NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

2.1 Changes in accounting policies (continued)

(d) Fair Value Measurement (continued)

We are, however, required to make additional disclosures in our financial report, specifically in the following areas:

- for any investments or assets held for sale, where the fair value less cost of disposal is lower than the carrying amount
- as part of a business combination, for any assets and liabilities measured at fair value in the statement of financial position after initial recognition
- financial instruments, where the carrying amount differs from the fair value.

Additional fair value disclosures relating to our financial instruments have also been provided in note 17.

(e) Employee Benefits

We adopted AASB 119: "Employee Entitlements" retrospectively from 1 July 2013 in accordance with the transitional provisions set out in this revised standard. Comparatives have been restated accordingly.

Some of the key changes that affect us include the following:

(i) Defined Benefit

Change in accounting for defined benefit plans:

- the interest cost and expected return on plan assets used under the previous version of AASB 119 have been replaced with a net interest amount, which is calculated by applying a blended Commonwealth and State discount rate to the net defined benefit liability or asset at the start of each annual reporting period
- the defined benefit expense has been disaggregated into two components: service costs, which will be presented as part of labour expenses; and a net interest amount, which will be presented as part of finance costs.

This change in accounting policy has increased the defined benefit expense recognised in the income statement by $82 million, increased finance costs by $24 million and decreased the income tax expense by $32 million. The corresponding increase in the actuarial gain recognised in other comprehensive income was $74 million (after tax) for the financial year ended 30 June 2013.

The following table summarises the financial effects on the continuing operations and discontinued operation in the income statement and other comprehensive income on implementation of the new policy:

	Telstra Group		
	Year ended 30 June 2013		
	Reported	Adjustment	Restated
Income Statement:	**$m**	**$m**	**$m**
Continuing operations			
Labour expenses	4,445	82	4,527
Finance costs	1,128	24	1,152
Income tax expense	1,549	(32)	1,517
Discontinued operation			
Labour expenses	358	-	358
Income tax expense	68	-	68
Total			
Labour expenses	4,803	82	4,885
Finance costs	1,128	24	1,152
Income tax expense	1,617	(32)	1,585
	cents	**cents**	**cents**
Total			
Earnings per share - Basic	30.7	(0.6)	30.1
Earnings per share - Diluted	30.6	(0.6)	30.0
Other Comprehensive Income:	**$m**	**$m**	**$m**
Actuarial gain on defined benefit plans attributable to equity holders of Telstra Entity	676	106	782
Income tax on actuarial gain on defined benefit plans	(202)	(32)	(234)

This change in accounting policy has had no impact on net assets at 30 June 2013.

Refer to note 24 for further details on our defined benefit plans.

(ii) Annual Leave

The revised standard has also changed the accounting for the Group's annual leave obligations. As we do not expect all annual leave to be taken within 12 months of the respective service being provided, a portion of annual leave obligations is now classified as long term employee benefits and needs to be measured on a discounted basis. We have assessed the financial effect of discounting our long term annual leave balances to be immaterial to our financial results.