641                         | 647,047        | (721,754)          | 1,564,934                         |

(\* ) 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)

#### 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 2009, there were 8,522,800 shares held for this purpose (2008: 8,067,200).

The following table provides information about our TESOP99 and TESOP97 share plans:

|  | TESOP97           |                                 |                      | TESOP99           |                                 |                      |
|--|-------------------|---------------------------------|----------------------|-------------------|---------------------------------|----------------------|
|  | Number            | Weighted average fair value (*) | Total fair value \$m | Number            | Weighted average fair value (*) | Total fair value \$m |
| <b>Equity instruments outstanding and exercisable as at 30 June 2007</b> | 34,685,500        | \$4.59                          | 159                  | 14,187,600        | \$4.59                          | 65                   |
| Exercised  | (5,916,250)       | \$4.45                          | (26)                 | (186,600)         | \$4.46                          | (1)                  |
| <b>Equity instruments outstanding and exercisable as at 30 June 2008</b> | 28,769,250        | \$4.24                          | 122                  | 14,001,000        | \$4.24                          | 59                   |
| Exercised  | (3,096,750)       | \$3.77                          | (12)                 | (102,000)         | \$3.76                          | -                    |
| <b>Equity instruments outstanding and exercisable as at 30 June 2009</b> | <b>25,672,500</b> | <b>\$3.39</b>                   | <b>87</b>            | <b>13,899,000</b> | <b>\$3.39</b>                   | <b>47</b>            |

(\*) The fair value of these shares is based on the market value of Telstra shares at balance date and exercise date.

The employee share loan balance as at 30 June 2009 is \$87 million (2008: \$97 million). The weighted average loan still to be repaid for TESOP97 is \$0.40 per instrument (2008: \$0.61), and for TESOP99 is \$5.49 per instrument (2008: \$5.70).

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation

Our key management personnel (KMP) have authority and responsibility for planning, directing and controlling the activities of the Telstra Group. Our KMP consist of:

- the Directors of the Telstra Entity; and
- certain executives in the Chief Executive Officer's (CEO's) senior leadership team, referred to as a 'senior executive' in this report.

#### Directors

During fiscal 2009 and fiscal 2008, the Directors of the Telstra Entity were:

| Name                     | Position   |
|--------------------------|--|
| <b>Current Directors</b> |  |
| Catherine B Livingstone  | Chairman (appointed on 8 May 2009), Non Executive Director   |
| David I Thodey           | Chief Executive Officer and Executive Director (appointed effective 19 May 2009)   |
| John V Stanhope          | Executive Director (appointed effective 8 May 2009), Chief Financial Officer and Group Managing Director, Finance and Administration |
| Geoffrey A Cousins       | Non Executive Director   |
| Charles Macek            | Non Executive Director   |
| John P Mullen            | Non Executive Director (appointed effective 1 July 2008)   |
| John M Stewart           | Non Executive Director   |
| John W Stocker           | Non Executive Director   |
| Peter J Willcox          | Non Executive Director (resigned on 8 May 2009 effective 4 November 2009)  |
| John D Zeglis            | Non Executive Director   |

#### Former Directors

Donald G McGauchie resigned as Chairman, Non Executive Director on 8 May 2009

Solomon D Trujillo ceased as Chief Executive Officer and Executive Director effective 15 May 2009

#### Senior executives

The senior executives that qualified as KMP for fiscal 2009 and fiscal 2008 were:

| Name                             | Position  |
|----------------------------------|---|
| <b>Current senior executives</b> |   |
| Bruce Akhurst                    | Chief Executive Officer, Sensis   |
| Nerida Caesar                    | Group Managing Director, Telstra Enterprise and Government (KMP effective from 30 March 2009) |
| Justin Milne                     | Group Managing Director, Telstra Media (KMP effective from 18 September 2008)                 |
| David Moffatt                    | Group Managing Director, Telstra Consumer   |
| Michael Rocca                    | Group Managing Director, Telstra Networks and Services (KMP effective from 1 February 2009)   |
| Deena Shiff                      | Group Managing Director, Telstra Business   |

#### Former senior executives

Kate McKenzie, former Group Managing Director, Telstra Wholesale, ceased being a KMP effective 30 March 2009. Ms McKenzie is currently Group Managing Director, Strategic Marketing.

Gregory Winn, former Group Managing Director, Telstra Operations, ceased being a KMP effective 1 February 2009.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP aggregate compensation

During fiscal 2009 and fiscal 2008, the aggregate compensation provided to our KMP was:

|  | Telstra Group     |                   | Telstra Entity    |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | As at 30 June     |                   | As at 30 June     |                   |
|  | 2009              | 2008              | 2009              | 2008              |
|  | \$                | \$                | \$                | \$                |
| Short term employee benefits . . . . . | 26,303,124        | 30,308,353        | 26,303,124        | 30,308,353        |
| Post employment benefits . . . . .     | 1,170,557         | 1,360,764         | 1,170,557         | 1,360,764         |
| Other long term benefits . . . . .     | 296,800           | 288,125           | 296,800           | 288,125           |
| Termination benefits . . . . .         | 4,232,113         | -                 | 4,232,113         | -                 |
| Share-based payments . . . . .         | 7,057,240         | 16,518,575        | 7,057,240         | 16,518,575        |
|  | <b>39,059,834</b> | <b>48,475,817</b> | <b>39,059,834</b> | <b>48,475,817</b> |

In accordance with AASB 124 we have made the detailed remuneration disclosures in the Remuneration Report which is part of the Directors' Report. Please refer to the Remuneration Report for further details.

#### Other transactions with our KMP and their related entities

Our KMP have telecommunications services transactions with the Telstra Group, which are not significant and are both trivial and domestic in nature. The KMP related entities also have telecommunications services with us on normal commercial terms and conditions.

Our KMP are provided with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we also make products and services available to our KMP without charge to enable them to familiarise themselves with our products, services and recent technological developments. To the extent it is considered a benefit to a KMP, it is included in their compensation.

From 1 February 2009 to 31 March 2009, Mr Winn was engaged in a consulting capacity to Telstra, an arrangement that has now ceased. He received \$666,666 in consulting fees during this period which was a pro rata equivalent rate of his fixed remuneration and Short Term Incentive at target as disclosed in the Remuneration Report.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in shares of Telstra Entity

During fiscal 2009, 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 2008 (a) | Directshare allocation | Equity instruments exercised | Shares acquired or disposed of by other means | Total shares held at 30 June 2009 (b) | Shares that are held nominally (c) |
|-----------------------------------|---------------------------------------|------------------------|------------------------------|---|---------------------------------------|------------------------------------|
|                                   | Number                                | Number                 | Number                       | Number  | Number                                | Number                             |
| <b>Directors</b>                  |                                       |                        |                              |   |                                       |                                    |
| Catherine B Livingstone . . . . . | 100,461                               | 12,521                 | -                            | -   | 112,982                               | 112,982                            |
| David I Thodey . . . . .          | 270,835                               | -                      | 141,211                      | 83,542  | 495,588                               | 386,590                            |
| John V Stanhope . . . . .         | 227,959                               | -                      | 126,619                      | 82,489  | 437,067                               | 168,918                            |
| Geoffrey A Cousins . . . . .      | 9,979                                 | 11,786                 | -                            | -   | 21,765                                | 21,765                             |
| Charles Macek . . . . .           | 214,178                               | 14,477                 | -                            | (5,500)                                       | 223,155                               | 217,587                            |
| John P Mullen . . . . .           | -                                     | 26,159                 | -                            | -   | 26,159                                | 26,159                             |
| John M Stewart . . . . .          | -                                     | 9,031                  | -                            | -   | 9,031                                 | 9,031                              |
| John W Stocker. . . . .           | 183,004                               | 29,233                 | -                            | (1,498)                                       | 210,739                               | 192,625                            |
| Peter J Willcox . . . . .         | 67,836                                | 13,498                 | -                            | 10,000  | 91,334                                | 91,334                             |
| John D Zeglis . . . . .           | 30,063                                | 10,808                 | -                            | -   | 40,871                                | 24,371                             |
| Donald G McGauchie . . . . .      | 135,205                               | 31,394                 | -                            | -   | 166,599                               | 128,208                            |
| Solomon D Trujillo . . . . .      | 901,608                               | -                      | -                            | 689,171                                       | 1,590,779                             | 1,340,779                          |
|                                   | 2,141,128                             | 158,907                | 267,830                      | 858,204                                       | 3,426,069                             | 2,720,349                          |
| <b>Senior executives</b>          |                                       |                        |                              |   |                                       |                                    |
| Bruce Akhurst . . . . .           | 65,934                                | -                      | 227,764                      | (126,699)                                     | 166,999                               | 159,219                            |
| Nerida Caesar . . . . .           | 32,340                                | -                      | -                            | -   | 32,340                                | 22,100                             |
| Kate McKenzie . . . . .           | 52,846                                | -                      | 7,201                        | 33,138  | 93,185                                | 72,021                             |
| Justin Milne. . . . .             | 199,886                               | -                      | -                            | -   | 199,886                               | 80,851                             |
| David Moffatt . . . . .           | 465,428                               | -                      | 164,501                      | 94,705  | 724,634                               | 190,547                            |
| Michael Rocca . . . . .           | 544,102                               | -                      | -                            | (100,000)                                     | 444,102                               | 171,198                            |
| Deena Shiff . . . . .             | 154,298                               | -                      | 81,060                       | 68,418  | 303,776                               | 143,129                            |
|                                   | 1,514,834                             | -                      | 480,526                      | (30,438)                                      | 1,964,922                             | 839,065                            |
|                                   | 3,655,962                             | 158,907                | 748,356                      | 827,766                                       | 5,390,991                             | 3,559,414                          |

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 2009 were on an arm's length basis at market price.

(a) For those Directors and senior executives who qualified as KMP during the year, represents shares held as at the date they became KMP.

(b) For those Directors and senior executives who retired from office during the year or no longer qualify as KMP as at 30 June 2009, 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 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 Telstra Entity (continued)

During fiscal 2008, our KMP and their related entities held share capital of the Telstra Entity directly, indirectly or beneficially as follows:

|                                    | Total shares held at 30 June 2007 | Directshare allocation | Equity instruments exercised | Shares acquired or disposed of by other means | Total shares held at 30 June 2008 | Shares that are held nominally(b) |
|------------------------------------|-----------------------------------|------------------------|------------------------------|---|-----------------------------------|-----------------------------------|
|                                    | Number                            | Number                 | Number                       | Number  | Number                            | Number                            |
| <b>Directors</b>                   |                                   |                        |                              |   |                                   |                                   |
| Donald G McGauchie . . . . .       | 109,332                           | 24,761                 | -                            | 1,112   | 135,205                           | 96,814                            |
| Solomon D Trujillo . . . . .       | 250,000                           | -                      | -                            | 651,608                                       | 901,608                           | 651,608                           |
| Geoffrey A Cousins . . . . .       | 1,747                             | 8,232                  | -                            | -   | 9,979                             | 9,979                             |
| Belinda J Hutchinson (a) . . . . . | 238,433                           | 3,913                  | -                            | -   | 242,346                           | 200,230                           |
| Catherine B Livingstone . . . . .  | 95,243                            | 9,752                  | -                            | (4,534)                                       | 100,461                           | 82,914                            |
| Charles Macek . . . . .            | 178,282                           | 11,096                 | -                            | 24,800  | 214,178                           | 208,610                           |
| John M Stewart . . . . .           | -                                 | -                      | -                            | -   | -                                 | -                                 |
| John W Stocker. . . . .            | 159,389                           | 14,119                 | -                            | 9,496   | 183,004                           | 164,890                           |
| Peter J Willcox . . . . .          | 48,023                            | 9,313                  | -                            | 10,500  | 67,836                            | 67,836                            |
| John D Zeglis . . . . .            | 21,855                            | 8,208                  | -                            | -   | 30,063                            | 13,563                            |
|                                    | 1,102,304                         | 89,394                 | -                            | 692,982                                       | 1,884,680                         | 1,496,444                         |
| <b>Senior executives</b>           |                                   |                        |                              |   |                                   |                                   |
| Bruce Akhurst . . . . .            | 32,559                            | -                      | -                            | 33,375  | 65,934                            | 58,154                            |
| Kate McKenzie . . . . .            | -                                 | -                      | 13,963                       | 38,883  | 52,846                            | 38,883                            |
| David Moffatt . . . . .            | 367,822                           | -                      | -                            | 97,606  | 465,428                           | 95,842                            |
| Deena Shiff . . . . .              | 14,880                            | -                      | 71,307                       | 68,111  | 154,298                           | 74,711                            |
| John Stanhope. . . . .             | 125,634                           | -                      | 19,856                       | 82,469  | 227,959                           | 86,429                            |
| David Thodey. . . . .              | 179,279                           | -                      | 17,049                       | 74,507  | 270,835                           | 79,860                            |
| Gregory Winn. . . . .              | -                                 | -                      | -                            | -   | -                                 | -                                 |
|                                    | 720,174                           | -                      | 122,175                      | 394,951                                       | 1,237,300                         | 433,879                           |
|                                    | 1,822,478                         | 89,394                 | 122,175                      | 1,087,933                                     | 3,121,980                         | 1,930,323                         |

Total shareholdings include shares held by our KMP and their related entities. Unless related to our employee share plans, shares acquired or disposed of by our KMP during fiscal 2008 were on an arm's length basis at market price.

(a) During fiscal 2008 Ms Hutchinson retired from office. For Ms Hutchinson, the number of shares represent those held at the date of leaving office.

(b) 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 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 options and rights of Telstra Entity

The following details the balances and changes in instruments issued for our KMP during fiscal 2009.

| Instrument type<br>director/senior executive | Total held<br>at 30 June<br>2008 (a) | Granted<br>during the<br>year | Exercised<br>during the<br>year | Other<br>changes (b) | Total held<br>at 30 June<br>2009 (c) | Vested and<br>exercisable<br>at 30 June<br>2009 (c) | Vested<br>during the<br>year |
|--|--------------------------------------|-------------------------------|---------------------------------|----------------------|--------------------------------------|---|------------------------------|
|  | Number                               | Number                        | Number                          | Number               | Number                               | Number  | Number                       |
| <b>Performance rights</b>                    |                                      |                               |                                 |                      |                                      |   |                              |
| David I Thodey . . . . .                     | 231,918                              | -                             | (123,064)                       | (13,608)             | 95,246                               | -   | 89,814                       |
| John V Stanhope . . . . .                    | 209,216                              | -                             | (105,484)                       | (12,967)             | 90,765                               | -   | 75,334                       |
| Bruce Akhurst . . . . .                      | 251,640                              | -                             | (133,848)                       | (14,724)             | 103,068                              | -   | 97,848                       |
| Kate McKenzie (c) . . . . .                  | 64,576                               | -                             | -                               | (5,559)              | 59,017                               | 20,116  | 11,116                       |
| Justin Milne (a) . . . . .                   | 46,129                               | -                             | -                               | -                    | 46,129                               | -   | -                            |
| David Moffatt . . . . .                      | 262,450                              | -                             | (142,650)                       | (14,976)             | 104,824                              | -   | 106,050                      |
| Michael Rocca (a) . . . . .                  | 90,942                               | -                             | -                               | -                    | 90,942                               | -   | -                            |
| Deena Shiff . . . . .                        | 135,420                              | -                             | (55,084)                        | (10,043)             | 70,293                               | -   | 42,584                       |
| Solomon D Trujillo (c) . . . . .             | 836,821                              | -                             | -                               | (228,732)            | 608,089                              | 167,364   | 167,364                      |
| <b>Options</b>                               |                                      |                               |                                 |                      |                                      |   |                              |
| David I Thodey . . . . .                     | 7,965,160                            | 881,331                       | -                               | (175,000)            | 8,671,491                            | 1,309,000   | 775,000                      |
| John V Stanhope . . . . .                    | 5,936,390                            | 698,987                       | -                               | (132,759)            | 6,502,618                            | 828,932   | 587,932                      |
| Bruce Akhurst . . . . .                      | 8,624,715                            | 949,350                       | -                               | (188,578)            | 9,385,487                            | 1,452,127   | 835,127                      |
| Nerida Caesar (a) . . . . .                  | 928,085                              | 132,539                       | -                               | -                    | 1,060,624                            | 94,203  | -                            |
| Kate McKenzie (c) . . . . .                  | 2,467,533                            | -                             | -                               | (56,573)             | 2,410,960                            | 250,537   | 250,537                      |
| Justin Milne (a) . . . . .                   | 2,663,599                            | 370,116                       | -                               | -                    | 3,033,715                            | 276,595   | -                            |
| David Moffatt . . . . .                      | 8,916,255                            | 999,277                       | -                               | (190,841)            | 9,724,691                            | 1,585,151   | 845,151                      |
| Michael Rocca (a) . . . . .                  | 7,311,419                            | 873,733                       | -                               | -                    | 8,185,152                            | 1,010,276   | -                            |
| Deena Shiff . . . . .                        | 6,016,019                            | 741,679                       | -                               | (135,776)            | 6,621,922                            | 779,293   | 601,293                      |
| Solomon D Trujillo (c) . . . . .             | 15,517,242                           | 5,172,414                     | -                               | (8,793,104)          | 11,896,552                           | 6,724,138   | 6,724,138                    |
| <b>Restricted shares</b>                     |                                      |                               |                                 |                      |                                      |   |                              |
| David I Thodey . . . . .                     | -                                    | 279,357                       | -                               | -                    | 279,357                              | -   | -                            |
| John V Stanhope . . . . .                    | -                                    | 221,560                       | -                               | -                    | 221,560                              | -   | -                            |
| Bruce Akhurst . . . . .                      | -                                    | 300,917                       | -                               | -                    | 300,917                              | -   | -                            |
| Nerida Caesar (a) . . . . .                  | -                                    | 42,010                        | -                               | -                    | 42,010                               | -   | -                            |
| Justin Milne (a) . . . . .                   | -                                    | 117,317                       | -                               | -                    | 117,317                              | -   | -                            |
| David Moffatt . . . . .                      | -                                    | 316,743                       | -                               | -                    | 316,743                              | -   | -                            |
| Michael Rocca (a) . . . . .                  | -                                    | 276,950                       | -                               | -                    | 276,950                              | -   | -                            |
| Deena Shiff . . . . .                        | -                                    | 235,093                       | -                               | -                    | 235,093                              | -   | -                            |

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in options and rights of Telstra Entity (continued)

| Instrument type                    | Total held<br>at 30 June<br>2008 (a) | Granted<br>during the<br>year | Exercised<br>during the<br>year | Other<br>changes (b) | Total held<br>at 30 June<br>2009 (c) | Vested and<br>exercisable<br>at 30 June<br>2009 (c) | Vested<br>during the<br>year |
|------------------------------------|--------------------------------------|-------------------------------|---------------------------------|----------------------|--------------------------------------|---|------------------------------|
| director/senior executive          | Number                               | Number                        | Number                          | Number               | Number                               | Number  | Number                       |
| <b>Incentive shares rights (d)</b> |                                      |                               |                                 |                      |                                      |   |                              |
| David I Thodey . . . . .           | 18,147                               | -                             | (18,147)                        | -                    | -                                    | -   | 18,147                       |
| John V Stanhope . . . . .          | 21,135                               | -                             | (21,135)                        | -                    | -                                    | -   | 21,135                       |
| Bruce Akhurst . . . . .            | 93,916                               | -                             | (93,916)                        | -                    | -                                    | -   | 93,916                       |
| Kate McKenzie (c) . . . . .        | 7,641                                | 14                            | (7,201)                         | -                    | 454                                  | 454   | 7,201                        |
| David Moffatt . . . . .            | 43,702                               | 736                           | (21,851)                        | -                    | 22,587                               | 22,587  | 21,851                       |
| Deena Shiff . . . . .              | 25,976                               | -                             | (25,976)                        | -                    | -                                    | -   | 25,976                       |
| <b>TESOP97</b>                     |                                      |                               |                                 |                      |                                      |   |                              |
| John V Stanhope . . . . .          | 2,500                                | -                             | -                               | -                    | 2,500                                | 2,500   | -                            |
| Bruce Akhurst . . . . .            | 2,500                                | -                             | -                               | -                    | 2,500                                | 2,500   | -                            |
| Michael Rocca (a) . . . . .        | 2,500                                | -                             | -                               | -                    | 2,500                                | 2,500   | -                            |
| <b>TESOP99</b>                     |                                      |                               |                                 |                      |                                      |   |                              |
| John V Stanhope . . . . .          | 400                                  | -                             | -                               | -                    | 400                                  | 400   | -                            |
| Bruce Akhurst . . . . .            | 400                                  | -                             | -                               | -                    | 400                                  | 400   | -                            |
| Deena Shiff . . . . .              | 400                                  | -                             | -                               | -                    | 400                                  | 400   | -                            |

(a) For those Directors and senior executives who qualified as KMP during the year, represents equity instruments held as at the date they became KMP.

(b) During fiscal 2009, other changes for our performance rights and options are a result of instruments expiring due to the specified performance hurdles not being achieved or instruments forfeiting due to KMP retiring during the year.

(c) For those Directors and senior executives who retired from office during the year or no longer qualify as KMP at 30 June 2009, represents equity instruments held as at the date they retired or no longer qualified as KMP.

(d) Excludes incentive shares that vest immediately and are beneficially owned by the KMP. "Granted" for incentive shares rights relate to additional incentive shares provided to our senior executives. Any dividends paid by the Company prior to the exercise of their incentive shares will increase the number of Telstra shares allocated to the senior executives when the vested incentive shares are exercised. Refer to note 27 for further details.

## Notes to the Financial Statements (continued)

### 28. Key management personnel compensation (continued)

#### KMP interests in options and rights of Telstra Entity (continued)

The following details the balances and changes in instruments issued for our KMP during fiscal 2008.

| Instrument type<br>director/senior executive | Total held<br>at 30 June<br>2007 | Granted<br>during the<br>year | Exercised<br>during the<br>year | Other<br>changes (a) | Total held<br>at 30 June<br>2008 | Vested and<br>exercisable<br>at 30 June<br>2008 | Vested<br>during the<br>year |
|--|----------------------------------|-------------------------------|---------------------------------|----------------------|----------------------------------|---|------------------------------|
|  | Number                           | Number                        | Number                          | Number               | Number                           | Number  | Number                       |
| <b>Performance rights</b>                    |                                  |                               |                                 |                      |                                  |   |                              |
| Solomon D Trujillo                           | 836,821                          | -                             | -                               | -                    | 836,821                          | -   | -                            |
| Bruce Akhurst                                | 426,540                          | -                             | -                               | (174,900)            | 251,640                          | -   | -                            |
| Kate McKenzie                                | 91,576                           | -                             | -                               | (27,000)             | 64,576                           | -   | -                            |
| David Moffatt                                | 448,550                          | -                             | -                               | (186,100)            | 262,450                          | -   | -                            |
| Deena Shiff                                  | 192,720                          | -                             | -                               | (57,300)             | 135,420                          | -   | -                            |
| John Stanhope                                | 323,466                          | -                             | -                               | (114,250)            | 209,216                          | -   | -                            |
| David Thodey                                 | 390,668                          | -                             | -                               | (158,750)            | 231,918                          | -   | -                            |
| <b>Options</b>                               |                                  |                               |                                 |                      |                                  |   |                              |
| Solomon D Trujillo                           | -                                | 15,517,242                    | -                               | -                    | 15,517,242                       | -   | -                            |
| Bruce Akhurst                                | 6,813,121                        | 1,811,594                     | -                               | -                    | 8,624,715                        | 617,000   | -                            |
| Kate McKenzie                                | 1,858,837                        | 608,696                       | -                               | -                    | 2,467,533                        | -   | -                            |
| David Moffatt                                | 7,010,475                        | 1,905,780                     | -                               | -                    | 8,916,255                        | 740,000   | -                            |
| Deena Shiff                                  | 4,639,207                        | 1,376,812                     | -                               | -                    | 6,016,019                        | 178,000   | -                            |
| John Stanhope                                | 4,603,070                        | 1,333,320                     | -                               | -                    | 5,936,390                        | 241,000   | -                            |
| David Thodey                                 | 6,284,000                        | 1,681,160                     | -                               | -                    | 7,965,160                        | 534,000   | -                            |
| <b>Incentive shares rights (b)</b>           |                                  |                               |                                 |                      |                                  |   |                              |
| Bruce Akhurst                                | 88,233                           | 5,683                         | -                               | -                    | 93,916                           | 47,836  | 43,291                       |
| Kate McKenzie                                | 20,298                           | 1,306                         | (13,963)                        | -                    | 7,641                            | 440   | 6,766                        |
| David Moffatt                                | 41,060                           | 2,642                         | -                               | -                    | 43,702                           | 21,851  | 20,530                       |
| Deena Shiff                                  | 73,211                           | 1,572                         | (48,807)                        | -                    | 25,976                           | -   | 24,404                       |
| John Stanhope                                | 39,712                           | 1,279                         | (19,856)                        | -                    | 21,135                           | -   | 19,856                       |
| David Thodey                                 | 34,099                           | 1,097                         | (17,049)                        | -                    | 18,147                           | -   | 17,049                       |
| <b>Deferred shares</b>                       |                                  |                               |                                 |                      |                                  |   |                              |
| Deena Shiff                                  | 22,500                           | -                             | (22,500)                        | -                    | -                                | -   | -                            |
| <b>TESOP97</b>                               |                                  |                               |                                 |                      |                                  |   |                              |
| Bruce Akhurst                                | 2,500                            | -                             | -                               | -                    | 2,500                            | 2,500   | -                            |
| John Stanhope                                | 2,500                            | -                             | -                               | -                    | 2,500                            | 2,500   | -                            |
| <b>TESOP99</b>                               |                                  |                               |                                 |                      |                                  |   |                              |
| Bruce Akhurst                                | 400                              | -                             | -                               | -                    | 400                              | 400   | -                            |
| Deena Shiff                                  | 400                              | -                             | -                               | -                    | 400                              | 400   | -                            |
| John Stanhope                                | 400                              | -                             | -                               | -                    | 400                              | 400   | -                            |

(a) During fiscal 2008, other changes for our performance rights are a result of instruments expiring due to the specified performance hurdles not being achieved.

(b) Excludes incentives 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 incentives 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:

|   | Note | Telstra Group               |             | Telstra Entity              |             |
|---|------|-----------------------------|-------------|-----------------------------|-------------|
|   |      | Year ended/As at<br>30 June |             | Year ended/As at<br>30 June |             |
|   |      | 2009<br>\$m                 | 2008<br>\$m | 2009<br>\$m                 | 2008<br>\$m |
| <b>Income from controlled entities:</b>                               |      |                             |             |                             |             |
| Sale of goods and services (a)  |      | -                           | -           | 1,151                       | 1,115       |
| Finance income (a)  | 17   | -                           | -           | 1                           | 1           |
| Dividend revenue (b)  | 6    | -                           | -           | 146                         | 256         |
| <b>Expenses to controlled entities:</b>                               |      |                             |             |                             |             |
| Purchase of goods and services (a)                                    |      | -                           | -           | 427                         | 423         |
| Finance costs (a)   | 17   | -                           | -           | 11                          | 15          |
| <b>Total amounts receivable at 30 June from:</b>                      |      |                             |             |                             |             |
| <b>Current</b>  |      |                             |             |                             |             |
| Controlled entities (a) (d)   | 10   | -                           | -           | 3,168                       | 2,659       |
| Allowance for amounts owed by controlled entities                     | 10   | -                           | -           | (2,487)                     | (2,267)     |
|   |      | -                           | -           | 681                         | 392         |
| <b>Non current</b>  |      |                             |             |                             |             |
| Controlled entities (a)   | 10   | -                           | -           | 179                         | 162         |
| <b>Movement in allowance for amounts owed by controlled entities:</b> |      |                             |             |                             |             |
| Opening balance   |      | -                           | -           | (2,267)                     | (2,022)     |
| Impairment loss (c)   | 7    | -                           | -           | (220)                       | (247)       |
| Reversal of impairment loss   | 7    | -                           | -           | -                           | 2           |
| Closing balance   | 10   | -                           | -           | (2,487)                     | (2,267)     |
| <b>Total amounts payable at 30 June to:</b>                           |      |                             |             |                             |             |
| <b>Current</b>  |      |                             |             |                             |             |
| Controlled entities - payables (a) (d)                                | 15   | -                           | -           | 189                         | 155         |
| Controlled entities - loans (e)                                       | 17   | -                           | -           | 1,106                       | 430         |
|   |      | -                           | -           | 1,295                       | 585         |

(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.

- the Telstra Entity received income from its controlled entity Telstra Multimedia Pty Ltd amounting to \$331 million (2008: \$309 million) for access to ducts that store the national hybrid fibre coaxial (HFC) cable network.

Details of our individual significant transactions involving our controlled entities during fiscal 2009 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 \$667 million (2008: \$664 million). As at 30 June 2009, the Telstra Entity recorded revenue received in advance amounting to \$275 million (2008: \$386 million) for the use of these trademarks;
- the Telstra Entity paid management fees to its controlled entity Sensis Pty Ltd amounting to \$324 million (2008: \$329 million) for undertaking agency and contract management services for the national directory service; and

## Notes to the Financial Statements (continued)

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### 29. Related party disclosures (continued)

#### Transactions involving our controlled entities (continued)

(b) The Telstra Entity recorded dividend revenue of \$100 million from Telstra Media Pty Limited and \$46 million from Telstra Holdings Pty Ltd during fiscal 2009. The Telstra Entity recorded dividend revenue from Telstra Media Pty Limited of \$127 million, Sensis Pty Ltd of \$81 million and Telstra Services Solutions Holdings Limited of \$48 million in fiscal 2008.

(c) The profit before income tax expense of the Telstra Entity included an impairment loss of \$220 million (2008: \$247 million) relating to a movement in allowance for amounts owed by a controlled entity.

(d) The Telstra Entity and its Australian controlled entities have formed a tax consolidated group, with a tax funding arrangement currently in place. The amounts receivable or amounts payable to the Telstra Entity under this arrangement are due in the next financial year upon final settlement of the current tax payable for the tax consolidated group. Refer to note 9 for further details on tax consolidation.

(e) The Telstra Entity operates a current account with some of its Australian controlled entities, being an internal group bank account used to settle transactions with its controlled entities or between two controlled entities. Cash deposit balances in the current account owed to our controlled entities are recorded as loans. All loan balances with our controlled entities are unsecured, with settlement required in cash. Refer to note 17 for further discussion on our borrowings.

## Notes to the Financial Statements (continued)

### 29. Related party disclosures (continued)

#### Transactions involving our jointly controlled and associated entities

Our transactions with our jointly controlled and associated entities recorded in the income statement and statement of financial position are as follows:

|  | Note | Telstra Group    |       | Telstra Entity   |       |
|--|------|------------------|-------|------------------|-------|
|  |      | Year ended/As at |       | Year ended/As at |       |
|  |      | 2009             | 2008  | 2009             | 2008  |
|  |      | \$m              | \$m   | \$m              | \$m   |
| <b>Income from jointly controlled and associated entities:</b>                               |      |                  |       |                  |       |
| Sale of goods and services (a) . . . . .   |      | 214              | 212   | 108              | 124   |
| Distribution from FOXTEL Partnership (b) . . . . . 6   |      | 100              | 130   | -                | -     |
| <b>Expenses to jointly controlled and associated entities:</b>                               |      |                  |       |                  |       |
| Purchase of goods and services (a) . . . . .   |      | 844              | 678   | 361              | 277   |
| <b>Total amounts receivable at 30 June from:</b>   |      |                  |       |                  |       |
| <b>Current</b>   |      |                  |       |                  |       |
| Jointly controlled and associated entities - trade receivables (a) . . . . .                 |      | 13               | 13    | 10               | 10    |
| <b>Non current</b>   |      |                  |       |                  |       |
| Jointly controlled and associated entities - loans (c) . . . . . 10                          |      | 229              | 194   | 191              | 161   |
| Allowance for amounts owed by jointly controlled and associated entities (c) . . . . . 10    |      | (191)            | (161) | (191)            | (161) |
|  |      | 38               | 33    | -                | -     |
| <b>Movement in allowance for amounts owed by jointly controlled and associated entities:</b> |      |                  |       |                  |       |
| Opening balance . . . . .  |      | (161)            | (183) | (161)            | (183) |
| Foreign currency exchange differences . . . . .  |      | (30)             | 22    | (30)             | 22    |
| Closing balance . . . . .  |      | (191)            | (161) | (191)            | (161) |
| <b>Total amounts payable at 30 June to:</b>  |      |                  |       |                  |       |
| <b>Current</b>   |      |                  |       |                  |       |
| Jointly controlled and associated entities - payables (a) . . . . .                          |      | 7                | 15    | 4                | 8     |

(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 2009 are detailed as follows:

- we purchased pay television services amounting to \$428 million (2008: \$367 million) from our jointly controlled entity FOXTEL. The purchases were to enable the resale of FOXTEL services, including pay television content, to our existing customers as part of our ongoing product bundling initiatives. In addition, we made sales to FOXTEL for our cost recoveries of \$75 million (2008: \$75 million);

- purchases were made by the Telstra Group of \$308 million (2008: \$221 million) and Telstra Entity of \$258 million (2008: \$111 million) from our jointly controlled entity Reach Ltd (Reach) in line with market prices. These were for both the purchase of, and entitlement to, capacity and connectivity services; and
- sales to Reach were made for international inbound call termination services, construction and consultancy by the Telstra Group of \$69 million (2008: \$64 million) and the Telstra Entity of \$58 million (2008: \$54 million).

(b) A \$100 million distribution was received from our jointly controlled entity FOXTEL during the year (2008: \$130 million).

## Notes to the Financial Statements (continued)

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### 29. Related party disclosures (continued)

#### Transactions involving our jointly controlled and associated entities (continued)

(c) Loans provided to jointly controlled and associated entities relates mainly to loans provided to Reach of \$191 million (2008: \$161 million) and the 3GIS Partnership (3GIS) of \$38 million (2008: \$33 million).

The loan provided to Reach is an interest free loan and repayable on or after 31 December 2010 upon the giving of six months notice by both PCCW Limited and us. We have provided for the non-recoverability of the loan as we do not consider that Reach is in a position to be able to repay the loan amount in the medium term.

The loan provided to 3GIS represents interest free funding for operational expenditure purposes. In accordance with the partnership agreement, the loan is repayable on dissolution of the partnership and so is at call.

#### Transactions involving other related entities

##### Post-employment benefits

As at 30 June 2009, Telstra Superannuation Scheme (Telstra Super) owned 23,066,594 shares in Telstra Corporation Limited (2008: 25,967,557) at a cost of \$87 million (2008: \$112 million) and a market value of \$78 million (2008: \$110 million). All of these shares were fully paid at 30 June 2009. In fiscal 2009, we paid dividends to Telstra Super of \$7 million (2008: \$5 million). We own 100% of the equity of Telstra Super Pty Ltd, the trustee of Telstra Super.

In the prior year Telstra Super also held bonds issued by Telstra Corporation Limited. These bonds had a cost of \$6 million and a market value of \$6 million at 30 June 2008.

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)

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### 30. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2009 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

#### Final Dividend

On 13 August 2009, 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 28 August 2009 with payment being made on 25 September 2009. Shares will trade excluding the entitlement to the dividend on 24 August 2009.

A provision for dividend payable has been raised as at the date of resolution, amounting to \$1,737 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 2009.

There are no income tax consequences for the Telstra Group and Telstra Entity resulting from the resolution and payment of the final ordinary dividend, except for \$745 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

#### Dividend Reinvestment Plan

The Future Fund has declined to participate in the dividend reinvestment plan (DRP) for the 2009 final dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended.

#### Change in Directshare terms

As a result of the changes to tax laws governing employee share schemes, creating uncertainty in relation to the future tax treatment of shares acquired under employee share schemes, the Board has determined that non-executive directors will not be required to receive a minimum of 20% of their total remuneration as Directshares from 1 July 2009. 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. Such shares are to be acquired over a five year period from 1 July 2009 to further align the remuneration structure with the interests of shareholders.

## Directors' Declaration

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*This directors' declaration is required by the Corporations Act 2001 of Australia.*

For and on behalf of the board

The directors of Telstra Corporation Limited have made a resolution that declared:

- (a) the financial statements and notes of the Telstra Entity and the Telstra Group set out on pages 2 to 145:
  - (i) comply with the Accounting Standards and Corporations Regulations;
  - (ii) give a true and fair view of the financial position as at 30 June 2009 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2009; 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).



Catherine B Livingstone  
**Chairman**



David I Thodey  
**Chief Executive Officer and  
Executive Director**

Date: 13 August 2009  
Melbourne, Australia

## Independent auditor's report to the members of Telstra Corporation Limited

### Report on the Financial Report

We have audited the accompanying financial report of Telstra Corporation Limited and the entities it controlled during the year ended 30 June 2009 (the Telstra Group), which comprises the statement of financial position as at 30 June 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

#### Auditor's Opinion

In our opinion:

1. the financial report of Telstra Group is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of Telstra Corporation Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 30 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Auditor's Opinion

In our opinion the Remuneration Report of Telstra Group for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Sean C Van Gorp  
Partner

13 August 2009  
Melbourne, Australia



**Telstra Corporation Limited and controlled entities**

**Directors' Report**

**For the year ended 30 June 2009**

## 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 2009.

### Principal activity

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

### Strategy

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

We are delivering on our value-based strategy. Our network and information technology transformations are providing us with the capability to streamline our processes and provide integrated telecommunication services that are simple and valued by our customers. We have also built world class mobile (Next G™) and fixed (Next IP™) networks. This is differentiating us from our competitors and providing us with a competitive advantage.

Our strategy is to provide customers with world-class products and services to deliver a superior customer experience. This involves ensuring we understand our respective customers' unique segment needs, priorities and expectations which is enabling us to compete on value and personalise the customer experience across our segments. While this is our strategy, we acknowledge not all experiences have yet met expectations. Our team is focused on quickly improving the customer experience so it becomes an unequivocal point of differentiation in the market place.

Notwithstanding the customer service challenge, the investment we have made in transforming the business is flowing through to our financial performance, as we continue to grow revenue and remove costs. The migration of customers from our legacy systems to the new systems continues, and we must now drive the benefits of the new systems and processes. However, we acknowledge that the migration to new systems has presented customer service challenges for some customers. Over the next 12 months a continued improvement in customer experience is a key priority for us.

Our major achievements in the past year include:

- the unveiling of another world first for the Next G™ network - the fastest mobile broadband modem in the world, with device rated speeds of 21 megabits per second (Mbps) downlink and 5.4Mbps uplink, with a clear roadmap to peak network downlink speeds of 42Mbps (actual user data speeds are lower). The Next G™ network is delivering to customers actual usable speeds that are unsurpassed by any other commercially available network in the world;
- the extension of our Next G™ network breadth and depth of coverage, delivering coverage to 99% of Australia's population or more than two million square kilometres;
- the roll-out of a 9,120 kilometre submarine cable from Sydney to Hawaii named "Telstra Endeavour" to meet the needs of growing internet traffic between Australia and the United States. The cable can be scaled up to 1.28 terabits per second of capacity between the two countries; and
- the launch of a unified messaging platform MyConnect™, a business and consumer offering that allows customers to access emails and other communications from their address book of either their PC or mobile.

Other highlights over the last twelve months include:

- mobile revenue exceeded PSTN revenue for the first time in a fiscal year;
- the number of 3GSM services in operation (SIO) exceeded 2GSM SIO's for the first time;
- creation of a new business unit called Telstra Media to focus on leveraging our unique online and mobile content assets to drive future growth both in Australia and internationally; and
- expanding our presence in China with the acquisition of controlling interests in two of the country's leading mobile content and online music businesses; China M and Sharp Point. The acquisitions put us in a central position in the mobile data value chain in China, where we are already holding market leading positions in three key online business segments: real estate, automotive and consumer electronics.

### Industry dynamics

The Australian telecommunications industry is highly competitive and continually changing. In addition to the proposed regulatory changes and National Broadband Network (NBN) outcomes, advances in technology are transforming the telecommunications industry. In recent years, we have seen various new product offerings released to the market, including the provision of high-speed wireless services, 3GSM mobile services and our Next G™ network to accommodate this.

The broadband sector is in a significant growth phase because of the benefit it provides in cutting costs, by reducing the need for travel, saving time and generating new business. In turn the demand for high speed internet access accelerates.

We aim to be at the forefront of providing leading edge telecommunications services to meet the demands of our customers. By the end of December 2009, we expect to have upgraded our HFC cable broadband network to deliver 100Mbps into the home in the current footprint of Melbourne, more than triple the current peak speed, with further upgrades potentially to speeds of up to 200Mbps into the home. Cable, along with our other fixed-line infrastructure, will be a key driver of next generation broadband in Australia, as it is around the world. This cable upgrade will position us to deliver on our vision of a world-class fixed-line infrastructure that complements our world-leading Next G™ mobile broadband network in delivering services that meet our customers' needs.

### Financial performance

Our net profit for the year was \$4,076 million (2008: \$3,711 million) up 9.8%. This result was after deducting:

- net finance costs of \$900 million (2008: \$1,086 million); and

## Directors' Report

- income tax expense of \$1,582 million (2008: \$1,429 million).

Earnings before interest and income tax expense was \$6,558 million, representing an increase of \$332 million or 5.3% on the prior year's result of \$6,226 million.

This increase was due to revenue growth in mobile services, fixed and wireless broadband and IP solutions, offset by a moderate decline in PSTN revenues and small increase in operating costs.

The significant deterioration in the economic environment over the year is presenting a fresh set of challenges not experienced in this country for some time. However, despite the downturn, we continue to grow the business and generate increasing cash flows. Our financial position remains strong and we continue to deliver on our strategy.

Our total revenue (excluding finance income) increased by \$612 million or 2.4% to \$25,614 million (2008: \$25,002 million).

Growth in total revenue was mainly attributable to:

- mobiles revenue - increased by \$469 million, up 7.3%;
- fixed internet - increased by \$140 million, up 6.9%; and
- IP and data access revenue - increased by \$130 million, up 8.1%.

Mobile services revenue (including wireless broadband) continues to grow strongly. There are now in excess of 6.3 million 3GSM SIO's, with migrating customers continuing to record higher ARPU than 2GSM customers. A significant contributor to this growth has been wireless broadband, which is continuing its rapid growth. Mobiles revenue for the year of \$6,878 million exceeded PSTN revenue of \$6,337 million for the first time in a fiscal year.

Fixed internet revenue grew during the year due to fixed broadband. ARPU's are increasing as customers continue to migrate across to higher speed broadband plans, due to an increased demand for applications and content. However, over the last year we have seen a significant slow down in subscriber growth in fixed broadband.

IP and data access revenue growth during the year was driven by the success of the Telstra Next IP™ network. Within the access portfolio, IP Metropolitan Area Network (IP MAN) is the largest revenue generating data product, which continues to record double digit growth.

Partially offsetting the sales growth in these areas is a decline of \$329 million or 4.9% in PSTN product revenue, with lower usage revenue across most calling categories.

Total operating expenses (before depreciation and amortisation, finance costs and income tax expense) increased by only \$84 million or 0.6% compared with the prior year. This growth was attributable to:

- goods and services purchased - \$5,313 million, up 2.5%; offset by
- labour - \$4,131 million, down 0.6%; and
- other expenses - \$5,225 million, down 0.4%.

Goods and services purchased increased by 2.5%, which is in line with our target of maintaining growth in this expense category at or below sales revenue growth. The increase in fiscal 2009 is largely due to higher international network payments resulting from foreign exchange movements and higher offshore traffic and volumes.

Labour expenses decreased by \$27 million, driven primarily through successful implementation of headcount reduction strategies and productivity improvement.

Other expenses decreased by \$21 million, the first year-on-year reduction since fiscal 2005. The decrease is predominantly due to lower promotion and advertising costs, as spending was more targeted, and strong discretionary cost management. Service contract costs however continued to increase, mainly driven by the migration of consumer customers onto the new billing systems. While impairment costs fell, bad and doubtful debts increased by 15.1% to \$289 million due to higher levels of aged debt and insolvency due to the economic conditions.

Depreciation and amortisation expenses have risen by \$200 million to \$4,390 million for the year ended 30 June 2009. The increase has been driven mainly by acceleration in depreciation of CSL New World mobile network assets which have been replaced, and increased amortisation cost associated with the IT transformation.

### Cash flow and financial condition

Our credit rating outlook at 30 June 2009 is consistent with the prior year. Our credit ratings are as follows:

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

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

Our cash flow before financing activities (free cash flow) has increased by \$510 million to \$4,365 million in the current year as our peak capital spending years are now behind us and we start to realise the benefits of our transformation. This position, combined with our borrowing program, will continue to support our ongoing operating and investing activities within our target financial parameters.

Our net debt at 30 June 2009 was \$15,655 million, up \$269 million from 30 June 2008. The increase is due to borrowings during the period totalling \$2,627 million, offset by net maturities, a stronger cash position and fair value gains recorded against our borrowings and derivatives.

We have no long term debt maturities to refinance until March 2010 and June 2010, with a total of \$1,525 million maturing in the next 12 months.

### Dividends, investor return and other key ratios

Our basic earnings per share increased to 32.9 cents per share in fiscal 2009, up 10.0% from 29.9 cents per share in the prior year. The majority of the increase was due to higher profit in fiscal 2009.

On 13 August 2009, the directors resolved to pay a final fully franked dividend of 14 cents per ordinary share (\$1,737 million), bringing dividends per share for fiscal 2009 to 28 cents per share. The dividends will be fully franked at a tax rate of 30%. The record date for the final dividend will be 28 August 2009 with payment being made on 25 September 2009. Shares will trade excluding entitlement to the dividend on 24 August 2009.

## Directors' Report

Dividends paid during the year include:

| Dividend   | Date resolved    | Date paid         | Dividend per share       | Total dividend  |
|--|------------------|-------------------|--------------------------|-----------------|
| Final dividend for the year ended 30 June 2008   | 13 August 2008   | 21 September 2008 | 14 cents franked to 100% | \$1,737 million |
| Interim dividend for the year ended 30 June 2009 | 26 February 2009 | 9 April 2009      | 14 cents franked to 100% | \$1,737 million |

The Future Fund has declined to participate in the dividend reinvestment plan (DRP) for the 2009 final dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended.

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

Other relevant measures of return include the following:

- Return on average assets - 2009: 17.4% (2008: 16.8%)
- Return on average equity - 2009: 33.3% (2008: 30.3%)

The return on both average assets and average equity were higher in fiscal 2009 primarily due to the increased profit in fiscal 2009.

### National Broadband Network

On 7 April 2009, the Australian Government terminated the National Broadband Network (NBN) Request for Proposals (RFP) process it commenced in April 2008, on the basis of advice from the independent panel of experts that none of the national proposals it had received in response to the RFP offered value for money. Instead, the Government announced it would establish a new company to build and operate a NBN which is intended to connect 90% of Australian premises using fibre to the premises technology, with the remaining 10% to be connected using a combination of wireless and satellite technologies. The NBN will be a national, wholesale-only and open access network, which the Government envisages will take up to 8 years to build. The Government is conducting an implementation study (which is expected to be finalised in early 2010) to determine the operating arrangements, detailed network design and ways to attract private sector investment.

We are committed to working constructively with the Government to find the best possible solution for Australians. We welcome the NBN as an important nation-building initiative, however, there is a risk that the NBN may negatively impact on our business over the long term. The exact extent of that impact and of our participation in the NBN is unlikely to become clear until, at the earliest, after the implementation study is complete in early 2010.

### Regulatory Reform Discussion Paper

On 7 April 2009, the Commonwealth also issued a discussion paper containing possible options for regulatory reform, including: the streamlining of access regulation; additional powers for the ACCC; greater promotion of competition (including options for greater vertical and horizontal separation of Telstra such as functional separation and possible divestment of Telstra Cable related assets); changes to universal service arrangements; and greater customer service guarantee requirements.

The Commonwealth has since received submissions on the options canvassed and is considering what action it will take. It has indicated that the outcome of the review, once determined, will be implemented via legislation to be introduced to Parliament by the end of 2009. The outcome of this process is likely to increase Telstra's regulatory obligations, and the associated costs to our business.

### 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 2009.

### Business strategies, likely developments and prospects

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

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

### Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs, other than the following significant change to Directshare allocations from fiscal 2010:

As a result of the changes to tax laws governing employee share schemes, creating uncertainty in relation to the future tax treatment of shares acquired under employee share schemes, the Board has determined that non-executive directors will not be required to receive a minimum of 20% of their total remuneration as Directshares from 1 July 2009. Instead, the Board has decided to implement a policy to encourage non-executive directors to hold a total value equivalent to 50% of their total remuneration as Telstra shares. Such shares are to be acquired over a five year period from 1 July 2009 to further align the remuneration structure with the interests of shareholders.

### 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 P Mullen was appointed as a director from 1 July 2008;
- Donald G McGauchie retired as Chairman and as a director on 8 May 2009;
- Catherine B Livingstone was appointed as Chairman on 8 May 2009;
- John V Stanhope was appointed as an executive director on 8 May 2009;
- Solomon D Trujillo ceased as Chief Executive Officer and as an executive director effective 15 May 2009; and
- David I Thodey was appointed as Chief Executive Officer and as an executive director from 19 May 2009.

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 8 to 11;

## Directors' Report

- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 12;
- details of director and senior executive shareholdings in Telstra are shown on pages 12 to 13; and
- details of director and senior executive remuneration is detailed in the remuneration report on pages 15 to 30.

### Company Secretary

The qualifications and experience of our Company Secretaries are provided on page 11 and forms part of this report.

### Directors' and officers' indemnity

#### Constitution

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

If one of our officers or employees is asked by us to be a director or other officer of a company which is not related to us, our constitution provides for us 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. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

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

We have also executed deeds of indemnity in favour of (amongst others):

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

Each of these deeds provides an indemnity as permitted under our constitution and the Corporations Act. The deed in favour of directors of the Telstra Entity also gives directors a right of access to Board papers and requires us to maintain insurance cover for the directors.

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

have been completed, the indemnity will remain in place while it is possible for claims to arise under a Telstra Sale Scheme.

#### Directors' and officers' insurance

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

### Environmental regulation and performance

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

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

We are subject to the Energy Efficiency Opportunities Act 2006 (Cwlth) and registered on 31 March 2007. We submitted our Assessment and Reporting Schedule on 24 December 2007 and first government and public reports in December 2008 as required by the legislation. The reports were approved in 2009 and identified as being of a high standard.

We will be required to report on our greenhouse gas emissions, energy consumption and energy production for the 2009 fiscal year under the National Greenhouse and Energy Reporting Act 2007 (Cwlth). We will be required to register by 31 August 2009 and submit its first report by 31 October 2009.

We are closely following the developments of the Federal Government's proposed Carbon Pollution Reduction Scheme. Proposed legislation was introduced into Federal Parliament in May 2009 and is proposed to come into operation in July 2011 if the legislation is passed in its current form.

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

We have not been fined or prosecuted for, or convicted of, any significant breaches of environmental regulation during the financial year.

## Directors' Report

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### Non-audit services

During fiscal 2009, our auditor Ernst & Young has been employed on assignments additional to their statutory audit duties. Details of the amounts paid or payable to Ernst & Young for audit and non-audit services provided during the year are located in note 8 to the financial statements.

The directors are satisfied that the provision of non-audit services during fiscal 2009 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001, and the nature and scope of each type of non-audit service provided did not compromise the auditor independence requirements of the Act for the following reasons:

- all recurring audit engagements are approved by the Audit Committee each year through the Audit Committee's approval of the annual audit plan;
- additional audit and non-audit services requires approval from the Chief Financial Officer which is communicated to the Audit Committee at each meeting;
- fees earned from non-audit work undertaken by Ernst & Young are capped at 1.0 times the total audit fee; and
- the provision of non-audit services by Ernst & Young is monitored by the Audit Committee via semi-annual reports to the Audit Committee.

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

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

A copy of the auditors' independence declaration is set out on page 14 and forms part of this report.

## Directors' Report

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### Rounding of amounts

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

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



Catherine B Livingstone

Chairman

13 August 2009



David I Thodey

Chief Executive Officer and Executive Director

13 August 2009

## Directors' Report

### Directors' profiles

As at 13 August 2009, our directors were as follows:

| Name                              | Age | Position                                    | Year of initial appointment | Year last re-elected <sup>(1)</sup> |
|-----------------------------------|-----|---|-----------------------------|-------------------------------------|
| Catherine B Livingstone . . . . . | 53  | Chairman, Non-executive Director            | 2000                        | 2008                                |
| David I Thodey . . . . .          | 55  | Chief Executive Officer, Executive Director | 2009                        | -                                   |
| John V Stanhope. . . . .          | 58  | Executive Director                          | 2009                        | -                                   |
| Geoffrey A Cousins. . . . .       | 66  | Non-executive Director                      | 2006                        | -                                   |
| Charles Macek . . . . .           | 62  | Non-executive Director                      | 2001                        | 2006                                |
| John P Mullen . . . . .           | 54  | Non-executive Director                      | 2008                        | -                                   |
| John M Stewart . . . . .          | 60  | Non-executive Director                      | 2008                        | -                                   |
| John W Stocker. . . . .           | 64  | Non-executive Director                      | 1996                        | 2006                                |
| Peter J Willcox . . . . .         | 63  | Non-executive Director                      | 2006                        | 2006                                |
| John D Zeglis . . . . .           | 62  | Non-executive Director                      | 2006                        | 2006                                |

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

A brief biography for each of the directors as at 13 August 2009 is presented below:

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

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 NBN Committee and a member of the Remuneration, Audit and Technology Committees.

#### Experience:

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

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

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

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

Nil

#### Other:

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

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

#### David I Thodey - BA

Mr Thodey became Chief Executive Officer and an executive director on 19 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 the Asia Pacific region.

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

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

Nil

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

Nil

#### Other:

Current: Chairman, Basketball Australia (2008- ).

Former: Chairman, TelstraClear New Zealand (2003-2009)

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

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

#### Experience:

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

In his current role as CFO and GMD Finance & Administration, Mr Stanhope is responsible for finance; treasury; risk management and assurance; corporate planning, reporting and analysis; business services; investor relations; corporate security and investigations, procurement, billing and business

## Directors' Report

improvement. He also managed Telstra's involvement in the Federal Government's T3 sale of Telstra shares.

### Directorships of other listed companies - current:

Director, AGL Energy Limited (2009- )

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

Nil

### Other:

Current: Chairman, Business Coalition for Tax Reform (2003- ), TelstraClear Limited (2001- ), CSL New World Mobility Limited (2004- ); Director, Telstra Superannuation Scheme (1996- ), Sensis Pty Ltd (1998- ), SouFun Holdings Limited (2007- ), Octave Investments Holdings Limited (2009- ) and the Telstra Foundation Ltd (2005- ); Member, Financial Reporting Council (2006- ).

### 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:

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

### Other:

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

Mr Cousins was previously a consultant to a former Prime Minister.

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

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

### Experience:

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

### Directorships of other listed companies - current:

Director, Wesfarmers Ltd (2001- ).

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

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

### Other:

Current: Chairman, Sustainable Investment Research Institute Pty Ltd (2002- ), Racing Information Services Australia Pty Ltd (2007- ) and Orchard Funds Ltd (2007- ); Director, Orchard Capital Investment Ltd (2009- ) and Thoroughbred Trainers Service Centre Ltd (2009- ); Member, Investment Committee of Unisuper Ltd, Global Research Advisory Council of Glass, Lewis & Co LLC, and MMC Advisory Board; Vice-chairman, Standards Advisory Council of the International Accounting Standards Board.

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

### John P Mullen

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

### Experience:

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

### Directorships of other listed companies - current:

Director, Embarq Corporation USA (2006- ).

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

Director, Deutsche Post World Net, Board of Management, Germany (2005- 2009).

### Other:

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

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

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

Mr Stewart joined Telstra as a non-executive director in April 2008. He is a member of the Nomination and Remuneration Committees.

## Directors' Report

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### Experience:

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

### Directorships of other listed companies - current:

Nil

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

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

### Other:

Current: Member, Scottish Enterprise's International Advisory Board (2006-); Member, the Federal Attorney General's Business-Government Advisory Group on national security.

Former: Chair, Australian Bankers' Association (2007-2008); Director, Business Council of Australia (2006-2008); Executive Director, Barclays PLC (2000-2003); Group CEO, Woolwich PLC (1996-2000). Mr Stewart was a member of the Prime Minister's Task Group on Emissions Trading.

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

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

### Experience:

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

### Directorships of other listed companies - current:

Chairman, Sigma Pharmaceuticals Ltd (2005-); Director, Nufarm Limited (1998-).

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

Director, Cambridge Antibody Technology Group plc (1995-2006) and Circadian Technologies Ltd (1996-2008).

### Other:

Current: Principal, Foursight Associates Pty Ltd; Chairman, CSIRO (2007-); Chairman, The Australian Wine Research Institute Ltd (2009-)

Former: Chairman, Grape and Wine Research and Development Corporation (1997-2004) and Sigma Company Ltd (1998-2005).

### Peter J Willcox - MA

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

Mr Willcox has advised he will not stand for re-election at the Annual General Meeting on 4 November 2009.

### Experience:

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

### Directorships of other listed companies - current:

Nil

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

Chairman, Mayne Pharma (2005-2007) and 3D Oil Ltd (2007-2009).

### Other:

Former: Chairman and Director, CSIRO (2006-2007); AMP Limited (2002-2005), Mayne Group Limited (2002-2005); Director, F.H.Faulding & Co Ltd (1996-2000); Energy Developments Ltd (1994-2002), Lend Lease Corporation (1994-2000), Schroders (Australia) Ltd (1994-1999), North Ltd (1994-2000), James Hardie Industries Ltd (1992-2001), BHP Ltd (1988-1994), Woodside Petroleum (1986-1993).

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

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

### Experience:

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

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

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

## Directors' Report

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

#### **Carmel C Mulhern** - BA, LL.M, FCIS

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

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

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

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

During her time at Telstra, Ms Elliott has worked on all three privatisation tranches and overseen the implementation of Telstra's two buy-backs and dividend reinvestment plan.

### Former Chairman and Chief Executive Officer

During the year and through to the date of the report, the following Chairman and Chief Executive Officer left the company:

- Donald G McGauchie retired as Chairman on 8 May 2009; and
- Solomon D Trujillo ceased as Chief Executive Officer and an executive director effective 15 May 2009.

Brief biographies of the former Chairman and Chief Executive Officer are presented below:

#### **Donald G McGauchie** AO, FAICD

Mr McGauchie joined Telstra as a non-executive director in September 1998 and was appointed as chairman in July 2004. He was chairman of the Nomination and NBN Committees and was a member of the Audit and Remuneration Committees. Mr McGauchie retired as Chairman and a director on 8 May 2009.

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

Mr Solomon Trujillo joined Telstra on 1 July 2005 as its Chief Executive Officer (CEO). Mr Trujillo ceased as CEO and as an executive director effective 15 May 2009.

## Directors' Report

### Directors' meetings

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

|                                | Board |    | Committees <sup>(1)</sup> |   |            |   |              |   |            |   |                    |   |
|--------------------------------|-------|----|---------------------------|---|------------|---|--------------|---|------------|---|--------------------|---|
|                                | a     | b  | Audit                     |   | Nomination |   | Remuneration |   | Technology |   | NBN <sup>(9)</sup> |   |
|                                |       |    | a                         | b | a          | b | a            | b | a          | b | a                  | b |
| C B Livingstone <sup>(2)</sup> | 14    | 13 | 6                         | 6 | 1          | 1 | 2            | 2 | 2          | 2 | 5                  | 5 |
| D I Thodey <sup>(3)</sup>      | 1     | 1  | -                         | - | -          | - | -            | - | -          | - | 5                  | 5 |
| J V Stanhope <sup>(4)</sup>    | 1     | 1  | -                         | - | -          | - | -            | - | -          | - | 5                  | 5 |
| G A Cousins                    | 14    | 14 | -                         | - | 6          | 6 | 5            | 5 | -          | - | -                  | - |
| C Macek                        | 14    | 14 | 6                         | 6 | 6          | 6 | 5            | 5 | -          | - | -                  | - |
| J P Mullen <sup>(5)</sup>      | 14    | 13 | -                         | - | -          | - | -            | - | -          | - | -                  | - |
| J M Stewart <sup>(6)</sup>     | 14    | 14 | -                         | - | 5          | 4 | 3            | 2 | -          | - | -                  | - |
| J W Stocker                    | 14    | 13 | 6                         | 6 | -          | - | -            | - | 2          | 2 | 9                  | 7 |
| P J Willcox                    | 14    | 14 | 6                         | 6 | 6          | 6 | 5            | 4 | -          | - | 9                  | 8 |
| J D Zeglis                     | 14    | 14 | -                         | - | -          | - | -            | - | 2          | 2 | -                  | - |
| D G McGauchie <sup>(7)</sup>   | 13    | 13 | 5                         | 5 | 5          | 5 | 3            | 3 | -          | - | 4                  | 4 |
| S D Trujillo <sup>(8)</sup>    | 11    | 11 | -                         | - | -          | - | -            | - | -          | - | -                  | - |

Column a: number of meetings held while a member.

Column b: number of meetings attended.

- (1) Committee meetings are open to all directors to attend in an ex officio capacity.
- (2) Appointed as Chairman of the Board on 8 May 2009. Became Chairman of Nomination and NBN Committees and a member of the Remuneration Committee at that time.
- (3) Appointed to Board on 19 May 2009. Prior to appointment as a director, Mr Thodey was a member of the NBN Committee.
- (4) Appointed to Board on 8 May 2009. Prior to appointment as a director, Mr Stanhope as CFO was a member of the NBN Committee.
- (5) Appointed to Board effective 1 July 2008.
- (6) Appointed to Nomination and Remuneration Committees on 25 February 2009.
- (7) Retired from Board on 8 May 2009.
- (8) Ceased on the Board effective 15 May 2009.
- (9) NBN Committee was established in April 2009 as a joint Board-management Committee.

### Director and senior executive shareholdings in Telstra

As at 13 August 2009:

#### Directors

|                                   | Number of shares held |                                  |         |
|-----------------------------------|-----------------------|----------------------------------|---------|
|                                   | Direct interest       | Indirect interest <sup>(1)</sup> | Total   |
| Catherine B Livingstone . . . . . | -                     | 87,166                           | 87,166  |
| David I Thodey . . . . .          | 108,998               | 386,190                          | 495,188 |
| John V Stanhope . . . . .         | 433,440               | -                                | 433,440 |
| Geoffrey A Cousins . . . . .      | -                     | 21,765                           | 21,765  |
| Charles Macek . . . . .           | 5,568                 | 150,287                          | 155,855 |
| John P Mullen . . . . .           | -                     | 26,159                           | 26,159  |
| John M Stewart . . . . .          | -                     | 9,031                            | 9,031   |
| John W Stocker . . . . .          | 18,114                | 163,613                          | 181,727 |
| Peter J Willcox . . . . .         | -                     | 91,334                           | 91,334  |
| John D Zeglis . . . . .           | 16,500                | 24,371                           | 40,871  |

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

## Directors' Report

### Senior executives

|                         | Number of shares held |                                  |         |
|-------------------------|-----------------------|----------------------------------|---------|
|                         | Direct interest       | Indirect interest <sup>(1)</sup> | Total   |
| Bruce Akhurst . . . . . | 139,961               | -                                | 139,961 |
| Nerida Caesar . . . . . | 10,240                | -                                | 10,240  |
| Justin Milne . . . . .  | 199,886               | -                                | 199,886 |
| David Moffatt . . . . . | 721,534               | -                                | 721,534 |
| Michael Rocca . . . . . | 441,982               | -                                | 441,982 |
| Deena Shiff . . . . .   | 294,576               | -                                | 294,576 |

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

## 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 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Sean C Van Gorp'.

Sean C Van Gorp  
Partner

13 August 2009  
Melbourne, Australia

## Remuneration Report for the year ended 30 June 2009

Dear Shareholder,

Telstra is pleased to present its Remuneration Report (the Report) for fiscal year 2009. Telstra and its Remuneration Committee (the Committee) seek to design remuneration programs that most effectively attract, retain, and motivate the highest calibre executive talent in our global marketplace.

Our remuneration philosophy is designed to create a performance culture by driving and rewarding executive behaviours focused on the achievement of the company's strategy and business objectives; and to link at-risk remuneration to the creation of shareholder value. The effectiveness of our philosophy and strategy is detailed throughout the Report. This is evidenced by:

- Our Senior Executives' Long Term Incentive plan (LTI) accounting for the largest component of their potential remuneration, ensuring an ongoing alignment between their personal reward and the creation of shareholder value;
- Some measures incorporated into our LTI plans did not meet threshold performance and subsequently did not vest;
- Short Term Incentive payments being significantly less than fiscal year 2008 as we did not meet some of our objectives for fiscal 2009;
- Senior Executives fixed remuneration being frozen as part of the fiscal 2010 remuneration review process; and
- Non-executive Director fees will remain frozen at the 1 July 2008 level until at least 1 July 2010.

In carrying out its functions, the Committee seeks external, independent advice and engages with shareholders to develop commercially responsible remuneration plans. Such engagement has never been more important than now, especially in light of the past year's global economic challenges and the growing focus it has placed on compensation.

Interaction between the Committee, shareholders, and external advisors has resulted in modifications to our LTI plan to better align it with the company's overall strategy and the market. As a result, both the Chief Executive Officer's LTI plan and Short Term Incentive (STI) plan now align to the reward plans of our other Senior Executives.

Based on feedback from shareholders, the fiscal 2009 LTI plan incorporates a relative Total Shareholder Return (TSR) measure rather than an absolute TSR measure. An international telecommunications peer group has been adopted for this measure. This is considered to be a more appropriate basis for the accountability of our Senior Executives, and for comparison of their relative performance, than a domestic market capitalisation based index.

Relative TSR is an options-based measure requiring Telstra to achieve a minimum ranking at the 50<sup>th</sup> percentile compared to our peer group before any options can vest. Telstra must return median performance or better, and the share price must surpass the option exercise price for executives to earn a reward under this plan component. Telstra has chosen options for the RTSR performance measure as they ensure part of our Senior Executives' at-risk reward will only occur in the event that they outperform this international peer group and that there is an increase in shareholder value.

On behalf of the Board, I commend the Report and encourage you to read further for more detail about Telstra's remuneration plans and practices.

Charles Macek  
Chairman, Remuneration Committee

## 1. Introduction

The Directors of Telstra present the Remuneration Report (the Report) prepared in accordance with section 300A of the Corporations Act for the Company and the consolidated entity for the year ended 30 June 2009 (fiscal 2009).

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

## 2. Key Management Personnel (KMP)

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

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

The Senior Executives disclosed in this Report are as follows:

| Name             | Most Recent KMP Position Title                                  |
|------------------|---|
| David Thodey     | Chief Executive Officer   |
| Bruce Akhurst    | Chief Executive Officer – Sensis                                |
| Nerida Caesar    | Group Managing Director (GMD) – Telstra Enterprise & Government |
| Kate McKenzie    | GMD – Telstra Wholesale   |
| Justin Milne     | GMD – Telstra Media   |
| David Moffatt    | GMD – Telstra Consumer  |
| Michael Rocca    | GMD – Telstra Networks and Services                             |
| Deena Shiff      | GMD – Telstra Business  |
| John Stanhope    | CFO and GMD - Finance and Administration                        |
| Solomon Trujillo | Former Chief Executive Officer (to 15 May 2009)                 |
| Gregory Winn     | Former Chief Operations Officer (to 31 January 2009)            |

This list includes the five highest paid company and group executives for the 2009 fiscal year. On 1 July 2009, Mr Paul Geason was appointed GMD Telstra Wholesale and is considered a KMP from that date forward.

Tables 9.1 (Senior Executives) and 9.2 (Non executive Directors) provide details of the period during which an individual has held a particular KMP position (or more than one position) during fiscal 2009.

## 3. Principles and Structure of Senior Executive Remuneration

### 3.1 Key Principles

Total Remuneration comprises fixed remuneration, short term incentives and long term incentives. The key principles of our remuneration philosophy have been developed to:

- Provide market competitive remuneration to attract, motivate, and retain highly skilled senior executives; and
- Link a significant component of remuneration that is at-risk to annual performance results and longer term shareholder value.

### 3.2 Fixed Remuneration

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

The level of fixed remuneration is set based on the Senior Executive's responsibilities, performance, qualifications, and experience. Telstra benchmarks its Senior Executives' fixed remuneration against both international telecommunication firms and organisations within the ASX 20 based on market data provided by Egan Associates, an independent external remuneration consultant, and publicly disclosed remuneration information.

Against the background of the global financial crisis and the resultant impact on the Australian economy, Senior Executives will receive no increase to their fixed remuneration as part of the fiscal 2010 remuneration review process except where they have been promoted into a new position or have had a significant increase in the scope of their responsibilities.

### 3.3 Short Term Incentive Plan (STI)

The STI is an annual "at-risk" component of remuneration for the Senior Executives and is delivered in cash (and incentive shares for STI plans prior to 1 July 2008). Senior Executives are paid an annual STI only when they have exceeded threshold targets linked to Telstra's financial performance and individual key performance indicators. For fiscal 2009, the financial performance measures were set in accordance with Telstra's strategy.

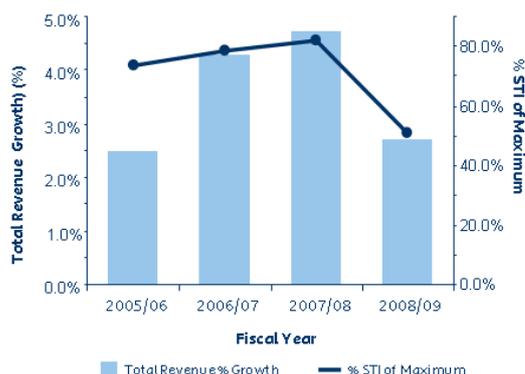
The fiscal 2009 performance measures of the STI Plan relate to Free Cashflow, EBITDA Margin, Total Income, Mobile Services Retail Revenue, PSTN (Public Switched Telephone Network) Revenue and Individual Accountabilities.

For the Sensis Chief Executive Officer, the above measures comprise 20 per cent of the STI plan with the remainder covering Sensis Revenue, Sensis EBITDA, and the Individual Accountabilities. For the GMD - Telstra Wholesale, Mobile Services Retail

Revenue is substituted by Telstra Wholesale EBIT Contribution.

These performance measures were selected for the STI plan as they are seen as a critical link between achieving outcomes of the business strategy and increasing shareholder value. The graph below demonstrates the link between STI payments and Total Revenue. In this example STI payments as a percentage of maximum align to the direction of Telstra's total revenue percentage growth over the previous four fiscal years.

Comparison of Total Revenue Growth to % of STI Maximum Paid



Depending on the role they perform, each Senior Executive has a maximum STI opportunity ranging from 120 per cent to 160 per cent of their fixed remuneration where stretch targets are met. However if threshold performance is not met the STI payment could be zero.

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

Historically, Senior Executives have been required to take 25 percent of their STI payment in the form of incentive shares and 75 per cent as cash. As a result of proposed changes to tax laws governing employee share schemes recently announced by the Federal Government, there is currently uncertainty in relation to the future tax treatment of shares and rights acquired under employee share schemes. In light of this, the Board has determined that the incentive shares requirement will not apply to STI payments for fiscal 2009 with all STI payments to be provided as cash. Telstra is considering the future structure of its STI plan for Senior Executives and will confirm its position once the proposed Federal legislation in relation to equity plans is finalised. Senior Executives are still required to meet their future obligations under Telstra's Executive Share Ownership Policy as detailed in Section 3.7.

STI payment results for fiscal 2009, compared to fiscal 2008, as a percentage of the maximum award were as follows:

| Name             | Fiscal 2009 | Fiscal 2008 |
|------------------|-------------|-------------|
| David Thodey     | 49.6%       | 78.5%       |
| Bruce Akhurst    | 48.6%       | 89.0%       |
| Nerida Caesar    | 54.9%       | n/a         |
| Kate McKenzie    | 60.6%       | 68.8%       |
| Justin Milne     | 47.9%       | n/a         |
| David Moffatt    | 44.9%       | 78.5%       |
| Michael Rocca    | 50.0%       | n/a         |
| Deena Shiff      | 44.9%       | 78.5%       |
| John Stanhope    | 47.9%       | 78.5%       |
| Solomon Trujillo | 50.0%       | 86.0%       |
| Gregory Winn     | 60.0%       | 81.0%       |

The table below details the fiscal 2009 results and payout for the STI plan.

| Measure                            | Result           | Outcome (% of maximum) |
|------------------------------------|------------------|------------------------|
| Free Cashflow (1)                  | Above Target     | 89.5%                  |
| EBITDA Margin (2)                  | Stretch achieved | 100.0%                 |
| Total Income (3)                   | Gateway missed   | 0.0%                   |
| Mobile Services Retail Revenue (4) | Gateway missed   | 0.0%                   |
| PSTN Revenue (5)                   | Gateway missed   | 0.0%                   |
| Sensis Revenue (6)                 | Above Target     | 55.0%                  |
| Sensis EBITDA (7)                  | Above Target     | 71.0%                  |
| Wholesale EBIT Contribution (8)    | Stretch achieved | 100.0%                 |

- (1) Free Cashflow is free cashflow excluding certain items such as Investment CAPEX; proceeds from Land and Building disposals; and Telstra Super contribution payments
- (2) EBITDA Margin is EBITDA divided by Sales Revenue
- (3) Total Income is total Telstra Income excluding profit/loss on Land and Building disposals
- (4) Mobile Services Retail Revenue including Wireless Broadband but excluding Handsets, Interconnection and Mobile Services Wholesale revenue
- (5) PSTN Revenue is total Telstra PSTN Products Revenue
- (6) Sensis External Income – applies to the Sensis CEO only
- (7) Sensis EBITDA is Sensis External Income less Sensis External Expenses – applies to the Sensis CEO only
- (8) Wholesale External Income less Wholesale External Expenses – applies to the GMD – Telstra Wholesale only

### 3.4 Long Term Incentive (LTI) Plan

#### 3.4.1 Fiscal 2009 LTI Plan

The Remuneration Committee sought feedback from shareholders and engaged Guerdon Associates - an external, independent remuneration consulting firm - as part of the design process for the fiscal 2009 LTI Plan. Feedback from shareholders indicated that they prefer Relative Total Shareholder Return (RTSR) to absolute total shareholder return and this was introduced into the fiscal 2009 LTI plan. Return on Investment (ROI) was maintained as a performance measure for Telstra's LTI Plan as it rewards executives for successfully generating value for shareholders from the Company's investments.

Telstra's Senior Executives (and other invited senior management employees) participate in the fiscal 2009 LTI Plan. The equity instruments under the Plan are offered to these executives at no cost however an exercise price does apply with respect to those options that may vest.

The LTI is provided through options that reward performance at or above target for an RTSR measure and through restricted shares that reward

performance at or above target for an ROI measure. RTSR measures the performance of the share price increase of an ordinary Telstra share plus the value of any cash dividends or other shareholder benefits relative to the other companies in the LTI comparator group. ROI measures how well Telstra has utilised its capital over the relevant performance period.

The LTI plan relates to the four-year period from 1 July 2008 until 30 June 2012. Within that four-year period there are three performance periods with measurement points at the end of years two, three and four of the Plan as follows:

- The RTSR Options are measured over the two, three and four-year periods ending 30 June 2010, 30 June 2011 and 30 June 2012 respectively; and
- The ROI Restricted Shares are measured over the one year-periods ending 30 June 2010, 30 June 2011 and 30 June 2012.

At the end of each fiscal year in which performance testing is to occur, the Board will review the company's audited financial results and the results of the other performance measures to determine the percentage (if any) of options and restricted shares that vest. This method, used to assess whether the performance measures are met, is considered the most relevant and reliable. No reward is available under the plan for performance below target for either RTSR or ROI.

If a Senior Executive resigns or retires and their options or restricted shares are not yet vested, those instruments lapse on cessation of employment. In the event of cessation for reasons such as redundancy or contract completion, a pro rata amount of unvested instruments will lapse relative to the Senior Executive's service period and the remaining portion may still vest subject to meeting the original performance measures of the Plan. If a Senior Executive is terminated for misconduct then all vested and unvested instruments will lapse or be forfeited.

#### **Relative Total Shareholder Return (RTSR) Options**

50 per cent of the LTI grant is provided through options that are subject to a RTSR measure. The options have an exercise price of \$4.36. On exercise, executives will be allocated one fully paid ordinary share in the Company for each exercised option.

The applicable performance hurdle is based on comparing Telstra's TSR growth against other companies in the peer group over the relevant period. Telstra is then given a ranking in comparison to the peer group, with the result for each performance period separately measured. Options can only vest where Telstra has grown its shareholder value to be at least at the 50<sup>th</sup> percentile of the comparator group for the relevant performance period. At the 50<sup>th</sup> percentile, 25 per cent of options vest, increasing in a straight line to 100 per cent of options vesting at the

75<sup>th</sup> percentile of the comparator group.

25 per cent of options allocated against the first and second performance periods that do not vest following the relevant performance period will lapse. The remaining unvested options for those periods will be retested following the end of the third performance period and may subsequently vest if Telstra meets or exceeds the 50<sup>th</sup> percentile and the rank achieved in the relevant performance period (and subject to ongoing satisfaction of other terms of grant). A vested option cannot be exercised until after 30 June 2012 and will lapse if not exercised before 30 June 2014.

Inclusion in the comparator group is based on the companies being large telecommunication firms with a large market capitalisation in developed economies to ensure an appropriate match of Telstra Senior Executives against their global peers. In addition to Telstra, the other companies currently in the RTSR comparator group are: America Movil S.A.B. de C.V.; AT&T Inc; Belgacom Group; BCE Inc; BT Group plc; Deutsche Telekom AG; France Telecom SA; KT Corporation; Nippon Telegraph & Telephone Corp; NTT DoCoMo Inc; Portugal Telecom SGPS SA; Qwest Communications Int Inc; Singapore Telecommunications Ltd; SK Telecom Co Ltd; Sprint Nextel Corporation; Swisscom AG; Telekom Austria AG; Telecom Italia S.p.A.; Telcom NZ Ltd; Telefonica S.A.; Telenor ASA; Verizon Communications Inc and Vodafone Group plc.

#### **Return on Investment (ROI) Restricted Shares**

50 percent of the LTI grant is provided through restricted shares that are subject to an ROI measure. ROI measures how well Telstra has utilised its capital over the relevant performance period.

ROI is calculated by dividing Earnings Before Interest and Income Tax expense (EBIT) for a financial year by average investment (which is the average of the sum of net debt and shareholders' funds for the relevant period).

Until the restricted shares vest, 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.

If the performance hurdle is satisfied during the applicable performance period, a specified number of restricted shares will vest and will entitle the executive to beneficial ownership of an equivalent number of restricted trust shares. The trustee holds the restricted trust shares in trust until the shares are transferred to them at the end of the restriction period (unless the shares are forfeited). The restriction period generally lasts for a minimum of four years and up to a maximum of 10 years however, it may end earlier under the plan rules. While the restricted trust shares are held by the Trustee, they are subject to trading restrictions and

the executive is not able to deal with the restricted trust shares.

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

| Performance Period | Test Date    | ROI (at Target) | ROI (at Stretch) |
|--------------------|--------------|-----------------|------------------|
| 1                  | 30 June 2010 | 24.6%           | 27.0%            |
| 2                  | 30 June 2011 | 26.2%           | 28.5%            |
| 3                  | 30 June 2012 | 28.2%           | 30.6%            |

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

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

There is no retesting of restricted shares and any restricted shares which do not vest following their respective performance periods will lapse.

#### 3.4.2 Changes to the fiscal 2007 LTI Plan

On 23 October 2008 the Remuneration Committee recommended to the Board (who subsequently provided approval on 18 November 2008) the removal of Soft Switch Build and Migration performance measures from the fiscal 2007 LTI Plan. The original Soft Switch performance measures represented 5.8 per cent of the fiscal 2007 LTI plan. There was no impact on the fair value of the options granted under this Plan as a result of this change.

The Board formed the view, based on the information available to it, that the Soft Switch performance measure, although achievable, was no longer relevant to Telstra's strategic direction, nor was it the most effective use of shareholder funds. Accordingly, the Board approved the removal of the Soft Switch program from Telstra's business objectives in accordance with the terms for the plan. Unified Messaging was selected as a replacement measure due to its relevance to Telstra's strategic direction to expand into mass market product developments.

Telstra achieved its product launch objective for Unified Messaging with its release of MyConnect, which allows BigPond® and NextG™ customers to manage their email, voicemail (including Voice2Text) and picture messaging (MMS) communications in one secure, integrated service.

The second performance hurdle for Unified Messaging will measure Telstra's success at deploying Unified Messaging in fiscal 2010 across a

set of technology platforms to significantly improve our customer experience.

All key terms of the fiscal 2007 LTI plan, including exercise period and expiry date, remain unchanged. As per the terms of the fiscal 2007 LTI Plan, any reward to Senior Executives is underpinned by options with an exercise price of \$3.67 and subject to a separate Total Shareholder Return gateway.

The closing share price of Telstra on 18 November 2008 was \$4.08. Section 8.3 and table 9.4 contain further information in relation to the fiscal 2007 LTI plan.

#### 3.4.3 Vesting LTI Plans in fiscal 2009

Section 8 of this Report provides full details of vesting events that occurred during fiscal 2009 for all LTI plans.

### 3.5 Company Secretary and Telstra Legal Remuneration Structure

Effective 1 July 2009, the reporting relationship of the Company Secretary was changed so that the role reported to Telstra's Board of Directors via the Chairman. From this date, the at-risk component of the Company Secretary's remuneration that was based on corporate performance measures was transitioned to measurements based on performance specific to the role to ensure the position operates independent of company financial performance measures.

Similarly, Telstra has elected to exclude its senior internal legal counsel from equity based LTI plans and STI plans based on corporate financial measures and place them in alternative cash based LTI and STI plans that are based on internal legal performance measures to ensure their remuneration package is independent of company financial performance measures.

#### 3.6 Retention Incentives

In exceptional circumstances, Telstra has put in place structured retention plans for key personnel. This is designed to protect the company from the loss of employees who possess specific skill sets considered critical to major projects and where Telstra is vulnerable to losing those personnel to competitors. Such retention plans are not restricted to Senior Executives. Table 9.1 provides details of any retention payments that applied to Senior Executives in fiscal 2009.

#### 3.7 Executive Share Ownership Policy

Telstra's Executive Share Ownership Policy requires Senior Executives to acquire and retain a number of shares equivalent in value to a minimum of 100 per cent of their fixed remuneration. Shares need to be acquired by 30 June 2012 or within five years of appointment to Senior Executive level.

### 3.8 Restrictions and Governance

Telstra implemented a policy from 1 October 2008 that prohibits its Directors, Senior Executives and other designated people from using Telstra shares as collateral in any financial transaction (including margin loan arrangements) or any stock lending arrangement. Arrangements that were in place prior to 1 October 2008 which would otherwise have been prohibited by this policy are permitted to continue until 1 October 2009.

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

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

### 4. Chief Executive Officer Remuneration (David Thodey)

David Thodey was appointed Chief Executive Officer effective 19 May 2009. His disclosed remuneration for fiscal 2009 in this Remuneration Report in table 9.1 relates to his role as Group Managing Director Telstra Enterprise and Government (until 18 May 2009) and then as Chief Executive Officer (from 19 May 2009).

The remuneration arrangements for David Thodey's role as Chief Executive Officer are as follows:

#### 4.1 CEO Remuneration Mix

The structure of the CEO's remuneration package is consistent with the principles and structure of Telstra's remuneration philosophy as detailed in section 3 of this Report.

Effective 19 May 2009, the fixed remuneration (referred to as "Total Fixed Remuneration" in his service agreement) of the CEO is \$2,000,000 per annum.

The annual STI opportunity for the CEO is 80 per cent of fixed remuneration at target and 160 per cent of fixed remuneration at stretch.

The annual LTI opportunity for the CEO is 100 per cent of fixed remuneration at target and 200 per cent of fixed remuneration at stretch.

#### 4.2 CEO Separation Arrangements

Table 9.8 in this Report provides details of the CEO's termination arrangements.

### 5. Former Chief Executive Officer remuneration (Solomon Trujillo)

#### 5.1 Former CEO Remuneration Mix

Former CEO Sol Trujillo's remuneration package was made up of fixed remuneration and participation in Short Term and Long Term Incentive Plans. His disclosed remuneration for fiscal 2009 in this Remuneration Report relates to his role as Chief Executive Officer until 15 May 2009 and is located in table 9.1 of this Report.

The former CEO's fixed remuneration was \$3,000,000 per annum and remained unchanged since his contract commencement date of 1 July 2005.

The former CEO's fiscal 2009 STI was "at-risk" with the following potential maximum amounts:

- \$3,000,000 in cash; and
- \$3,000,000 in deferred incentive shares.

The former CEO's STI had company-based performance measures and an individual component both of which were paid at target and adjusted for pro-rata due to the former CEO leaving prior to the end of the fiscal year, as per the terms of his service agreement. Section 3.3 of this Report provides details on Telstra's fiscal 2009 STI results.

Historically the former CEO received 50 percent of the total actual value of his STI as cash and the remaining 50 percent as Telstra deferred incentive shares, linking a greater percentage of his potential reward to the creation of shareholder value. As his departure date was 15 May 2009, his fiscal 2009 STI of \$2,621,918 (less applicable taxation) was paid as cash with no deferred shares component as per the terms of his service agreement.

The former CEO was allocated 5,172,414 options in fiscal 2009 to be tested at 30 June 2009 against performance criteria based on operational and financial measures linked to the transformation strategy.

In fiscal 2009, the gateway Total Shareholder Return share price of \$4.74 as at 30 June 2009 was not achieved. Accordingly, all options granted to the former CEO in fiscal 2009 have lapsed.

The table below details all options that had been allocated to the former CEO and the quantities that have vested. The 6,724,138 options vested for fiscal 2007 have an exercise price of \$3.67 and will lapse if not exercised by 31 December 2009.

| Fiscal Year  | Quantity of options allocated | Quantity of options vested | Percentage Vested |
|--------------|-------------------------------|----------------------------|-------------------|
| 2009         | 5,172,414                     | 0                          | 0.0%              |
| 2008         | 5,172,414                     | 0                          | 0.0%              |
| 2007         | 10,344,828                    | 6,724,138                  | 65.0%             |
| <b>Total</b> | <b>20,689,656</b>             | <b>6,724,138</b>           | <b>32.5%</b>      |

In addition, the former CEO was allocated performance rights as part of the fiscal 2006 LTI Plan. Of the initial allocation, 167,364 have vested and an additional 440,725 performance rights will be tested as at 30 June 2010. Table 9.6 provides details of equity instruments granted and vested during fiscal 2009.

## 5.2 CEO Separation Arrangements

The former CEO's separation arrangements were dealt with in accordance with his service agreement dated 7 June 2005 (as varied on 9 August 2007). Included in the separation arrangement was payment of 12 months fixed remuneration (\$3,000,000 less applicable taxation), payment of accrued annual leave and pro rata payment of his STI plan at target. Table 9.1 provides full details of the former CEO's remuneration for fiscal 2009.

Under his service agreement, Mr Trujillo is also entitled to be reimbursed for any California tax penalties or interest on taxes arising solely as a result of his return to the USA. It is not certain that any such amount will be payable.

## 6. Former Chief Operations Officer Remuneration (Gregory Winn)

Former Chief Operations Officer (COO) Gregory Winn completed his employment on 31 January 2009. As previously disclosed to the ASX, from 1 February 2009 to 31 March 2009, Mr Winn was engaged in a consulting capacity to Telstra; an arrangement that has now ceased. He received \$666,666 in consulting fees during this period which was a pro rata equivalent rate of his fixed remuneration and Short Term Incentive at Target as disclosed in this Report. The terms of Mr Winn's consultancy agreement ensured his services were available full time for Telstra and prohibited him from providing any services in any capacity to any telecommunications business in Australia or New Zealand other than for Telstra for the period of the consulting agreement.

Details of his total fiscal 2009 remuneration are provided in table 9.1 of this Report.

### 6.1 Former COO Remuneration Mix

In accordance with the former COO's service agreement dated 26 August 2005 Mr Winn's fixed remuneration was \$2,000,000, in addition to the at-risk components detailed below.

The former COO's STI payment had a maximum potential of \$4,000,000 per annum. For fiscal 2009 \$1,413,699 was recommended by the Remuneration Committee and approved by the Board. The payment was 60 percent of the maximum achievable, reduced on a pro rata basis to reflect the portion of fiscal 2009 actually worked. The company-based performance measures were paid at target whilst the individual component was paid at stretch.

The COO did not participate in the equity-based LTI plan as his initial service agreement was for a fixed two year period. Instead, a cash based transformation incentive plan measured on operational, financial and transformational performance hurdles was established. The performance measures of this plan were the same as the performance measures for the fiscal 2007 CEO LTI plan as disclosed in the 2008 Annual Report and were selected for the same reasons linked to the business and transformation strategy. The former COO's Transformation Incentive payment for fiscal 2009 of \$2,224,146 was recommended by the Remuneration Committee and approved by the Board. The payment was 62.9 percent of the maximum achievable (being \$6,000,000), reduced on a pro rata basis to reflect the portion of fiscal 2009 actually worked.

The former COO participated in a cash bonus plan that was linked to the achievement of increases in Telstra's share price. Performance for this element of remuneration will be assessed on the average closing share price of Telstra's shares for the 30 calendar days following the announcement of Telstra's fiscal 2009 annual results.

If the average closing share price for this period is less than \$6.00, nil payment will be made under this plan. If the average closing share price reaches \$6.00 then Mr Winn will be eligible for a payment of \$2,000,000. If the share price reaches \$7.00, an additional payment of \$6,000,000 is payable.

## 7. Non-executive Director Remuneration

### 7.1 Remuneration Policy and Strategy

Telstra's non-executive Directors are remunerated in accordance with Telstra's constitution which provides for:

- An aggregate pool of fees, set and varied only by approval of a resolution of shareholders at the annual general meeting (AGM);
- The Board determining how fees are allocated among the Directors within the fee pool, based on independent advice and market practice; and
- The total non-executive Director fees not exceeding the annual limit of \$3,000,000 per annum, as approved by shareholders at the AGM in November 2007.

There has been no increase since 1 July 2008 in the non-executive Director fee pool and current levels will be frozen until at least 30 June 2010. Director fee levels do not incorporate an at-risk component.

### 7.2 Remuneration Structure

Telstra's non-executive Directors continue to be remunerated with set fees. This enables them to maintain their independence and impartiality when making decisions about the future direction of the Company. Historically, non-executive Directors were required to receive at least 20 per cent of their fees in

the form of Telstra shares. As a result of changes to the tax laws governing share schemes recently announced by the Federal Government and the current uncertainty regarding the tax treatment of shares acquired under such schemes, the Board has decided to make the minimum 20 percent requirement voluntary from 1 July 2009. The Board has however decided to establish 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 1 July 2009 to align the remuneration structure with the interests of our shareholders.

All Board and Committee fees, including superannuation, paid to Directors in fiscal 2009 remain within the approved fee pool. Section 3.8 of this Report provides details on Restrictions and Governance as they apply to non-executive Directors.

Board and Committee fees are set out in the table below. Additional Committee fees do not apply to the position of Chairman.

In fiscal 2009, selected non-executive Directors provided services to the Telstra NBN (National Broadband Network) Committee that were over and above their regular committee obligations. Fees for services rendered in relation to the NBN Committee are paid for out of the funds of the company and not the Directors Fee Pool as detailed in the table below. Table 9.2 provides full details of non-executive Director remuneration for fiscal 2009.

| Board Fees             | Chairman        | Director  |
|------------------------|-----------------|-----------|
| Board (fiscal 2009)    | \$660,000       | \$220,000 |
| Committee Fees         | Committee Chair |           |
| Audit Committee        | \$70,000        | \$35,000  |
| Remuneration Committee | \$40,000        | \$20,000  |
| Nomination Committee   | -               | \$7,000   |
| Technology Committee   | \$7,000         | \$7,000   |

### 7.3 Components of the Total Remuneration Package (TRP)

Each year non-executive Directors allocate their total remuneration between the three components below.

| Cash                                | Directshare   | Superannuation                            |
|-------------------------------------|---|---|
| Minimum 30 per cent of TRP as cash. | From 1 July 2009 nominating a per cent of TRP as Telstra shares through the Directshare plan is optional. | Minimum superannuation guarantee applies. |

The Trustee retains a discretion to determine whether to accept the Director's offer for the relevant percentage to be received as Directshares.

### 7.4 Equity Compensation – Directshare

The Directshare Plan (voluntary from 1 July 2009) aims to encourage a longer-term perspective and to align the Directors interests with those of Telstra's shareholders. The shares are purchased on-market

and allocated to the participating non-executive Director at market price. There are no performance hurdles in respect of this Plan to preserve non-executive Director independence and impartiality.

### 7.5 Retirement Benefits

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

Telstra does not provide retirement benefits for Directors, other than superannuation contributions.

Table 9.2 provides full details of Director remuneration for fiscal 2009 and 2008.

## 8. Linking Remuneration and Company Performance

The table below in section 8.1 provides a summary of the key financial achievements for Telstra over the previous five financial years. The below tables in sections 8.2 to 8.4 provide a summary of how those results have impacted the remuneration outcomes for Senior Executives.

### 8.1 Financial Performance

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

| Performance Measure                         | Fiscal 2009<br>\$m | Fiscal 2008<br>\$m | Fiscal 2007<br>\$m | Fiscal 2006<br>(1)<br>\$m | Fiscal 2005<br>\$m |
|---|--------------------|--------------------|--------------------|---------------------------|--------------------|
| <b>Earnings</b>                             |                    |                    |                    |                           |                    |
| Sales revenue                               | 25,371             | 24,657             | 23,673             | 22,712                    | 22,161             |
| EBITDA                                      | 10,948             | 10,416             | 9,861              | 9,575                     | 10,464             |
| Net profit available to Telstra             | 4,073              | 3,692              | 3,253              | 3,183                     | 4,309              |
| <b>Shareholder value</b>                    |                    |                    |                    |                           |                    |
| Share price (\$) (4)                        | 3.39               | 4.24               | 4.59               | 3.68                      | 5.06               |
| Total dividends paid/declared per share (c) | 28.0               | 28.0               | 28.0               | 34.0(2)                   | 40.0(3)            |

- (1) Comparatives for fiscal 2006 have been adjusted to reflect the impact of the transition to AASB Interpretation 4 "Determining Whether an Arrangement Contains a Lease".
- (2) This includes special dividends of six cents per share in fiscal 2006 paid to shareholders as part of Telstra's Capital Management Plan.
- (3) This includes special dividends of 12 cents per share in fiscal 2005 paid to shareholders as part of Telstra's Capital Management Plan.
- (4) The share price displayed is as at 30 June for the respective fiscal year. The closing share price as at 30 June 2004 (fiscal 2004) was \$5.03

## 8.2 Average STI Payment as a Percentage of Maximum Payment

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

| Performance Measure | Fiscal 2009 | Fiscal 2008 | Fiscal 2007 | Fiscal 2006 | Fiscal 2005 |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| STI Received        | 50.9%       | 81.9%       | 78.5%       | 73.8%       | 54.6%       |

## 8.3 Detailed Results of the LTI Plans as at 30 June 2009

The fiscal 2007 and fiscal 2008 LTI plans reached their respective testing points on 30 June 2009 in accordance with their Terms. The Board assesses each measure that is required to be tested as at that time to determine if the performance hurdles have been achieved. The following tables show the results of the Board's assessment and the performance of options that have vested as a result.

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

| Measure – Fiscal 2007 LTI   | % of total allocation tested at 30 June 2009 | % vested       |
|-----------------------------|--|----------------|
| Transformation 2 Production | 2.500%                                       | 0.00%          |
| Transformation 2 Conversion | 2.500%                                       | 0.00%          |
| Unified Messaging           | 4.375%                                       | 4.375%         |
| Revenue Growth              | 6.250%                                       | 6.25%          |
| Return On Investment        | 6.250%                                       | 4.62%          |
| Total Shareholder Return    | 6.250%                                       | 0.00%          |
| <b>Total</b>                | <b>28.125%</b>                               | <b>15.245%</b> |

The fiscal 2008 LTI plan has options measured against the achievement of absolute TSR and ROI measured following years two, three and four of the plan. Vested options under the fiscal 2008 LTI plan cannot be exercised until after 30 June 2011.

If a Senior Executive resigns or retires and their options are not yet vested, those instruments lapse on cessation of employment. In the event of cessation for reasons such as redundancy or contract completion, a pro rata amount of unvested instruments will lapse relative to the Senior Executive's service period and the remaining portion may still vest subject to meeting the original performance measures of the Plan. If a Senior Executive is terminated for misconduct then all vested and unvested instruments will lapse.

| Measure – Fiscal 2008 LTI         | % of total allocation tested at 30 June 2009 | % vested   |
|-----------------------------------|--|------------|
| Absolute Total Shareholder Return | 15%  | 0%         |
| Return On Investment              | 15%  | 15%        |
| <b>Total</b>                      | <b>30%</b>                                   | <b>15%</b> |

## 8.4 Remuneration Mix of Senior Executives

The tables below show a comparison of the fiscal 2008 and fiscal 2009 remuneration mix based on the target level of reward for Senior Executives as at 30 June of each respective fiscal year.

In accordance with the previous tables in Section 8 of this Report, the variable components of Short Term Incentive and Long Term Incentive will only provide a reward to a Senior Executive if the performance measures of the relevant plan are achieved.

### 8.4.1 – Chief Executive Officer (David Thodey)

| Component            | Fiscal 2009    | Fiscal 2008    |
|----------------------|----------------|----------------|
| Fixed Remuneration   | 35.7%          | 35.7%          |
| Short Term Incentive | 28.6%          | 28.6%          |
| Long Term Incentive  | 35.7%          | 35.7%          |
| <b>Total</b>         | <b>100.00%</b> | <b>100.00%</b> |

### 8.4.2 – Chief Financial Officer (John Stanhope)

| Component            | Fiscal 2009    | Fiscal 2008    |
|----------------------|----------------|----------------|
| Fixed Remuneration   | 35.7%          | 38.4%          |
| Short Term Incentive | 28.6%          | 30.8%          |
| Long Term Incentive  | 35.7%          | 30.8%          |
| <b>Total</b>         | <b>100.00%</b> | <b>100.00%</b> |

### 8.4.3 – Other Senior Executives – (Sensis CEO, GMD Enterprise and Government, GMD Consumer, GMD Telstra Business and GMD Telstra Networks & Services)

| Component            | Fiscal 2009    | Fiscal 2008    |
|----------------------|----------------|----------------|
| Fixed Remuneration   | 35.7%          | 35.7%          |
| Short Term Incentive | 28.6%          | 28.6%          |
| Long Term Incentive  | 35.7%          | 35.7%          |
| <b>Total</b>         | <b>100.00%</b> | <b>100.00%</b> |

### 8.4.4 – Other Senior Executives – (GMD Telstra Wholesale, GMD Telstra Media)

| Component            | Fiscal 2009    | Fiscal 2008    |
|----------------------|----------------|----------------|
| Fixed Remuneration   | 45.4%          | 45.4%          |
| Short Term Incentive | 27.3%          | 27.3%          |
| Long Term Incentive  | 27.3%          | 27.3%          |
| <b>Total</b>         | <b>100.00%</b> | <b>100.00%</b> |

Table 9.1 details the time in position held by each Senior Executive in fiscal 2009.

## 9. Remuneration tables and data

### 9.1 Senior Executives remuneration (main table)

| Name                      | Year | Short term employee benefits |                                       |                                |                | Post-employment benefits | Termination Benefits      | Other Long term benefits        | Equity settled share-based payments  |   |            |
|---------------------------|------|------------------------------|---------------------------------------|--------------------------------|----------------|--------------------------|---------------------------|---------------------------------|--------------------------------------|---|------------|
|                           |      | 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 (10)         | 2009 | 1,196,747                    | 1,040,184                             | 5,136                          | -              | 101,718                  | -                         | 32,462                          | 3,069                                | 1,124,717   | 3,504,033  |
|                           | 2008 | 1,030,000                    | 1,092,720                             | 7,635                          | -              | 130,000                  | -                         | 29,000                          | 391,708                              | 1,264,085   | 3,945,148  |
| Bruce Akhurst             | 2009 | 1,029,937                    | 1,020,274                             | 2,937                          | -              | 266,563                  | -                         | 32,413                          | 7,794                                | 1,212,214   | 3,572,132  |
|                           | 2008 | 967,418                      | 1,335,000                             | 300,660                        | -              | 282,582                  | -                         | 31,250                          | 514,747                              | 1,364,161   | 4,795,818  |
| Nerida Caesar (11)        | 2009 | 175,701                      | 87,410                                | -                              | -              | 3,512                    | -                         | 4,480                           | -                                    | 25,289  | 296,392    |
|                           | 2008 | -                            | -                                     | -                              | -              | -                        | -                         | -                               | -                                    | -   | -          |
| Kate McKenzie (12)        | 2009 | 515,363                      | 435,382                               | 719                            | -              | 44,129                   | -                         | 13,987                          | 908                                  | 309,717   | 1,320,205  |
|                           | 2008 | 622,925                      | 433,440                               | 2,090                          | -              | 58,325                   | -                         | 17,500                          | 155,380                              | 403,732   | 1,693,392  |
| Justin Milne (13)         | 2009 | 656,179                      | 382,616                               | -                              | -              | 10,798                   | -                         | 16,674                          | 1,425                                | 414,950   | 1,482,642  |
|                           | 2008 | -                            | -                                     | -                              | -              | -                        | -                         | -                               | -                                    | -   | -          |
| David Moffatt             | 2009 | 1,350,755                    | 992,110                               | 17,626                         | -              | 13,745                   | -                         | 34,113                          | 3,696                                | 1,249,308   | 3,661,353  |
|                           | 2008 | 1,139,977                    | 1,238,730                             | 17,626                         | -              | 162,523                  | -                         | 32,875                          | 445,985                              | 1,398,040   | 4,435,756  |
| Michael Rocca (14)        | 2009 | 397,934                      | 396,986                               | 8,453                          | 1,000,000      | 105,191                  | -                         | 12,578                          | 2,548                                | 427,688   | 2,351,378  |
|                           | 2008 | -                            | -                                     | -                              | -              | -                        | -                         | -                               | -                                    | -   | -          |
| Deena Shiff               | 2009 | 846,334                      | 736,360                               | 3,424                          | -              | 159,916                  | -                         | 25,156                          | 4,393                                | 879,356   | 2,654,939  |
|                           | 2008 | 789,167                      | 894,900                               | 5,441                          | -              | 148,333                  | -                         | 23,750                          | 337,616                              | 986,172   | 3,185,379  |
| John Stanhope (15)        | 2009 | 1,111,639                    | 936,294                               | 12,111                         | -              | 95,861                   | -                         | 30,188                          | 3,575                                | 872,993   | 3,062,661  |
|                           | 2008 | 1,025,371                    | 1,083,300                             | 13,017                         | -              | 112,129                  | -                         | 28,750                          | 393,090                              | 975,081   | 3,630,738  |
| Solomon Trujillo (16) (9) | 2009 | 2,611,269                    | 2,621,918                             | 157,527                        | -              | 12,019                   | 3,764,547                 | 65,582                          | -                                    | (171,380)   | 9,061,482  |
|                           | 2008 | 2,900,634                    | 2,581,200                             | 324,201                        | -              | 99,366                   | -                         | 75,000                          | 2,581,200                            | 4,832,922   | 13,394,523 |
| Gregory Winn (17)         | 2009 | 1,158,649                    | 1,413,699                             | 44,611                         | 2,224,146      | 8,018                    | 467,566                   | 29,167                          | -                                    | -   | 5,345,856  |
|                           | 2008 | 1,900,634                    | 3,241,600                             | 223,997                        | 5,700,000      | 99,366                   | -                         | 50,000                          | -                                    | -   | 11,215,597 |
| TOTAL                     | 2009 | 11,050,507                   | 10,063,233                            | 252,544                        | 3,224,146      | 821,470                  | 4,232,113                 | 296,800                         | 27,408                               | 6,344,852   | 36,313,073 |
|                           | 2008 | 10,376,126                   | 11,900,890                            | 894,667                        | 5,700,000      | 1,092,624                | -                         | 288,125                         | 4,819,726                            | 11,224,193  | 46,296,351 |

- (1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.
- (2) Short term incentive relates to performance in fiscal 2008 and fiscal 2009 respectively and is based on actual performance for Telstra and the individual. The values shown represent the cash element only of the STI. Where a Senior Executive was not a KMP for the entire fiscal 2009 year, only the portion of the STI relating to the period as KMP for fiscal 2009 is shown.
- (3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 (which have not been expensed as they were issued prior to 7 November 2002 and were therefore included in the exemption permitted under AASB 1 "First-time Adoptions of Australian Equivalents to International Financial Reporting Standards"), the value of personal home security services provided by Telstra and the value of the personal use of products and services related to Telstra employment and the value of personal travel costs.
- (4) Includes retention payment for Mr Rocca and a Transformation Payment made to Mr Winn in January 2009.
- (5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.
- (6) This includes the value of Short Term Incentive Shares allocated under the fiscal 2005 STI plan whereby 50 per cent of the STI payment was provided as shares to be distributed over three years at 12 month intervals. In relation to fiscal 2008, it also includes 25 per cent of the actual STI payment for fiscal 2008 which was provided as restricted Incentive Shares under the fiscal 2008 STI Incentive Share plan. There were no restricted Incentive shares provided under the fiscal 2009 STI Incentive share plan. The values shown represent the accounting value for fiscal 2009 and fiscal 2008 in accordance with the relevant accounting standards.
- (7) In accordance with AASB 2, the accounting value represents a proportion of the fair value of options, performance rights and restricted shares that had not yet fully vested as at the commencement of the financial year. This value includes an assumption that options, performance rights and restricted shares will vest at the end of their vesting period even though the executive only receives this value if the performance hurdles are met. The amount included as remuneration is not related to, nor indicative of the benefit (if any) that may ultimately be realised by each Senior Executive should the options or performance rights become exercisable or the restricted shares become restricted trust shares. The accounting value includes negative amounts for options, performance rights and restricted shares forfeited or lapsed during the year. Refer to table 9.3 for further information.
- (8) As required under accounting standards, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2009. This has occurred for certain LTI plans that either failed to satisfy a non-market (ie: non-TSR) performance target, resulting in equity instruments lapsing or where a KMP left Telstra, resulting in equity instruments being forfeited. For market based hurdles, (ie: TSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.
- (9) The fiscal 2008 STI shares number represents 50 per cent of the total actual STI payment to the former CEO which were delivered as deferred incentive shares. The deferred incentive shares were held in trust until 30 June 2009, when all deferred incentive shares were then settled and Telstra shares transferred.
- (10) Mr Thodey was appointed as CEO effective 19 May 2009. Prior to this he held the position of GMD – Telstra Enterprise & Government.
- (11) Ms Caesar commenced as GMD –Telstra Wholesale on 30 March 2009 and then GMD - Telstra Enterprise and Government on 9 June 2009. Before the date of commencement as GMD - Telstra Wholesale, Ms Caesar was not considered a KMP. As a result, the table above only includes remuneration during her period of service as a KMP.
- (12) Ms McKenzie was GMD – Telstra Wholesale up to 29 March 2009, after which she was appointed as GMD – Telstra Strategic Marketing. After the appointment as GMD – Telstra Strategic Marketing, Ms McKenzie was not considered to be a KMP. As a result the table above only includes remuneration during her period of service as a KMP.
- (13) Mr Milne commenced as GMD – Telstra Media on 18 September 2008. Before the date of commencement, Mr Milne was not considered to be a KMP. As a result the table above only includes remuneration during his period of service as a KMP.
- (14) Mr Rocca is GMD – Telstra Networks & Services and due to an increase in Mr Rocca's level of authority and responsibility, with the departure of the COO on 31 January 2009, Mr Rocca was considered to be a KMP from 1 February 2009. As a result the table above only includes remuneration during his period of service as a KMP.
- (15) Mr Stanhope holds the position of CFO and GMD - Finance and Administration. On 8 May 2009, Mr Stanhope was also appointed as an Executive Director of Telstra.
- (16) Mr Trujillo's Termination Benefits is comprised of \$3,000,000 representing twelve months fixed remuneration and \$764,547 accrued annual leave. Mr Trujillo ceased as CEO of Telstra effective 15 May 2009. After that date, Mr Trujillo was not considered to be a KMP. As a result, the above table only includes remuneration during his period of service as a KMP.
- (17) Mr Winn ceased as COO of Telstra on 31 January 2009. After that date, Mr Winn was not considered to be a KMP. As a result, the above table only includes remuneration during his period of service as a KMP. Mr Winn's Termination Benefits of \$467,566 is comprised of accrued annual leave and final salary package allocation.

## 9.2 Non-executive Director Remuneration

| Name                                    | Year        | Short term employee benefits |                                   | Post-employment benefits | Equity settled share-based payments | Total (\$)       |
|---|-------------|------------------------------|-----------------------------------|--------------------------|-------------------------------------|------------------|
|   |             | Salary and Fees (\$)<br>(1)  | Non-monetary benefits (\$)<br>(2) | Superannuation (\$)      | Directshare (\$)<br>(9)             |                  |
| Catherine B Livingstone<br>Chairman (3) | 2009        | 241,907                      | -                                 | 23,745                   | 63,958                              | 329,610          |
|   | 2008        | 180,400                      | 1,754                             | 13,129                   | 48,400                              | 243,683          |
| Geoffrey A Cousins<br>Director          | 2009        | 183,855                      | -                                 | 13,745                   | 49,400                              | 247,000          |
|   | 2008        | 160,664                      | -                                 | 13,129                   | 43,445                              | 217,238          |
| Charles Macek<br>Director               | 2009        | 207,803                      | 249                               | 33,797                   | 60,400                              | 302,249          |
|   | 2008        | 206,249                      | 2,090                             | 19,535                   | 56,400                              | 284,274          |
| John P Mullen<br>Director (4) (5)       | 2009        | 66,000                       | -                                 | -                        | 154,000                             | 220,000          |
|   | 2008        | -                            | -                                 | -                        | -                                   | -                |
| John M Stewart<br>Director              | 2009        | 83,397                       | -                                 | 100,000                  | 45,849                              | 229,246          |
|   | 2008        | 10,493                       | -                                 | 17,489                   | 6,995                               | 34,977           |
| John W Stocker<br>Director (6)          | 2009        | 200,263                      | -                                 | 13,745                   | 96,740                              | 310,748          |
|   | 2008        | 151,792                      | 1,012                             | 28,972                   | 95,594                              | 277,370          |
| Peter J Willcox<br>Director (6)         | 2009        | 154,902                      | -                                 | 87,123                   | 56,400                              | 298,425          |
|   | 2008        | 142,065                      | -                                 | 57,755                   | 49,873                              | 249,693          |
| John D Zeglis<br>Director (5)           | 2009        | 181,600                      | -                                 | -                        | 45,400                              | 227,000          |
|   | 2008        | 165,600                      | -                                 | -                        | 41,400                              | 207,000          |
| Donald G McGauchie<br>Chairman (7)      | 2009        | 374,400                      | 18,318                            | 76,932                   | 112,833                             | 582,483          |
|   | 2008        | 391,739                      | 1,754                             | 89,007                   | 120,000                             | 602,500          |
| Belinda J Hutchinson<br>Director (8)    | 2009        | -                            | -                                 | -                        | -                                   | -                |
|   | 2008        | 21,058                       | -                                 | 29,124                   | 12,549                              | 62,731           |
| <b>Total</b>                            | <b>2009</b> | <b>1,694,127</b>             | <b>18,567</b>                     | <b>349,087</b>           | <b>684,980</b>                      | <b>2,746,761</b> |
|   | 2008        | 1,430,060                    | 6,610                             | 268,140                  | 474,656                             | 2,179,466        |

- (1) Includes fees for membership on Board committees.
- (2) These payments relate to reimbursement received by directors for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees, or when otherwise engaged on company business. This also includes telecommunications and other services and equipment provided to directors to assist them in performing their duties. From time to time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and with recent technological developments.
- (3) Ms Livingstone became Chairman on 8 May 2009. Prior to this, Ms Livingstone held the position of Director of the Company.
- (4) Mr Mullen became a Director of the Company on 1 July 2008.
- (5) Mr Mullen and Mr Zeglis had no Superannuation component due to their respective off-shore and non-resident status for superannuation purposes.
- (6) Mr Willcox and Mr Stocker received additional fees at an hourly rate of \$450 per hour as compensation for their work on the NBN (National Broadband Network) Committee. As per rule 24.3(b) of Telstra's constitution, which provides for treatment of payment for extra services, these fees are paid for out of the funds of the company and not the Directors Fee Pool and will form part of their fiscal 2010 earnings.
- (7) Mr McGauchie retired as Chairman and a Director of Telstra on 8 May 2009. After the date of retirement, Mr McGauchie was not considered to be a KMP. As a result, the above table only includes remuneration during his period of service as a KMP.
- (8) Ms Hutchinson retired as a Director of Telstra on 7 November 2007. After retirement, Ms Hutchinson was not considered a KMP. As a result, the above table only includes remuneration during her period of service as a KMP.
- (9) These payments have been calculated based on current elections by directors. As Directshares are allocated retrospectively on a 6 monthly basis, the actual amount may differ where, as a result of changes to the remuneration structure for directors as explained in section 7.2, directors amend their election. Where this occurs the actual amount allocated to Directshares will be proportionally adjusted and a corresponding change in fees will occur. This would result in no change to the total fees paid to individual directors.

### 9.3 STI Payments (cash and shares)

| Name             | Year | Maximum potential STI (\$) (1) | Current year grant of STI (\$) (2) (3) | % of the maximum potential | % forfeited | Total grant of STI (\$) (4) |
|------------------|------|--------------------------------|--|----------------------------|-------------|-----------------------------|
| David Thodey     | 2009 | 2,097,145                      | 1,040,184                              | 49.6%                      | 50.4%       | 1,043,253                   |
|                  | 2008 | 1,856,000                      | 1,456,960                              | 78.5%                      | 21.5%       | 1,525,693                   |
| Bruce Akhurst    | 2009 | 2,099,200                      | 1,020,274                              | 48.6%                      | 51.4%       | 1,028,068                   |
|                  | 2008 | 2,000,000                      | 1,780,000                              | 89.0%                      | 11.0%       | 1,954,533                   |
| Nerida Caesar    | 2009 | 159,217                        | 87,410                                 | 54.9%                      | 45.1%       | 87,410                      |
|                  | 2008 | -                              | -                                      | -                          | -           | -                           |
| Kate McKenzie    | 2009 | 718,452                        | 435,382                                | 60.6%                      | 39.4%       | 436,290                     |
|                  | 2008 | 840,000                        | 577,920                                | 68.8%                      | 31.2%       | 577,920                     |
| Justin Milne     | 2009 | 798,781                        | 382,616                                | 47.9%                      | 52.1%       | 384,041                     |
|                  | 2008 | -                              | -                                      | -                          | -           | -                           |
| David Moffatt    | 2009 | 2,209,600                      | 992,110                                | 44.9%                      | 55.1%       | 995,806                     |
|                  | 2008 | 2,104,000                      | 1,651,640                              | 78.5%                      | 21.5%       | 1,734,407                   |
| Michael Rocca    | 2009 | 793,972                        | 396,986                                | 50.0%                      | 50.0%       | 399,534                     |
|                  | 2008 | -                              | -                                      | -                          | -           | -                           |
| Deena Shiff      | 2009 | 1,640,000                      | 736,360                                | 44.9%                      | 55.1%       | 740,753                     |
|                  | 2008 | 1,520,000                      | 1,193,200                              | 78.5%                      | 21.5%       | 1,291,583                   |
| John Stanhope    | 2009 | 1,954,685                      | 936,294                                | 47.9%                      | 52.1%       | 939,869                     |
|                  | 2008 | 1,840,000                      | 1,444,400                              | 78.5%                      | 21.5%       | 1,524,450                   |
| Solomon Trujillo | 2009 | 5,243,836                      | 2,621,918                              | 50.0%                      | 50.0%       | 2,621,918                   |
|                  | 2008 | 6,000,000                      | 5,162,400                              | 86.0%                      | 14.0%       | 5,162,400                   |
| Gregory Winn     | 2009 | 2,356,165                      | 1,413,699                              | 60.0%                      | 40.0%       | 1,413,699                   |
|                  | 2008 | 4,000,000                      | 3,241,600                              | 81.0%                      | 19.0%       | 3,241,600                   |

- (1) The maximum potential STI refers to the maximum potential STI specific to fiscal 2009 and fiscal 2008 respectively, where the Senior Executive was a KMP, adjusted for any variation in fixed remuneration throughout fiscal 2009 and fiscal 2008 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 Executives tenure as a KMP. Accordingly any STI component awarded that relates to a period of time where the Senior Executive was not a KMP is excluded from this table.
- (3) The STI for fiscal 2009 was approved by the Board on 12 August 2009. There were no restricted Incentive shares provided under the fiscal 2009 STI Incentive Share plan. For fiscal 2008, the GMD incentive shares vested immediately upon allocation however are subject to a restriction period that ends on the earliest of three years after grant (and provided the executive has fulfilled their obligations under the Executive Share Ownership Policy), cessation of employment or a date where the Board determines an Event has occurred or a date determined by the Board following a discretion event. This number excludes the fiscal 2005 STI incentive shares that vested during fiscal 2009 and 2008 respectively.
- (4) Includes the value of the fiscal 2005 Incentive shares that vested in fiscal 2009 and 2008 respectively.

## 9.4 Summary of LTI Plans as at 30 June 2009

As at 30 June 2009 the vesting status of all LTI equity plans is as follows:

| Plan                                    | Type of instrument granted                       | Performance period   | Result  | Future financial years in which grants vest  | Accounting Value yet to vest (1) |                  |
|---|--|--|---|--|----------------------------------|------------------|
|   |  |  |   |  | Min (\$)                         | Max (\$)         |
| Growthshare 2002 – Sept 2001 allocation | Options  | 6/9/2004 – 6/9/2006  | 50% Vested prior to fiscal 2008.  | No further amounts vest in future financial years.   | n/a                              | n/a              |
| Growthshare 2003 – Sept 2002 allocation | Performance rights                               | 5/9/2005 – 5/9/2007  | All lapsed  | No amounts vest in future financial years.   | n/a                              | n/a              |
| Growthshare 2004 – Sept 2003 allocation | Performance rights<br>Deferred Shares            | 5/9/2006 – 5/9/2008<br>5/9/2006 – 5/9/2008   | The threshold hurdle was achieved during fiscal 2008 for both Performance Rights and Deferred Shares.   | No further amounts vest in future financial years.   | n/a                              | n/a              |
| Growthshare 2004 – Feb 2004 allocation  | Performance Rights                               | 20/2/2007 – 20/2/2009  | The threshold hurdle was achieved during fiscal 2008.   | No further amounts vest in future financial years.   | n/a                              | n/a              |
| Growthshare 2005 – Aug 2004 allocation  | EPS Performance Rights<br>TSR Performance Rights | 1/7/2004 – 30/6/2007<br>20/8/2007 – 20/8/2009  | All EPS Performance Rights lapsed during fiscal 2008.<br>The threshold hurdle was achieved during fiscal 2008.  | No amounts vest in future financial years.<br>No further amounts vest in future financial years.   | n/a                              | n/a              |
| Growthshare 2006 – Feb 2006 allocation  | Performance Rights                               | 60% tested on 30/6/2008<br><br>40% to be tested on 30/6/2010   | Of the 60% of the entire stretch plan tested on 30/06/2008, 20% vested, 10% lapsed and 30% will be retested at 30/06/2010 .   | 30% retest plus 40% of the second performance period may vest 30 June 2010, subject to Plan performance measures.  | nil                              | 203,587          |
| Growthshare 2007                        | Options (other than for the former CEO)          | 2/3rds of the plan has test points at:<br><br>30/6/2008 (30%)<br><br>30/6/2009 (28.1%)<br><br>30/6/2010 (41.9%)<br><br>The remaining 1/3 <sup>rd</sup> relating to the EBITDA accelerator will be tested at 30 June 2010 | (Vesting - subject to TSR gateway)<br><br>19.375% vested (of 30% tested)<br><br>15.385% vested (of 28.1% tested)<br>To be tested 30 June 2010<br><br>75% of EBITDA accelerator options may vest subject to attaining Stretch EBITDA and TSR Gateway, 25% have lapsed. | Vested options cannot be exercised until after 30 June 2010 and only if the TSR gateway of 11.5% TSR growth over the four years of the Plan is achieved. | n/a                              | n/a              |
| Growthshare 2008                        | Options  | 1/7/2007 - 30/6/2011 in respect of TSR<br><br>1/7/2008 – 30/06/2011 in respect of ROI  | 30% of the plan was tested at 30 June 2009.<br><br>15% related to the ROI performance measure vested.   | Options may vest, subject to Plan performance measures in fiscal 2010 and 2011.  | n/a                              | n/a              |
| Growthshare 2009                        | Options<br>Restricted Shares                     | 1/7/2008 – 30/6/2012<br><br>1/7/2009 – 30/6/2012   | The first test point of the plan is 30/06/2010.   | Options and restricted shares may vest in fiscal 2010, 2011 and 2012.  | n/a<br>nil                       | n/a<br>3,799,163 |

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

## 9.5 Accounting value of all LTI instruments

| Name             | Year | Accounting value of LTI equity instruments<br>(1) (2) |                               |                           | Total<br>(\$) | Accounting value<br>as a % of Total<br>Remuneration (3)<br>(%) |
|------------------|------|---|-------------------------------|---------------------------|---------------|--|
|                  |      | Options (\$) (4)                                      | Performance rights<br>(\$ (4) | Restricted shares<br>(\$) |               |  |
| David Thodey     | 2009 | 890,854   | 36,218                        | 197,645                   | 1,124,717     | 32.1%  |
|                  | 2008 | 1,133,519   | 130,566                       | -                         | 1,264,085     | 32.0%  |
| Bruce Akhurst    | 2009 | 959,956   | 39,359                        | 212,899                   | 1,212,214     | 33.9%  |
|                  | 2008 | 1,221,464   | 142,696                       | -                         | 1,364,161     | 28.4%  |
| Nerida Caesar    | 2009 | 17,716  | -                             | 7,573                     | 25,289        | 8.5%   |
|                  | 2008 | -   | -                             | -                         | -             | -  |
| Kate McKenzie    | 2009 | 254,923   | (1,436)                       | 56,230                    | 309,717       | 23.5%  |
|                  | 2008 | 372,684   | 31,048                        | -                         | 403,732       | 23.8%  |
| Justin Milne     | 2009 | 323,554   | 26,359                        | 65,037                    | 414,950       | 28.0%  |
|                  | 2008 | -   | -                             | -                         | -             | -  |
| David Moffatt    | 2009 | 983,746   | 41,466                        | 224,096                   | 1,249,308     | 34.1%  |
|                  | 2008 | 1,243,059   | 154,981                       | -                         | 1,398,040     | 31.5%  |
| Michael Rocca    | 2009 | 317,363   | 29,801                        | 80,524                    | 427,688       | 18.2%  |
|                  | 2008 | -   | -                             | -                         | -             | -  |
| Deena Shiff      | 2009 | 704,226   | 8,802                         | 166,328                   | 879,356       | 33.1%  |
|                  | 2008 | 886,393   | 99,779                        | -                         | 986,172       | 31.0%  |
| John Stanhope    | 2009 | 685,618   | 30,621                        | 156,754                   | 872,993       | 28.5%  |
|                  | 2008 | 865,460   | 109,621                       | -                         | 975,081       | 26.9%  |
| Solomon Trujillo | 2009 | 155,172   | (326,552)                     | -                         | (171,380)     | (1.9%)   |
|                  | 2008 | 3,941,540   | 891,382                       | -                         | 4,832,922     | 36.1%  |

- (1) The value of each instrument is calculated by applying option valuation methodologies as described in note 27 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relate to the current year amortised value of all LTI instruments detailed as other equity in the remuneration table. Please refer to note 27 for details on our employee share plans.
- (2) Where a vesting scale is used, the table reflects the maximum achievable allocation.
- (3) Total Remuneration is the sum of short term employee benefits, post employment benefits, termination benefits, other long term benefits and equity settled share-based payments as detailed in table 9.1 of this Report.
- (4) As required under accounting standards, accounting expense that was previously recognised as remuneration has been reversed in fiscal 2009. This has occurred for certain LTI plans that either failed to satisfy a non-TSR performance target, resulting in equity instruments lapsing or where a KMP left Telstra, resulting in equity instruments being forfeited. For market based hurdles, (ie: TSR) an accounting value is recorded above, however the relevant KMP received no value from those equity instruments that lapsed.

## 9.6 Number of equity instruments granted and vested during fiscal 2009

| Name                 |                           | Options       | Performance rights | Restricted Shares | GMD Incentive Shares | Deferred Incentive Shares | Incentive Shares(2) |
|----------------------|---------------------------|---------------|--------------------|-------------------|----------------------|---------------------------|---------------------|
| David Thodey         | Granted during period (1) | 881,331       | -                  | 279,357           | 83,542               | -                         | -                   |
|                      | Vested during the period  | 775,000       | 89,814             | -                 | 162,602              | -                         | 18,147              |
| Bruce Akhurst        | Granted during period (1) | 949,350       | -                  | 300,917           | 102,065              | -                         | -                   |
|                      | Vested during the period  | 835,127       | 97,848             | -                 | 132,181              | -                         | 93,916              |
| Nerida Caesar        | Granted during period (1) | 132,539       | -                  | 42,010            | -                    | -                         | -                   |
|                      | Vested during the period  | -             | -                  | -                 | -                    | -                         | -                   |
| Kate McKenzie        | Granted during period (1) | -             | -                  | -                 | 33,138               | -                         | 14                  |
|                      | Vested during the period  | 250,537       | 11,116             | -                 | 72,021               | -                         | 7,201               |
| Justin Milne         | Granted during period (1) | 370,116       | -                  | 117,317           | -                    | -                         | -                   |
|                      | Vested during the period  | -             | -                  | -                 | -                    | -                         | -                   |
| David Moffatt        | Granted during period (1) | 999,277       | -                  | 316,743           | 94,705               | -                         | 736                 |
|                      | Vested during the period  | 845,151       | 106,050            | -                 | 187,447              | -                         | 21,851              |
| Michael Rocca        | Granted during period (1) | 873,733       | -                  | 276,950           | -                    | -                         | -                   |
|                      | Vested during the period  | -             | -                  | -                 | -                    | -                         | -                   |
| Deena Shiff          | Granted during period (1) | 741,679       | -                  | 235,093           | 68,418               | -                         | -                   |
|                      | Vested during the period  | 601,293       | 42,584             | -                 | 133,929              | -                         | 25,976              |
| John Stanhope        | Granted during period (1) | 698,987       | -                  | 221,560           | 82,822               | -                         | -                   |
|                      | Vested during the period  | 587,932       | 75,334             | -                 | 165,291              | -                         | 21,135              |
| Solomon Trujillo (4) | Granted during period (1) | 5,172,414 (3) | -                  | -                 | -                    | 689,171                   | -                   |
|                      | Vested during the period  | 6,724,138     | 167,364            | -                 | -                    | 1,340,779                 | -                   |
| Gregory Winn         | Granted during period (1) | -             | -                  | -                 | -                    | -                         | -                   |
|                      | Vested during the period  | -             | -                  | -                 | -                    | -                         | -                   |

- (1) Options and restricted shares granted during the year relate to the annual LTI plan for fiscal 2009. Incentive Shares granted during the year relate to the STI plan for fiscal 2005 where dividends paid during the year have been reinvested under the dividend reinvestment plan. GMD incentive shares granted during the year or in fiscal 2008 relate to the fiscal 2008 and fiscal 2007 STI plans respectively.
- (2) These Incentive Shares relate to the fiscal 2005 STI plan and do not include any allocation in relation to the fiscal 2009 STI plan.
- (3) The options granted during the year relate to those options granted under Tranche 3 of the former CEO's fiscal 2007 LTI allocation. 10,344,828 and 5,172,414 options were granted to the former CEO under Tranche 1 and Tranche 2 of the fiscal 2007 LTI and have been disclosed in fiscal 2007 and fiscal 2008 respectively.
- (4) The Deferred incentive shares granted during the year relate to the fiscal 2008 former CEO STI plan.

## 9.7 Value of options, performance rights and restricted shares granted, exercised and lapsed/forfeited in fiscal 2009

| Name             | Granted during period (\$) (1) | Exercised (\$) (2) | Value Foregone (\$) (3) |
|------------------|--------------------------------|--------------------|-------------------------|
| David Thodey     | 931,593                        | (530,536)          | (157,448)               |
| Bruce Akhurst    | 1,003,491                      | (584,438)          | (169,919)               |
| Nerida Caesar    | 140,095                        | -                  | -                       |
| Kate McKenzie    | -                              | -                  | (55,817)                |
| Justin Milne     | 391,226                        | -                  | -                       |
| David Moffatt    | 1,056,267                      | (611,299)          | (172,278)               |
| Michael Rocca    | 923,566                        | -                  | -                       |
| Deena Shiff      | 783,982                        | (235,365)          | (119,975)               |
| John Stanhope    | 738,853                        | (462,107)          | (130,653)               |
| Solomon Trujillo | 1,137,931                      | -                  | (2,063,793) (4)         |
| Gregory Winn     | -                              | -                  | -                       |

- (1) The grant date of the fiscal 2009 LTI plan was 8 May 2009. The fair value of the RTSR options and ROI restricted shares granted in fiscal 2009 is \$0.16 and \$2.83 respectively. The fair values reflect the valuation approach required by the applicable accounting standard including a Monte Carlo simulation option pricing model as explained in note 27 to the financial statements. The fair value of options granted to Mr Trujillo (former CEO) under the Tranche 3 allocation is \$0.22 for TSR options and \$0.31 for RG, ROI, NGN and ITT options.
- (2) Each equity instrument was exercised for one fully paid Telstra share by paying the prescribed exercise price. The values reflect the market value at the date of exercise after deducting any exercise price paid.
- (3) The value of equity instruments that have lapsed during the year represents the benefit foregone and is calculated at the date the equity instrument lapsed. As the equity instruments lapsed at the end of the vesting period, the values reflect the market value (as at the date of lapsing) after deducting any exercise price that would have been payable.
- (4) As the Tranche 2 allocation of the former CEO's fiscal 2007 LTI plan options had an exercise price that was greater than the market price of Telstra shares (ie were out of the money), there was no value associated with these lapsed options.

## 9.8 KMP Contract details

The key terms and conditions of service contracts for current Senior Executives are summarised below. There are no individual contracts for services with our non-executive directors.

| Name          | Terms of agreement | Fixed Remuneration at end of fiscal 2009 | Additional conditions | Notice Period (1) | Termination payment (2) |
|---------------|--------------------|--|-----------------------|-------------------|-------------------------|
| David Thodey  | Ongoing            | \$2,000,000                              | (3)                   | 6 months          | 12 months               |
| Bruce Akhurst | Ongoing            | \$1,312,000                              | Nil                   | 6 months          | 12 months               |
| Nerida Caesar | Ongoing            | \$800,000                                | Nil                   | 6 months          | 12 months               |
| Kate McKenzie | Ongoing            | \$875,000                                | Nil                   | 6 months          | 12 months               |
| Justin Milne  | Ongoing            | \$852,500                                | Nil                   | 6 months          | 12 months               |
| David Moffatt | Ongoing            | \$1,381,000                              | Nil                   | 6 months          | 12 months               |
| Michael Rocca | Ongoing            | \$1,207,500                              | (4)                   | 6 months          | 12 months               |
| Deena Shiff   | Ongoing            | \$1,025,000                              | Nil                   | 6 months          | 12 months               |
| John Stanhope | Ongoing            | \$1,380,000                              | Nil                   | 6 months          | 12 months               |

- (1) Upon notice being given Telstra can require the executive to work through the notice period or terminate employment immediately by providing payment in lieu of notice.
- (2) Payment is calculated on fixed remuneration as at date of termination. There will be no payment if termination is a result of serious misconduct or redundancy (in which case Telstra's redundancy policy applies).
- (3) 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.
- (4) Michael Rocca's contract provides for payment of a \$1,000,000 retention incentive (less applicable taxation) which was paid in the first pay period following 1 July 2009 based on his continuous employment at that date. A further \$1,000,000 retention incentive (less applicable taxation) is scheduled for the first pay period following 1 July 2010 subject to his continued employment status at that date.



**Telstra Corporation Limited and controlled entities**

**Concise Financial Report**

**for the year ended 30 June 2009**

## Income Statement

for the year ended 30 June 2009

|  | <b>Telstra Group</b>      |             |
|--|---------------------------|-------------|
|  | <b>Year ended 30 June</b> |             |
|  | <b>2009</b>               | <b>2008</b> |
|  | <b>\$m</b>                | <b>\$m</b>  |
| <b>Income</b>  |                           |             |
| Revenue (excluding finance income) . . . . .   | <b>25,507</b>             | 24,828      |
| Other income . . . . .   | <b>107</b>                | 174         |
|  | <b>25,614</b>             | 25,002      |
| <b>Expenses</b>  |                           |             |
| Labour . . . . .   | <b>4,131</b>              | 4,158       |
| Goods and services purchased . . . . .   | <b>5,313</b>              | 5,181       |
| Other expenses . . . . .   | <b>5,225</b>              | 5,246       |
|  | <b>14,669</b>             | 14,585      |
| Share of net (profit)/loss from jointly controlled and associated entities . . . . .           | <b>(3)</b>                | 1           |
|  | <b>14,666</b>             | 14,586      |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) . . . . . | <b>10,948</b>             | 10,416      |
| Depreciation and amortisation . . . . .  | <b>4,390</b>              | 4,190       |
| Earnings before interest and income tax expense (EBIT) . . . . .                               | <b>6,558</b>              | 6,226       |
| Finance income . . . . .   | <b>67</b>                 | 72          |
| Finance costs . . . . .  | <b>967</b>                | 1,158       |
| Net finance costs . . . . .  | <b>900</b>                | 1,086       |
| <b>Profit before income tax expense</b> . . . . .  | <b>5,658</b>              | 5,140       |
| Income tax expense . . . . .   | <b>1,582</b>              | 1,429       |
| <b>Profit for the year</b> . . . . .   | <b>4,076</b>              | 3,711       |
| <b>Attributable to:</b>  |                           |             |
| Equity holders of Telstra Entity . . . . .   | <b>4,073</b>              | 3,692       |
| Minority interests . . . . .   | <b>3</b>                  | 19          |
|  | <b>4,076</b>              | 3,711       |
| <b>Earnings per share (cents per share)</b>  |                           |             |
| Basic . . . . .  | <b>32.9</b>               | 29.9        |
| Diluted . . . . .  | <b>32.9</b>               | 29.8        |

The above income statement should be read in conjunction with the accompanying notes. The financial statements and specific disclosures have been derived from the full financial report. This concise financial report is extracted from the full financial report and as a result, cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the full financial report which is available, free of charge, upon request to Telstra.

## Statement of Comprehensive Income

for the year ended 30 June 2009

|   | <b>Telstra Group</b>      |             |
|---|---------------------------|-------------|
|   | <b>Year ended 30 June</b> |             |
|   | <b>2009</b>               | <b>2008</b> |
|   | <b>\$m</b>                | <b>\$m</b>  |
| <b>Profit for the year</b> . . . . .  | <b>4,076</b>              | 3,711       |
| <b>Foreign currency translation reserve</b>   |                           |             |
| Reserves recognised on equity accounting our interest in jointly controlled and associated entities . . . . . | <b>1</b>                  | 1           |
| Translation of financial statements of non-Australian controlled entities . . . . .                           | <b>177</b>                | (231)       |
| Income tax on movements in the foreign currency translation reserve . . . . .                                 | <b>36</b>                 | (43)        |
|   | <b>214</b>                | (273)       |
| <b>Cash flow hedging reserve</b>  |                           |             |
| Changes in fair value of cash flow hedges . . . . .   | <b>120</b>                | 120         |
| Changes in fair value transferred to other expenses . . . . .   | <b>(285)</b>              | (77)        |
| Changes in fair value transferred to goods and services purchased . . . . .                                   | <b>(27)</b>               | 15          |
| Changes in fair value transferred to finance costs . . . . .  | <b>104</b>                | 115         |
| Changes in fair value transferred to property, plant and equipment . . . . .                                  | <b>(14)</b>               | 7           |
| Income tax on movements in the cash flow hedging reserve . . . . .  | <b>31</b>                 | (53)        |
|   | <b>(71)</b>               | 127         |
| <b>Retained profits</b>   |                           |             |
| Actuarial loss on defined benefit plans . . . . .   | <b>(546)</b>              | (434)       |
| Income tax on actuarial loss on defined benefit plans . . . . .   | <b>163</b>                | 129         |
|   | <b>(383)</b>              | (305)       |
| <b>Minority interests</b>   |                           |             |
| Translation of financial statements of non-Australian controlled entities . . . . .                           | <b>30</b>                 | (19)        |
| Actuarial loss on defined benefit plans . . . . .   | <b>(7)</b>                | -           |
|   | <b>23</b>                 | (19)        |
| <b>Total comprehensive income for the year</b> . . . . .  | <b>3,859</b>              | 3,241       |
| <b>Attributable to:</b>   |                           |             |
| Profit for the year attributable to equity holders of Telstra Entity . . . . .                                | <b>4,073</b>              | 3,692       |
| Actuarial loss on defined benefit plans (after tax) recognised in retained profits . . . . .                  | <b>(383)</b>              | (305)       |
| Total comprehensive income recognised in retained profits . . . . .   | <b>3,690</b>              | 3,387       |
| Other comprehensive income recognised in foreign currency translation reserve . . . . .                       | <b>214</b>                | (273)       |
| Other comprehensive income recognised in cash flow hedging reserve . . . . .                                  | <b>(71)</b>               | 127         |
| <b>Total comprehensive income attributable to equity holders of Telstra Entity</b> . . . . .                  | <b>3,833</b>              | 3,241       |
| Profit for the year attributable to minority interests . . . . .  | <b>3</b>                  | 19          |
| Other comprehensive income attributable to minority interests . . . . .                                       | <b>23</b>                 | (19)        |
| <b>Total comprehensive income attributable to minority interests</b> . . . . .                                | <b>26</b>                 | -           |

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

## Statement of Financial Position

as at 30 June 2009

|  | Telstra Group |               |
|--|---------------|---------------|
|  | As at 30 June |               |
|  | 2009          | 2008          |
|  | \$m           | \$m           |
| <b>Current assets</b>  |               |               |
| Cash and cash equivalents . . . . .                              | 1,381         | 899           |
| Trade and other receivables . . . . .                            | 4,039         | 3,952         |
| Inventories . . . . .  | 239           | 309           |
| Derivative financial assets . . . . .                            | 128           | 54            |
| Current tax receivables . . . . .                                | 101           | -             |
| Prepayments . . . . .  | 304           | 299           |
| <b>Total current assets . . . . .</b>                            | <b>6,192</b>  | <b>5,513</b>  |
| <b>Non current assets</b>  |               |               |
| Trade and other receivables . . . . .                            | 163           | 198           |
| Inventories . . . . .  | 18            | 12            |
| Investments - accounted for using the equity method . . . . .    | 16            | 14            |
| Investments - other . . . . .                                    | -             | 1             |
| Property, plant and equipment . . . . .                          | 23,895        | 24,311        |
| Intangible assets . . . . .                                      | 8,416         | 7,245         |
| Derivative financial assets . . . . .                            | 1,073         | 444           |
| Non-current tax receivables . . . . .                            | 172           | -             |
| Deferred tax assets . . . . .                                    | 9             | 1             |
| Defined benefit assets . . . . .                                 | 8             | 182           |
| <b>Total non current assets . . . . .</b>                        | <b>33,770</b> | <b>32,408</b> |
| <b>Total assets . . . . .</b>                                    | <b>39,962</b> | <b>37,921</b> |
| <b>Current liabilities</b>                                       |               |               |
| Trade and other payables . . . . .                               | 3,734         | 3,930         |
| Provisions . . . . .   | 495           | 535           |
| Borrowings . . . . .   | 1,979         | 2,055         |
| Derivative financial liabilities . . . . .                       | 111           | 82            |
| Current tax payables . . . . .                                   | 262           | 264           |
| Revenue received in advance . . . . .                            | 1,171         | 1,257         |
| <b>Total current liabilities . . . . .</b>                       | <b>7,752</b>  | <b>8,123</b>  |
| <b>Non current liabilities</b>                                   |               |               |
| Trade and other payables . . . . .                               | 245           | 181           |
| Provisions . . . . .   | 761           | 776           |
| Borrowings . . . . .   | 15,344        | 13,444        |
| Derivative financial liabilities . . . . .                       | 819           | 1,222         |
| Deferred tax liabilities . . . . .                               | 1,593         | 1,575         |
| Defined benefit liability . . . . .                              | 414           | -             |
| Revenue received in advance . . . . .                            | 353           | 355           |
| <b>Total non current liabilities . . . . .</b>                   | <b>19,529</b> | <b>17,553</b> |
| <b>Total liabilities . . . . .</b>                               | <b>27,281</b> | <b>25,676</b> |
| <b>Net assets . . . . .</b>                                      | <b>12,681</b> | <b>12,245</b> |
| <b>Equity</b>  |               |               |
| Share capital . . . . .  | 5,576         | 5,534         |
| Reserves . . . . .   | (273)         | (410)         |
| Retained profits . . . . .                                       | 7,115         | 6,893         |
| <b>Equity available to Telstra Entity shareholders . . . . .</b> | <b>12,418</b> | <b>12,017</b> |
| Minority interests . . . . .                                     | 263           | 228           |
| <b>Total equity . . . . .</b>                                    | <b>12,681</b> | <b>12,245</b> |

The above statement of financial position should be read in conjunction with the accompanying notes.

## Statement of Cash Flows

for the year ended 30 June 2009

|   | Telstra Group      |                |
|---|--------------------|----------------|
|   | Year ended 30 June |                |
|   | 2009               | 2008           |
|   | \$m                | \$m            |
| <b>Cash flows from operating activities</b>                                   |                    |                |
| Receipts from customers (inclusive of goods and services tax (GST)) . . . . . | 27,719             | 27,246         |
| Payments to suppliers and to employees (inclusive of GST) . . . . .           | (17,074)           | (16,871)       |
| Net cash generated by operations . . . . .                                    | 10,645             | 10,375         |
| Income taxes paid . . . . .   | (1,647)            | (1,531)        |
| <b>Net cash provided by operating activities</b> . . . . .                    | <b>8,998</b>       | <b>8,844</b>   |
| <b>Cash flows from investing activities</b>                                   |                    |                |
| Payments for:   |                    |                |
| - property, plant and equipment . . . . .                                     | (3,263)            | (3,862)        |
| - intangible assets . . . . .   | (1,531)            | (1,465)        |
| Capital expenditure (before investments) . . . . .                            | (4,794)            | (5,327)        |
| - shares in controlled entities (net of cash acquired) . . . . .              | (240)              | (74)           |
| - payments for other investments . . . . .                                    | (1)                | (1)            |
| Total capital expenditure . . . . .   | (5,035)            | (5,402)        |
| Proceeds from:  |                    |                |
| - sale of property, plant and equipment . . . . .                             | 22                 | 28             |
| - sale of intangible assets . . . . .   | 2                  | 1              |
| - sale of shares in controlled entities (net of cash disposed) . . . . .      | 197                | 51             |
| Proceeds from finance lease principal amounts . . . . .                       | 55                 | 52             |
| Loans to jointly controlled and associated entities . . . . .                 | (4)                | -              |
| Repayment of loan to jointly controlled and associated entities . . . . .     | -                  | 6              |
| Interest received . . . . .   | 65                 | 72             |
| Settlement of hedges in net investments . . . . .                             | (35)               | 73             |
| Distributions received from FOXTEL . . . . .                                  | 100                | 130            |
| <b>Net cash used in investing activities</b> . . . . .                        | <b>(4,633)</b>     | <b>(4,989)</b> |
| <b>Operating cash flows less investing cash flows</b> . . . . .               | <b>4,365</b>       | <b>3,855</b>   |
| <b>Cash flows from financing activities</b>                                   |                    |                |
| Proceeds from borrowings . . . . .  | 3,118              | 3,559          |
| Repayment of borrowings . . . . .   | (2,288)            | (2,458)        |
| Repayment of finance lease principal amounts . . . . .                        | (36)               | (42)           |
| Staff repayments of share loans . . . . .                                     | 11                 | 15             |
| Purchase of shares for employee share plans . . . . .                         | -                  | (129)          |
| Finance costs paid . . . . .  | (1,221)            | (1,213)        |
| Dividends paid to equity holders of Telstra Entity . . . . .                  | (3,474)            | (3,476)        |
| Dividends paid to minority interests . . . . .                                | (43)               | (22)           |
| <b>Net cash used in financing activities</b> . . . . .                        | <b>(3,933)</b>     | <b>(3,766)</b> |
| <b>Net increase in cash and cash equivalents</b> . . . . .                    | <b>432</b>         | <b>89</b>      |
| Cash and cash equivalents at the beginning of the year . . . . .              | 899                | 823            |
| Effects of exchange rate changes on cash and cash equivalents . . . . .       | 50                 | (13)           |
| <b>Cash and cash equivalents at the end of the year</b> . . . . .             | <b>1,381</b>       | <b>899</b>     |

The above statement of cash flows should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

for the year ended 30 June 2009

### Telstra Group

|  | Reserves                |   |                                |   |                           |                            |                              | Total<br>\$m |
|--|-------------------------|---|--------------------------------|---|---------------------------|----------------------------|------------------------------|--------------|
|  | Share<br>capital<br>\$m | Foreign<br>currency<br>translation<br>\$m | Cash<br>flow<br>hedging<br>\$m | Consolid-<br>ation<br>fair value<br>\$m | General<br>reserve<br>\$m | Retained<br>profits<br>\$m | Minority<br>interests<br>\$m |              |
| <b>Balance at 1 July 2007</b> . . . . .                            | 5,611                   | (325)                                     | 37                             | 26                                      | 4                         | 6,976                      | 251                          | 12,580       |
| - total comprehensive income for the year                          | -                       | (273)                                     | 127                            | -                                       | -                         | 3,387                      | -                            | 3,241        |
| - dividends . . . . .  | -                       | -   | -                              | -                                       | -                         | (3,476)                    | (43)                         | (3,519)      |
| - minority interest on acquisitions . . . . .                      | -                       | -   | -                              | -                                       | -                         | -                          | 20                           | 20           |
| - transfers to retained profits . . . . .                          | -                       | -   | -                              | (6)                                     | -                         | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 15                      | -   | -                              | -                                       | -                         | -                          | -                            | 15           |
| - prior year labour expense settled in<br>equity . . . . .         | 9                       | -   | -                              | -                                       | -                         | -                          | -                            | 9            |
| - additional shares purchased . . . . .                            | (129)                   | -   | -                              | -                                       | -                         | -                          | -                            | (129)        |
| - share-based payments . . . . .                                   | 28                      | -   | -                              | -                                       | -                         | -                          | -                            | 28           |
| <b>Balance at 30 June 2008</b> . . . . .                           | 5,534                   | (598)                                     | 164                            | 20                                      | 4                         | 6,893                      | 228                          | 12,245       |
| - total comprehensive income for the year                          | -                       | 214                                       | (71)                           | -                                       | -                         | 3,690                      | 26                           | 3,859        |
| - dividends . . . . .  | -                       | -   | -                              | -                                       | -                         | (3,474)                    | (39)                         | (3,513)      |
| - minority interest on acquisitions . . . . .                      | -                       | -   | -                              | -                                       | -                         | -                          | 48                           | 48           |
| - transfers to retained profits . . . . .                          | -                       | -   | -                              | (6)                                     | -                         | 6                          | -                            | -            |
| - amounts repaid on share loans provided<br>to employees . . . . . | 11                      | -   | -                              | -                                       | -                         | -                          | -                            | 11           |
| - prior year labour expense settled in<br>equity . . . . .         | 8                       | -   | -                              | -                                       | -                         | -                          | -                            | 8            |
| - share-based payments . . . . .                                   | 23                      | -   | -                              | -                                       | -                         | -                          | -                            | 23           |
| <b>Balance at 30 June 2009</b> . . . . .                           | 5,576                   | (384)                                     | 93                             | 14                                      | 4                         | 7,115                      | 263                          | 12,681       |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

## Notes to the Concise Financial Statements

### 1. Summary of accounting policies

#### Basis of preparation

This concise financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1039: "Concise Financial Reports" and is derived from the full financial report contained in the "Annual Report 2009". All amounts are presented in Australian dollars.

The principal accounting policies we used in preparing the concise financial report of Telstra Corporation Limited and its controlled entities (referred to as the Telstra Group) are included in the full financial report contained in the "Annual Report 2009".

Our full financial report complies with the requirements of the Australian Corporations Act 2001 and Accounting Standards applicable in Australia. It also complies with Accounting Standards and Interpretations published by the International Accounting Standards Board.

#### Changes in accounting policies

The following accounting policy changes occurred during the year ended 30 June 2009.

##### (a) Transfer of Assets from Customers

AASB Interpretation 18: "Transfer of Assets from Customers" was issued by the AASB in March 2009 and provides guidance in relation to the accounting for assets that are received from customers, either in the form of direct transfer of asset ownership or cash contributions received towards the construction or purchase of an asset. The interpretation outlines under what circumstances the transfer may be recognised as revenue upfront or when it must be deferred over the relevant service period.

Telstra receives contributions from a number of customers towards the construction of network assets, including construction in remote areas or where it is uneconomical for Telstra to incur the full capital cost. The level of contribution from the customer varies depending on the circumstances, but includes both full and partial contributions. Our previous accounting policy required these customer contributions to be deferred over the relevant service period.

We have elected to early adopt and apply AASB Interpretation 18 in our financial report for the year ended 30 June 2009. As a result, where the network construction does not result in additional obligations being imposed on Telstra to provide additional services, then the customer contribution is recognised upfront as revenue when the construction is complete and the asset is ready for use.

In addition to the above change in accounting policy, we note the following new accounting standards and interpretations that are applicable for the year ended 30 June 2009.

- AASB Interpretation 12: "Service Concession Arrangements";
- AASB Interpretation 14: "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation";
- AASB 2008-10: "Amendments to Australian Accounting Standards - Reclassification of Financial Assets"; and
- AASB 2008-12: "Amendments to Australian Accounting Standards - Reclassification of Financial Assets - Effective Date and Transition".

These new accounting standards and interpretations, including interpretation 18, do not have any material impact on our financial results.

## Notes to the Concise Financial Statements (continued)

### 2. Revenue

Our total revenue (excluding finance income) includes:

|   | Telstra Group      |        |
|---|--------------------|--------|
|   | Year ended 30 June |        |
|   | 2009               | 2008   |
|   | \$m                | \$m    |
| <b>Sales revenue</b> . . . . .                            |                    |        |
| Rendering of services . . . . .                           | 12,574             | 12,514 |
| Sale of goods . . . . .                                   | 1,159              | 1,195  |
| Rent of network facilities and access . . . . .           | 9,149              | 8,663  |
| Construction contracts . . . . .                          | 230                | 169    |
| Advertising and directory services . . . . .              | 2,259              | 2,116  |
|   | <b>25,371</b>      | 24,657 |
| <b>Other revenue (excluding finance income)</b> . . . . . |                    |        |
| Distribution from FOXTEL Partnership . . . . .            | 100                | 130    |
| Rent from property . . . . .                              | 36                 | 41     |
|   | <b>136</b>         | 171    |
| <b>Total revenue (excluding finance income)</b> . . . . . | <b>25,507</b>      | 24,828 |

## Notes to the Concise Financial Statements (continued)

### 3. 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 2009, the following changes were made to our operating segments:

- With the departure of the Chief Operations Officer during the year the Telstra Operations business segment no longer exists. As a result the following changes have occurred:
  - Telstra Networks and Services and Information Technology are now operating segments in their own right; and
  - Product Management, Procurement and Program Office are now recorded within our Corporate Areas.
- A new segment, Telstra Media, was formed to focus on online and mobile content. As a result, the previous Telstra Media segment has now been renamed Telstra Cable; and
- The Telstra Consumer Marketing and Channels segment has been renamed Telstra Consumer.

Segment results are reported according to the internal management reporting structure at balance date. Segment comparatives are restated to reflect the changes described above as well as any organisational changes which have occurred since the prior reporting period to present a like-for-like view.

The Trading Post business was transferred from Sensis and integrated into the Telstra Media operating segment during the year. As such, Trading Post segment results up to 31 March 2009 have been recorded within Sensis, and from 1 April 2009 to 30 June 2009 have been recorded within our Telstra Media operating segment.

The Telstra Group is organised into the following operating segments for internal management reporting purposes:

**Telstra Consumer (TC)** is responsible for:

- the provision of the full range of telecommunication products, services and communication solutions to consumers; and
- leading the mass market channels including inbound and outbound call centres, Telstra Shops and Telstra Dealers.

**Telstra Business (TB)** is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to small to medium enterprises.

**Telstra Enterprise and Government (TE&G)** is responsible for:

- the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology services to enterprise and government customers; and

- the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

**Telstra Networks and Services (TN&S)** is responsible for:

- leading the identification, analysis, validation, development and implementation of product, technology and information technology strategies for both the network infrastructure and customer solutions of our Company;
- overall planning, design, specification of standards, commissioning and decommissioning of our communication networks;
- construction of infrastructure for our Company's fixed, mobile, Internet protocol (IP) and data networks; and
- operation, assurance and maintenance, including activation and restoration, of these networks.

**Telstra Wholesale (TW)** is responsible for:

- the provision of a wide range of telecommunication products and services delivered over our networks and associated support systems to non-Telstra branded carriers, carriage service providers and Internet service providers.

**Sensis** is responsible for:

- the management and growth of the directories and advertising business (excluding that undertaken by Telstra Media), including printed publications, voice and directory services, location and publishing products, and online products and services;
- the provision of China's largest online real estate, home furnishings and home improvements portal through the investment in SouFun; and
- the provision of automotive and digital device internet businesses in China through the investment in Norstar Media and Autohome/PCPop.

**CSL New World (CSL NW)** is our 76.4% owned subsidiary in Hong Kong responsible for:

- providing full mobile services including handset sales, voice and data products to the Hong Kong market.

**TelstraClear (TClear)** is our New Zealand subsidiary responsible for:

- providing full telecommunications services to the New Zealand market.

**Telstra Country Wide (TCW)** is responsible for:

- the local management and control of providing telecommunication products, services and solutions to all consumer customers, except those in Sydney and Melbourne, and small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

## Notes to the Concise Financial Statements (continued)

### 3. Segment information (continued)

#### Operating segments (continued)

**Telstra Media** is responsible for:

- the management and control of our online and mobile content services and Trading Post classifieds website; and
- the provision of mobile value added services in China through ChinaM and Sharp Point which we acquired a 67% interest in during the year.

**Telstra Cable** is responsible for:

- the management of our investment in the FOXTEL partnerships; and
- the development and management of the hybrid fibre coaxial (HFC) cable network.

**Strategic Marketing** is responsible for:

- the co-ordination and delivery of strategy and marketing activities across our Company and market segments.

**Information Technology** is responsible for:

- supply and delivery of information technology solutions to support our products, services, customer support functions and our internal needs.

**Corporate areas** include:

- Legal Services - provides legal services across the Company;
- Public Policy and Communications - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It also has responsibility for regulatory positioning and negotiation;
- Finance and Administration - encompasses the functions of corporate planning, accounting and administration, treasury, risk management and assurance, investor relations and procurement. It also includes providing financial support to all business units and financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group;
- The office of the Company Secretary;
- Human Resources - encompasses talent management, organisational development, human resource operations, health, safety and environment, as well as workplace relations and remuneration;
- Product Management - development and lifecycle management of products and services over the networks, as well as application platforms and the online environment; and
- Program Office - coordination and execution of business improvement and transformation projects.

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:

- Telstra Country Wide;
- Telstra Media (new);
- Telstra Cable (previously Telstra Media);
- Strategic Marketing;
- Information Technology; and
- our Corporate areas.

Revenue for the “All Other” segment relates primarily to our revenue earned by Telstra Cable from providing access to our HFC network and other services to FOXTEL. The Asset Accounting Group is the main contributor to the segment result for this segment, which is primarily depreciation and amortisation charges as well as impairment of property, plant and equipment and software.

Segment assets for the “All Other” segment includes the Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

#### Segment results and segment assets

The measurement of segment results is in line with the basis of information presented to management for internal management reporting purposes. The performance of each segment is measured based on their “underlying EBIT contribution” to the Telstra Group. EBIT contribution excludes the effects of all inter-segment balances and transactions. As such only transactions external to the Telstra Group are reported. Furthermore, certain items of income and expense are excluded from the segment results to show a measure of underlying performance. These items are separately disclosed in the reconciliation of total reportable segments to Telstra Group reported EBIT in the financial statements.

Certain items are recorded by our corporate areas, rather than being allocated to each segment. These items include the following:

- the Telstra Entity fixed assets (including network assets) are managed centrally. The resulting depreciation and amortisation is also recorded centrally;
- the adjustment to defer our basic access installation and connection fee revenues and costs in accordance with our accounting policy. Instead our reportable segments record these amounts upfront;
- the majority of redundancy expenses for the Telstra Entity; and
- information technology costs for the Telstra Entity.

In addition, the following narrative further explains how some items are allocated and managed, and as a result how they are reflected in our segment results and segment assets:

- sales revenue associated with mobile handsets for TC, TB and TE&G are mainly allocated to the TC segment along with the associated goods and services purchased. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC, TB and TE&G depending on the type of customer serviced;
- revenue derived from our Telstra Media Internet products and its related segment assets are recorded in the customer facing business segments of TC, TB and TE&G. Certain distribution costs in relation to these products are recognised in these three business segments. Telstra Networks and Services recognise certain expenses in relation to the installation and running of the broadband cable network;
- revenue derived from our TCW customers is recorded in our TC, TB and TE&G segments. Direct costs associated with this revenue is also recorded in TC, TB and TE&G; and
- doubtful debt expenses are allocated to each segment (previously recorded centrally by our corporate areas).

## Notes to the Concise Financial Statements (continued)

### 3. Segment information (continued)

#### Telstra Group

|  | TC            | TB           | TE&G         | TN&S           | TW           | Sensis       | CSL NW       | TClear       | All Other      | Total         |
|--|---------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|---------------|
| Year ended 30 June 2009                                  | \$m           | \$m          | \$m          | \$m            | \$m          | \$m          | \$m          | \$m          | \$m            | \$m           |
| Revenue from external customers . . .                    | 10,269        | 3,789        | 4,787        | 77             | 2,383        | 2,250        | 989          | 547          | 316            | 25,407        |
| Other income . . . . .                                   | 56            | 10           | (3)          | 7              | -            | 1            | -            | -            | 35             | 106           |
| <b>Total income</b> . . . . .                            | <b>10,325</b> | <b>3,799</b> | <b>4,784</b> | <b>84</b>      | <b>2,383</b> | <b>2,251</b> | <b>989</b>   | <b>547</b>   | <b>351</b>     | <b>25,513</b> |
| Labour expenses . . . . .                                | 441           | 191          | 521          | 1,273          | 67           | 504          | 85           | 95           | 954            | 4,131         |
| Goods and services purchased . . . . .                   | 2,510         | 704          | 801          | 243            | 81           | 187          | 466          | 264          | 57             | 5,313         |
| Other expenses . . . . .                                 | 1,057         | 163          | 166          | 1,468          | 21           | 387          | 199          | 80           | 1,686          | 5,227         |
| Share of equity accounted (profits)/<br>losses . . . . . | -             | -            | (4)          | -              | -            | -            | -            | -            | 1              | (3)           |
| Depreciation and amortisation . . . . .                  | -             | -            | 43           | 71             | -            | 122          | 342          | 121          | 3,691          | 4,390         |
| <b>EBIT contribution</b> . . . . .                       | <b>6,317</b>  | <b>2,741</b> | <b>3,257</b> | <b>(2,971)</b> | <b>2,214</b> | <b>1,051</b> | <b>(103)</b> | <b>(13)</b>  | <b>(6,038)</b> | <b>6,455</b>  |
| <b>Total assets as at 30 June 2009</b> . . . . .         | <b>1,591</b>  | <b>471</b>   | <b>1,336</b> | <b>2,136</b>   | <b>390</b>   | <b>2,346</b> | <b>2,037</b> | <b>1,066</b> | <b>28,589</b>  | <b>39,962</b> |

#### Telstra Group

|  | TC            | TB           | TE&G         | TN&S           | TW           | Sensis       | CSL NW       | TClear       | All Other      | Total         |
|--|---------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|----------------|---------------|
| Year ended 30 June 2008                          | \$m           | \$m          | \$m          | \$m            | \$m          | \$m          | \$m          | \$m          | \$m            | \$m           |
| Revenue from external customers . . .            | 9,963         | 3,619        | 4,651        | 88             | 2,512        | 2,127        | 917          | 562          | 259            | 24,698        |
| Other income . . . . .                           | 60            | 15           | 1            | 10             | 1            | -            | -            | -            | 48             | 135           |
| <b>Total income</b> . . . . .                    | <b>10,023</b> | <b>3,634</b> | <b>4,652</b> | <b>98</b>      | <b>2,513</b> | <b>2,127</b> | <b>917</b>   | <b>562</b>   | <b>307</b>     | <b>24,833</b> |
| Labour expenses . . . . .                        | 435           | 201          | 551          | 1,328          | 72           | 459          | 77           | 98           | 937            | 4,158         |
| Goods and services purchased . . . . .           | 2,519         | 693          | 789          | 277            | 17           | 172          | 416          | 272          | 26             | 5,181         |
| Other expenses . . . . .                         | 948           | 154          | 175          | 1,479          | 39           | 402          | 165          | 85           | 1,795          | 5,242         |
| Share of equity accounted losses . . .           | -             | -            | -            | -              | -            | -            | -            | -            | 1              | 1             |
| Depreciation and amortisation . . . . .          | -             | -            | 41           | 67             | -            | 150          | 246          | 127          | 3,559          | 4,190         |
| <b>EBIT contribution</b> . . . . .               | <b>6,121</b>  | <b>2,586</b> | <b>3,096</b> | <b>(3,053)</b> | <b>2,385</b> | <b>944</b>   | <b>13</b>    | <b>(20)</b>  | <b>(6,011)</b> | <b>6,061</b>  |
| <b>Total assets as at 30 June 2008</b> . . . . . | <b>1,548</b>  | <b>443</b>   | <b>1,562</b> | <b>2,312</b>   | <b>376</b>   | <b>2,559</b> | <b>1,873</b> | <b>1,099</b> | <b>26,149</b>  | <b>37,921</b> |

A reconciliation of EBIT contribution for reportable segments to Telstra Group reported EBIT is provided below:

|  | Telstra Group      |              |
|--|--------------------|--------------|
|  | Year ended 30 June |              |
|  | 2009               | 2008         |
|  | \$m                | \$m          |
| EBIT contribution for reportable segments . . . . .        | 12,493             | 12,072       |
| All other . . . . .  | (6,038)            | (6,011)      |
| <b>Total all segments</b> . . . . .                        | <b>6,455</b>       | <b>6,061</b> |
| <b>Amounts excluded from underlying results:</b>           |                    |              |
| - distribution from FOXTEL (a) . . . . .                   | 100                | 130          |
| - net gain on disposal of non current assets . . . . .     | -                  | 38           |
| - impairment in value of investments . . . . .             | (4)                | (5)          |
| - reversal of impairment in value of investments . . . . . | 6                  | -            |
| - other . . . . .  | 1                  | 2            |
| <b>Telstra Group EBIT (reported)</b> . . . . .             | <b>6,558</b>       | <b>6,226</b> |

(a) The \$100 million distribution received from FOXTEL (2008: \$130 million) has been recorded as revenue in the income statement.

## Notes to the Concise Financial Statements (continued)

### 3. Segment information (continued)

|  | Telstra Group      |               |
|--|--------------------|---------------|
|  | Year ended 30 June |               |
|  | 2009               | 2008          |
|  | \$m                | \$m           |
| <b>Information about our geographic operations (b)</b> |                    |               |
| <b>Revenue from external customers</b>                 |                    |               |
| Australian customers . . . . .                         | 23,298             | 22,884        |
| International customers . . . . .                      | 2,209              | 1,944         |
|  | <b>25,507</b>      | <b>24,828</b> |
| <b>Carrying amount of non-current assets (c)</b>       |                    |               |
| Located in Australia . . . . .                         | 28,882             | 28,574        |
| Located in international countries . . . . .           | 3,798              | 3,207         |
|  | <b>32,680</b>      | <b>31,781</b> |

(b) Our geographical operations are split between our Australian and international operations. Our international operations include CSL New World (Hong Kong), TelstraClear (New Zealand), the SouFun, Norstar Media and Autohome/PCPop businesses in China which are part of our Sensis segment, the ChinaM and Sharp Point businesses in China which are part of our Telstra Media segment, and our international business, including Telstra Europe (UK), that serves multi-national customers in the TE&G segment. No individual geographical area forms a significant part of our operations apart from our Australian operations.

(c) The carrying amount of our segment non current assets excludes derivative financial assets, defined benefit assets and deferred tax assets.

|  | Telstra Group      |               |
|--|--------------------|---------------|
|  | Year ended 30 June |               |
|  | 2009               | 2008          |
|  | \$m                | \$m           |
| <b>Information about our products and services</b> |                    |               |
| PSTN products . . . . .                            | 6,337              | 6,666         |
| ISDN products . . . . .                            | 942                | 978           |
| Fixed internet . . . . .                           | 2,160              | 2,020         |
| Other fixed revenue . . . . .                      | 1,327              | 1,272         |
| Mobiles . . . . .                                  | 6,878              | 6,409         |
| IP and data access . . . . .                       | 1,733              | 1,603         |
| Business services and applications . . . . .       | 1,008              | 1,055         |
| Non service content . . . . .                      | 70                 | 15            |
| Pay TV bundling . . . . .                          | 467                | 426           |
| Advertising and directories . . . . .              | 2,259              | 2,116         |
| CSL New World . . . . .                            | 989                | 917           |
| TelstraClear . . . . .                             | 547                | 562           |
| Other offshore services revenue . . . . .          | 390                | 346           |
| Other sales revenue (d) . . . . .                  | 264                | 272           |
| Other revenue (e) . . . . .                        | 136                | 171           |
| <b>Total revenue</b> . . . . .                     | <b>25,507</b>      | <b>24,828</b> |

(d) Other sales revenue includes \$76 million relating to HFC cable usage (2008: \$77 million).

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

## Notes to the Concise Financial Statements (continued)

### 4. Dividends

|   | Telstra Entity     |       |
|---|--------------------|-------|
|   | Year ended 30 June |       |
|   | 2009               | 2008  |
|   | \$m                | \$m   |
| <b>Dividends paid</b>   |                    |       |
| Previous year final dividend (paid 26 September 2008) . . . . . | 1,737              | 1,740 |
| Interim dividend (paid 9 April 2009) . . . . .                  | 1,737              | 1,736 |
| Total dividends paid. . . . .                                   | 3,474              | 3,476 |
| <b>Dividends paid per ordinary share</b>                        |                    |       |
|   | ¢                  | ¢     |
| Previous year final dividend paid . . . . .                     | 14.0               | 14.0  |
| Interim dividend paid . . . . .                                 | 14.0               | 14.0  |
| Total dividends paid. . . . .                                   | 28.0               | 28.0  |

Our dividends paid are fully franked at a tax rate of 30%.

Our dividends per share to be paid in respect of each fiscal year are detailed below:

|                                     | Telstra Entity     |      |
|-------------------------------------|--------------------|------|
|                                     | Year ended 30 June |      |
|                                     | 2009               | 2008 |
|                                     | ¢                  | ¢    |
| <b>Dividends per ordinary share</b> |                    |      |
| Interim dividend . . . . .          | 14.0               | 14.0 |
| Final dividend (a) . . . . .        | 14.0               | 14.0 |
| Total dividends. . . . .            | 28.0               | 28.0 |

(a) As our final dividend for fiscal 2009 was not determined or publicly recommended by the Board as at 30 June 2009, no provision for dividend has been raised in the statement of financial position. Our final dividend has been reported as an event subsequent to balance date. Refer to note 5 for further details.

## Notes to the Concise Financial Statements (continued)

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### 5. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2009 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

#### Final Dividend

On 13 August 2009, 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 28 August 2009 with payment being made on 25 September 2009. Shares will trade excluding the entitlement to the dividend on 24 August 2009.

A provision for dividend payable has been raised as at the date of resolution, amounting to \$1,737 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 2009.

There are no income tax consequences for the Telstra Group and Telstra Entity resulting from the resolution and payment of the final ordinary dividend, except for \$745 million franking debits arising from the payment of this dividend that will be adjusted in our franking account balance.

#### Dividend Reinvestment Plan

The Future Fund has declined to participate in the dividend reinvestment plan (DRP) for the 2009 final dividend and accordingly the directors of Telstra Corporation Limited have determined the DRP continues to be suspended.

#### Change in Directshare terms

As a result of the changes to tax laws governing employee share schemes, creating uncertainty in relation to the future tax treatment of shares acquired under employee share schemes, the Board has determined that non-executive directors will not be required to receive a minimum of 20% of their total remuneration as Directshares from 1 July 2009. 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. Such shares are to be acquired over a five year period from 1 July 2009 to further align the remuneration structure with the interests of shareholders.

## Directors' Declaration

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The directors of Telstra Corporation Limited have made a resolution that declared:

- (a) the Concise Financial Report of Telstra Corporation Limited for the year ended 30 June 2009 is in accordance with Accounting Standard AASB 1039 "Concise Financial Reports"; and
- (b) the financial statements and specific disclosures included in the Concise Financial Report have been derived from the full financial report contained in the "Annual Report 2009" for the year ended 30 June 2009.

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

*C B Livingstone*      *D. Thodey*

Catherine B Livingstone  
**Chairman**

David I Thodey  
**Chief Executive Officer and  
Executive Director**

Date: 13 August 2009  
Melbourne, Australia

## Independent auditor's report to the members of Telstra Corporation Limited

### Report on the Concise Financial Report

The accompanying concise financial report of Telstra Corporation Limited and the entities it controlled during the year (Telstra Group) comprises the statement of financial position as at 30 June 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of Telstra Group for the year ended 30 June 2009. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

### Directors' Responsibility for the Concise Financial Report

The Directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Telstra Group for the year ended 30 June 2009. Our audit report on the financial report for the year was signed on 13 August 2009 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

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*.

### Auditor's Opinion

In our opinion, the concise financial report of Telstra Group for the year ended 30 June 2009 complies with Accounting Standard AASB 1039 *Concise Financial Reports*.

### Report on the Remuneration Report

The following paragraph is copied from our Report on the Remuneration Report for the year ended 30 June 2009.

We have audited the Remuneration Report included in pages 15 to 30 of the directors' report for the year ended 30 June 2009. 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.



Ernst & Young



Sean C Van Gorp  
Partner

13 August 2009  
Melbourne, Australia