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Think of the  
potential...

# ...that broad

The Annual Review is a 'short form' overview only. It is designed to give a concise summary of Telstra's activities and financial position for the year ended 30 June 2000.

The Annual Review does not represent or summarise all publicly available information in relation to Telstra. There is other publicly available information in relation to Telstra in both Telstra's full Annual Report and information that has been notified to the ASX and the ASIC. To obtain a free copy of the Annual Report, please call FREECALL™ 1800 06 06 08.\*

If you prefer, you can access both the Annual Report and the Annual Review through the Internet at <http://www.telstra.com.au/investor/>

Nothing in this Annual Review is or should be taken to be an invitation or application or offer to subscribe for or buy securities in Telstra.

Telstra Corporation Limited ABN 33 051 775 556

\*A free call unless from a mobile phone which will be charged at the applicable mobile rate.

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Make a call. View an image. Access data. Share an idea. At home. In the car. Across town and country. Around the world.

# band will deliver.

This year's Annual Review is focused on faster services, newer technologies and greater convenience.

Any device. Any access. Any service.

And the potential that it offers our company, our customers and our shareholders.

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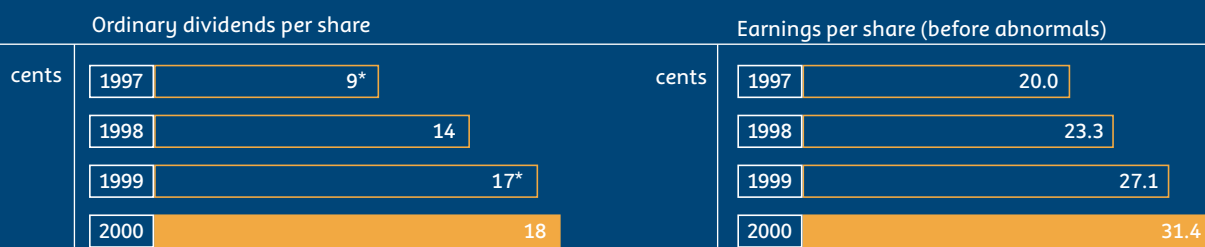
# Strong earnings creating shareholder value.

The strong performance of the company in the past 12 months is reflected in the following:

- Earnings per share before abnormals: Increased by 16 per cent to 31.4 cents.
- Total revenue: Increased by 8.9 per cent to \$19.8 billion.
- Operating profit after tax: Grew by 5.5 per cent to \$3.7 billion.

## Consolidated Profit and Loss

	2000 \$m	1999 \$m	change %
Total revenue	19,840	18,218	8.9
Operating expenses	13,919	12,898	7.9
Operating profit before income tax expense	5,921	5,320	11.3
Profit after tax and minority interest before abnormals	4,043	3,486	16.0
Abnormal items (net of tax)	366	–	–
Operating profit after tax and minority interests	3,677	3,486	5.5
Retained profits	5,170	3,809	35.7
Earnings per share	28.6¢	27.1¢	5.5
Normal dividends per share	18.0¢	17.0¢	5.9
Special dividend	–	16.0¢	–
Return on average assets	23.2%	22.5%	3.1
Number of full-time employees	50,761	52,840	(3.9)



\* excludes special dividend.

# How we are driving growth

Key growth strategies	How we will implement the strategy	Some of our initiatives
<p>Optimise returns from traditional telecommunications products and services in Australia</p>	<ul style="list-style-type: none"> <li>• Implement programs to use our assets more efficiently</li> <li>• Enhance our extensive distribution capabilities</li> <li>• Improve productivity in the delivery of our traditional telephony services</li> <li>• Improve our marketing and sales activities, control our costs and improve our customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Reorganised our business units to serve our customer segments more effectively</li> <li>• Created a new business unit dedicated to the needs of our remote and rural customers</li> <li>• Created a distinct infrastructure services business with a focus on providing our domestic wholesale infrastructure customers with world-class technology, unit cost and service delivery</li> <li>• Expanded the use of internet-based tools and technologies (e-enabling) throughout the company</li> <li>• Continued to offer a broad range of customer focused product packages that will increasingly be mixes of traditional products with newer products, such as high speed internet access and mobile and wireless telecommunications</li> </ul>
<p>Focus on key growth opportunities in mobile telecommunications</p>	<ul style="list-style-type: none"> <li>• Continue to be the market leader in mobile telecommunications in Australia</li> <li>• Grow our revenues and earnings in this market</li> </ul>	<ul style="list-style-type: none"> <li>• Expand our GSM coverage, particularly highway and in-building coverage, and use additional spectrum to enhance capacity</li> <li>• Introduce innovative products and services, including a range of data and information services, such as GPRS (higher speed packet data), SMS (short messaging service) and WAP (internet related applications) on GSM</li> <li>• Extend our new CDMA network to provide additional digital coverage, particularly in rural and regional Australia, and to complement our GSM network in urban areas</li> </ul>
<p>Focus on key growth opportunities in data, broadband and the internet</p>	<p>As telecommunications, computing and media technologies converge, we intend to focus on enhancing our capabilities to:</p> <ul style="list-style-type: none"> <li>• provide services more efficiently</li> <li>• develop new and innovative products</li> <li>• expand further into these markets by internal growth and, where appropriate, invest in synergistic businesses</li> <li>• position ourselves to take advantage of this rapidly changing business environment</li> </ul>	<ul style="list-style-type: none"> <li>• Completed the Data Mode of Operation project to ensure that our networks and systems are appropriately conditioned to cope with exponential growth in data traffic</li> <li>• Enhanced our ability to offer an expanded range of data, internet, e-commerce and content-based products and services through strategic partnerships, investments and acquisitions and development of our own products and platforms</li> <li>• Used our broadband capabilities to develop and market additional affordable and widely available broadband applications</li> <li>• Further penetrated the pay television and broadband internet market in Australia</li> </ul>
<p>Explore growth opportunities in other areas of our business</p>	<ul style="list-style-type: none"> <li>• Optimise our wholesale earnings by improving and expanding our product and service offerings, both in Australia and internationally</li> <li>• Offer commercially attractive terms and conditions and value-added wholesale services, such as managed network services on a global network</li> <li>• Undertake activities aimed at increasing our revenues and earnings from outside Australia, especially throughout Asia</li> </ul>	<ul style="list-style-type: none"> <li>• Our alliance with PCCW will focus on wireless services in the pan-Asian region, a global backbone network for wholesale services and for linking our own points-of-presence, and in the provision of information technology and telecommunications services to business customers</li> <li>• Explore other selected international investment, acquisition and alliance opportunities generally and, in particular, with enterprises engaged in mobile telecommunications, data, the internet or content-based businesses</li> </ul>

*Not all of our businesses, products, services and activities can be shown.*

Our business products and branding

Our customers and our contact with them

More details and performance measures on page

MessageBank®  
 Easycall® Calling Number Display  
 Easycall® Call Waiting, Call Return  
 Call Forward, Call Manager  
 Telecard™, Phoneaway®  
 Information Services, Freecall™ 1800  
 Priority® One 3, Yellow Pages® directory (printed)  
 White Pages® directory (printed),  
 0018 Easy 1/2 hours®  
 International Direct®, Facsimile  
 Qantas Telstra Visa Card/Telstra Visa Card

- Approximately 8.4 million residential and small business customers
- Business customers
- Approximately 78,300 public and leased payphones
- Services to more than 230 countries and territories worldwide
- Flexible billing
- Almost 100 Telstra shops
- Approximately 52 information and connection call centres responding to more than 476 million calls during fiscal 2000

12 and 18

MobileNet®, MessageBank®  
 Easycall® Call Waiting, Call Forward  
 Facsimile and data services  
 Operator assisted paging  
 Operator through connect  
 Short message services  
 Information services

- 8.5 million Australians have mobile phones
- 4.1 million Telstra mobile telephone customers
- GSM covering over 95 per cent of Australian population
- International Roaming in more than 75 countries
- CDMA network covers over 95 per cent of the Australian population
- 4,000 retail outlets
- 480,000 prepaid customers

14 and 18

Dedicated data services, LAN/WAN services  
 OnRamp®, Frame Relay, FaxStream®  
 Big Pond®, ISDN  
 SureLink® ShopSafe  
 Easymail™  
 Yellow Pages® On-Line  
 White Pages® On-Line  
 Select.net  
 WhereIs™, FOXTEL (50 per cent ownership)  
 (1) KAHootZ™

- Largest internet service provider in the country, with more than one million online users
- 650,000 Big Pond® subscribers
- Nearly 400,000 directories customers
- ISDN available to 96 per cent of customers
- FOXTEL is the largest pay TV operator in Australia, with approximately 650,000 subscribers
- Broadband cable available to 2.5 million homes

16 and 20

Interconnect  
 Resale  
 Managed network services  
 Tailored products  
 International transit traffic  
 Global points of presence  
 Selected international investments in mobiles, data, internet and content-based business

- Other telecommunications companies who purchase our products and services or connect with our networks
- Multinational corporations

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(1) KAHootZ is a trade mark of Telstra Corporation Limited, Australian Children's Television Foundation and Hewlett Packard Australia Limited.

## from our Chairman and CEO

Once again it has been a year of change and challenge. But what sets 2000 apart is that it has been a year of enormous achievement. There have been a number of hard won successes requiring significant financial and strategic investment. We have implemented a number of strategic initiatives – a new organisational structure, new networks, new products, new businesses, new partnerships and alliances, new customers and new ways to serve them.



< open for detailed information about Telstra

Return on average shareholder equity  
(before abnormals)

%	
1997	20.1
1998	28.7
1999	29.9
2000	37.0

Profit after tax  
(before abnormals)

\$millions	
1997	2,568
1998	3,004
1999	3,486
2000	4,043

Telstra's profit for the year was a record \$4,043 million > 1999: \$3,486 million

**Financial Results.** Before turning to our strategic initiatives, it's important to touch on the company's financials. Your company has produced another record profit in a year best described as increasingly competitive in a difficult regulatory environment. Operating profit after tax and before abnormals attributable to Telstra shareholders was a record \$4,043 million (last year \$3,486 million). In terms of earnings per share this is equivalent to 31.4 cents per share. Revenue totalled \$19,840 million representing an increase of 8.9 per cent. Earnings per share for the year was 28.6 cents. This year's result has enabled your directors to declare a fully franked dividend of 10 cents per share taking the total dividend for the year to 18 cents per share.

Mobiles, data and our wholesale services were the key performers in the result, with international calling revenues declining again as the service becomes commoditised after strong competition.

**Current Business Environment.** It is abundantly clear that the old days of Telstra being the incumbent and only provider of telecommunications are well and truly over. Competition has produced changing behaviour in our customers as they exercise more choice in an increasing array of product and service offerings. Changing regulation has opened up much of Telstra's infrastructure for use by our competitors, some of whom are going further and building their own networks; price

competition is increasingly fierce and there is a very sharp spotlight on rural and regional communications.

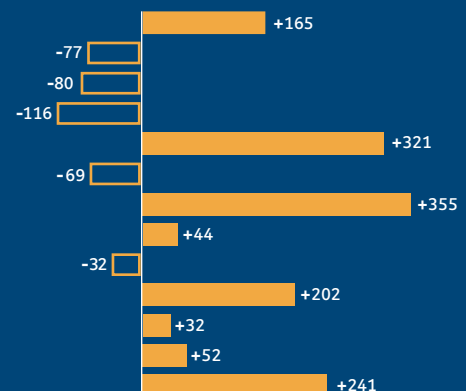
Our business is still very much underpinned by traditional services, particularly voice. However, for the first time at the half year result we announced that revenues from non-traditional services, such as data, text, mobiles and internet had exceeded traditional revenues, which include basic access and local and distance calls.

**Positioning the company for growth.** Against this background we have set ourselves rigorous growth objectives which we intend to achieve in two ways, through new businesses – chiefly mobiles, data and internet – and by extending our footprint internationally, particularly in the Asia-Pacific region. We have also realigned the company's management structure to support speed to market of products and services and at the same time eliminated duplicated activities in business units.

**Broadbanding Australia for Data and Internet Growth.** Broadband is the next exciting wave of technological innovation and it's all about superfast internet access. In practical terms this means fantastic telecommuting, business data services, networked games and video on demand. And the potential doesn't end there.

## Revenue drivers

Change in revenue (in \$millions)<sup>1</sup>





Telstra can currently provide broadband internet services to all Australians no matter where they live through either of the following ways:

- Cable – State-of-the-art hybrid fibre coax cable, which currently passes 2.5 million homes, or about 40 per cent of Australian households. It is this cable that carries our pay TV service;
- ADSL – Asymmetric Digital Subscriber Line, which provides high-speed internet services over the copper phone network through a new technology employed by Telstra; and
- Satellite – Our satellite technology can be used across the country, but is perfect for regional and remote areas or where cable and ADSL are not present.

One of the key things we seek to achieve with broadband is, whatever the delivery technology – ADSL, cable or satellite – that the service will be transparent to customers. Once people are connected, there will be little emphasis on the access technology and more on the services provided. Telstra is an early mover in the broadband area – we have been providing commercial cable modem services for more than two years. Our plan is to become the major broadband supplier in Australia. We have targeted more than 150,000 broadband connections over the next 12-18 months and 1 million within five years.

**Mobiles Growth.** Mobiles will soon overtake fixed line phones in Australia to become the most widely available voice and data capable device. Telstra has the leading position in this market. Our two national digital mobile networks (GSM and CDMA), with 95 per cent population coverage, have attracted more than four million customers.

Wireless Application Protocol (WAP)-enabled phones or ‘internet mobile phones’ are continuing to be supported by improved services. Already there are more than 27 services such as e-mail, news, sports, share prices etc. that can be accessed using a WAP phone, and we will soon be rolling out a high speed service to give customers instant access to the internet over a mobile phone. This will be the first step towards the ultimate goal of ‘online all the time’.

There are other data applications utilising the mobile network that will have some importance in the future. Already we have mobile EFTPOS in taxis. Not too far down the track we will have even more impressive services, such as:

- ‘Micro payments’ where you can purchase goods via your phone from a locally located vending machine;
- Secure Transaction Services where you can similarly make larger payments for products/services via your banking service on your phone;
- Corporate intranet and e-mail access; and
- Wireless Palm Synchronisation devices with corporate networks.

	Revenue	% <sup>1</sup>
Basic Access	\$2,020m	8.9
Local Calls	\$2,650m	(2.8)
STD Calls	\$1,406m	(5.4)
International Calls	\$987m	(10.5)
Mobiles	\$2,859m	12.6
Fixed to Mobile	\$1,220m	(5.3)
Data, text and internet	\$2,838m	14.3
Directories	\$1,122m	4.1
Customer Premises & Equipment	\$336m	(8.7)
Intercarrier	\$819m	32.7
Inbound calling	\$432m	8.0
Facilities Management	\$235m	28.4
Other Sales	\$1,685m	16.7

<sup>1</sup> Revenue change compared to prior corresponding period (i.e. 30/6/99)

International/Pan-Asian Growth. We also see real opportunities to leverage our strengths and expand into global markets, particularly the Asia Pacific region and primarily in mobiles/wireless and internet/data/e-commerce. We aim to establish a portfolio of investments in the region and link them all together with our regional backbone network. Through this process we aim to be the partner of choice for the South East Asia region for any individual, company or other telco wishing to do business in this part of the world. For example, we believe we can become a major regional cellular operator. This will allow us to work with other carriers in the Americas and Europe to provide our combined customers with seamless global services while driving down operational costs.

The Pacific Century CyberWorks (PCCW) alliance, which was announced recently, will provide us with the capability to achieve many of these objectives. This deal combines the expertise and resources of two of the largest communications and convergence businesses in Asia to create leading pan-Asian businesses in wireless communications and data/Internet Protocol (IP) carriage. It will give us scale efficiencies to assist in achieving clear market leadership. It will give us an immediate customer base in a growing region, something that would be very slow and expensive to grow organically and, importantly, it gives us a forward thinking partner in PCCW.

Our combined backbone assets will make us a large and dominant player in the region, extremely well placed to tap into the massive growth in data traffic into and out of the region. The wireless company places the under-utilised and highly attractive Cable & Wireless Hong Kong-Telecom mobile business in a vehicle that will allow it, and like investments, to flourish.

We believe the PCCW alliance will create a set of huge businesses for Telstra. Also in the international arena, in Singapore we have joined forces with Keppel, the intention being to provide corporate and consumer customers with end-to-end voice, data and Internet Protocol based services. We also announced the pooling of our New Zealand assets with Saturn to create Telstra Saturn, which will be a formidable competitor in that market. We will be rolling out a state-of-the-art broadband network in New Zealand and are well placed to leverage both the products and relationships we already have in Australia.

Telstra and KPN have finalised an agreement to form a joint venture company by merging their respective mobile satellite communications businesses. The joint venture company is trading worldwide as 'Station 12', and enjoys a combined start-up global market share of some 24 per cent, making it a major, and arguably the leading, player in the global satellite communications industry.

Sales revenue

\$millions		\$millions
1997	15,430	
1998	16,703	
1999	17,571	
2000	18,609	

Group assets

1997	25,858
1998	26,470
1999	27,682
2000	30,339

**Controlling our costs and structuring our business.** Growth means nothing without a corresponding management of costs. Developments in technology, better work practices and a more streamlined organisation have allowed us to undertake various cost efficiency initiatives – competition has compelled us to.

This time of change in the organisation is difficult for all staff and we are greatly encouraged by their understanding of the reasons for our actions and their continued professional commitment to the job at hand. To meet the change head on we have developed The Data Skills Academy to re-skill technical staff. At the same time a focus on staff safety has produced a 30 per cent fall in lost time injury frequency rate; this means that 452 fewer people were injured this year than last year as a result of better health and safety practices.

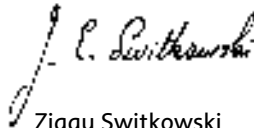
As part of our commitment to continued improvements in service, speed to market and cost reduction, we intend to sell our wholly owned construction subsidiary, Network Design and Construction Limited.

**Closing remarks.** Throughout the year, but particularly at the end of the financial year, shareholders judge the performance of the Board and management. We value the support of our shareholders and believe that your company is in tremendous shape. Our new economy initiatives, particularly broadbanding, and data over mobile devices, are strongly supported by our work on achieving a best practice cost structure. Your company is a leaner, hungrier company, experienced with competition and strategically well placed to unlock enormous value from the new age economy in Australia and throughout the Asia Pacific Region.

**The potential is there to make a very good company a great one.**



Robert Mansfield  
Chairman



Ziggy Switkowski  
Chief Executive Officer and  
Managing Director

## Our Vision

To enhance our positioning as the leading full-service telecommunications and information services company in Australia and to expand our presence internationally.

# Group Managing Directors

We've made it easier for you to understand how your company works by presenting information in a way customers think about our services in voice, wireless, data/internet and networks.



**Ted Pretty** BA LLB (Hons)  
Telstra Retail

Prior to joining Telstra, Mr Pretty was a director of Optus Communications and an adviser to BellSouth Corporation. Mr Pretty was previously a partner of one of Australia's leading telecommunications, regulatory and media law firms. Mr Pretty was initially appointed to the position of Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide and then Group Managing Director, Convergent Business.



**Dick Simpson**  
Telstra OnAir

Before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He was previously the Director, Residential Division at Cable & Wireless Optus and prior to that the Managing Director for Unisys Australia and New Zealand, having started his career at IBM. The OnAir Division was initially responsible for the mobile and wireless operations, but has now been expanded to include most of the international operations.



**Doug Campbell** BEng  
Telstra Country Wide

Mr Campbell was formerly Group Managing Director, Wholesale & International and Group Managing Director, Network and Technology of Telstra. He has also been the Deputy Managing Director of Telecom and President of Canadian National Communications. He is a Fellow of the Australian Institute of Company Directors and of the Institute of Engineers, Australia.



**Gerry Moriarty** BEng (Hons)  
Infrastructure Services & Wholesale

Mr Moriarty has 30 years experience in the telecommunications and broadcasting industries in business leadership, strategic business development, content venture management, major project management, engineering management and technical operations with Telstra, the ABC, TVNZ, Broadcast Communications Ltd and NZBC.

# voice, wireless, data/internet, and networks



**Robert Cartwright** BA (Hons),  
MBA, FAIM  
Employee Relations

Mr Cartwright worked in the CRA Group of Companies for over 15 years, predominantly in manufacturing with a special focus on change management, operations, finance and strategy. He was formerly President, An Mau Steel, Taiwan and Managing Director, Comalco Rolled Products. Mr Cartwright is a director of the Australian Graduate School of Management.

**Paul Rizzo** BCom, MBA  
Corporate Centre Functions  
Finance & Administration

Before joining Telstra, Mr Rizzo was Chief General Manager, Retail Banking, of the Commonwealth Bank of Australia. He was previously CEO of the State Bank of Victoria, and prior to that, a member of the Executive Committee of Australia and New Zealand Banking Group Limited where he held a number of senior positions over a period of about 25 years.

**Bruce Akhurst**  
BEC (Hons) LLB  
Barrister & Solicitor  
Legal & Regulatory

Mr Akhurst joined Telstra in 1996 as General Counsel. Prior to joining Telstra he was a partner and managing partner of a leading Australian law firm.

**Telstra Retail** is responsible for more than 8.8 million Australian customers. This covers all residential, business and government customers including the customers of Telstra Country Wide, who receive our services other than:

- wholesale services – which are provided by Infrastructure Services and Wholesale and
- mobile services – which are provided by Telstra OnAir.

This business unit's primary activities are sales and billing. Telstra Retail also manages our information, connection and payphone services, as well as our directories business. In addition, it sells and provides customer services for a comprehensive range of products, services and customer-driven solutions, ranging from basic telephony services to complex voice and data networks.

**Infrastructure Services & Wholesale** is responsible for planning, design, construction and operation of our international and domestic fixed telecommunications networks and associated systems to deliver technology solutions, our products, services and customer support. It also has responsibility for customer service installation and repairs and provides wholesale products and services to other carriers, and carriage service providers.

**Employee Relations** manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programs.

**Telstra OnAir** is responsible for our mobile and wireless networks and associated systems within Australia, as well as most of our offshore investments. This will include the responsibility for the proposed alliance with PCCW. It is also responsible for all mobile retail sales and after sales support, customer service, product development and pricing.

**Telstra Country Wide** operates specifically to address the telecommunications needs of around three million consumers and businesses that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory. Its aim is to accelerate improvements in service and sales performance outside major metropolitan areas. Through 29 regionally located managers supported by small staffing levels, the sales, marketing, customer service, installation and repair requirements of rural and remote customers are addressed at the local level.

**Corporate Centre Functions Finance & Administration** is responsible for strategic planning and investment opportunities, and provides corporate policy and support functions, including finance, risk management and audit, shared services for processing functions, treasury, investor relations, corporate secretarial functions and other corporate services.

**Legal & Regulatory** provides legal services, and has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to industry regulators.

## Growth is driven by new services and broad customer demand



» **Local calls.** Telstra is participating in an increasingly competitive market, not just for long distance calls, but also local calls. During the year, Telstra decreased the price of its local call to 22 cents\* and introduced its 16.5 cent\* Neighbourhood Call™ for calls made within a local exchange area. The excellent value afforded by Telstra's untimed Local and Neighbourhood Call™ prices has contributed to the high take-up rates for internet usage in Australia. Increased use of the internet has generated positive results for local call revenue. (Ten per cent of residential customers now have two or more lines – driven by internet growth).

↑ **Value-added services.** Our residential customers are enjoying increasingly sophisticated telephone services in their homes, with significant up-take of such products, including EasyCall® Call Waiting and Call Forwarding, MessageBank® (now more than 1 million customers) and Calling Number Display (now more than 503,000 customers).

» **Packaging activities.** EasySaver®Plus is a total calling package which rewards loyal Telstra residential customers with lower local call rates, our great Neighbourhood Call™ rate, capped STD® and fixed to mobile calling between 7pm and midnight any night of the week, all over Australia. For \$17.60\* monthly access, this total package provides excellent value for money and is the reason more than one million residential customers are using EasySaver®Plus.

» **Opening Australia's 'Little Black Book' – it's as easy as 12 452.** Easy Info is a new contact information service (launched February 2000), providing cost-effective and comprehensive information. It includes street addresses, fixed phone numbers, postcodes, time zones, area codes and country codes. In addition, fax numbers, mobile telephone numbers and email addresses will be provided, where available. Internet addresses will be added to the service in the near future. Up to five pieces of information can be requested for a flat fee of \$2.50\* per call.



» **National Long Distance and Fixed Telephone to Mobile capped rate offers have become increasingly popular as customers enjoy the confidence of talking for up to five hours at night, but with the certainty of a fixed cost.** Capped STD® and fixed to mobile call rates were extended from five days per week to seven days per week and were also added to EasySaver®Plus.

» By simplifying and reducing a range of STD® per minute rates Telstra delivered \$52 million in savings for customers in December 1999. This was on top of reductions in STD® per minute charges of 45 per cent since June 1992. Increased competition in the international calling market has meant more attractive prices for customers. The 0018 Easy1/2Hours® to all international destinations served by Telstra has also been very popular.

voic  
more than

» **communic8™ Pre-paid Home** In May 2000, Telstra launched a new pre-paid home telephone service – an Australian first in the fixed phone market. The service replaces a standard home telephone service and eliminates the need for household phone bills, providing the user with their own phone number, own MessageBank® and own account number and PIN, so they have full control over their telecommunications spend.



e  
11 billion local calls

Growth indicators (approximate):	2000	1999	% change
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Local Calls (number of calls)	11,346,000,000	11,190,000,000	1.4
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National Long Distance Minutes	12,513,000,000	12,329,000,000	1.5
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International Outgoing Minutes	893,000,000	725,000,000	23.2
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International Incoming Minutes	1,033,000,000	787,000,000	31.3
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EasyCall Call Waiting (per cent penetration)	56%	56%	-
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Telstra's position in this fast evolving market is large and growing. It is an exciting future

wirele  
more than 4 million



↑ The new Code Division Multiple Access (CDMA) mobile phone network has been rolled out in record time, with 1,827 of the 2,100 base stations in operation and 280,000 customers, just eight months after its launch. Telstra now has two digital networks (the other being GSM).

» In December alone we achieved our best monthly result ever, with a total of 280,000 new mobile connections across both our CDMA and GSM networks.

» By October this year, CDMA Freedom® will easily be the largest single land-based cellular network in Australia and quite possibly the world. We estimate that more than 95 per cent of the Australian population will be covered with CDMA, and the network will cover over 78 per cent more area than the analogue network at its peak. This means more than 500,000 Australians who previously did not have analogue coverage can now access a mobile phone service.

↑ Pre-paid mobile phone products experienced substantial growth in the past year, with about 500,000 services now in operation. This reflects the success of our new youth focus, with pre-paid activations now contributing more than 35 per cent of the GSM growth and 16 per cent of CDMA.

↑ The Telstra Shop® Network improved its customer service rating from 55 per cent to 80 per cent. This network comprises almost 100 stores, including 27 'New Format' Stores opened in the 1999/2000 financial year. A change in store design meant a 40 per cent reduction in shop fitting costs. The new Licensed Store Program, launched in December 1999, which allows independent operators to leverage off the successful Telstra Shop® Network, now has 14 Telstra licensed stores.

Growth indicators (approximate):

2000

1999

% change

Mobile telephone minutes	4,464,000,000	3,221,000,000	38.6
Mobile telephone customers			
Digital	4,046,000	2,762,000	46.5
Analogue	80,000	673,000	(88.1)
Total	4,126,000	3,435,000	20.1
Mobile MessageBank® (% penetration)	77%	62%	



# SS

## services in operation

- » Our SMS (Short Message Service) service enjoyed huge growth, with approximately 5.6 million digital GSM mobile originating messages sent weekly by MobileNet® customers.
  - » We exceeded our goal of 4 million Services In Operation (SIOs), maintaining almost half the country's 8.5 million mobile phone customers, and easily surpassing our target of 3 million MessageBank® services, which equates to a penetration rate of 77 per cent of our digital customer base.
  - » An important measure of success is our mobile phone churn (disconnection) rate, which is currently the lowest in the industry at less than 1.3 per cent per month, reflecting our customers' appreciation of MobileNet's superior network coverage and service.
  - » Our 'Far and Away Australia's Best™' advertising campaign, with Australian personalities John Farnham and Glenn Wheatley, was extremely effective, increasing customer acquisitions during the campaign. Their popularity and likeability, Australian-ness, trustworthiness and sense of humour appealed to the consumer.
- Internet access using WebMode (WAP enabled mobile phones) was launched in December and provides access to a wide range of information services and personal applications. There are currently more than 27 applications with the top five Telstra sites, including e-mail, Inspirit, TV guide, Blackjack and the Surf n' Ski report. Telstra was first to market with wishlist.com, Surf n' Ski reports, wireless games, WAP banking, and online share trading. New applications and content are continually being developed. For example, a Mobile EFTPOS pilot was completed in July and will be commercially launched later this year.



Rapid growth in data and internet is transforming communications. Telstra is shaping the future of this high potential market

# data



↑ Consistently collecting more than \$1 million worth of bill payments via online channel per week. The total number of billing transactions that have occurred online has tripled in the period January 2000 to June 2000, from 100,000 per week to 300,000, reflecting internet growth rates and customers' receptiveness to the new functionality being offered.

↑ Having 1 million online relationships opens up great potential for e-commerce solutions. It also provides a major step on the way to allowing Telstra to reduce costs by using services such as online bill payment. While Telstra is the largest online service provider, it is also consistently rated as the best Internet Service Provider (ISP) by computer magazines with its Telstra Big Pond® internet service.

» Telstra achieved its goal of reaching 1 million online users by the end of fiscal 2000. The total consists of more than 650,000 Telstra Big Pond® customers with a significant contribution from telstra.com™ and Telstra EasyMail™. This confirmed Telstra's place as Australia's leading online service provider. Telstra has more than doubled the number of online users and Telstra Big Pond® customers during the last financial year. This makes it four successive years in which Telstra has doubled the customer base.

← Dial Telstra's new ISP Help Line or click on the Net. Telstra has established a one-stop sales and service help line and a web site for Australian Internet Service Providers (ISPs). The Telstra ISP Sales and Services Centre is staffed by a national team of specialised sales and technical staff who understand the specific issues and challenges of ISPs. Telstra's ISP Help Line is FREECALL 1800 624 512.\*

» A Small Business Speaker series has been introduced called 'Networked'. These free seminars are broadcast on telstra.com™ and provide help on a range of topics, including the effective use of new technology, understanding the impact of the GST and even surviving the Olympic Games. Along similar lines, *Your Business* magazine has been introduced and is mailed regularly to more than 200,000 Small and Medium Enterprise customers. The magazine provides information and new ideas to help growing companies.

\*A free call unless from a mobile phone, which will be charged at the applicable mobile rate.

more than 650,000 Big Pond® customers

Growth indicators (approximate):	2000	1999	% change
----------------------------------	------	------	----------

FaxStream® services access lines	426,800	407,100	4.8
----------------------------------	---------	---------	-----

Internet subscribers	1,079,000	>400,000	169.8
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Pay TV services in operation	637,000	496,100	28.4
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# & internet

you're connected



telstra.com™ was introduced in December 1999.

telstra.com™ has quickly become one of Australia's leading portals since its official launch in March 2000. It is rapidly moving to fulfil its objective of becoming an online communications hub for individuals, who can personalise the site to become 'your dot com™'.

» Some exciting new developments include WebNotes™ where, from your computer, you can send a short message service to any Telstra MobileNet® mobile phone; faster download of the home page; better personalisation options and improved content.

# To speed growth we have taken important steps to expand on network capabilities

» Telstra's Domestic Wholesale group has played a big part in working with the industry to build Australia's communications future. Discrete wholesale billing arrangements, discrete wholesale products and innovative resale offerings and a track record of delivering to our wholesale customers has helped create a thriving communications sector.

» Data Mode of Operation (DMO) – Work on making Telstra's networks 'internet ready' continues (see Broadband feature on page 20). In addition to the extensive copper network that services most of urban and rural Australia, Telstra has 3.1 million kilometres of optic fibre. The very high carrying capacity of this fibre lends itself to interconnecting the capital cities and servicing around 14,500 commercial buildings around Australia.

» During the year we continued installing 'Points of Presence' or PoPs, where we interconnect with other countries' networks and conduct wholesale and retail business activities. Telstra's PoPs network now includes UK, Germany, Japan, Hong Kong, South Korea and the USA. In total, Telstra has business operations in 19 countries in Asia, North America and Europe.

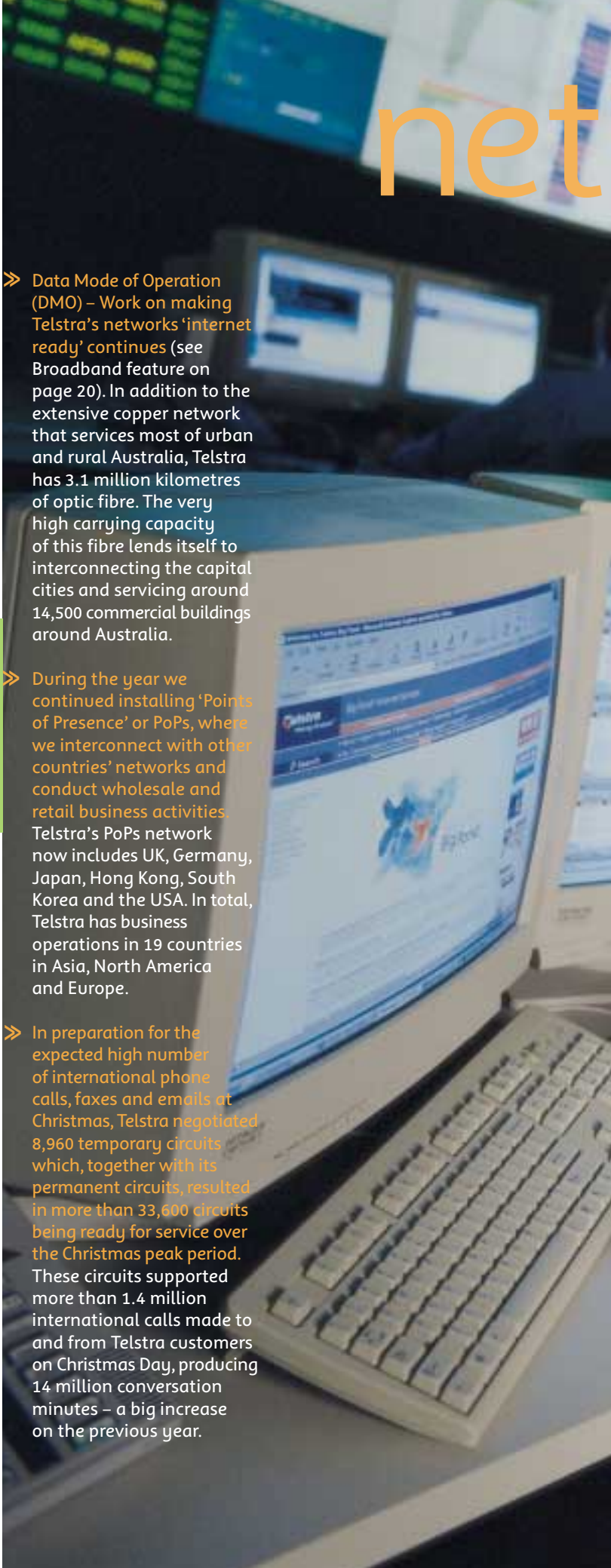
» In preparation for the expected high number of international phone calls, faxes and emails at Christmas, Telstra negotiated 8,960 temporary circuits which, together with its permanent circuits, resulted in more than 33,600 circuits being ready for service over the Christmas peak period. These circuits supported more than 1.4 million international calls made to and from Telstra customers on Christmas Day, producing 14 million conversation minutes – a big increase on the previous year.



approx. **50**  
LICENSED OPERATORS  
Wholesale – Australia

↑ MobileNet's network capacity for Olympic venues was at least tripled during the Games. Capacity was also increased to improve coverage for the expected 600,000 people in the Sydney area. Projects prepared for the Sydney Olympic Games include Webmode sports services for WAP phones, PocketNews sports services for Short Message Service (SMS) phones, SMS welcome messages for International Roamers connecting to the MobileNet® network and free PocketNews sports results. Fax and data capabilities were made available on the CDMA (Code Division Multiple Access) network in January. CDMA's first international roaming service was also made available in time for the Olympic Games.

↑ There are now nearly 50 licensed operators in Australia. Those operators can access Telstra's network facilities and as customers of Telstra Wholesale are contributing to Telstra's revenue growth and shareholder value. To further assist the growth of the industry, Telstra has introduced Local Number Portability, special on-line billing capabilities and products tailored specifically for the wholesale industry.



# works

with a presence in 19 countries



Growth indicators (approximate):	2000	1999	% change
----------------------------------	------	------	----------

Basic access lines			
Residential	6,510,000	6,930,000	(6.1)
Business	2,360,000	2,440,000	(3.3)
Total retail customers	8,870,000	9,370,000	(5.3)
Domestic wholesale	1,170,000	390,000	200.0
Total basic access lines in service	10,040,000	9,760,000	2.9

ISDN access lines (equivalents)	1,049,000	722,000	45.3
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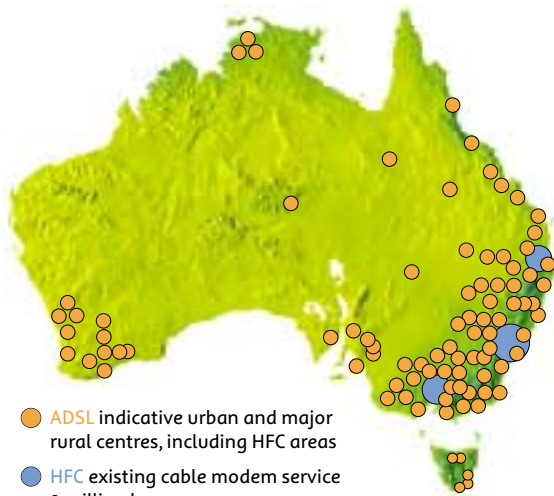
Speed...it's just faster.  
E-mails arrive in real time,  
games really kick and  
you can still use the phone!§

# broad

'Broadband' is one of the hottest buzzwords associated with the internet.

But what does it really mean?

Put simply, broadband is a term to describe superfast, 'always on' internet access to the majority of Australians.



- ADSL indicative urban and major rural centres, including HFC areas
- HFC existing cable modem service 2 million homes
- Satellite elsewhere

↑ Broadband internet with ADSL technology is provided over your standard telephone line. Currently, a standard phone line can receive up to 56 kilobits of information per second, but with ADSL you can subscribe to a service with data download speed of up to 1.5 megabits per second. ADSL means all 857 pages of the classic novel Moby Dick could be downloaded in just a few seconds – at current phone line speeds you'd only get 3 pages in the same time!°°

Telstra's rollout of ADSL started in late August 2000. Interest in ADSL is running hot with more than 2.3 million hits or requests for information captured at telstra.com™ on <http://www.telstra.com.au/adsl> in a twelve week period from May to July. We aim to make broadband available to all Australians, as shown in the map above.

More and more customers will progressively have access to high speed service via ADSL from 21 August 2000. Commencing with all capital cities, Toowoomba, Launceston and Bunbury, Telstra has embarked on an ambitious 2 year program to deploy ADSL capability to about 1300 exchanges across Australia bringing high speed services to about 90 per cent of homes and businesses. Telstra's exchange rollout progress can be tracked by visiting <http://www.telstra.com.au/adsl> or by calling 1800 151 454.

§Refers to ADSL connection with Telstra Big Pond®. °°These times are for indicative purposes only. Depending on internet network routing and ISP transmission overheads, which are dynamic variables and cannot be predicted; the actual length of time may be slightly longer.

But this simple description belies what broadband really is...broadband is the key to unlocking the potential that the internet and the world of communications has to offer. All of the things we've dreamt about become reality.

Just imagine downloading CD quality music, playing games in real time and downloading and transferring large files or multi-media in the blink of an eye. Or imagine soon being able to have interactive video or even video-on-demand without even needing to leave your home!

For many young rural Australians, distance learning will be like being in the classroom, with the ability to see and be seen by their teachers and classmates.

For businesses, the permanent connection and high speed of broadband internet provides greater efficiency and cost effectiveness. Efficient telecommuting will become a reality, with employees being able to access the company's network from home, without sacrificing security or speed. Collaborative computing will provide the ability for a work team to create a project in unison, whatever their location. Telstra's broadband technology will make all this a reality...and this reality starts right now! Telstra is already a world-

class leader in broadband with its cable and satellite internet services. Now Telstra makes it easier for even more Australians across the country to enjoy the benefits of broadband, with its latest technology, ADSL (Asymmetric Digital Subscriber Line). This leading-edge ADSL technology is not just fast, it's superfast, giving access to the internet up to 50 times faster than regular dial-up internet services through normal phone lines, whilst still being able to use a phone or fax.

Telstra is delivering the benefits of ADSL technology with its award-winning internet service Telstra BigPond™. Both residential and business customers can now get Telstra Big Pond® ADSL for a superfast, 'always on' internet connection. For more information or to apply for any of Telstra BigPond's broadband internet services, including cable, satellite and ADSL, simply visit <http://www.bigpond.com> or call 131 282.

ADSL technology also underpins Telstra HyperConnect™, a new remote connectivity option for corporations who wish to provide teleworking capability to staff and branch offices access to the corporate network. For more information or to apply for Telstra HyperConnect™, visit <http://www.telstra.com.au/adsl> or call 1800 150 506.

A man in a white shirt and tie is looking out over a coastal town. The background shows a blue sky with clouds and a view of houses and buildings. The man is in the foreground, looking towards the right.

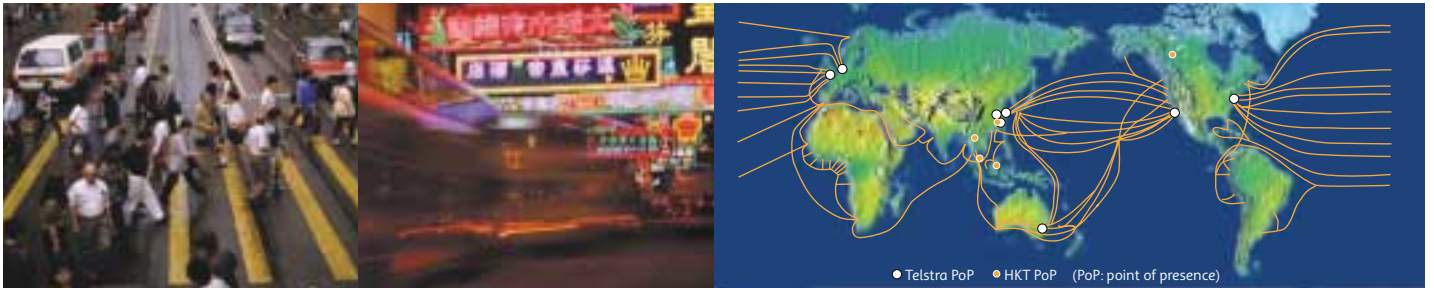
# banding

Australia

Broadband is not just the future of the internet, it's the future of all communications. Telstra is committed to bringing broadband technology within reach of all Australians.

Complementary businesses, a shared vision and access to high growth markets are what Telstra's alliance with Pacific Century CyberWorks is all about

# Pan-Asian



» Telstra's alliance with Hong Kong-based Pacific Century CyberWorks (PCCW) will put Telstra firmly on the map in Asia and will establish a powerful new force in Asian, and global communications.

Because Asia offers such substantial opportunities – rapidly growing markets and a hunger for new generation products like wireless and internet – this alliance with PCCW which recently purchased Hong Kong Telecom (C&W HKT), is a major step for the company's future and a pivotal advance in the execution of Telstra's international growth strategy.

The alliance will create three new joint venture companies in the areas of international global wholesale mobiles/wireless, internet and data centres. Once operational, the combined strength of the partners will make the global wholesale company (IP Backbone Co) the number one operator in voice, data and internet traffic in the Asia/Pacific outside Japan, and in the top echelon in the world.

» Importantly, this initiative allows Telstra to aggressively pursue the offshore growth it needs outside its traditional Australian markets whilst maintaining the scope of the domestic business.

» Telstra is in good company, partnering with one of the Asia-Pacific's most dynamic organisations. PCCW has grown to become Asia's biggest internet group outside Japan through investments in more than 40 content, technology and e-commerce providers. PCCW has completed its acquisition of Cable & Wireless Hong Kong Telecom, one of Asia's most successful and respected communications companies.

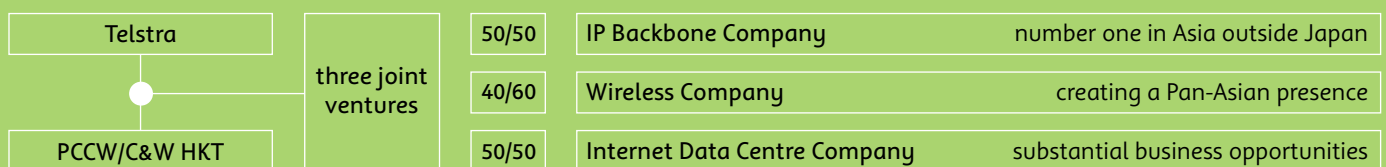
In addition to its impressive track record, PCCW also shares Telstra's vision for long-term growth in Asia and, importantly, already has significant links to the high potential markets in China.

» The new global wholesale company (IP Backbone Co) to be formed under Telstra's alliance with PCCW will from day one be the number one carrier of voice and data/internet traffic in Asia outside Japan and will be among the top global wholesale carriers in the world. It will tap into the strong global demand for bandwidth, driven largely by the internet, and will fill a gap in Asia which is currently under-served with capacity.

The partners bring to the joint venture substantial complementary assets, including submarine cable investments; satellite, gateway and network infrastructure PoPs (points of presence); and solid IP/bandwidth and traffic volumes.

## Pan-Asian Business Structure

2000







# growth

- » The new mobiles/wireless joint venture aims to establish a pan-Asian presence to capitalise on one of the region's fastest growing technologies.

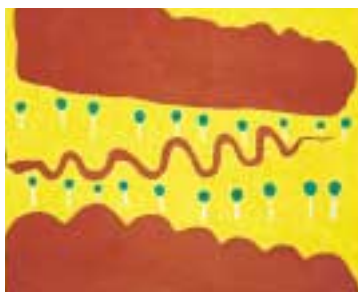
In the first instance, however, the partners will concentrate on cementing their relationship in Hong Kong Telecom's mobiles business of which Telstra will be a major shareholder. Telstra has a wealth of skills and experience to offer this venture gained through operating Australia's leading mobiles network.

- » The third component of Telstra's new alliance with PCCW – an internet data centres greenfields joint venture – will establish and operate a network of centres throughout the Asia/Pacific to provide internet and e-enabled service offerings, initially focusing on hosting services.

Telstra is confident that this bold initiative with PCCW will brighten the company's future and deliver substantial benefits, not only to employees and shareholders, but also to the nation generally.

# As a company, Telstra reaches into the lives of most Australians every day

# com



↑ Indigenous artist Long Tom Tjapanangka's image of Ulampuwarra (Haasts Bluff Mountain) won the National Aboriginal & Torres Strait Islander Art Awards (NATSIAA). Since 1992, Telstra has been the principal sponsor of this premier art event that celebrates the extraordinary talent of our contemporary indigenous artists. Each piece created by this year's entrants is an expression of their individual cultural and regional identity. Telstra's sponsorship includes acquisition of works for the Telstra collection owned by the Museum and Art Gallery of the Northern Territory. (The artist is represented by the Ikuntji Arts Centre at Haasts Bluff, one of the 39 Desert member art centres in Central Australia.)

↑ Telstra is proud of the part it has played in supporting The Australian Ballet as Principal Sponsor for the past fifteen years. We believe the arts should be available to all Australians, just as we believe the benefits of technology are. Telstra is committed to focusing on its customers and putting them first. Our association has continued to grow with Telstra's principal sponsorship this year of The Dancer's Company 21st anniversary tour, performing throughout regional Australia from Darwin to Warragul via Albury. The tour highlighted Telstra's commitment to the Australian community, particularly to those who live in regional Australia. In charting our destiny, we believe The Australian Ballet eloquently demonstrates that innovation and integrity are true companions. (The above photo of Kirsty Martin of The Australian Ballet was taken by Branco Gaica).

↑ Telstra's commitment to regional and rural Australia is absolute. This year the company formed the Telstra Country Wide business unit. In addition to this structural support, Telstra has developed rural traineeships to encourage young people to join the industry, and live and work in their local community. Trainees are currently employed in Alice Springs, Katherine, Tennant Creek and Nhulunbuy. Telstra supports the 'Pass the Hat' concerts in regional Australia, which raise money for five different communities each year.

↑ Telstra is a major sponsor of the Olympic Landcare project and the Telstra Landcare Local Government Award. Landcare Australia is a non-profit entity formed in 1989 to raise community awareness about land care and preserve and protect our unique Australian landscape. Telstra has been a sponsor of Landcare Australia since 1990, when the first National Landcare Awards were held. This year's winner of the Telstra Landcare Local Government Award was Yugul Mangi Council from the Northern Territory. Telstra also sponsors Clean Up Australia Day and The Banksia Environmental Foundation. Telstra maintains an environmental management system across the company to continually improve its own environmental performance and move towards sustainability.

# munity

This year the company initiated an office waste management and recycling program to divert recyclable wastes produced in offices, such as paper, toner cartridges and milk cartons, from landfill. This program is an integral part of Telstra's national waste management system. An energy management program is also underway to maximise the efficiency of energy use and minimise greenhouse gas emissions, enabling Telstra to actively contribute to Australia's targets to reduce greenhouse gas emissions. Telstra's telecommunication products also provide opportunities to improve environmental performance by replacing paper-based information transfer services with electronic voice, video and data links.



Sport is more than a business investment for Telstra. A great believer in teamwork, the company sponsors three of our most successful national teams: the Telstra Dolphins swim squad, Telstra Hockeyroos women's hockey players and Telstra Titans weightlifters. Swimming is the highest participation sport in Australia and the most watched event during Olympic and Commonwealth Games. More than 40 per cent of Olympic medals won by Australians have been for swimming, and Telstra's contribution ranges from providing children with the opportunity to be coached in swim clinics by Olympic stars, such as Susie O'Neill, to the sponsorship of the Australian swim team as a whole.



# Board of Directors

**Robert C MANSFIELD**

AO, BCom, FASA, CPA  
Chairman  
Age: 49

Director since November 1999  
Chairman since January 2000.  
Chairman, CDS Technologies  
Pty Ltd and Starlight  
Children's Foundation  
Australia; Director, McDonald's  
Australia Ltd, Datacraft Asia  
Ltd and Dimensions Data  
Holdings plc; formerly  
Chief Executive Officer of  
McDonald's Australia Ltd,  
Wormald International Ltd,  
Optus Communications Ltd  
and John Fairfax Holdings.

**Zygmunt E SWITKOWSKI**

BSc (Hons), PhD  
Chief Executive Officer  
Age: 52

Director and Chief Executive  
Officer since March 1999.  
Dr Switkowski has been  
Chief Executive Officer of  
Optus Communications Ltd  
and Chairman and Managing  
Director of Kodak (Australasia)  
Pty Ltd. He is a Member of  
the Australian Information  
Economy Advisory Council  
and the Business Council  
of Australia.

**John T RALPH AC, FCPA, FTSE,**

FAICD, FAIM, FAusIMM, Hon LLD  
(Melbourne and Queensland)  
Deputy Chairman  
Age: 67

Director and Deputy  
Chairman since October  
1996. Chairman,  
Commonwealth Bank  
of Australia and Pacific  
Dunlop Ltd; Director, BHP  
Ltd; Chairman, Australian  
Foundation for Science;  
Deputy National Chairman,  
Foundation for Young  
Australians; Member,  
Board of Melbourne  
Business School, Board  
of Advisers of the  
Constitutional Centenary  
Foundation, Advisory  
Council of the Global  
Foundation and Global  
Corporate Governance  
Advisory Board Egon  
Zehnder International.

**Donald G McGAUCHIE**

Age: 50

Director since September  
1998. Senior Partner, C&E  
McGauchie – Terrick West;  
Chairman, WoolStock  
Australia Ltd; Director,  
Australian Wool Testing  
Authority Ltd, Farm Plan  
Pty Ltd, Ridley Corporation  
Ltd, Australian Centre for  
International Agricultural  
Research, Vicgrain Ltd,  
Victorian Grain Services  
Ltd; Member, Foreign  
Affairs Council, Trade  
Policy Advisory Council,  
International Policy  
Council Agriculture Food  
and Trade; Immediate  
Past President National  
Farmers Federation.

**John W STOCKER AO, MB,**

BS, BMedSc, PhD, FRACP, FTSE  
Age: 55

Director since October  
1996. Chairman, Grape  
and Wine Research and  
Development Corporation  
and Sigma Company Ltd.  
Director, Cambridge  
Antibody Technology  
Group plc, Circadian  
Technologies Ltd and  
Nufarm Ltd; Principal,  
Foursight Associates  
Pty Ltd; former Chief  
Scientist, Commonwealth  
of Australia.

**Elizabeth A NOSWORTHY**

BA, LLB, LLM  
Age: 54

Director since December  
1991. Chairman, Port of  
Brisbane Corporation;  
Director, David Jones Ltd,  
GPT Management Ltd,  
RP Data Ltd, Brisbane  
Airport Corporation Ltd,  
Queensland Treasury  
Corporation, City of  
Brisbane Arts and  
Environment Ltd and  
Foundation for Develop-  
ment Cooperation  
Ltd; Councillor, National  
Competition Council;  
Member, Australian  
Greenhouse Office  
Experts Group on  
Emissions Trading.



Front row (left to right): Robert MANSFIELD, John RALPH, Ziggy SWITKOWSKI. Back row (left to right): Donald McGAUCHIE, John STOCKER,

**Anthony J CLARK**  
AM, FCA, FCPA, FAICD  
Age: 61

Director since October 1996. Chartered Accountant; formerly Managing Partner KPMG NSW 1992-1998; Chairman, Maritime Industry Finance Company Ltd; Deputy Chairman, Australian Tourist Commission; Director, Amalgamated Holdings Ltd Group, Ramsay Health Care Ltd and Carlton Investments Ltd.

**N Ross ADLER**  
AO, BCom., MBA  
Age: 55

Director since October 1996. Chief Executive Officer and Managing Director, Santos Ltd (due to retire 30 September 2000); Chairman of the Board of the Art Gallery of South Australia; Director, Santos Group Companies, Commonwealth Bank of Australia and QCT Resources Ltd; Member, Business Council of Australia; Council Member, The University of Adelaide.

**Stephen W VIZARD**  
AM, LLB, BA, FAICD  
Age: 44

Director since October 1996. Chairman, Granada Media Australia, Council of Trustees of the National Gallery of Victoria, Oakton Computing Ltd and Red Heart Productions; Director, MultiEmedia.com Ltd; Board Member, Australian Commercial Television Fund; Member of the Committee, Melbourne Cricket Club; Governor, Sony Foundation.

**Cecilia A MOAR Dip T**  
Age: 41

Director since September 1998. Partner, cereal grower near Swan Hill in Victoria; Member, Mallee Catchment Management Authority Board and Telstra Country Wide Advisory Board; Graduate of the Australian Rural Leadership Program.

**Christopher I ROBERTS**  
BCom  
Age: 55

Director since December 1991. Chairman, Email Ltd; Director and Chairman Elect, Amcor Ltd; Director, Petaluma Ltd, Transparency International Australia, Griffin Theatre Company and Juvenile Diabetes Foundation Inc; Member of the Board of Governors, Winifred West Schools Limited (Frensham).

**Malcolm G IRVING**  
AM, BCom, Hon DLit  
Age: 70

Director since July 1997. Chairman, Caltex Australia Ltd, ADI Ltd and Willis Australia Ltd Group; Director, Cabonne Ltd.



# Corporate Governance

The Telstra board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place during fiscal 2000.

Our corporate governance practices continue to develop as the company evolves into a major publicly listed company with a wide shareholder base. While the Commonwealth owns more than 50 per cent of the shares in Telstra, we will remain subject to various ministerial and other controls to which other public listed companies are not subject. This includes a ministerial power to give us written directions that the Communications Minister believes are in the public interest (Section 9 Telstra Corporation Act 1991). Within these constraints, the board continues to strive to achieve best corporate governance practice.

## The board

The board is accountable to shareholders for the business and affairs of Telstra and delegates responsibility for day-to-day management of the Telstra Entity to the chief executive officer (“CEO”). The CEO is an executive director and the chairman, the deputy chairman and other members of the board are non-executive directors.

The maximum number of directors provided for by our constitution is 13. A casual vacancy to the board may be filled or an additional director up to the maximum number of directors may be appointed, either:

- by the directors after consulting with the Communications Minister; or
- by an ordinary resolution of shareholders.

The tenure of the CEO is linked to his executive office while one third of all other directors are subject to re-election by rotation each year. A director appointed by the directors is subject to re-election at the next annual general meeting. A board committee, the Appointments and Compensation Committee, may negotiate the retirement or resignation of individual directors after consultation with the board. However, the

board’s general policy on board membership for non-executive directors is:

- the maximum retirement age is 72 years; and
- the maximum tenure is 12 years (ie. four terms of three years).

Non-executive directors’ remuneration is determined in accordance with Telstra’s constitution.

Directors and board committees are able to obtain professional advice independent of management or Telstra’s advisers. This advice may be obtained, with the chairman’s approval, at Telstra’s cost and is provided to all directors.

We have in place a share trading policy that prohibits directors and senior management (and their associates) from engaging in short-term trading of our securities. This policy also restricts the buying or selling of our securities to the three “window” periods following the release of annual results, half-yearly results, the close of our annual general meeting, and at such other times as the board permits. In addition, directors and senior management must notify the company secretary before they or their close relatives buy or sell our securities.

Furthermore, as required by law, buying or selling of our securities is not permitted at any time by any person who possesses price-sensitive information in relation to those securities.

The Corporations Law and our constitution require directors to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the board has developed procedures to be followed by a director who believes he or she may have a conflict of interest or material personal interest.

## Meetings and committees of the board

The board normally meets nine times each year for scheduled meetings and on other occasions to

## Board operates through committees that hold responsibility for particular areas

deal with specific matters that require attention between meetings that have been scheduled.

The regular business of the board includes:

- business investments and strategic matters;
- governance and compliance;
- chief executive officer's report;
- financial reports; and
- on a rotational basis, business unit reviews.

Directors also liaise with senior management as required and may consult with other Telstra employees and advisers and seek additional information on request.

The board often operates through committees that hold responsibility for particular areas. The two main committees (which operated during the year) and their responsibilities are:

- **Audit Committee.** This committee:
  - oversees our compliance with external and internal obligations and our risk management programmes;
  - reviews our annual audit programme; and
  - provides advice to the board on matters of due diligence, financial systems integrity and financial risk.
- **Appointments and Compensation Committee** reviews senior manager remuneration and appointments, including:
  - recommending the appointment of the CEO to the board; and
  - reviewing and reporting to the board on the proposed remuneration strategy and package for the CEO and senior executives and succession plans for senior executives.

### Business conduct

We provide guidance to our employees on how to deal with business issues through our company values and code of conduct policies. Through these policies we reinforce the standards of ethical behaviour we expect from all employees. During fiscal 2000 we introduced a mandatory ethics training programme for all employees to reinforce these standards. We also provide assistance to employees on the application and interpretation of the company values and code of conduct policies through employee help lines.

### Business risk

Telstra is committed to the management of risks throughout its operations to protect its employees, the environment, assets, markets, earnings, reputation and shareholder value.

The Audit Committee provides advice to the board on the status of business risks to Telstra through an integrated risk management and assurance function whereby it oversees:

- the establishment and management of risk limits and tolerances across the organisation;
- the progress of risk management within the business units; and
- the existence of an appropriate risk management culture.

The risk management and assurance function has promoted the common language and approach used by business units in identifying, measuring and prioritising business risks. The Audit Committee receives reports independently prepared by the risk management and assurance group, on significant business risks and the strategies to manage these risks.

In addition, Telstra uses risk financing techniques including insurance to reduce the financial impact of uncontrollable or catastrophic risks. A central treasury function manages the financial exposures to reduce the volatility of cash flows and asset values arising from interest rate and exchange rate movements in accordance with board approved limits. Details of the nature of these exposures are shown in note 29 of the full financial report.

### External auditors

In accordance with the Telstra Corporation Act 1991, our Australian auditor is the Auditor-General ("A-G"). In May 1999, Ernst & Young was selected (following a rigorous selection process) to be the Australian sub-contractor to the A-G and our U.S. auditor for fiscal 2000 to 2002 with an option for extension for a further two years at the discretion of Telstra and the A-G. PricewaterhouseCoopers (formerly Price Waterhouse) was the Australian sub-contractor to the A-G from fiscal 1993 to fiscal 1999 and our auditor for U.S. and other overseas filings from fiscal 1997 to fiscal 1999.

# Directors' Report

The directors present their report on the consolidated entity (Telstra or Telstra Group) consisting of Telstra Corporation Limited (Telstra Entity) and the entities it controlled at the end of or during the year ended 30 June 2000.

## Principal activity

Telstra's principal activity during the financial year was to provide telecommunications services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

## Results of operations

Telstra's operating profit after income tax, but before abnormals, increased by 16% to \$4,043 million (1999: \$3,486 million); after abnormals, operating profit for the year was \$3,677 million (1999: \$3,486 million), an increase of 5.5%.

This was after:

- deducting income tax expenses of \$1,676 million (1999: \$1,832 million); and
- allowing for after tax losses attributable to outside equity interest in controlled entities of \$4 million (1999: profit of \$2 million).

Income tax expense of \$1,676 million is \$172 million lower than would otherwise have been the case due to the lowering of company income tax from 36% in fiscal 2000, to 34% in fiscal 2001 and 30% in future years.

Earnings before interest and tax, before abnormals, is \$6,489 million, an increase of 10.9% over the prior year of \$5,849 million. After abnormals, EBIT is \$5,917 million or an increase of 1.2%.

## Review of operations

Telstra's sound operating result is principally due to the very strong revenue growth of 8.9% or \$1.6 billion to \$19.8 billion for the year.

Sales revenue grew by 5.9% (1999: 5.2%) to \$18.6 billion with the primary influences being:

- the rapid growth in the data, text and internet products that increased revenue by \$355 million (14.3%);
- continued growth in mobiles revenue of \$321 million (12.6%) in a very competitive environment which included periods of special offers and waiving of connection fees;
- more originating and terminating calls were made by customers of other carriers on our fixed and mobile networks and this increased intercarrier services revenue by \$202 million to \$819 million;
- basic access revenue increased by \$165 million due in part to the different access pricing arrangements put into effect from March 2000;
- revenue from local, national long distance and international calls declined during the year by 5.2% or \$342 million due to:
  - access rebalancing, where local call prices decreased and some long distance call prices were capped;
  - new pricing arrangements to address the continuing competitive market, ie Neighbourhood Call™ for local calls, Easy1/2 Hours® for international calls and some capped prices for long distance calls; and
  - the introduction of fixed-to-mobile preselection that negatively affected our national long distance calls.

Other revenue of \$1.2 billion increased by \$584 million primarily due to the increase in proceeds from asset sales during the year.

Operating expenses (before borrowing costs) increased by \$1 billion to \$13.3 billion principally due to:

- increased direct cost of sales of \$327 million due to:
  - increased payments made to other carriers to terminate international and domestic outgoing calls and international transit traffic; as well as
  - increased cost of goods sold;



- higher depreciation and amortisation of \$144 million which reflects our higher capital expenditure on the network and increased software capitalisation in prior years; and
- other operating costs increased by \$540 million mainly due to:
  - higher payments made under our service contracts and agreements;
  - increased rental expenses on operating leases;
  - the book value of assets sold was \$195 million higher than in the prior year due to more sales occurring; and
  - higher promotion and advertising.

Some offsets were available through lower costs in materials used in maintenance, a decrease in bad and doubtful debts and other motor vehicle running expenses and a reduction in general discretionary expenses.

Labour expense declined slightly during the year.

Borrowing costs increased by 9.0% mainly due to higher rates of interest applying to increased borrowings.

An abnormal expense of \$572 million for redundancy and restructuring was taken up for:

- actual redundancies made from the time of the announcement of staff reductions in March 2000 to the end of the financial year; and
- planned redundancies over the next two years.

Capital expenditure and investment was \$5.4 billion and included \$0.6 billion for investments. The increase of \$0.9 billion over the prior year was due to:

- operational capital expenditure requirements that increased by \$464 million to \$4.8 billion. This level of expenditure was driven by our commitment to service both the meeting of demand for services in a more timely way, the elimination of faults from the customer access network that is

undergoing a major upgrade and the roll-out of the new CDMA network; and

- cash investments of \$598 million made during the year as a result of a number of changed business requirements and strategic investments.

#### Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs other than:

- On 24 August 2000, Telstra and Pacific Century CyberWorks Limited (PCCW) the Hong Kong based telecommunications company announced that subject to definitive agreements and certain other conditions including the obtaining of all necessary regulatory, PCCW's shareholder and third party approvals, they have reached agreement in principle on the key terms relating to their strategic Pan-Asian alliance announced on 13 April 2000. The parties have reached agreement in principle on the following aspects of the alliance:
  - A merger of some of the businesses and assets of Telstra and PCCW to create a 50:50 joint venture operating a global Internet Protocol backbone business (IP Backbone Company). This IP Backbone Company will be a regional and global carrier of voice and data services and PCCW and Telstra will inject debt of up to US\$1.125 billion and US\$0.625 billion respectively, subject to IP Backbone Company retaining an investment grade rating;
  - Telstra will purchase a 40% stake in the mobiles business of PCCW for US\$1.5 billion (Wireless Co). Wireless Co is intended to be the primary vehicle for the execution of Telstra's and PCCW's wireless strategy in Asia;

## Directors' report cont.

- Telstra will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres throughout Asia. IDC Co will initially focus on core hosting services; and
- Telstra will invest US\$1.5 billion (A\$2.5 billion) in a PCCW convertible note, which is repayable to Telstra, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

Telstra and PCCW expect to sign the alliance definitive documents later this year and are targeting completion by the end of this calendar year.

- The Trustee of the Telstra Superannuation Scheme and the Commonwealth, who had guaranteed Telstra's payments, have agreed to release Telstra from its 16-year obligation under the Telstra Additional Contributions (TAC) agreement to contribute \$121 million per annum to the TSS to 30 June 2011. This agreement was in addition to the employer contributions made by Telstra to the TSS. As the scheme is in surplus, employer contributions to the TSS have been suspended since fiscal 1999. The effect of the release from the TAC on Telstra will be taken up in the financial statements in the half-year ended 31 December 2000. This will result in a reversal of the provision for TAC obligations that are shown in the financial statements at 30 June 2000 as a liability with a net present value of \$725 million. This will be shown as revenue of \$725 million with income tax expense at 34% of \$247 million giving a net impact of \$478 million.
- Our sale of some of our interest in Computershare Limited in July 2000 has resulted in revenue of \$386 million and a profit before tax of \$187 million that will be

taken up in the half-year accounts ended 31 December 2000.

- We have signed a term sheet with Keycorp Limited to build a global full service end-to-end internet payment service provision business in which we will hold a 51% interest for a cost of approximately \$515 million.

### Dividends

It is our current policy to declare ordinary dividends of at least 60% of operating profit attributable to shareholders, subject to taking into consideration a number of commercial factors, including the interests of shareholders, cash requirements for future capital expenditures and investments, as well as relevant industry practice. However, in determining the dividends declared from earnings for the year ending 30 June 2001, we will exclude the "once off" book profits that will arise from:

- any profit recorded in the proposed sale of our global wholesale assets to the IP Backbone joint venture company to be established with PCCW; and
- any profit resulting from the release from our obligations under the Telstra Additional Contributions agreement.

However, for dividends declared from earnings in fiscal 2002 and future years, it is our current intention that the dividends per share will not reduce on a year on year basis as a result of the alliance with PCCW, subject to continuing commercial considerations.

The directors have declared a final dividend for the year ended 30 June 2000 of 10 cents per share (\$1,287 million) fully franked. The tax rate at which the dividend is franked is 34%. The record date for the final dividend will be 22 September 2000 with payment being made on 27 October 2000. During the financial year, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 1999	26 August 1999	29 October 1999	26 cents franked to 38.46%. This included a special dividend of 16 cents.	\$3,346 million
Interim dividend for the year ended 30 June 2000	8 March 2000	28 April 2000	8 cents franked to 49.17%	\$1,029 million

Under current legislation, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2001 earnings. However, the directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because our ability to pay dividends depends upon, among other factors, our earnings, Government legislation and our tax position.

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of Telstra during the financial year.

### Likely developments

The directors believe, on reasonable grounds, that Telstra would be likely to be unreasonably prejudiced if the directors were to provide more information than there is in this report or the financial report about:

- the likely developments in Telstra's operations; or
- the expected results of those operations in the future.

### Details about directors

#### Retirement of directors

Mr David Hoare who was appointed as director and chairman of the board in December 1991, retired from both of these positions at the end of December 1999. During his term with Telstra, Mr Hoare made a major contribution to the company and successfully guided it through significant periods of change not only in a time of deregulation of the telecommunications

industry but also during the two successful sales of Commonwealth shares to the public.

Mr Michael Codd AC, who was a director from February 1992 until his retirement in November 1999, also made a significant contribution to the board particularly in his role as chairman of the audit committee, a position he held from April 1992.

The board thanks both directors for their valuable contribution during their terms of office.

Information about directors is provided as follows and forms part of this directors' report:

- names of directors and details of their qualifications, experience and special responsibilities are given on pages 26 and 27;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 36;
- details of directors' shareholdings in Telstra are shown on page 37; and
- details of directors' emoluments are given on page 51.

### Senior executive emoluments

This information is provided on pages 51 - 53 and forms part of this report.

### Directors' and officers' indemnity

#### Constitution

Telstra's constitution provides that Telstra indemnifies each of Telstra's officers (defined below) against any liability:

## Directors' report cont.

- incurred on or after 15 April 1994 in their capacity as an officer to another person (except to Telstra or its related bodies corporate) unless the liability arises out of conduct involving a lack of good faith; and
- costs and expenses incurred in their capacity as an officer, in defending proceedings, whether civil or criminal, in which judgment is given in favour of the officer or in which the officer is acquitted, or in connection with an application in relation to such proceedings in which a court grants relief to the officer under the Corporations Law.

These indemnities apply to the maximum extent permitted by law.

The constitution also provides that officers and employees (defined below), appointed at Telstra's request to be a director (or an alternate director) of a company which is not one of Telstra's related bodies corporate, are indemnified by Telstra in respect of any liability incurred in that capacity as if that liability has been incurred in the capacity of an officer, subject to any corporate policy made by the chief executive officer. Telstra may also indemnify the following persons in some circumstances:

- employees, subject to any corporate policy of the chief executive officer; and
- an outside officer (defined below), subject to the Corporations Law.

For the purposes of these provisions:

- an "officer" means a person who is or has been a director, secretary or executive officer of:
  - the Telstra Entity or one of its wholly owned subsidiaries; or
  - any other related body corporate of Telstra if the person is also a director or employee of the Telstra Entity or one of its wholly owned subsidiaries;
- an "outside officer" means a person who is or has been a director, secretary or executive

officer of one of Telstra's related bodies corporate (other than one of its wholly owned subsidiaries) while not an employee or director of the Telstra Entity or one of its wholly owned subsidiaries; and

- an "employee" means a person who is or has been an employee of the Telstra Entity or one of its related bodies corporate who is not an officer or outside officer.

### **Deeds of indemnity in favour of directors, officers and employees**

Telstra has executed deeds of indemnity in favour of:

- directors (including past directors);
- executive officers (other than directors) and certain employees generally; and
- employees (including executive officers other than directors) involved in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991).

Each of these deeds provides an indemnity on substantially the same terms as the indemnity provided in the constitution in favour of officers. The indemnity in favour of directors also gives directors a right of access to board papers and requires Telstra to maintain insurance cover for the directors. The indemnity in favour of employees relating to Telstra sale schemes is confined to liabilities incurred as an employee in connection with the formulation, entering into or carrying out, of a Telstra sale scheme.

### **Directors' and officers' insurance**

Telstra maintains a directors' and officers' insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. The directors' and officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

## Environmental regulation

### Performance in relation to particular and significant environmental legislation

Telstra's operations are subject to some significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

- the impact of the rollout of telecommunications infrastructure;
- site contamination; and
- waste management.

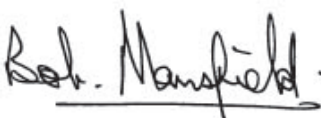
Telstra has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulation during the financial year.

## Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission class order 98/100, dated 10 July 1998 pursuant to section 341(1) of the Corporations Law. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars except where otherwise indicated.

This report is made in accordance with a resolution of the directors.

A handwritten signature in black ink that reads "Rob. Mansfield." with a horizontal line underneath the name.

**Robert C Mansfield**  
**Chairman and director**  
**30 August 2000**

## Directors' report cont.

### Directors' meetings

Each director attended the following meetings and board committees during the year while a member of the board:

	Board		Committees			
	a	b	Audit		Appointments and Compensation	
			a	b	a	b
RC Mansfield <sup>(1)</sup>	12	11	3	3	1	1
DM Hoare <sup>(2)</sup>	7	6	2	2	1	1
JT Ralph	18	17	5	5	2	2
ZE Switkowski <sup>(3)</sup>	18	18	-	-	2	2
NR Adler	18	16	5	5	-	-
AJ Clark	18	18	-	-	-	-
MH Codd <sup>(4)</sup>	6	6	1	1	-	-
MG Irving	18	14	5	4	-	-
DG McGauchie	18	17	-	-	-	-
CA Moar	18	16	-	-	-	-
EANosworthy <sup>(5)</sup>	18	18	3	3	-	-
CI Roberts	18	17	-	-	-	-
JW Stocker	18	16	5	5	-	-
SW Vizard	18	16	-	-	-	-

Column a: number of meetings held while a member.

Column b: number of meetings attended.

(1) Appointed as a director on 12 November 1999 and as chairman of the board on 1 January 2000.

(2) Retired as a director and chairman of the board on 31 December 1999.

(3) Attended audit committee meetings in the role as chief executive officer.

(4) Retired as a member and chairman of the audit committee and as a director of the board on 12 November 1999.

(5) Appointed as a member and chairman of the audit committee on 22 February 2000.

## Directors' shareholdings in Telstra

As at 30 August 2000

	Number of shares held (1)		
	Direct interest	Indirect interest	Total
R C Mansfield	9,000	82,400	91,400
J T Ralph	1,000	50,000	51,000
Z E Switkowski (2) (3)	29,620	61,100	90,720
N R Adler	49,600	50,400	100,000
A J Clark	10,000	50,000	60,000
M G Irving	24,000	33,000	57,000
D G McGauchie	-	18,700	18,700
C A Moar	-	4,080	4,080
E A Nosworthy	7,000	29,200	36,200
C I Roberts	16,000	80,360	96,360
J W Stocker	800	50,555	51,355
S W Vizard	-	39,200	39,200

(1) Some of the directors' holdings were instalment receipts purchased in the Telstra 2 Commonwealth share offering. Instalment receipts give rights to beneficial ownership of an ordinary share once the final instalment is paid. The final instalment is due by 2 November 2000.

(2) Includes:


- 400 shares acquired with an interest free loan and 200 free shares under the terms of the Telstra Employee Share Ownership Plan 1999; and
- 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the Telstra Employee Share Ownership Plan 1997 and 200 loyalty shares obtained under the "one for ten loyalty offer" available to all employees who participated in the 1997 public offer.

(3) During the year ended 30 June 2000, Dr Switkowski was granted 50,000 restricted shares and 300,000 options under the terms and conditions of the Telstra Growthshare Trust Deed. These options and shares are in addition to the above.

## Discussion and Analysis

**Our operating profit after income tax, but before abnormals, increased by 16% to \$4,043 million** (1999: \$3,486 million); after abnormals, operating profit for the year was \$3,677 million (1999: \$3,486 million) an increase of 5.5%.


**Earnings before interest and tax (EBIT), before abnormals increased by 10.9%** over the prior year to \$6,489 million (1999: \$5,849 million). After abnormals, EBIT is \$5,917 million, an increase of 1.2%.

**1** **8.9%** 

### Revenue

Total revenue grew by \$1.6 billion to \$19.8 billion with \$0.6 billion attributable to increased proceeds from higher asset sales included in other revenue. The increase in sales revenue by 5.9% or \$1 billion to \$18.6 billion was primarily due to the continued strong growth in data, text, internet (\$355 million) and mobiles (\$321 million). Inter-carrier revenue also increased by \$202 million reflecting the greater volumes of originating and terminating traffic by customers of other carriers on our networks.

While basic access revenue also increased by \$165 million this was affected by access rebalancing introduced in March 2000 whereby basic access charges increased with offsets being lower call charges and some capped long distance call prices. Our revenue declined by \$342 million (or 5.2%) in the strongly competitive markets of local, national long distance and international calls.

**2** **7.9%** 

### Operating expenses

While **labour costs** have remained relatively flat, overall operating expenses have increased by \$1 billion to \$13.9 billion.

Our **direct cost of sales** has increased by \$0.3 billion primarily due to:

- increased payments to other carriers to terminate international and domestic outgoing calls and international transit traffic; and
- higher cost of sales.

Increases in **other operating costs** of \$0.5 billion were due to:

- an increase in our asset sales due to increased sales activity (\$0.2 billion);
- increased payments under our service contracts and agreements, lease payments and promotions and advertising.

Some offsets were available in lower costs in materials used in maintenance, decrease in bad and doubtful debts, other motor vehicle running expenses and general discretionary expenses.

**Depreciation and amortisation** also increased as a result of higher capital expenditure on the network and increased capitalised software development.

The increase in **borrowing costs** is due to increased borrowings at higher interest rates.

**3** **\$572 m** 

### Abnormals

The abnormal expense refers to the estimated cost of planned redundancies and restructuring over the next two years (\$486 million) as well as \$86 million incurred to 30 June 2000 following our announcement of staff reductions in March 2000.



# Profit and Loss Statement for the year ended 30 June 2000

	Telstra Group	
	Year ended 30 June	
Note	2000	1999
	\$m	\$m
<b>Operating revenue</b>		
Sales revenue . . . . .	18,609	17,571
Other revenue . . . . .	1,231	647
	<u>19,840</u>	<u>18,218</u>
		1
<b>Operating expenses</b>		
Labour . . . . .	3,228	3,270
Direct cost of sales . . . . .	3,329	3,002
Depreciation and amortisation . . . . .	2,646	2,502
Other operating expenses . . . . .	4,086	3,546
Borrowing costs . . . . .	630	578
	<u>13,919</u>	<u>12,898</u>
		2
<b>Operating profit before abnormals and income tax expense</b>		
Abnormals . . . . . (3)	(572)	-
	<u>5,349</u>	<u>5,320</u>
		3
<b>Operating profit before income tax expense</b>		
Income tax expense on operating profit . . . . .	1,848	1,832
Effect of decrease in tax rates on deferred tax balances . . . . .	(172)	-
Income tax expense . . . . .	<u>1,676</u>	<u>1,832</u>
<b>Operating profit after income tax expense</b>		
Outside equity interests in operating (profit) / loss after income tax expense . . . . .	4	(2)
<b>Operating profit after income tax expense available to Telstra Entity shareholders</b>		
	<u>3,677</u>	<u>3,486</u>
Retained profits at the beginning of the financial year available to Telstra Entity shareholders . . . . .	3,809	4,570
<b>Total available for distribution to Telstra Entity shareholders</b>		
Dividends provided for or paid . . . . . (4)	2,316	4,247
<b>Retained profits at the end of the financial year available to Telstra Entity shareholders</b>		
	<u>5,170</u>	<u>3,809</u>
	¢	¢
<b>Basic earnings per share (cents)</b>		
Before abnormals . . . . .	31.4	27.1
After abnormals . . . . .	<u>28.6</u>	<u>27.1</u>
<b>Dividends per share (cents)</b>		
Interim dividend . . . . .	8.0	7.0
Final dividend		
- ordinary dividend . . . . .	10.0	10.0
- special dividend . . . . .	-	16.0
Total final dividend . . . . .	<u>10.0</u>	<u>26.0</u>
Total dividend . . . . . (4)	<u>18.0</u>	<u>33.0</u>

The above profit and loss statement should be read in conjunction with the accompanying notes and discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the "Annual Report 2000". This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

## Discussion and Analysis

1 10.04% 

Our **non current assets** have increased by \$2.3 billion during the year mainly due to:

- higher **investments** including:
  - investments in listed entities in which we consider we may be in a position to develop future strategic alliances;
  - purchase of the minority interests in our directory business, Pacific Access to make it 100% owned. We also acquired the remaining interests in Advantra Pty Ltd, so that we now own 100% of this network services company; and
  - acquisition of interests in new areas and reorganisation of existing businesses into different structures such as a 50% interest in the New Zealand telecommunications carrier and service provider, Telstra Saturn, our 35% interest in Station 12 B.V., a global satellite communications company and our 39.9% interest in the network cable provider, Australian-Japan Cable Holdings Ltd.
- increased requirements for our operational capital expenditure most of which refers to **property, plant and equipment** including:
  - the need to complete the roll-out of our CDMA digital network so that a mobile service is available in areas previously serviced by our analogue network. As required by law, most of our analogue network has ceased operating with the remaining areas to close in October 2000;
  - the continued investment in our customer access network to ensure it is properly sealed and more reliable. This upgrade will allow us to more effectively meet the demand for services in a timely manner.
- greater requirement for software development in our business. We capitalise this expenditure and include the cost under **other assets** in the balance sheet.

The non current assets shown in the balance sheet are net amounts, ie they take into account

depreciation and amortisation charges to profit and loss during the year as well as additions and disposals. Most of our depreciation charged is for our network communication assets.

2 \$1,885 m 

### Provisions

Overall, our provisions decreased with the main factor being the provision for the final dividend to shareholders. For the year ended 30 June 2000, we have provided for \$1,287 million which is equal to 10 cents per share (and instalment receipt). In 1999, we provided for a final dividend of \$3,346 million.

The decrease in provision for dividend has been offset in part by the increase in other provisions with the main item being the provision for redundancy and restructuring over the next two years. The provision of \$486 million as at 30 June 2000 for redundancy and restructuring is included in **current** provisions for amounts expected to be used within 12 months, and the balance forms part of **non current** provisions.

3 31.5% 

### Borrowings

Our borrowings are included under both current and non current liabilities. For the year ended 30 June 2000, our borrowings are \$9,821 million consisting of \$3,316 million current and \$6,505 million non current. Total borrowings at the end of 1999 were \$7,211 million (\$2,265 million current and \$4,946 million non current). The main reason for our increase in borrowings has been to replenish our working capital after payment of the final dividend in October 1999. This payment included the special dividend of \$2,059 million.

# Balance Sheet as at 30 June 2000

	Telstra Group	
	As at 30 June	
	2000	1999
	\$m	\$m
<b>Current assets</b>		
Cash . . . . .	751	979
Receivables . . . . .	3,587	3,245
Inventories . . . . .	295	204
Other assets . . . . .	256	125
Total current assets . . . . .	<u>4,889</u>	<u>4,553</u>
<b>Non current assets</b>		
Receivables . . . . .	258	293
Inventories . . . . .	15	16
Investments . . . . .	885	266
Property, plant and equipment . . . . .	22,316	20,881
Future income tax benefit . . . . .	111	366
Intangible assets . . . . .	536	452
Other assets . . . . .	1,329	855
Total non current assets . . . . .	<u>25,450</u>	<u>23,129</u>
<b>Total assets</b> . . . . .	<u>30,339</u>	<u>27,682</u>
<b>Current liabilities</b>		
Accounts payable . . . . .	2,528	2,507
Borrowings . . . . .	3,316	2,265
Provisions . . . . .	2,842	4,727
Revenue received in advance . . . . .	735	654
Total current liabilities . . . . .	<u>9,421</u>	<u>10,153</u>
<b>Non current liabilities</b>		
Accounts payable . . . . .	728	745
Borrowings . . . . .	6,505	4,946
Provisions . . . . .	1,346	1,089
Deferred income tax . . . . .	737	455
Total non current liabilities . . . . .	<u>9,316</u>	<u>7,235</u>
<b>Total liabilities</b> . . . . .	<u>18,737</u>	<u>17,388</u>
<b>Net assets</b> . . . . .	<u>11,602</u>	<u>10,294</u>
<b>Shareholders' equity</b>		
<b>Telstra Entity</b>		
Share capital . . . . .	6,433	6,433
Reserves . . . . .	(8)	14
Retained profits . . . . .	5,170	3,809
Shareholders' equity available to Telstra Entity shareholders . . . . .	<u>11,595</u>	<u>10,256</u>
<b>Outside equity interests</b>		
Share capital . . . . .	24	64
Reserves . . . . .	(2)	(3)
Retained losses . . . . .	(15)	(23)
Total outside equity interests . . . . .	<u>7</u>	<u>38</u>
<b>Total shareholders' equity</b> . . . . .	<u>11,602</u>	<u>10,294</u>

1

2

3

3

The above balance sheet should be read in conjunction with the accompanying notes and discussion and analysis.

The financial statements and specific disclosures have been derived from the financial report contained in the "Annual Report 2000". This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

## Discussion and Analysis

1 0.4% 

### Net cash provided by operating activities

Our primary source of liquidity is cash generated from our operations. While our cash flow from our sales to customers improved during the year this was offset by an increase in payments to suppliers and higher borrowing costs. Overall our net cash from operating activities reduced by \$27 million during the year.

- transmission \$693 million (1999: \$624 million)
- customer access network \$1,285 million (1999: \$873 million)
- mobile networks \$628 million (1999: \$621 million)
- broadband network \$30 million (1999: \$34 million)
- international infrastructure \$125 million (1999: \$146 million)
- capitalised software \$599 million (1999: \$513 million)
- other \$823 million (1999: \$911 million)
- investments \$598 million (1999: \$112 million).

2 \$832 m 

### Net cash used in investing activities

The main item in the net cash used in investing activities is operational capital expenditure.

Total **capital expenditure** during the year consists of:

- payments for **operational capital expenditure** of \$4.7 billion. We also capitalise interest on assets we construct and this was an additional \$0.1 billion; and
- cash payments for **investments** of \$0.6 billion.

Details of our capital expenditure are as follows:

- switching \$647 million (1999: \$644 million)

3 \$603 m 

The decrease in **net cash used in financing activities** was driven by dividends paid during the year increasing by \$2,573 million over the prior year payments and the net increase in borrowings of \$3,176 million. In the year ended 30 June 2001, we intend to increase our borrowings so that we may invest in the alliance announced with Pacific Century CyberWorks Limited (refer note 5).

# Statement of Cash Flows for the year ended 30 June 2000

	Telstra Group	
	Year ended 30 June	
	2000	1999
	\$m	\$m
<b>Cash flows from operating activities</b>		
Receipts from trade and other debtors . . . . .	18,533	17,603
Payments of accounts payable and to employees . . . . .	(10,493)	(9,628)
Interest received . . . . .	60	50
Borrowing costs paid . . . . .	(622)	(558)
Dividends received . . . . .	16	23
Income taxes paid . . . . .	(947)	(916)
<b>Net cash provided by operating activities</b> . . . . .	<b>6,547</b>	<b>6,574</b>
<b>Cash flows from investing activities</b>		
Payments for:		
- property, plant and equipment . . . . .	(4,006)	(3,707)
- internal use software assets . . . . .	(577)	(502)
- patents, trademarks and licences . . . . .	(101)	(58)
- deferred expenditure . . . . .	(21)	(7)
Capital expenditure (before investments) . . . . .	(4,705)	(4,274)
- shares in listed corporations . . . . .	(227)	(84)
- shares in other corporations . . . . .	(36)	(4)
- shares in controlled entities . . . . .	(163)	-
- satellite consortia investments . . . . .	(4)	(2)
- investment in joint venture entities . . . . .	(37)	(22)
- investment in associated entities . . . . .	(131)	-
Investment expenditure . . . . .	(598)	(112)
Total capital expenditure . . . . .	(5,303)	(4,386)
Proceeds from:		
- sale of property, plant and equipment . . . . .	243	246
- sale of business . . . . .	-	50
- sale of listed securities and shares in other corporations . . . . .	129	14
- sale of shares in controlled entities . . . . .	27	1
- satellite consortia investments . . . . .	1	11
- sale of joint venture operation . . . . .	7	-
<b>Net cash used in investing activities</b> . . . . .	<b>(4,896)</b>	<b>(4,064)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings . . . . .	15,396	8,884
Proceeds from Telstra bonds . . . . .	495	-
Repayment of Telecom/Telstra bonds . . . . .	(81)	(359)
Repayment of borrowings . . . . .	(13,290)	(9,038)
Repayment of finance leases principal amount . . . . .	(26)	(169)
Dividends paid . . . . .	(4,375)	(1,802)
<b>Net cash used in financing activities</b> . . . . .	<b>(1,881)</b>	<b>(2,484)</b>
<b>Net increase/(decrease) in cash</b> . . . . .	<b>(230)</b>	<b>26</b>
<b>Cash at the beginning of the year</b> . . . . .	<b>974</b>	<b>948</b>
<b>Cash at the end of the year</b> . . . . .	<b>744</b>	<b>974</b>

The above statement of cash flows should be read in conjunction with the accompanying discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the "Annual Report 2000". This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

# Notes to the Concise Financial Statements

## 1. Accounting policies

The principal accounting policies adopted in preparing the concise financial report of Telstra Corporation Limited (referred to as the Telstra Entity) are included in the financial report which forms part of the detailed "Annual Report 2000".

The financial report which forms part of the "Annual Report 2000" complies with the requirements of the Australian Corporations Law, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and Australian generally accepted accounting principles. The financial statements and other disclosures included in this concise report have been derived from the financial report.

Accounting policies used during the year ended 30 June 2000 are consistent with those of the previous year, except for the following one on the deferral of mobile handset subsidies:

We changed our accounting policy associated with the treatment of mobile handset subsidies for fiscal 2000. From 1 July 1999, where mobile handsets are sold as part of service contracts lasting two years or greater, the cost of the subsidy is deferred and written off over the contract term. Prior to 1 July 1999, we expensed the cost of the subsidy in the year the contract was signed. The reason for the change in the accounting policy is to recognise that the provision of the subsidy is a cost of entering into the contract with a customer. This cost should be recognised over the life of the contract when the revenue is earned. As a result of the change in accounting policy, our net profit after tax for fiscal 2000 has increased by \$111 million. This was calculated as the deferral of mobile handset subsidies (\$255 million) less the amount charged to direct cost of sales (\$81 million) less the tax effect at 36% (\$63 million).

## 2. Segment information

### Industry segments

We operate mainly in the telecommunications industry which makes up more than 90% of our consolidated operating revenue, operating profit before income tax expense, and net assets.

### Geographical segments

Although our business units are managed on a worldwide basis, they operate mainly in one geographical location, being Australia. Overseas business operations do not form a significant part of our consolidated operations.

### Business segments

We announced a new business structure in the second half of the financial year ended 30 June 1999. This structure was effective for reporting purposes from 1 July 1999. The comparative amounts for fiscal 1999 have been changed to reflect the structure in place for fiscal 2000. Our business units under this structure are described below:

- Commercial & Consumer:
  - provides telecommunications services to more than seven million residential and small business customers;
  - manages sales, customer service installation and repairs, and billing;
  - manages information, connection and payphone services; and
  - builds and maintains the customer access network on behalf of the Network & Technology Group.
- Telstra Business Solutions is responsible for:
  - sales and services to larger businesses, the Commonwealth, State and Territory governments; and
  - from 1 April 2000 our investment in Advantra Pty Ltd.
- Telstra OnAir is responsible for:
  - mobile and wireless communications; and
  - managing the launch of the CDMA digital service.

## Segment information (continued)

- Wholesale & International is responsible for:
  - providing wholesale products and services to other carriers, carriage service providers and major domestic internet service providers;
  - development of wholesale products and pricing strategies; and
  - global wholesale and international retail businesses, including most overseas investments.
- Convergent Business manages:
  - data, internet, e-commerce, directories and multimedia businesses; and
  - our investments in the FOXTEL Partnerships, IBM Global Services Australia Limited, Advantra Pty Ltd (up to 31 March 2000), Computershare Limited, Solution 6 Holdings Limited and Sausage Software Limited.
- Network & Technology Group's responsibilities include:
  - planning, design and operation of our fixed and mobile networks in Australia;
  - the associated systems and processes required to deliver products, services and customer support; and
  - research and development.
- Network Design and Construction Limited is responsible for the design, construction and maintenance of networks on behalf of Telstra and the external market.
- Corporate Centre is responsible for finance and administration, legal and regulatory, employee relations, public affairs and corporate marketing.

We manage these business units separately based on differences in types of customer or strategic objectives.

Network Design and Construction and the Corporate Centre are not reportable segments and have been added together in the "Other" segment for reconciliation and disclosure purposes.

### Inter-segment transfers

Segment revenues, segment expenses and segment results include transfers between business segments. Generally most internal charges between business segments are made on a direct cost recovery basis. We account for all international transactions made between Australian and non-Australian businesses at market value. All internal telecommunications usage of our own products is also accounted for at market value. Certain regulatory, compliance and strategic functions are not charged to the reportable segments.

### New business structure announced in the second half of fiscal 2000

We announced a new business unit structure in May 2000 including the formation of Telstra Country Wide to better serve regional, rural and remote customers. This new reporting structure is effective from 1 July 2000 and will appear in our financial report for fiscal 2001.

### Information about business segments

#### Telstra Group

	Commercial & Consumer	Telstra Business Solutions	Telstra OnAir #	Wholesale & International	Convergent Business	Network & Technology Group	Other	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Year ended 30 June 2000</b>									
Segment revenue									
Sales revenue from external customers . . . . .	5,791	5,392	3,002	2,895	1,354	3	142	30	18,609
Inter-segment revenue . . . . .	719	445	35	1,048	79	5,003	2,464	(1,933)	7,860
Earnings before interest, abnormals and tax . . . . .	1,600	2,288	832	1,202	196	245	77	49	6,489
<b>As at 30 June 2000</b>									
Segment assets (a) . . . . .	9,404	13,797	2,312	4,121	1,023	15,681	(14,832)	(1,167)	30,339

# In fiscal 2000 we changed our accounting policy associated with the treatment of mobile handset subsidies. This increased the EBIT for Telstra OnAir in fiscal 2000 by \$174 million.

Segment information and abnormal items

Telstra Group

	Commercial & Consumer	Telstra Business Solutions	Telstra OnAir	Wholesale & International	Convergent Business	Network & Technology Group	Other	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Year ended 30 June 1999</b>									
Segment revenue									
Sales revenue from external customers . . . . .									
	5,882	5,254	2,655	2,458	1,241	1	46	34	17,571
Inter-segment revenue . . . . .									
	757	471	50	911	1	4,586	1,285	(143)	7,918
Earnings before interest, abnormals and tax . . . . .									
	1,593	2,376	732	722	103	289	(42)	76	5,849
<b>As at 30 June 1999</b>									
Segment assets (a) . . . . .									
	7,731	12,015	842	2,776	892	15,123	(11,357)	(340)	27,682

(a) Segment assets are those assets that are used by a segment in its operating activities and can be allocated directly to that segment. The segment assets of the "Other" segment include the cashflow funding requirements of the six disclosed operating business segments.

	Telstra Group	
	Year ended 30 June	
	2000	1999
	\$m	\$m

**3. Abnormal items**

Our operating profit before income tax expense has been calculated after charging/(crediting) the following abnormals:

**Abnormal items:**

Revenue from JORN contract (i) . . . . .	(734)	-
Expenses in performing obligations under JORN contract (i) . . . . .	734	-
	-	-
Amount charged for income tax expense . . . . .	-	-
	-	-
Redundancy and restructuring provision (ii) . . . . .	572	-
Amount credited for income tax expense . . . . .	(206)	-
	366	-
Total abnormal items before income tax expense . . . . .	572	-
Total amount credited for income tax expense . . . . .	(206)	-
Total abnormal items after income tax . . . . .	366	-

(i) On 13 June 1991, we entered into a contract with the Commonwealth to design, construct, install and maintain the Jindalee Operational Radar Network (JORN). Over the period of the contract we have recorded provisions for losses of \$585 million (with \$394 million disclosed as an abnormal item in the 1997 financial report).

On 14 February 1997, we entered into arrangements with Lockheed Martin Corporation and loss statement. There is no amount charged

and Tenix Defence Pty Ltd to manage the JORN project.

As Lockheed Martin and Tenix Defence Pty Ltd have assumed full responsibility for the JORN project, we have recorded both the revenue (progress billings) and the expenses (net of provision of \$585 million) associated with this project. Due to the size of the amounts they have been recognised as an abnormal item in the profit for income tax expense.



## Dividends and events after balance date

(ii) The redundancy and restructuring abnormal item of \$572 million before tax consists of two components:

- \$86 million relates to amounts paid to 1,374 staff made redundant from 1 March 2000 to 30 June 2000; and
- A provision of \$486 million has been raised in the financial statements and relates to the 8,272 staff to be made redundant over the two years to 30 June 2002. The two year

redundancy plan was approved prior to 30 June 2000 and the amount raised represents the estimated redundancy and associated costs to be paid as a result of the implementation of this plan.

The amount credited for income tax expense was \$206 million with a net amount after income tax expense of \$366 million.

	Telstra Group	
	Year ended 30 June	
	2000	1999
	\$m	\$m

## 4. Dividends

### Ordinary shares

Interim dividend paid . . . . .	1,029	901
Final dividend		
- ordinary dividend provided for or paid . . . . .	1,287	1,287
- special dividend paid . . . . .	-	2,059
Total final dividend provided for or paid . . . . .	1,287	3,346
	2,316	4,247

The interim dividend for 2000 was franked to 49.17%. The interim dividend for 1999 and the final dividend for 2000 were fully franked. The 1999 final dividend of 26 cents per share (\$3,346 million) was franked to 38.46%.

Every two shares sold by us in Computershare had 'attached' to it an exchange traded warrant over one further share. The warrants have a strike price of \$8.25 and can be exercised on 26 July 2001.

## 5. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 30 June 2000 that, in their opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

### Computershare Limited

On 13 July 2000, our controlled entity, Telstra CB.Com Limited, sold approximately 53.3 million ordinary shares in Computershare Limited (Computershare) at \$7.25 per share, representing 10% of the issued capital of Computershare.

Revenue received from the sale of 53.3 million ordinary shares was approximately \$386 million, representing profit before tax of \$187 million to us.

If all the warrants are exercised, our remaining shareholding in Computershare will be sold. In such a case, we would receive \$220 million further revenue and would remove the remaining investment from our balance sheet.

As a result of this transaction, our voting interest in Computershare was reduced on 18 July 2000 to 26,636,460 ordinary shares. Under the transaction arrangements, we will retain an approximate 5% shareholding in Computershare for a minimum period of 12 months. We believe we can continue to pursue opportunities with Computershare which are of mutual interest

without the need to retain our pre-existing level of shareholding.

#### Keycorp Limited

On 21 July 2000, the Telstra Entity and Keycorp Limited, a listed Australian public company (Keycorp), announced the signing of a term sheet between the parties to build a global full service end-to-end internet payments service provision business. Combined, the two companies will be able to offer integrated payment and internet solutions to better meet the needs of financial institutions and their merchant customers.

We have agreed to subscribe for 38.7 million shares representing approximately 51% of the enlarged fully diluted share capital of Keycorp for a total consideration of approximately \$515 million (equating to \$13.30 per Keycorp share). As part of this relationship and the consideration for the above subscription, our EFTPOS payments carriage, installation and maintenance business will be combined with Keycorp's business. Keycorp will operate as an independent company and continue to service its customers. As Keycorp is a listed company, at 51% ownership level we would consolidate Keycorp into the Telstra Group subject to the conditions being reached with Keycorp as outlined below.

Our investment in Keycorp is conditional upon the satisfactory completion of legal, regulatory and commercial requirements. Telstra or Keycorp may terminate the term sheet if any of those conditions are not satisfied by 15 November 2000 or, if at any time prior to subscription, the All Industries Index of the Australian Stock Exchange ('Index') rises or falls by more than 15% relative to the level of the Index as at the close of business on 20 July 2000 (the day before the date of the term sheet).

#### Removal of additional contributions to the TSS

Subsequent to balance date, the Trustee of the Telstra Superannuation Scheme ("TSS") and the Commonwealth (who guaranteed Telstra's payments) have agreed to release Telstra from its obligation to contribute \$121 million per annum to the TSS to 30 June 2011. As part of the terms of the release, Telstra has agreed to provide future employer contributions to the TSS sufficient to

maintain the vested benefits index (the ratio of fund assets to members vested benefits) in the range of 100-110 per cent. The Trustee agreed to the release of the obligation based on actuarial advice that the removal of these additional contributions, coupled with the employer contribution commitment from Telstra, will maintain the solvency level of the TSS at a satisfactory level. We do not expect to commence contributions to the TSS until at least 30 June 2003 provided the performance of the TSS is satisfactory over this period.

The additional contributions to the TSS are recorded as a liability on our balance sheet as at 30 June 2000. As the release occurred after 30 June 2000 the liability as at 30 June 2000 will be written back to the profit and loss statement in fiscal 2001 and will increase our result by \$478 million. This is calculated as: the writeback of the \$725 million TSS additional contribution liability less the tax effect at 34% which is \$247 million.

#### PCCW

On 24 August 2000, Telstra and Pacific Century CyberWorks Limited ("PCCW"), a Hong Kong based telecommunications company, announced that subject to definitive agreements and certain other conditions including the obtaining of all necessary regulatory, shareholder and third party approvals, they have reached agreement in principle on the key terms relating to their strategic Pan-Asian alliance announced on 13 April 2000. The parties have reached agreement in principle on the following aspects of the alliance:

- A merger of some of the businesses and assets of Telstra and PCCW to create a 50:50 joint venture operating a global Internet Protocol backbone business (IP Backbone Company). This IP Backbone Company will be a regional and global carrier of voice and data services and PCCW and Telstra will inject debt of up to US\$1.125 billion and US\$0.625 billion respectively, subject to IP Backbone Company retaining an investment grade rating;
- Telstra will purchase a 40% stake in the mobiles business of PCCW for US\$1.5 billion (Wireless Co). Wireless Co is intended to be

## Events after balance date (continued)

- the primary vehicle for the execution of Telstra's and PCCW's wireless strategy in Asia;
- Telstra will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres throughout Asia. IDC Co will initially focus on core hosting services; and
  - Telstra will invest US\$1.5 billion (A\$2.5 billion) in a PCCW convertible note, which is

repayable to Telstra, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

Telstra and PCCW expect to sign the alliance definitive documents later this year and are targeting completion by the end of this calendar year.

# Independent Audit Report to the members of Telstra Corporation Limited

## Scope

I have audited the concise financial report of Telstra Corporation Limited (the Company) and its controlled entities for the financial year ended 30 June 2000 as set out on pages 38 to 49, in order to express an opinion on it to the members of the Company. The Company's directors are responsible for the concise financial report.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the concise financial report is free of material misstatement. I have also performed an independent audit of the full financial report of the Company for the year ended 30 June 2000. The audit report on the full financial report was signed on 30 August 2000, and was not subject to any qualification.

The procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These

procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

## Audit Opinion

In my opinion, the concise financial report of Telstra Corporation Limited and its controlled entities complies with Accounting Standard AASB 1039 "Concise Financial Reports".



**PJ Barrett**  
Auditor - General

Melbourne  
30 August 2000

# Emoluments for board members and senior executives

## Remuneration strategy and relationship to company performance

Telstra's senior manager remuneration strategy is designed to provide competitive total reward levels conditional upon the achievement of business improvement and personal performance accountabilities. Approximately 40% of targeted senior manager total remuneration is variable, or "at risk" pay, dependent on meeting defined goals. The proportion of "at risk" benefit is transitioning to make up approximately 45% to 65% of design reward in the future. Incentive plans and personal performance reviews are based on

fundamental improvement drivers and increased shareholder value.

## Non-executive directors' remuneration

Remuneration for non-executive directors for fiscal 2000 was comprised of a fixed annual base fee and superannuation. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the board or committees or when otherwise engaged on the business of the company in accordance with board policy.

Name	Position	Base fee \$	Other benefits (1) \$	Total reward \$
Robert C Mansfield	Director from 12 November 1999 and Chairman from 1 January 2000	106,630	4,536	111,166
David M Hoare	Chairman and Director until 31 December 1999	58,175	4,072	62,247
John T Ralph	Deputy Chairman	89,775	4,859	94,634
N Ross Adler	Director	62,500	3,500	66,000
Anthony J Clark	Director	57,500	3,500	61,000
Michael H Codd	Director until 12 November 1999	18,750	424	19,174
Malcolm G Irving	Director	62,500	875	63,375
Donald G McGauchie	Director	57,500	3,500	61,000
Cecilia A Moar	Director	57,500	3,500	61,000
Elizabeth A Nosworthy	Director	70,000	3,500	73,500
Christopher I Roberts	Director	57,500	3,500	61,000
John W Stocker	Director	62,500	3,500	66,000
Stephen W Vizard	Director	57,500	3,500	61,000

(1) Other benefits include superannuation

## DirectShare

For fiscal 2001 directors will receive 20% of their remuneration by way of restricted Telstra shares. The shares will be purchased on market and allocated to the participating director at market price. The shares will be held in trust for a period of 5 years unless the participating director earlier ceases with the Telstra Group.

## Senior executive remuneration

Telstra's senior manager remuneration strategy provides competitive remuneration aimed at:

- aligning managers' rewards with shareholders' interests;
- supporting business plans and corporate strategies; and
- rewarding performance improvement.

Senior managers participate in an annual performance review process that assesses the individual's performance against set key accountabilities. Performance against these accountabilities impacts directly on their annual incentive payments and salary movements.

#### Senior executive remuneration components

Telstra's senior manager remuneration consists of fixed and variable components:

- **Fixed remuneration**  
Total employment cost accounts for the total cost of all fixed remuneration items and is made up of salary, company superannuation contributions and benefits including fringe benefits tax.
- **Variable remuneration**  
Variable remuneration includes an annual incentive and a long-term incentive, both designed to reward managers for performance against set targets.
  - **Short-term incentive**  
The manager incentive plan rewards senior managers for meeting or exceeding specific key business objectives, at the corporate, business unit and individual level. The target incentive was between 18% and 25% of the total remuneration package, depending on the senior manager's role but for fiscal 2001 has been increased to between 19% and 27%. Measures and targeted achievement levels are reviewed each year to reflect changes in the business.
  - **Long-term incentive**  
A long-term incentive plan based on equity (Telstra Growthshare) was introduced in early fiscal 2000 to progressively replace the cash based long-term incentive plan. As a practical result of the Telstra Corporation Act, we are not able to issue new shares and therefore Telstra Growthshare purchases existing Telstra shares. Allocations are in the form of restricted shares and options over existing

shares, the right to exercise both of which vests when a performance hurdle is achieved. The performance hurdle is achieved if the average of the Telstra accumulation index on the ASX exceeds the average of the all industrials accumulation index for 30 consecutive days between the third and fifth anniversary of allocation. Options are then exercisable up to 10 years after the original date of allocation. The exercise price is the market price at the time of grant of the options. Restricted shares generally may not be traded for five years after initial allocation of the rights to obtain the shares.

Offers under Telstra Growthshare are made to managers at the discretion of the board. The number of options and restricted shares offered to each manager has been determined taking account of individual performance and other criteria judged relevant by the board. For fiscal 2001 and beyond, between 25% and 37% of total senior manager reward is to be delivered through Telstra Growthshare. Cumulatively over a five-year period the total number of shares and options over shares is not expected to exceed 1% of shares on issue.

The previous cash-based long-term incentive is being phased out, ceasing in 2001. It was a three-year incentive plan designed to reward senior managers for sustained achievement of business improvement. Rewards are based on the achievement of return on investment objectives over a three-year period and are derived from the strategic plan approved by the board. The plan also includes an annual payment based on dividends declared in respect of earnings. At target, the long-term incentive currently comprises 12% to 21% of the total remuneration package, depending on the senior manager's role.

#### Telstra employee share ownership plans

All employees, including senior managers of Telstra, who were classed as "eligible

employees” at 20 September 1997 and again on 27 August 1999 were eligible to participate in the Telstra Employee Share Ownership Plans, TESOP 97 and TESOP 99. The terms and conditions of participation in these plans for senior managers were the same as for all other employees.

### Telstra OwnShare

To facilitate managers increasing their share holding in Telstra, the board has approved the

introduction of a restricted share plan (Telstra OwnShare) for fiscal 2001 that enables managers eligible for an incentive payment to state a preference to take that incentive in the form of Telstra shares. The shares will be purchased on market and allocated at market value and held in trust for either a three or five year period (unless the manager leaves the Telstra Group earlier).

### Senior executive emoluments

Name and position	Remuneration				Telstra Growthshare (4)		
	Fixed <sup>(1)</sup> \$	Variable short term <sup>(2)</sup> \$	Variable long term <sup>(2)</sup> \$	Other <sup>(3)</sup> \$	Total \$	Restricted shares	Options
<b>Zygmunt Switkowski</b> Director and Chief Executive Officer	1,000,000	400,000	254,000	909	1,654,909	50,000	300,000
<b>Graeme Ward</b> former Group Managing Director, Public Affairs & Corporate Marketing	435,417	238,064	179,850	1,298,549	2,151,880	-	-
<b>Lindsay Yelland</b> former Group Managing Director, Telstra Business Solutions	525,000	210,000	121,000	1,117,120	2,033,120	-	-
<b>Peter Shore</b> former Group Managing Director, Commercial & Consumer	625,000	250,000	130,000	868,328	1,873,328	-	-
<b>John Losco</b> former Managing Director, Major Account Sales, Telstra Business Solutions	285,562	124,380	165,000	951,206	1,526,148	-	-
<b>Gerry Moriarty</b> Group Managing Director, Infrastructure Services & Wholesale	810,000	300,000	153,000	909	1,263,909	28,000	160,000

### Details of issues to all managers under Telstra Growthshare:

Issue date	Total options/restricted shares issued	Eligible managers participating	Exercise price	Expiry date	Allocation date	Market price at issue date
<b>Options</b>	3,370,000	45	\$8.02 <sup>(4)</sup>	13 Sept 2009	13 Sept 1999	\$8.02
<b>Restricted shares</b>	573,500	45	n/a	13 Sept 2004	13 Sept 1999	\$8.02 <sup>(4)</sup>

(1) This total employment cost is the sum of salary, benefits, all superannuation contributions and fringe benefits tax.

(2) Variable component relates to performance for the year ended 30 June 2000 and is based on the achievement of target performance for Telstra and the individual.

(3) Includes the benefit of interest free loans under TESOP 97 and TESOP 99 as well as payments made on cessation of service including accrued annual leave and long service leave.

(4) An option or restricted share represents a right to own a share in Telstra. Generally, options or restricted shares may only be converted to Telstra shares if a performance hurdle is satisfied in the performance period and a payment of the option price is made. The performance hurdle for options and restricted shares allocated in 1999 is that the average Telstra Accumulation Index must exceed the average All Industrials Index for thirty days within the performance period that is from the third anniversary of allocation up to but not including the fifth anniversary of allocation. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the tenth anniversary of allocation otherwise they will lapse. If the performance hurdle is satisfied in the performance period, restricted shares may be exercised at any time before fifth anniversary of allocation otherwise they will lapse. Once exercised, they become restricted trust shares and are held in trust for the manager generally to fifth anniversary of allocation. The market value was calculated as the weighted average price at which Telstra's ordinary shares were traded on the ASX during the 5 days prior to and including the allocation date. This resulted in a market value of \$8.02 that is also the exercise price for the options. Both the restricted shares and options are subject to a performance hurdle. If this hurdle is not achieved they will have a nil value and will lapse. As the achievement of the performance hurdle is uncertain a remuneration value is not attributed to the restricted shares or options in the above table. Under Telstra's US GAAP disclosures the Binomial option valuation model was used to determine the fair value for options for the purpose of inclusion in the potential compensation expenses. The value for the September 1999 allocation is \$1.38 per option.

# Investor Information

### Annual General Meeting

Telstra's 2000 Annual General Meeting will be held at 1.30pm (Melbourne time) on Friday, 17 November 2000 at the Melbourne Exhibition and Convention Centre. The meeting will be transmitted live to information meetings at other venues around Australia, details of which will be mailed directly to shareholders during October.

### Dividend Payment

A final fully franked dividend of 10 cents per share will be paid on 27 October 2000 to securityholders registered on the Telstra Share and IR Register on 22 September 2000. For Australian tax purposes, the dividend will be fully franked at the 34 per cent company tax rate.

### Dividend Policy

It is our current policy to declare ordinary dividends of at least 60 per cent of operating profit attributable to shareholders, subject to taking into consideration a number of commercial factors, including the interests of shareholders, cash requirements for future capital expenditures and investments, as well as relevant industry practice. However, in determining the dividends declared from earnings for the year ending 30 June 2001, we will exclude the 'once off' book profits that will arise from:

- any profit recorded in the proposed sale of our global wholesale assets to the IP Backbone joint venture company to be established with PCCW; and

- any profit resulting from the release from our obligations under the Telstra Additional Contributions agreement.

However, for dividends declared from earnings in fiscal 2002 and future years, it is our current intention that the dividends per share will not reduce on a year on year basis as a result of the alliance with PCCW, subject to continuing commercial considerations.

### Foreign ownership restrictions

The Telstra Corporation Act restricts foreign ownership. Foreign persons collectively cannot control more than 35 per cent of the non-Commonwealth owned Telstra shares, and individual foreign persons cannot control more than 5 per cent of them. Telstra will divest shares if an unacceptable foreign ownership situation arises. Telstra will also keep relevant stock exchanges advised of foreign ownership levels.

### Shareholding information and change of address

Questions relating to your shareholding, including share transfer, dividends or changing your mailing address, should be directed to the Telstra Share Registrar on FREECALL™ 1800 06 06 08\* or visit their website at [www.registrars.aprl.com.au](http://www.registrars.aprl.com.au)

### Removal from the Annual Report and Annual Review Mailing Lists

Shareholders who no longer want to receive the Annual Report or the Annual Review should advise the Share Registrar in writing or visit [www.registrars.perpetual.com.au/scripts/iws.dll](http://www.registrars.perpetual.com.au/scripts/iws.dll)

\*A free call unless from a mobile phone, which will be charged at the applicable mobile rate.

### How does tax reform affect my shares?

The introduction of the new tax system may change the capital gain tax (CGT) treatment of your shares if they are disposed of on or after 21 September 1999.

When Shares Acquired	Tax Treatment
Shares acquired before 21 September 1999 and held for at least 12 months	You have a choice of being taxed under either the old CGT rules (with increase in cost base for inflation being frozen as at 30 September 1999) or the new CGT rules where only 50 per cent (or two thirds for super funds) of the gain will be taxable at marginal tax rates
Shares acquired on or after 21 September 1999 and held for at least 12 months	50 per cent (or two thirds for super funds) of the gain will be taxable at marginal tax rates (without allowance for inflation)
Shares disposed of within 12 months of acquisition (regardless of when they were acquired)	The full gain will be taxable at marginal tax rates

From 1 July 2000, a refund for excess franking credits is available to Australian individual shareholders and complying superannuation funds.

It is important that you seek professional tax advice in relation to your shares to take into account your particular circumstances.



Shareholders choosing not to receive these reports will continue to receive all other shareholder information, including notice of the Annual General Meeting. It should be noted that these reports are also available on our website at [www.telstra.com.au/investor/](http://www.telstra.com.au/investor/) as downloadable files.

#### Products mentioned in the report

For more information about any of the products mentioned in this report, contact our customer service centre on 132 000.

#### When do I have to make the final payment on my T2 Instalment Receipts?†

The Telstra Instalment Receipts Trustee (The Trustee) will have to receive your payment by 5.00 pm on Thursday, 2 November 2000.

A Notice of Final Instalment Payment would have been sent to all Instalment Receipt holders in September.

To ensure that your payment is processed in time:

- follow the directions for paying on the Notice of Final Instalment Payment; and
- pay your final instalment as soon as possible.

The Trustee will not be issuing any receipts or acknowledgements, but will post you a statement of your shareholding on 20 November 2000.

#### How much do I have to pay on my T2 Instalment Receipts?†

You must pay the total amount shown on the Notice of Final Instalment Payment. The amount is calculated as follows:

- If you are entitled to the loyalty discount, the final payment is A\$2.90 on each Instalment Receipt;
- For all other Instalment Receipts, the final payment is A\$3.05 per Instalment Receipt.

#### What happens if I do not pay the final T2 instalment on time?†

If the Trustee does not receive the total amount due by 2 November 2000, it can sell some or all of the underlying Telstra shares to recover the total amount you owe. You will lose your entitlement to any loyalty discount. You will also have to pay administrative fees of A\$55 (including GST) for each notice, share sale fees of A\$50 (including GST), brokerage and interest. You could also have to pay any outstanding amount if there is not enough to cover the total amount after selling your shares.

#### When I make the final instalment, what actually happens to my holding of Instalment Receipts?†

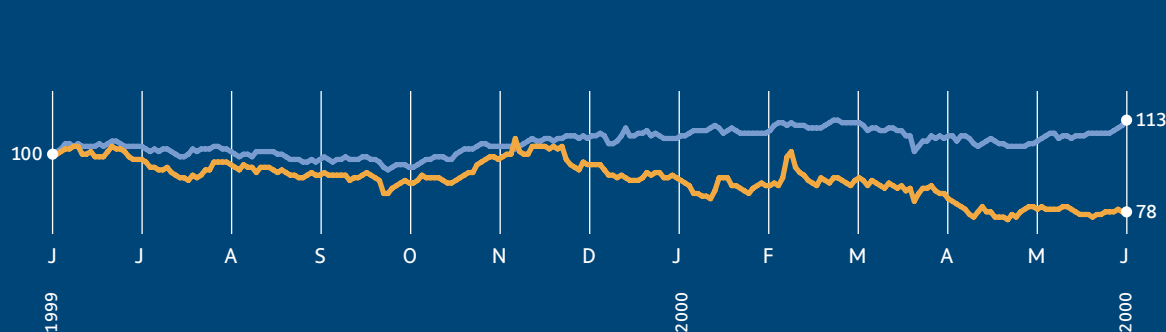
If you pay the final instalment as shown on the Notice on time, the Trustee will transfer your shares to you on 18 November 2000 and mail you a statement of your shareholding on 20 November 2000.

#### I have some more questions about my Instalment Receipts.†

In the first instance, please refer to your prospectus or, if necessary, call the Telstra 2 Share Offer – Final Payment Inquiry Line on FREECALL™ 1800 18 18 18.\*

†Applicable to Australian retail instalment receipt holders. Refer to the prospectus for detailed conditions.

\*A free call unless from a mobile phone, which will be charged at the applicable mobile rate.



Telstra —  
All Ords —

Note: Telstra's share price and the All Ordinaries Index have been indexed at 100 as from 30 June 1999 to allow a meaningful comparison.

# Harnessing the power of the

**Go online for all your shareholder information.** As a valued shareholder, we are committed to improving the way we communicate with you. We view the use of the internet as a key driver for Telstra to provide relevant information, efficiently and economically.

**Going online cuts costs AND improves communication.** Each year Telstra publishes a range of printed material to keep its shareholders well informed about the company's performance. The cost of printing and distributing this material is significant.

By going online, shareholders will not only help Telstra manage costs, they will also gain access to more information, more often. The Interactive Annual Review, share prices, media releases and shareholder details direct from the share registry are available online 24 hours a day.

Become an online shareholder now, it's easy.  
Just follow the 2 simple steps set out below.

## 2 easy steps to joining online:

- Step 1:** Go to <http://www.registrars.perpetual.com.au/scripts/iws.dll> to access the registration area allocated to register your request to **no longer** receive the Annual Review and Half-year Report in hard copy.
- Step 2:** Go to Telstra Investor Relations at [www.telstra.com.au/investor/](http://www.telstra.com.au/investor/) to access the Interactive Annual Review and other documents.

If you wish to speak to one of our helpful staff regarding your internet connection please call **131 282**.

# internet

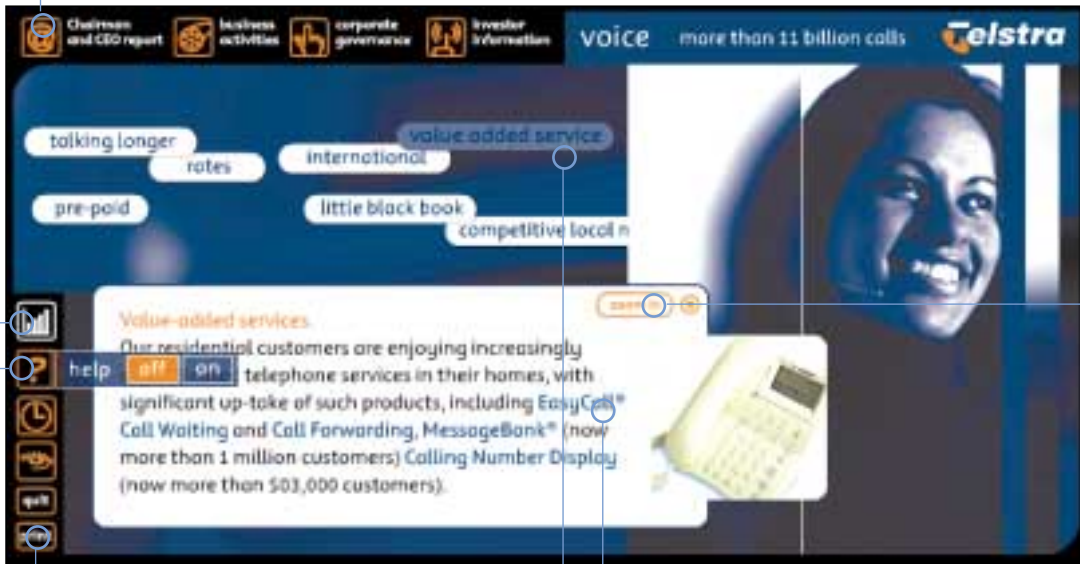
click to Telstra's online Annual Review

« <http://www.telstra.com.au/investor/> »

Contents symbols indicate main sections in Review. Click on these to navigate.

Growth indicators. Click to reveal interactive graphs with historical comparative figures.

Includes full contextual help and other interactive tools.



Zoom symbol enlarges the view of all text and charts

Print symbol for outputting hard copies from your printer. Selecting the quit symbol will take you back to telstra.com™

Text and images are activated by selecting a heading.

Text is hotlinked throughout to telstra.com™ products and services.

## Features of the Interactive Telstra Annual Review 2000

- easy navigation – a help tool has been developed providing instructions to help you through the site
- key facts – detailed information about Telstra's performance
- more financial information – the interactive review allows us to provide you not only the latest results, but the opportunity to compare historical figures
- connect to product information sites
- print copies – all information can be printed if you require a hard copy.

Operating revenue totalled \$19,840 million > an increase of 8.9%

## Investor Information cont.

### Five year financial summary:

	2000 A\$m	1999 A\$m	1998 A\$m	1997 A\$m	1996 A\$m
Sales revenue	18,609	17,571	16,703	15,430	14,716
Operating revenue	19,840	18,218	17,302	15,983	15,239
EBITDA <sup>(1)</sup>					
– before abnormals	9,135	8,351	7,375	6,597	6,021
– after abnormals	8,563	8,351	7,375	4,793	6,226
EBIT <sup>(2)</sup>					
– before abnormals	6,489	5,849	5,053	4,244	3,670
– after abnormals	5,917	5,849	5,053	2,406	3,875
Profit before tax					
– before abnormals	5,921	5,320	4,468	3,805	3,242
– after abnormals	5,349	5,320	4,468	2,073	3,447
Profit after tax and minorities					
– before abnormals	4,043	3,486	3,004	2,568	2,174
– after abnormals	3,677	3,486	3,004	1,617	2,305
Dividend	2,316	4,247	1,802	4,146	1,368
Total Assets	30,339	27,682	26,470	25,858	24,362
Gross Debt	9,821	7,211	7,722	7,981	5,143
Net Debt	8,531	5,769	6,458	7,036	3,739
Shareholders' equity	11,602	10,294	11,079	9,938	12,668
Operating cashflow	6,547	6,574	5,635	5,254	4,478
Cash used in investing	(4,896)	(4,064)	(3,609)	(4,171)	(3,870)
Cash used in financing	(1,881)	(2,484)	(1,808)	(1,572)	(1,659)
Net movement	(230)	26	218	(489)	(1,051)
Capital expenditure and investments	5,428	4,478	3,973	4,504	4,071
<b>Financial Ratios</b>	%	%	%	%	%
Return on average assets					
– before abnormals	23.2	22.7	20.1	17.7	16.6
– after abnormals	21.2	22.7	20.1	10.1	17.5
Return on average equity <sup>(3)</sup>					
– before abnormals	37.0	29.9	28.7	20.1	17.9
– after abnormals	33.7	29.9	28.7	12.7	18.9
Interest cover (times)					
– before abnormals	9.4	9.4	7.6	9.7	8.6
– after abnormals	8.5	9.4	7.6	5.5	9.0
Gross debt to capitalisation <sup>(3) (4)</sup>	45.8	36.9	41.1	44.5	28.9
Net debt to capitalisation <sup>(3) (5)</sup>	42.4	31.8	36.8	41.5	22.8

(1) Operating profit before interest received/receivable, interest expense (borrowing costs), depreciation and amortisation and income tax expense. EBITDA before abnormals is used as a measure of financial performance by excluding certain variables that affect operating profit but, which may not directly relate to all financial aspects of the operations of the company. EBITDA before abnormals is not a measure of operating income, operating performance or liquidity under Australian GAAP.

(2) EBIT before abnormals less depreciation and amortisation.

(3) Excludes the effect of the special dividend of A\$2,059 million provided for in the financial statements as at 30 June 1999.

(4) Based on gross debt (total current and non-current borrowings) as a percentage of gross debt plus the shareholders' equity.

(5) Based on net debt (gross debt less interest bearing assets and loans to employees) as a percentage of net debt plus shareholders' equity.

# Financial Calendar 2001

Half-year result announced Wednesday 7 March

Ex-dividend share trading starts Monday 19 March

Record date for interim dividend Friday 23 March

Interim dividend paid Friday 27 April

Annual result announced Wednesday 29 August

Ex-dividend share trading starts Monday 17 September

Record date for final dividend Friday 21 September

Final dividend paid Friday 26 October

Annual General Meeting Friday 16 November

Note: Timing of events can be subject to change

## Contact details

### Telstra Corporation Limited

Incorporated in the Australian Capital Territory

Telstra is listed on Stock Exchanges in Australia, New Zealand (Wellington), and USA (New York)

### Registered Office

Level 41, 242 Exhibition Street  
Melbourne Victoria 3000 Australia

Michael Montalto  
Company Secretary  
Ph: (03) 9634 6400

### Principal Australian Offices

242 Exhibition Street  
Melbourne Victoria 3000 Australia

231 Elizabeth Street Sydney  
New South Wales 2000 Australia

### Investor Relations Unit

Level 36, 242 Exhibition Street  
Melbourne Victoria 3000 Australia

Wayne Treeby  
General Manager

### The Telstra Share Registrar

ASX Perpetual Registrars Limited  
PO Box 14300 MELBOURNE CITY MC Victoria 8001  
Australia: FREECALL™ 1800 06 06 08\*  
All other: (613) 9615 9999  
Facsimile: (613) 9615 9911

### Annual Report Hotline

To receive further copies of the Annual Review or copies of the detailed Annual Report, please call FREECALL™ 1800 06 06 08\*

### Website

This review and the Annual Report may also be found via Telstra's Investor Relations home page at:  
<http://www.telstra.com.au/investor/>

### Depository for American Depositary Receipts and Interim American Depositary Receipts

The Bank of New York  
Level 22, W  
101 Barclay Street  
New York, New York 10286  
Ph: (212) 815 5838  
Facsimile: (212) 571 3050

\*A free call unless from a mobile phone, which will be charged at the applicable mobile rate.

Everyone, everywhere,  
needs to communicate,  
**everyday.**<sup>TM</sup>



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