

# 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.

Section (h) shows financial instruments subject to offsetting or netting arrangements.

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, to 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 financial year 2014, we paid dividends of \$3,545 million (2013: \$3,480 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 and 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 target zone for the net debt gearing ratio is currently 50 to 70 per cent (2013: 50 to 70 per cent). The gearing ratios and carrying value of our net debt are shown in Table A. The impact of the higher liquidity is reflected in the reduction in our net debt gearing ratio from 50.5 per cent at 30 June 2013 to 43.0 per cent at 30 June 2014.

Table A	Note	Telstra Group	
		As at 30 June	
		2014	2013
		\$m	\$m
<b>Current</b>			
<b>Short term debt</b>			
Promissory notes .....		365	125
		<b>365</b>	125
<b>Long term debt-current portion</b>			
Offshore borrowings (i) .....		1,334	55
Telstra bonds and domestic loans (ii) .....		500	505
Finance leases .....	22	78	66
		<b>1,912</b>	626
		<b>2,277</b>	751
<b>Non current</b>			
<b>Long term debt</b>			
Offshore borrowings (i) .....		11,023	11,836
Telstra bonds and domestic borrowings (ii) .....		2,293	2,263
Finance leases .....	22	231	214
		<b>13,547</b>	14,313
		<b>15,824</b>	15,064
Short term debt .....		365	125
Long term debt (including current portion) .....		15,459	14,939
<b>Total debt</b> .....		<b>15,824</b>	15,064
Net derivative financial liability .....	17(f)	224	564
<b>Gross debt</b> .....		<b>16,048</b>	15,628
Cash and cash equivalents .....	20	(5,527)	(2,479)
<b>Net debt</b> .....		<b>10,521</b>	13,149
<b>Total equity</b> .....		<b>13,960</b>	12,875
<b>Total capital</b> .....		<b>24,481</b>	26,024
		%	%
<b>Gearing ratio</b> .....		<b>43.0</b>	50.5