

Registered number: 3830643

TELSTRA LIMITED

Annual report and financial statements
for the year ended June 30, 2014

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TELSTRA LIMITED

Company Information

DIRECTORS	M Gould H Hon (resigned 31 March 2014) D Rogerson (appointed 18 June 2014)
COMPANY SECRETARY	M Gould
REGISTERED NUMBER	3830643
REGISTERED OFFICE	2nd Floor, Blue Fin Building 110 Southwark Street London SE1 0TA

TELSTRA LIMITED

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TELSTRA LIMITED

Directors' report for the year ended June 30, 2014

The directors present their report and the financial statements for the year ended June 30, 2014.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRINCIPAL ACTIVITIES

The principal activity of the company is to provide business to business telecommunication services for domestic and international companies.

RESULTS

The loss for the year, after taxation, amounted to £4,010,000 (2013 - loss £2,106,000).

DIRECTORS

The directors who served during the year were:

M Gould
H Hon (resigned 31 March 2014)
D Rogerson (appointed 18 June 2014)

FUTURE DEVELOPMENTS

The directors aim to maintain the current management policies and do not anticipate any significant change in the continuing activities of the company in the foreseeable future.

TELSTRA LIMITED

Directors' report for the year ended June 30, 2014

PROVISION OF INFORMATION TO AUDITOR

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

GOING CONCERN

The Company has been a provider of telecommunication services and will continue to provide these services during the course of the following year. The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Directors do not consider the net current liability position of the Company to be a going concern issue as the position is driven by amounts owed to Group undertakings which are under the direct control of the Company. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

This report was approved by the board on March 12, 2015 and signed on its behalf by



M Gould
Director

TELSTRA LIMITED

Strategic report for the year ended June 30, 2014

BUSINESS REVIEW

The directors believe the company is well positioned to perform in the future.

Operating loss increased by £204,000 from £728,000 in 2013 to £932,000 in 2014.

Loss before tax increased by £2,353,000 from £2,201,000 in 2013 to £4,554,000 in 2014.

Revenue increased by £1,570,000 equivalent to 2.3% from £67,959,000 in 2013 to £69,529,000 in 2014.

The revenue growth was generated from cloud infrastructure product group and increased focus on network services.

Admin expenses increased due to increases in labour of 19.6% and other admin expenses increasing by 5.1%. Admin costs increased to support the strategic goals of EMEA expansion and Cloud Infrastructure. Admin costs are expected to continue to grow to support the strategic goals, but at a lower rate than gross profit.

Shareholders' funds have decreased by £3,981,000 mainly due to the losses incurred in the year.

PRINCIPAL RISKS AND UNCERTAINTIES

Competitive Risk

Competitive risks are driven by a changing market environment and the continued competition in the UK and international telecommunications markets. This trend is expected to continue, but it is mitigated by management's ongoing review of the market and the company's ability to differentiate its service model as reflected in improving Net Promoter Scores.

Legislative Risk

There currently appears to be no significant legislative risk for the business.

Financial Instrument Risk

There are currently no material financial instrument risks for the company.

Foreign Exchange Risk

The company makes supplies and is supplied in foreign currencies. Debtors and Creditors are assessed regularly and any currency exposure is reviewed. Where appropriate customer contracts make provision for a change in price if the currency deviates more than a set amount from the base.

Credit risk

The directors ensure that a strict policy of credit checking is employed for all new customers and that all debts are regularly reviewed.

This report was approved by the board and signed on its behalf.



M Gould
Director
Date: March 12, 2015

TELSTRA LIMITED

Independent auditor's report to the shareholders of Telstra Limited

We have audited the financial statements of Telstra Limited for the year ended June 30, 2014, which comprise the Profit and loss account, the Balance sheet and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' responsibilities statement on page 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at June 30, 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

TELSTRA LIMITED

Independent auditor's report to the shareholders of Telstra Limited

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Neil Cullum (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP (Statutory Auditor)

London

March 12, 2015

TELSTRA LIMITED

**Profit and loss account
for the year ended June 30, 2014**

	Notes	2014 £000	2013 £000
TURNOVER	2	69,529	67,959
Cost of sales		<u>(25,342)</u>	<u>(27,417)</u>
GROSS PROFIT		44,187	40,542
Administrative expenses		<u>(45,119)</u>	<u>(41,270)</u>
OPERATING LOSS	3	(932)	(728)
Interest receivable and similar income	6	60	116
Interest payable and similar charges	7	<u>(3,682)</u>	<u>(1,589)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(4,554)	(2,201)
Tax on loss on ordinary activities	8	<u>544</u>	<u>95</u>
LOSS FOR THE FINANCIAL YEAR		<u>(4,010)</u>	<u>(2,106)</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2014 or 2013 other than those included in the Profit and loss account.

The notes on pages 8 to 21 form part of these financial statements.

TELSTRA LIMITED
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Balance sheet
as at June 30, 2014

	Note	£000	2014 £000	£000	2013 £000
FIXED ASSETS					
Intangible assets	9		23,342		25,464
Tangible assets	10		52,237		51,909
Investments	11		54,147		54,147
			<u>129,726</u>		<u>131,520</u>
CURRENT ASSETS					
Debtors	12	9,082		7,897	
Cash at bank		20,647		22,648	
		<u>29,729</u>		<u>30,545</u>	
CREDITORS: amounts falling due within one year	13	(91,520)		(92,308)	
NET CURRENT LIABILITIES			<u>(61,791)</u>		<u>(61,763)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>67,935</u>		<u>69,757</u>
CREDITORS: amounts falling due after more than one year	17		(31,542)		(29,480)
PROVISIONS FOR LIABILITIES					
Other provisions	19		(839)		(742)
NET ASSETS			<u>35,554</u>		<u>39,535</u>
CAPITAL AND RESERVES					
Called up share capital	20		76,444		76,444
Share premium account	22		116		87
Profit and loss account	22		(41,006)		(36,996)
SHAREHOLDERS' FUNDS	21		<u>35,554</u>		<u>39,535</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on March 12, 2015.


M Gould
Director

The notes on pages 8 to 21 form part of these financial statements.

TELSTRA LIMITED

Notes to the financial statements for the year ended June 30, 2014

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis and under the historical cost convention in accordance with applicable accounting standards.

As the immediate parent undertaking is incorporated within the United Kingdom, and the results of the company are included within the publicly available consolidated financial statements of Telstra Corporation Limited, the company has taken advantage of the exemption under section 401 of the Companies Act 2006 from preparing consolidated financial statements. As such, these financial statements give information about the company as an individual undertaking, and not about its group.

The Company's business activities, together with the factors likely to affect its future developments, its financial position, financial risk management objectives and its exposures to competitive, legislative and credit risk are described in the Directors' report and the Strategic report. The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The Directors do not consider the net current liability position of the Company to be a going concern issue as the position is driven by amounts owed to Group undertakings which are under the direct control of the Company. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

1.2 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

Turnover from services is recognised as the services are provided. Turnover from service contracts that cover periods greater than 12 months is recognised in the profit and loss account in proportion to the services delivered at the reporting date. In respect of services invoiced in advance, amounts are deferred until provision of the services.

Amounts payable by and to other telecommunication operators are recognised as the services are provided. Charges are negotiated separately and are subject to continual review. Turnover generated through the provision of these services is accounted for gross of any amounts payable to other telecommunication operators for interconnect fees.

Revenue for the sale of telecommunication equipment is recognised across the period of the service contract relating to the customer.

Revenue arising from the provision of other services, including maintenance contracts, is recognised evenly over the periods in which the service is provided.

TELSTRA LIMITED

Notes to the financial statements for the year ended June 30, 2014

1. ACCOUNTING POLICIES (continued)

1.3 Intangible fixed assets and amortisation

Amortisation of goodwill arising from the Group reorganisation is being amortised on a straight line basis over its estimated economic life, currently estimated to be 20 years. The carrying value for goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and bi-annually in every year or changes in circumstances indicate that the carrying value may not be recoverable.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	Three to ten years
Plant & machinery	-	Three to ten years

1.5 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

1.6 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and Loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.7 Operating leases

Rentals under operating leases are charged to the Profit and Loss account on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

Deferred tax assets and liabilities are not discounted.

TELSTRA LIMITED

Notes to the financial statements for the year ended June 30, 2014

1. ACCOUNTING POLICIES (continued)

1.9 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into Sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and Loss account.

1.10 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

1.11 Provisions for liabilities

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are discounted only if the effect of the time value of money is material.

1.12 Cash flow statement and related party disclosure

The company is a wholly owned subsidiary of Telstra Corporation Limited and is included in the consolidated financial statements of the group which are publicly available. Consequently, the company has taken advantage of the exemption in Financial Reporting Standard ("FRS") 1 "Cash Flow Statements" from preparing a statement of cash flows and the exemption of FRS 8, from disclosing transactions with entities that are part of the Telstra Corporation Limited group or investees of that group.

1.13 Share based payments

The Company 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 the equity instruments is calculated using a valuation technique that is consistent with the Black-Scholes methodology and utilises Monte Carlo simulations. The fair value is charged against profit or loss over the relevant vesting periods, adjusted to reflect actual and expected levels of vesting.

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

2. TURNOVER

The whole of the turnover is attributable to telecommunication services, excluding value added taxes, provided by the company.

A geographical analysis of turnover is as follows:

	2014	2013
	£000	£000
United Kingdom	64,794	66,768
Rest of European Union	4,735	1,191
	<hr/> 69,529 <hr/>	<hr/> 67,959 <hr/>

3. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2014	2013
	£000	£000
Amortisation - intangible assets (see note 9)	2,122	2,122
Depreciation of tangible fixed assets:		
- owned by the company (see note 10)	6,409	5,464
Auditor's remuneration - audit services	139	130
Difference on foreign exchange	365	(68)
	<hr/> <hr/>	<hr/> <hr/>

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

4. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2014	2013
	£000	£000
Wages and salaries	12,315	10,357
Social security costs	1,757	1,371
Pension costs	448	413
	<u>14,520</u>	<u>12,141</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2014	2013
	No.	No.
Sales	53	38
Administration	107	105
	<u>160</u>	<u>143</u>

Eligible employees received Share Based Payments totalling £29,817 (2013 - £29,825).

5. DIRECTORS' REMUNERATION

	2014	2013
	£000	£000
Remuneration	<u>235</u>	<u>223</u>

During the year retirement benefits were accruing to 1 director (2013 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £235,000 (2013 - £223,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £12,914 (2013 - £12,584).

Certain directors are remunerated by other group undertakings. In the opinion of the directors, it is not practicable to allocate any part of their remuneration to their qualifying services to the company.

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	2014	2013
	£000	£000
Interest receivable from group companies	58	108
Interest receivable from bank	2	8
	<u>60</u>	<u>116</u>

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2014	2013
	£000	£000
Interest payable on finance lease	2,797	-
Group interest payable	885	1,589
	<u>3,682</u>	<u>1,589</u>

8. TAXATION

	2014	2013
	£000	£000
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax credit on loss for the year	(235)	(172)
Deferred tax (see note 18)		
Origination and reversal of timing differences	(309)	77
Tax on loss on ordinary activities	<u>(544)</u>	<u>(95)</u>

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2013 - *lower than*) the standard rate of corporation tax in the UK of 22.50% (2013 - 23.75%). The differences are explained below:

	2014	2013
	£000	£000
Loss on ordinary activities before tax	(4,554)	(2,201)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.50% (see below) (2013 - 23.75 %)	(1,025)	(523)
Effects of:		
Expenses not deductible for tax purposes	484	504
Capital allowances for year in excess of depreciation	306	(2)
Losses brought forward	-	(151)
Current tax credit for the year (see note above)	<u>(235)</u>	<u>(172)</u>

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 24% to 23% took effect from 1 April 2013. A further reduction from 23% to 21% was substantively enacted in July 2013 and was effective from 1 April 2014. The rate of UK corporation tax will further reduce to 20% from 1 April 2015. Accordingly, these rates have been applied in the measure of the deferred tax assets and liabilities at 30 June 2014.

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

9. INTANGIBLE FIXED ASSETS

	Goodwill £000
Cost	
At July 1, 2013 and June 30, 2014	42,440
Amortisation	
At July 1, 2013	16,976
Charge for the year	2,122
At June 30, 2014	19,098
Net book value	
At June 30, 2014	23,342
<i>At June 30, 2013</i>	<i>25,464</i>

10. TANGIBLE FIXED ASSETS

	Leasehold properties & improvement £000	Plant & machinery £000	Total £000
Cost			
At July 1, 2013	48,365	26,854	75,219
Additions	19	7,153	7,172
Disposals	-	(435)	(435)
Transfer between classes	(20)	20	-
At June 30, 2014	48,364	33,592	81,956
Accumulated Depreciation			
At July 1, 2013	11,336	11,974	23,310
Charge for the year	2,927	3,482	6,409
At June 30, 2014	14,263	15,456	29,719
Net book value			
At June 30, 2014	34,101	18,136	52,237
<i>At June 30, 2013</i>	<i>37,029</i>	<i>14,880</i>	<i>51,909</i>

The carrying value of tangible fixed assets held under finance leases at 30 June 2014 was £29,597,000 (2013 - £30,859,000)

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

11. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000
Cost	
At July 1, 2013 and June 30, 2014	<u>54,147</u>
Net book value	
At June 30, 2014	<u>54,147</u>
At June 30, 2013	<u>54,147</u>

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Voting rights
Telstra (Cable Telecom) Limited	Ordinary Shares	100 %
PSINet Jersey Limited	Ordinary Shares	100 %
Inteligen Communications Limited	Ordinary Shares	100 %
Telstra (CTE) Limited	Ordinary Shares	100 %
Cable Telecommunications Limited	Ordinary Shares	100 %
London Hosting Centre Limited	Ordinary Shares	100 %
Cordoba Holdings Limited	Ordinary Shares	100 %
PSINet Datacentre UK Limited	Ordinary Shares A & B	100 %
Telstra (PSINet)	Ordinary Shares (Indirect holding)	100 %

Name	Nature of business	Country of Incorporation
Telstra (Cable Telecom) Limited	Non- Trading	England and Wales
PSINet Jersey Limited	Non- Trading	Jersey
Inteligen Communications Limited	Non- Trading	England and Wales
Telstra (CTE) Limited	Non- Trading	England and Wales
Cable Telecommunications Limited	Non- Trading	England and Wales
London Hosting Centre Limited	Non- Trading	Jersey
Cordoba Holdings Limited	Provision of telecoms infrastructure	Jersey
PSINet Datacentre UK Limited	Non- Trading	England and Wales
Telstra (PSINet)	Non- Trading	England and Wales

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

12. DEBTORS

	2014	2013
	£000	£000
Trade debtors	3,088	2,072
Amounts owed by group undertakings	4	-
Other debtors	1,034	424
Prepayments and accrued income	4,579	5,333
Deferred tax asset (see note 18)	377	68
	9,082	7,897

All amounts due from group undertakings are unsecured and repayable on demand. Interest accrues on these amounts, excluding group relief, at rates of 2% per annum.

13. CREDITORS

Amounts falling due within one year

	2014	2013
	£000	£000
Net obligations under finance leases and hire purchase contracts	199	2,329
Trade creditors	2,547	5,202
Amounts owed to group undertakings	71,973	71,613
Corporation tax	-	62
Other taxation and social security	1,430	597
Other creditors	155	211
Accruals and deferred income	15,216	12,294
	91,520	92,308

All amounts due from group undertakings are unsecured and repayable on demand. Interest accrues on these amounts, excluding group relief, at rates of 1.25% per annum.

14. PENSION COMMITMENTS

The company operates a defined contribution Group Personal pension plan for its employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions at the year end are £58,855 (2013 - £50,729).

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

15. OPERATING LEASE COMMITMENTS

At June 30, 2014 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	2014	2013*
	£000	£000
Expiry date:		
Within 1 year	250	13
Between 2 and 5 years	592	961
After more than 5 years	852	839
	<u> </u>	<u> </u>

(*) The annual commitment under operating leases expiring after more than 5 years has been restated by £220,000 from £617,000 as stated in the June 2013 financial statements.

16. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The company has a financial commitment with an annual value of £2,694,280 (2013: £2,609,362) relating to equipment charges at Woking Hosting Centre.

17. CREDITORS

Future amounts falling due under finance leases

	2014	2013
	£000	£000
Amounts payable		
Within one year	1,875	2,329
Between two and five years	10,514	10,159
After more than five years	72,524	75,290
	<u> </u>	<u> </u>
	84,913	87,778
 less finance charges allocated to future periods	 (53,172)	 (55,969)
	<u> </u>	<u> </u>
Total	31,741	31,809
	<u> </u>	<u> </u>

	2014	2013
	£000	£000
Liabilities		
Due within one year	199	2,329
Due after one year	31,542	29,480

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

18. DEFERRED TAX ASSET

	2014	2013
	£000	£000
At beginning of year	68	145
Credited/(charged) to the profit and loss in the year	309	(77)
	<u>377</u>	<u>68</u>

The deferred tax asset is made up as follows:

	2014	2013
	£000	£000
Accelerated capital allowances	<u>377</u>	<u>68</u>

19. PROVISIONS FOR LIABILITIES

	Onerous lease provision £000
At July 1, 2013	742
Amounts added	338
Amounts used	(241)
	<u>839</u>
At June 30, 2014	<u>839</u>

Onerous lease provision

The provision relates to onerous contracts in relation to property leases including redundant network and dilapidation costs.

20. SHARE CAPITAL

	2014	2013
	£000	£000
Authorised		
88,000,000 Ordinary Shares shares of £1 each	<u>88,000</u>	<u>88,000</u>
Allotted, called up and fully paid		
76,444,486 Ordinary Shares shares of £1 each	<u>76,444</u>	<u>76,444</u>

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Opening shareholders' funds	39,535	41,611
Loss for the financial year	(4,010)	(2,106)
Equity-settled share-based payment (net of expenses)	29	30
	<hr/>	<hr/>
Closing shareholders' funds	35,554	39,535
	<hr/>	<hr/>

The Company's ultimate holding company, Telstra Corporation Limited, operates a number of different short and long term incentive plans for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Telstra group. In 2008, certain Telstra Limited employees started participating in the employee share plans. The Company records the fair value of the benefit as a further investment in Telstra Limited and correspondingly further equity issued to its parent company Telstra Holdings Pty Ltd.

The nature and relevant details of each plan that Telstra Limited employees participated are disclosed below.

Employee Share Option Plan (ESOP) options – As part of the employee share option plan for financial years 2009 and 2008, certain eligible employees were provided options that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the options (and in certain other circumstances), the options will vest.

The ESOP options granted in financial year 2008 have an effective allocation date of 10 December 2007 with exercise price being \$4.34 and expiry date of 17 August 2012. All of the unexercised options have expired in financial year 2013. There were no options outstanding at 30 June 2014.

The ESOP options granted in financial year 2009 have an effective allocation date of 1 July 2009 with exercise price being \$4.05 and expiry date of 21 August 2013. There were 20,850 options outstanding at 30 June 2013, of which 7,800 options have been exercised and 13,050 options have expired in the current financial year. There were no options outstanding at 30 June 2014.

Employee Share Rights Plan (ESRP) performance rights – As part of the employee share rights plan for financial years 2011 and 2010, certain eligible employees were provided with performance rights that vest upon completing certain employment requirements. If an eligible employee continues to be employed by an entity that forms part of the Telstra Group three years after the effective allocation date of the performance rights (and in certain other circumstances), the performance rights will vest.

The ESRP performance rights granted in financial year 2010 have an effective allocation date of 8 December 2009 and will vest on the employee's third anniversary of service from allocation date of 21 August 2009. All of the performance rights were either exercised or forfeited in financial year 2013. There were no performance rights outstanding at 30 June 2014.

The performance rights granted in financial year 2011 have an effective allocation date of 20 August 2010, and will vest on the employee's third anniversary of service from allocation date of 20 August 2010. There were 4,110 shares outstanding at 30 June 2013, of which 2,840 performance rights have been exercised and 1,270 performance rights have expired in the current financial year. There were no performance rights outstanding at 30 June 2014.

Employee Share Plan (ESP) restricted shares – Pursuant to the ESP, eligible participants are granted restricted shares of Telstra Corporation Limited at no cost. The shares are held by the Telstra Growthshare Trust on behalf of employees until the restriction period ends. During the restriction period,

TELSTRA LIMITED

**Notes to the financial statements
for the year ended June 30, 2014**

21. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS (continued)

employees are entitled to exercise the voting rights attached to the shares and to receive dividends on the shares. The shares are released from trust on the earlier of three years from the date of allocation or the date on which the participating employee ceases relevant employment. There are no performance hurdles for these Restricted Shares. The fair value of the Restricted Shares is determined based on the market value of the ordinary shares of Telstra on the date of grant.

A summary of the movements in the number of non-vested restricted shares held by Telstra Limited employees outstanding during the year is as follows:

Employee share plan	Outstanding at 1 July 2014	Granted during the year	Exercised during the year	Outstanding at 30 June 2014
ESP 2012	8,400		(2,000)	6,400
ESP 2013	9,400		(1,900)	7,500
ESP 2014		10,500		10,500

The fair value of the restricted shares granted during the financial year was calculated using a valuation technique that is consistent with the Black-Scholes methodology and uses Monte Carlo simulations. The expected stock volatility is a measure of the amount by which the price is expected to fluctuate during a period. This was based on historical daily and weekly closing share prices.

The following weighted average assumptions were used in determining the valuation:

	2013	2014
Share Price	\$4.03	\$4.96
Risk free rate:	2.51%	3.17%
Dividend yield:	8.0%	7%
Expected volatility:	19.00%	17%
Expected rate of achievement of hurdles:	n/a	n/a

22. RESERVES

	Equity Settled share based payment reserve £000	Profit and loss account £000
At July 1, 2013	87	(36,996)
Loss for the financial year	-	(4,010)
Equity-settled share-based payment (net of expenses)	29	-
At June 30, 2014	<u>116</u>	<u>(41,006)</u>

TELSTRA LIMITED

**Notes to the financial statements
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23. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company is a wholly owned subsidiary of Telstra Global Limited, a company incorporated in the United Kingdom. The ultimate parent undertaking is Telstra Corporation Limited, a company incorporated in Australia.

Group financial statements are drawn up by Telstra Corporation Limited and may be obtained from: Corporate Secretary, Telstra Corporation Limited, 242 Exhibition Street, Melbourne, Victoria 3000, Australia.

24. RELATED PARTIES

The Company has taken advantage of the exemption under FRS 8 not to disclose transactions with wholly owned subsidiary undertakings of the Telstra Corporation Limited Group.