Notes to the Financial Statements (continued)

27. Employee share plans

The Company has a number of employee share plans that are available for Directors, executives and employees. These include those conducted through the:

- Telstra Growthshare Trust; and
- Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

The nature of each plan, details of plan holdings, movements in holdings, and other relevant information is disclosed below.

Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates a number of different equity plans, including:

- short term incentive plans;
- long term incentive plans;
- Directshare and Ownshare plans; and
- other equity plans.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by Telstra. Funding is provided to the Telstra Growthshare Trust to purchase Telstra shares on market to underpin the equity instruments issued.

In fiscal 2012, we recorded an expense of $19 million for our share based payment plans operated by the Telstra Growthshare Trust (2011: $12 million). As at 30 June 2012, we had an estimated total expense yet to be recognised of $36 million (2011: $27 million), which is expected to be recognised over a weighted average of 1.5 years (2011: 1.8 years).

(a) Short term incentive (STI) plans

The purpose of the STI is to link key executives' rewards to individual key performance indicators and to Telstra's financial performance. The STI is delivered in cash and incentive shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

(i) Description of equity instruments

Deferred Incentive shares for the Chief Executive Officer (CEO) and other senior executives (fiscal 2012 and fiscal 2011)

For fiscal 2012 and fiscal 2011, the Board approved 25% of the CEO and other senior executives' short term incentive to be allocated as deferred incentive shares. The effective allocation date is 17 August 2012 and 19 August 2011 respectively. These shares vest in equal parts over one and two years on the anniversary of their effective allocation date, subject to the CEO or a senior executive's continued employment with any entity that forms part of the Telstra Group. However, the CEO or a senior executive may retain the shares if they cease employment because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Applicable only to allocations from August 2012, deferred incentive shares may also be retained if the CEO or a senior executive ceases employment due to retirement, where that retirement is 6 months after the actual allocation date. The CEO and senior executives are able to vote and receive dividends as and from the allocation date. Performance hurdles applied in determining the number of deferred incentive shares allocated and therefore vesting of the deferred incentive shares are not subject to any additional performance hurdles.

Due to the Structural Separation Undertaking (SSU) arising from the NBN transaction, the GMD of Telstra Wholesale is prohibited from participating in the fiscal 2012 LTI plan. As a result, an alternative remuneration arrangement has been provided, which is a share based deferred incentive plan based on the same performance measures as his fiscal 2012 STI plan.

Deferred Incentive shares for other executives (fiscal 2012)

As part of a review on the market positioning of management positions, Telstra elected to remove management positions (other than senior executives) that were participating in LTI plans from any future LTI allocations. This change was effective 1 July 2011. Replacing the LTI plan is a share based deferral plan which requires management roles to defer 25% of the actual STI payment they receive into Telstra shares for a period of three years.

For fiscal 2012, the Board approved 25% of management's short term incentive to be allocated as deferred incentive shares. The effective allocation date will be 16 August 2012. These shares vest on the three year anniversary of their allocation date, subject to the executive's continued employment with any entity that forms part of the Telstra Group. However, the executive may retain the shares if they cease employment because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits). Applicable only to allocations from August 2012, deferred incentive shares may also be retained if the executive ceases employment due to retirement or expiry of a fixed term contract where that retirement or fixed term expiry is 6 months after the actual allocation date. The executive is able to vote and receive dividends as and from the allocation date. Performance hurdles are applied in determining the number of deferred incentive shares allocated and therefore vesting of the deferred incentive share is not subject to any other performance hurdles.

Incentive shares (fiscal 2008 and 2007):

In relation to fiscal 2008 and 2007 allocations of incentive shares, the incentive shares vested immediately, and the executive is able to use the incentive shares to vote and receive dividends from the vesting date. However, the executive is restricted from dealing with the vested incentive shares until after they are released from the restriction period.