

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

## 27. EMPLOYEE SHARE PLANS

The Company has a number of employee share plans that are available for executives and employees. These include those conducted through the Telstra Growthshare Trust and the Telstra Employee Share Ownership Plan Trusts (TESOP99 and TESOP97).

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

### Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in financial year 2000. Under the trust, we operate a number of different equity plans, including:

- short term incentive plans
- long term incentive plans
- other equity plans.

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

In financial year 2014, we recorded an expense of \$37 million for our share-based payment plans operated by the Telstra Growthshare Trust (2013: \$42 million). As at 30 June 2014, we had an estimated total expense yet to be recognised of \$29 million (2013: \$26 million), which is expected to be recognised over a weighted average of 1.7 years (2013: 1.6 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 restricted shares and the executive is paid an annual STI only when the threshold targets are met or exceeded.

##### (i) Description of equity instruments

###### Restricted shares (previously referred to as deferred shares)

For financial years 2014, 2013, and 2012, the Board approved 25 per cent of executives' STI to be allocated as restricted shares. The effective allocation dates were 1 July 2014, 1 July 2013 and 17 August 2012 for financial years 2014, 2013 and 2012 respectively.

For the CEO and other senior executives, half of these shares are restricted for 12 months and half for 24 months. For other executives (other than the CEO and other senior executives), these shares are restricted for three years from their effective allocation date.

The shares will be forfeited in certain circumstances where the executive ceases, before the end of the restriction period, to be employed by any entity that forms part of the Telstra Group. However, the executive may retain the shares if they cease employment in certain circumstances, for example because of death, total and permanent disablement or redundancy (in each case subject to applicable law relating to the provision of benefits).

Restricted shares may also be retained if the executive ceases employment due to retirement or expiry of a fixed term contract, providing that notice of retirement or fixed term contract expiry is more than six months after the actual allocation date. Restricted shares allocated in financial years 2014 and 2013 may be forfeited if certain clawback events occur during the restriction period. The executives are able to vote and receive dividends as and from the actual allocation date. Performance hurdles are applied in determining the number of restricted shares allocated and therefore restricted shares are not subject to any performance hurdles.

##### Incentive shares

Incentive shares allocated in financial year 2008 were subject to a restriction period. An executive was able to use the incentive shares to vote and receive dividends from the actual allocation date. However, the executive was restricted from dealing with the incentive shares until after they were released from the restriction period. The restriction period has now ended and all incentive shares have been released from trust and transferred to the executives.

##### (ii) Summary of movements and other information

Allocations of Telstra's shares have been made in the form of incentive and restricted shares under our STI plans and are detailed in the following table.

	Incentive and restricted shares (^)	
	Number	Weighted average fair value (*)
<b>Outstanding as at 30 June 2012</b> .....	1,250,470	\$3.67
Granted .....	3,763,365	\$3.05
Forfeited .....	(208,856)	\$3.24
Exercised (^^) .....	(756,327)	\$3.79
<b>Outstanding as at 30 June 2013</b> .....	4,048,652	\$3.10
Granted .....	<b>3,156,996</b>	<b>\$3.96</b>
Forfeited .....	<b>(162,702)</b>	<b>\$2.98</b>
Exercised (^^) .....	<b>(928,022)</b>	<b>\$3.67</b>
<b>Outstanding as at 30 June 2014 (#)</b> ..	<b>6,114,924</b>	<b>\$3.46</b>

(^ ) The weighted average share price for incentive and restricted shares exercised during the financial year was \$5.01 (2013: \$3.95).

(\*) The fair value of incentive and restricted shares granted is based on the market value of Telstra shares on allocation date.

(^^) Exercise refers to incentive and restricted shares released from restriction. As at 30 June 2014, there were no exercisable STI instruments.

(#) The number outstanding includes incentives and restricted shares that are subject to a restriction period.