

## Notes to the Financial Statements (continued)

### 17. Capital management and financial instruments

This note provides information on our capital structure and our underlying economic positions as represented by the carrying values, fair values and contractual face values of our financial instruments.

Section (a) includes details on our gearing.

Section (b) sets out the carrying values, fair values and contractual face values of our financial instruments. The amounts provided in this section are prior to netting offsetting risk positions.

Section (c) provides information on our net debt position based on contractual face values and after netting offsetting risks. We consider this view of net debt based on our net contractual obligations to be useful additional information to investors on our underlying economic position, as it portrays our residual risks after hedging and excludes the effect of fair value measurements. This is relevant on the basis that we generally hold our borrowings and associated derivatives to maturity and hence revaluation gains and losses will generally not be realised.

Section (d) includes a reconciliation of movements in gross and net debt positions.

Section (e) includes details on our interest expense and interest rate yields.

Section (f) provides further details on our derivative financial instruments.

Section (g) provides information on the method for estimating fair value of our financial instruments.

Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 18.

#### (a) Capital management

Our objectives when managing capital are to safeguard our ability to continue as a going concern, continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

During 2012, we paid dividends of \$3,475 million (2011: \$3,475 million). Refer to note 4 for further details.

#### Agreement with lenders

During the current and prior years there were no defaults or breaches on any of our agreements with our lenders.

#### Gearing and net debt

We monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total interest bearing financial liabilities, derivative financial instruments, less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net debt.

Our comfort range for the net debt gearing ratio is currently 50 to 70 percent (2011: 50 to 70 percent). The gearing ratios and carrying value of our net debt are shown in Table A below:

<b>Table A</b>		<b>Telstra Group</b>	
		<b>As at 30 June</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$m</b>	<b>\$m</b>
<b>Current</b>			
<b>Short term debt</b>			
Promissory notes . . . . .		<b>563</b>	508
		<b>563</b>	508
<b>Long term debt-current portion</b>			
Offshore loans (i) . . . . .		<b>1,198</b>	998
Telstra bonds and domestic loans (ii) . . . . .		<b>1,500</b>	439
Finance leases . . . . .	22	<b>45</b>	45
		<b>2,743</b>	1,482
		<b>3,306</b>	1,990
<b>Non current</b>			
<b>Long term debt</b>			
Offshore loans (i) . . . . .		<b>9,836</b>	8,569
Telstra bonds and domestic loans (ii) . . . . .		<b>2,028</b>	3,515
Finance leases . . . . .	22	<b>94</b>	94
		<b>11,958</b>	12,178
		<b>15,264</b>	14,168
Short term debt . . . . .		<b>563</b>	508
Long term debt (including current portion) . . . . .		<b>14,701</b>	13,660
<b>Total debt</b> . . . . .		<b>15,264</b>	14,168
Net derivative financial liability. . . . .	17(f)	<b>1,958</b>	2,065
Bank deposits with maturity greater than 90 days. . . . .	10	-	(1)
<b>Gross debt</b> . . . . .		<b>17,222</b>	16,232
Cash and cash equivalents . . . . .	20	<b>(3,945)</b>	(2,637)
<b>Net debt</b> . . . . .		<b>13,277</b>	13,595
<b>Total equity</b> . . . . .		<b>11,689</b>	12,292
<b>Total capital</b> . . . . .		<b>24,966</b>	25,887
		<b>%</b>	<b>%</b>
<b>Gearing ratio</b> . . . . .		<b>53.2</b>	52.5