Notes to the Financial Statements (continued)

21. Impairment (continued)

Ubiquitous Telecommunications Network and Hybrid Fibre Coaxial (HFC) Cable Network

In addition to the aforementioned CGUs, we have two further significant CGUs that are reviewed for impairment. These two CGUs are:

- the Telstra Entity CGU, excluding the HFC cable network; and
- the CGU comprising the HFC cable network.

The Telstra Entity CGU consists of our ubiquitous telecommunications network in Australia, excluding the HFC cable network as we consider it not to be integrated with the rest of our telecommunications network. Assets that form part of the ubiquitous telecommunications network, comprising the customer access network and the core network, are considered to be working together to generate our cash inflows. No one item of telecommunications equipment is of any value without the other assets to which it is connected in order to achieve delivery of our products and services.

The ubiquitous telecommunications network and the HFC cable network are only reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

On 7 March 2012, Telstra finalised the Definitive Agreements (DAs) with NBN Co Limited (NBN Co) and the Commonwealth Government for its participation in the rollout of the National Broadband Network (NBN).

We expect our discounted future cash flows to more than support the carrying amount of both networks. This is based on:

- the consideration we expect to receive under the DAs for:
  - the progressive disconnection of copper-based Customer Access Network services and broadband services on our HFC cable network (excluding Pay TV services on the HFC cable network) provided to premises in the NBN fibre footprint;
  - providing access to certain infrastructure, including dark fibre links, exchange rack spaces and ducts; and
  - the sale of lead-in-conduits; and
- forecast cash flows from continuing to:
  - provide Pay TV services via the HFC cable network into the future; and
  - use of the core network.

In addition, the NBN build is expected to take up to 10 years and the weighted average remaining service lives for the existing network assets impacted by the disconnection obligations that will apply under the NBN DAs falls within this anticipated NBN rollout period.

Given this, the results of our impairment testing for both networks based on the DAs show that the carrying amounts are recoverable at 30 June 2012.

Impairment testing

Our impairment testing compares the carrying value of an individual asset or CGU with its recoverable amount as determined using a value in use calculation with the exception of TelstraClear.

Our assumptions for determining the recoverable amount of each asset and CGU are based on past experience and our expectations for the future. Our cash flow projections are based on a maximum five year management approved forecasts. These forecasts use management estimates to determine income, expenses, capital expenditure and cash flows for each asset and CGU.

We have used the following key assumptions in determining the recoverable amount of our CGUs to which goodwill or indefinite useful life intangible assets has been allocated:

	Discount rate (g)		Terminal value growth rate (h)	
	As at 30 June		As at 30 June	
	2012 **%**	2011 %	**2012** **%**	2011 %
CSL New World Group	**10.9**	10.6	**2.0**	2.0
TelstraClear Group (f)	**-**	11.1	**-**	3.0
Telstra Europe Group	**7.5**	9.6	**3.0**	3.0
Sensis Group	**12.1**	13.2	**3.0**	3.0
Location Navigation	**10.7**	11.8	**3.0**	3.0
1300 Australia Group	**11.3**	12.6	**3.0**	3.0
Sequel Group (b)	**-**	18.2	**-**	5.0
Autohome (a)	**19.4**	n/a	**5.0**	n/a
Sequel Media (a)	**18.8**	n/a	**5.0**	n/a
Octave Group (c)	**-**	21.2	**-**	5.0
LMobile Group (e)	**-**	20.1	**-**	5.0
iVision (d)	**-**	17.6	**-**	3.0

(g) Discount rate represents the pre tax discount rate applied to the cash flow projections. The discount rate reflects the market determined, risk adjusted discount rate which is adjusted for specific risks relating to the CGU and the countries in which they operate.

(h) Terminal value growth rate represents the growth rate applied to extrapolate our cash flows beyond the five year forecast period. These growth rates are based on our expectation of the CGUs' long term performance in their respective markets. The terminal value growth rate for the Australian CGUs are aligned at three percent.

Management have determined there are no reasonably possible changes that could occur in these two key assumptions that would cause the carrying amount of these CGUs to exceed their recoverable amount. The discount rate would need to increase by 350 basis points or the terminal value growth rate would need to be negative growth of 2.2% before the recoverable amount of any of the CGUs would be equal to the carrying value.