1 October 2001

Office of the Company Secretary

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242 Exhibition Street
MELBOURNE VIC 3000
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Telephone 03 9634 6400
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The Manager
Company Announcements Office
Australian Stock Exchange
10th Floor, 20 Bond Street
SYDNEY NSW 2000

ELECTRONIC LODGEMENT

Dear Sir or Madam

Re: Telstra Corporation Limited Annual Report

In accordance with Listing Rules I enclose an announcement for release to the market.

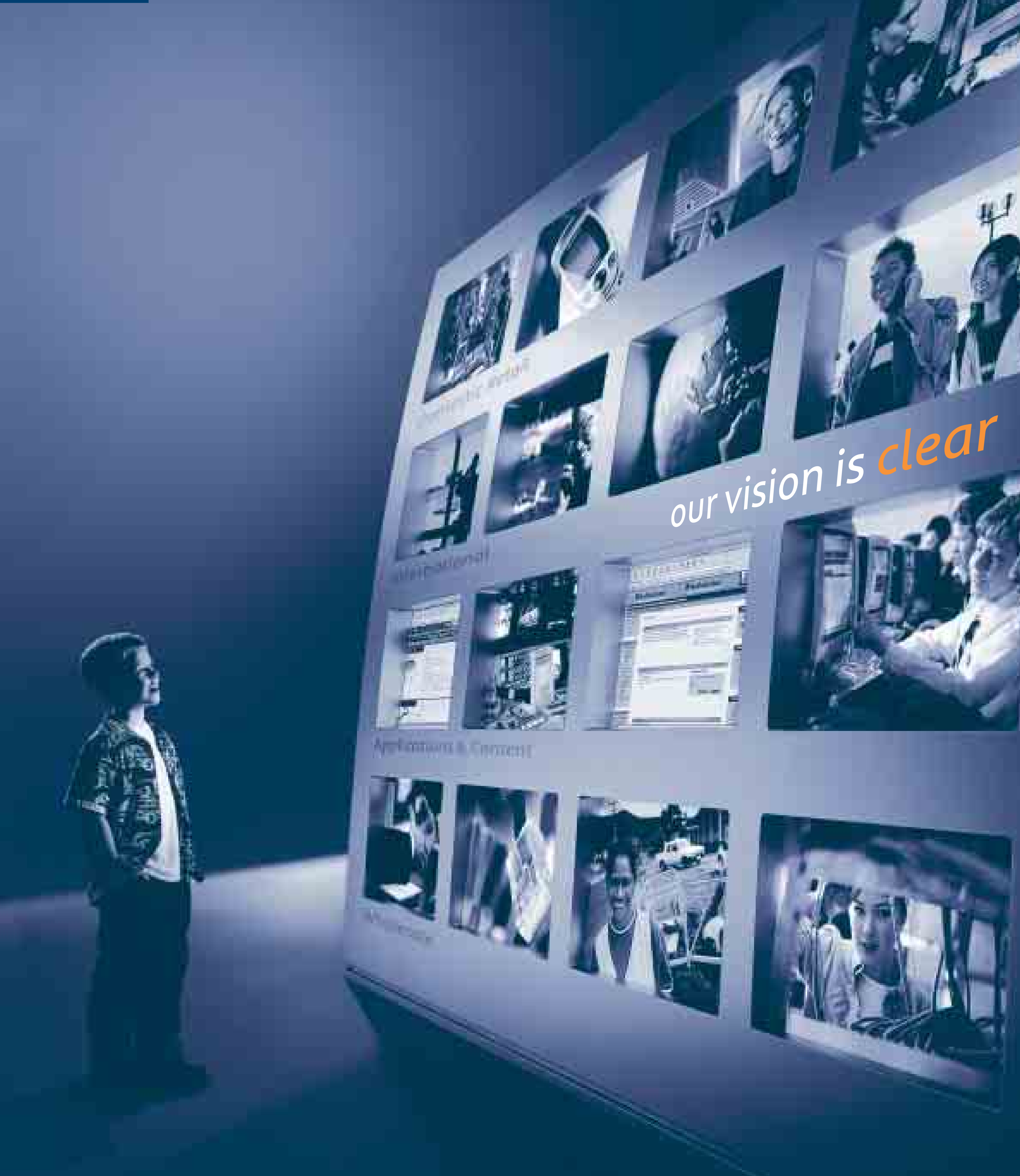
Yours sincerely

Douglas Gration
Company Secretary

Telstra Corporation Limited
ACN 051 775 556
ABN 33 051 775 556

Telstra

Annual Report 2001



We are providing our report to shareholders in two parts:

- Annual Review 2001
- Annual Report 2001

Both parts will be lodged with the Australian Stock Exchange (ASX) and the Australian Securities & Investments Commission (ASIC) and are available on the internet:

http://www.telstra.com.au/investor/

This Annual Report is a detailed report that has been prepared by Telstra Corporation Limited (Telstra) as part of its statutory annual reporting obligations under section 314 of the Australian Corporations Act 2001 (Cwth) and to fulfil the Form 20-F annual reporting obligations of the United States Securities and Exchange Commission (SEC). The Annual Report does not represent or summarise all publicly available information in relation to Telstra. There is other publicly available information in relation to Telstra that has been notified to the ASX and the ASIC. Some of this information has also been lodged with the SEC. Copies of documents lodged with the ASX and ASIC may be obtained from the ASIC and copies of documents lodged with the SEC may be obtained from the SEC.

Nothing in this Annual Report is or shall be taken to be an invitation or an application or offer to subscribe for or buy shares in Telstra.

Terms used in this report:

- **We, Telstra** and the **Telstra Group** – all mean Telstra Corporation Limited, an Australian corporation, and its controlled entities as a whole; and
- **Telstra entity** is the legal entity, Telstra Corporation Limited.

Our fiscal year ends on 30 June. Unless we state differently, the following applies:

- **Year** or a **fiscal year** means the year ended 30 June; and
- **2001** means **fiscal 2001** and similarly for other fiscal years.

All amounts are expressed in Australian dollars (A$), unless otherwise stated.

A glossary of other terms used is provided to assist with the general understanding of this report.
See “Contents” page 1.

Telstra Corporation Limited
Australian Business Number: 33 051 775 556
Registered Office: 41/242 Exhibition Street
Melbourne Vic 3000
Australia

Contents

(1) *This document includes the disclosure requirements of the US Securities and Exchange Commission (SEC) and will be lodged with the SEC as our annual report on Form 20-F for fiscal 2001. This column lists the item numbers of Form 20-F included in this report.*
The following items are omitted:
Items 1, 2, 12, 15 and 16: omitted as not applicable.
Items 13 (Defaults, dividend arrearages and delinquencies): omitted as there have been no defaults, arrearages or delinquencies.
Item 14 (Material modifications to the rights of security holders and use of proceeds): omitted as there have been no material modifications.

Summary Overview

General

We are Australia's leading telecommunications and information services company. We are one of Australia's largest corporations and have one of the best-known brands in the country. We offer a full range of services and compete in all telecommunications markets throughout Australia. Our main activities are to provide:

- telephone lines to homes and businesses;
- local and long distance telephone calls in Australia and international calls to and from Australia;
- mobile telecommunications services;
- a comprehensive range of data, internet and on-line services;
- management of business customers' information technology (IT) and/or telecommunications services;
- wholesale services to other carriers and carriage service providers;
- contact and information directories (White Pages™ and Yellow Pages®); and
- pay television services through an affiliate.

Our fixed telephony network extends across Australia and serves virtually all Australian homes and most Australian businesses. It has optical fibre on all major traffic routes and has a fully digital switching capability that allows us to develop and deploy a full range of modern products and services. As well as our basic telephony network, we have a variety of other delivery platforms over which we provide our services, such as:

- an integrated services digital network (ISDN);
- a high speed asymmetric digital subscriber line service (ADSL);
- switched data, transaction and digital data networks;
- a hybrid fibre co-axial cable broadband network that runs past 2.5 million homes;
- internet protocol virtual private networks (IP-VPN); and
- international submarine cables and international satellite infrastructure through affiliates.

We are the largest mobile telecommunications provider in Australia, with global system for mobile communications (GSM) and code division multiple access (CDMA) digital networks, together covering over 97% of the population and GSM international roaming to 90 countries.

Recognising the importance of data services and the internet to the future and their potential to transform the nature of the telecommunications industry, we continuously review our business, operations and networks to assess the changes required to enable us to compete effectively in growing data markets. We are expanding our range of data products and developing our content-based businesses, such as internet and e-commerce, pay television services and directories. We have established strengths in products such as internet access and electronic directories.

We have maintained our position as the largest internet service provider in Australia. We had nearly 1.8 million internet users at 30 June 2001, and our Australian White Pages™ *OnLine* web site is among the most frequently visited in Australia.

We have devoted considerable resources over recent years to upgrade and modernise our networks and systems. This programme has increased our flexibility and expanded the range of products and services that we can offer our customers in our traditional telephony markets as well as mobile telecommunications and emerging data and internet markets.

Price falls in most product categories and market share losses, (though at a reduced rate) and largely driven by the effects of regulation, as competitors intensified the pursuit of business in a slowing market, are

Summary Overview

combining to impact growth. Ongoing cost containment is necessary while we focus on areas that may deliver long-term revenue growth. Over the last two years, we have implemented a major "next generation" cost reduction (NGCR) programme. For more information on this programme and our cost reduction efforts, see "Operating and Financial Review and Prospects".

Over the last several years, we have focused on improving our operating efficiency and on changing our corporate culture to be more commercially oriented and more customer focused. Our efforts have included:

- enhancing the efficiency of our networks, systems and processes;
- improving work practices; and
- systematically reviewing our cost structures and the way we deliver services to our customers.

Our initiatives have allowed us to achieve cost efficiencies in many areas and have resulted in a significant reduction in the number of full-time employees, particularly over the last seven years. We are committed to continuing our review of areas of the business where we believe cost efficiencies can be achieved. For more information see "Directors, Management and Employees - Employees".

In February 2001, we completed a strategic alliance with Pacific Century CyberWorks Limited (PCCW), a Hong Kong-based company. The alliance comprises Reach Ltd (Reach), one of the leading providers of voice, data and internet connectivity in the Asia-Pacific Region and Joint Venture (Bermuda) No. 2 Limited, referred to as Regional Wireless Company Ltd (RWC), which owns and operates one of Hong Kong's leading mobile telephone businesses, Hong Kong CSL Limited (Hong Kong CSL). For more information, see "Information on the Company - International investments".

In addition to these Asian investments, we continue to review investment opportunities that offer us substantial strategic and financial investments overseas and in Australia.

Business strategy

Our vision is to enhance our position as the leading full-service telecommunications and information services company in Australia and to expand our presence internationally. To realise this vision, increase shareholder value and compete successfully, we have developed a growth strategy focusing on four key strategic areas:

- Domestic retail operations;
- Applications and content;
- International expansion; and
- Domestic wholesale services.

Grow returns from our domestic retail operations

Our domestic retail operations remain the main focus and most important part of the company, providing the cash flow to continue to invest and develop the business. Our fixed line retail business serves residential, small and medium enterprises (SME) and corporate customers, offering a full suite of fixed line services and solutions. Our mobile retail business offers nationwide coverage over two high quality networks, one GSM and one CDMA.

We are improving our marketing and sales activities, controlling our costs and improving our customer service by:

- offering a broad range of customer focused product packages that include mixes of traditional fixed line products with new products, such as broadband high speed internet access (available via cable, ADSL and satellite) and wireless telecommunications;

Summary Overview

- offering an increasing number of high speed internet access products. In fiscal 2001, we introduced ADSL services and we continue to expand the number of exchanges through which this service is available. By the end of June 2001, ADSL was accessible through 577 ADSL-enabled exchanges;
- adding value to our existing range of data, voice and mobile services by offering a broad range of managed solutions to our business customers. This management layer extends from simple and replicable management of customers' data networks to comprehensive outsourcing of corporate customers' IT infrastructure;
- driving continued growth in mobile subscribers. During fiscal 2001, we changed our focus slightly to ensure that we maintain the premium customer base within Australia and grow the value of that customer base;
- implementing strategies to drive the growth of mobile data services, including:
  - the use of short messaging services (SMS);
  - a comprehensive wireless application protocol (WAP) service;
  - continuing to develop and encourage take-up of 2.5G services through the nationwide launch of our general packet radio service (GPRS) network; and
- focusing on cost reduction.

Move our business into applications and content

We also see growth opportunities for our business in the data, internet, e-commerce and content-based markets. As telecommunications, computing and media technologies converge, we intend to focus on enhancing our capabilities to provide services more efficiently, develop new and innovative products and expand further into these markets. Growth from converging technologies and products and services may be developed internally, or externally by investment in synergistic businesses.

Telstra has developed an extensive range of networking solutions and applications to meet customer requirements in an environment that is increasingly focused on the use of IPs. Telstra's family of IP solutions, including wideband IP, private IP and dial IP, provide all business market segments with a flexible and smarter means of connecting offices and users via Telstra's IP network. Applications such as storage on demand and secure corporate access to the internet are value-added applications that are delivered via Telstra's IP solutions. Telstra's high speed data services such as frame relay and asynchronous transfer mode (ATM) continue to accommodate business customer requirements for domestic and global data solutions.

We intend to enhance our capabilities across a number of content services and access and delivery technologies to position ourselves to take advantage of opportunities in this rapidly changing and uncertain business environment as they unfold.

Our 50%-owned FOXTEL pay TV business and telstra.com®, our internet portal, are examples of the opportunities available in the applications and content arena, which use the inherent strengths of our networks and systems.

International expansion focused on Asia-Pacific

We believe we can increase our revenues and earnings from outside Australia, especially throughout the Asia-Pacific region, through:

- our existing Asian investments. Our businesses focus on wireless services and voice, data and internet connectivity services in the Asia-Pacific region, anchored by:

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  - our 60% controlling interest in Hong Kong CSL (through RWC);
  - our 50% interest in Reach; and
- exploring other selected international investment, acquisition and alliance opportunities generally, particularly in enterprises engaged in mobile telecommunications, data, the internet or content-based businesses.

Continue to grow wholesale revenues by enhancing our position as provider of choice for wholesale services in Australia

As the telecommunications markets continue to expand, we intend to optimise our wholesale earnings by improving and expanding our product and service offerings in Australia. We believe that growth opportunities exist for carriers that offer commercially attractive terms and conditions and value-added wholesale services, such as managed network services. We have shaped our domestic wholesale strategy to pursue these opportunities.

Competitive and regulatory environment

Competition began in the national long distance and international telephone service markets in 1991 and in the mobile telephone service market in 1992. On 1 July 1997, the Commonwealth Government opened the Australian telecommunications markets to full competition by removing the limit on the number of carriers that may enter the market and substantially amending the regulations that apply to providers of telecommunications services. This open market environment has been operating for four years and at 30 June 2001 there were approximately 70 licensed carriers and 1,000 internet service providers (ISPs), including 120 providers who are also carriage service providers, competing in Australia.

While this environment presents significant challenges for us, we believe it also provides opportunities for us and our strategy is designed to take advantage of these opportunities. The open competitive environment has caused us to take on a more commercially oriented and customer focused approach.

Since the introduction of competition, our share of the Australian telecommunications market revenues has gradually declined. However, the effects of this decline on our revenues have been offset in part by growth in the telecommunications market overall. We expect that these trends will continue as competition increases and demand for products and services, particularly mobile telecommunications products, data and internet, help expand the overall market. We expect that growth in the telecommunications market will be less than in previous years but still in excess of gross domestic product (GDP). We expect that existing strong competition in the mobile telecommunications, national long distance, international telephone and data markets will continue. Now we also face strong competition for basic access and local call services where competition was previously limited. We expect that new and existing competitors will continue to develop their own telecommunications infrastructure and services in key markets as well as new products based on access to our services and facilities.

As this open market environment is still evolving, we are uncertain how future competition and regulatory decisions will affect our business. The Australian Competition and Consumer Commission (ACCC) and the Australian Communications Authority (ACA) oversee the overall regulatory framework and over the last four years have increased their level of activity in telecommunications markets. For more information on the competitive and regulatory environments in which we operate, see "Competition and Regulation".

Key Information

Selected financial data

We recommend that the following information be read in conjunction with our financial statements, the accompanying notes and other information included in this report.

Our selected data is from the following sources:

- Financial data. This has been derived from our audited consolidated financial statements and accompanying notes which were prepared in accordance with Australian GAAP. Where this differs in material respects from US GAAP, these differences are shown in note 30 to the financial statements.
- Statistical data. This represents management's best estimates.

Financial data

	Year ended 30 June					
	2001	**2001**(1)	2000	1999	1998	1997
	(in millions, except per share amounts)					
	A$	**US$**	A$	A$	A$	A$
Statement of Financial Performance Data						
Amounts in accordance with Australian GAAP:						
Revenue from ordinary activities(2)	**23,086**	**11,775**	20,581	18,220	17,288	15,983
Expenses from ordinary activities (excluding depreciation, amortisation and interest expense)(2)	**13,149**	**6,704**	11,956	9,820	9,864	11,139
Depreciation and amortisation	**2,871**	**1,464**	2,646	2,502	2,322	2,353
Profit before income tax expense	**6,297**	**3,215**	5,349	5,320	4,468	2,073
Net profit	**4,061**	**2,075**	3,673	3,488	3,000	1,609
Net profit available to Telstra Entity shareholders	**4,058**	**2,073**	3,677	3,486	3,004	1,617
Earnings per share(3)	**0.32**	**0.16**	0.29	0.27	0.23	0.13
Earnings per ADS(3)	**1.58**	**0.80**	1.43	1.35	1.17	0.63
Dividends provided for or paid(4)	**2,445**	**1,247**	2,316	4,247	1,802	4,146
Dividends per share(3)	**0.19**	**0.10**	0.18	0.33	0.14	0.32
Dividends per ADS(3)	**0.95**	**0.48**	0.90	1.65	0.70	1.61
Amounts in accordance with US GAAP:						
Operating revenue	**19,456**	**9,923**	19,343	17,571	16,703	15,430
Net income	**3,576**	**1,824**	4,093	3,416	2,674	1,136
Basic earnings per share(3)	**0.28**	**0.14**	0.32	0.27	0.21	0.09
Basic earnings per ADS(3)	**1.41**	**0.71**	1.59	1.33	1.04	0.44
Dividends per ADS(5)	**US$0.46**		US$1.07	US$0.45	US$0.37	US$1.27
Statement of Financial Position Data (at year end)						
Amounts in accordance with Australian GAAP:						
Total assets	**37,473**	**19,111**	30,339	27,682	26,470	25,858
Current borrowings	**2,604**	**1,328**	3,316	2,265	2,935	1,560
Non-current borrowings	**11,386**	**5,807**	6,505	4,946	4,787	6,421
Shareholders' equity/net assets	**13,722**	**6,998**	11,602	10,294	11,079	9,938
Amounts in accordance with US GAAP:						
Total assets	**42,561**	**21,704**	34,536	31,108	29,868	28,965
Current borrowings	**2,604**	**1,328**	3,316	2,265	2,935	1,560
Non-current borrowings	**11,943**	**6,091**	6,505	4,946	4,787	6,421
Shareholders' equity/net assets	**17,795**	**9,075**	16,528	16,199	14,676	13,473

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Financial data

	2001	2001(1)	2000	1999	1998	1997
			Year ended 30 June (in millions)			
	A$	**US$**	A$	A$	A$	A$
Revenue from ordinary activities includes:						
Sales revenue - usual	**19,458**	**9,924**	18,609	17,571	16,703	15,430
Interest received/receivable	**103**	**53**	62	49	49	85
Proceeds from sale of assets/investments	**3,303**	**1,684**	842	330	266	202
Dividends received/receivable	**16**	**8**	12	13	20	38
Miscellaneous revenue (including unusuals)	**206**	**106**	1,056	257	250	228
	23,086	**11,775**	20,581	18,220	17,288	15,983
Expenses from ordinary activities (excluding depreciation and amortisation, and interest expense) includes:						
Book value of assets/investments sold - usual	**343**	**175**	503	308	313	218
Book value of assets/investments sold - unusual	**1,821**	**929**	-	-	-	-

(1) *Unless otherwise noted, all amounts have been translated at the noon buying rate on 30 June 2001 of A$1.00 = US$0.51, unless otherwise stated.*

(2) *For a breakdown of operating revenue by product group and a breakdown of operating expenses by expense category, see "Operating and Financial Review and Prospects".*

(3) *Calculated based on 12,866,600,200 shares and, in the case of ADS calculations, based on a ratio of five shares per ADS. Basic earnings per share for each year was the same as earnings per share fully diluted.*

(4) *During the year ended 30 June 2001, we declared and paid dividends of A$2,316 million (2001 interim dividend plus 2000 final ordinary dividend). During the year ended 30 June 2000, we declared and paid dividends of A$4,375 million (2000 interim dividend, 1999 final ordinary dividend plus 1999 final special dividend). During the year ended 30 June 1999, we declared and paid dividends of A$1,802 million (1999 interim dividend plus 1998 final dividend).*

(5) *Calculation as per (3) in US currency based on the exchange rates applicable at each payment date.*

Key Information

Statistical data

	Year ended 30 June 2001	2000	1999
Billable traffic data (in millions)			
Local calls (number of calls)	**11,198**	11,346	11,190
National long distance minutes[1]			
Fixed-to-fixed minutes	**8,833**	9,396	9,331
Fixed-to-mobile minutes	**3,268**	3,022	2,975
Total national long distance minutes	**12,101**	12,418	12,306
International outgoing minutes[2]	**877**	893	725
International incoming minutes	**747**	1,033	787
Mobile telephone minutes[3]	**5,383**	4,464	3,221
Network and operations data (at year end)			
Basic access lines in service (in millions)[4]			
Residential	**6.29**	6.51	6.87
Business	**2.47**	2.36	2.46
Total retail	**8.76**	8.87	9.33
Telstra wholesale	**1.30**	1.18	0.51
Total basic access lines in services	**10.06**	10.05	9.84
FaxStream® services access lines (in thousands)[5]	**413.0**	426.8	407.1
ISDN access lines (basic access line equivalents) (in thousands)[6]	**1,248.0**	1,048.8	722.3
Mobile telephone services (in thousands)			
GSM	**4,744**	3,766	2,762
CDMA	**469**	280	-
Total digital	**5,213**	4,046	2,762
Analogue	**-**	80	673
Total mobile services	**5,213**	4,126	3,435
BigPond™ subscribers (thousands)	**1,169**	702	415
Other on-line customers (thousands)	**622**	315	103
Total on-line customers	**1,791**	1,017	518
Broadband subscriptions[7]	**78**	29	12
FOXTEL cable subscribers (thousands)	**477**	457	414
FOXTEL direct to home satellite subscribers	**268**	180	82
Total FOXTEL customers	**744**	637	496
Value-added services (thousands)			
Easycall® call waiting customers	**5,604**	5,610	5,466
Fixed line MessageBank® customers	**1,414**	1,162	688
Calling number display customers	**785**	503	227
Employee data			
Full-time employees[8]	**44,874**	50,761	52,840

(1) *Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones to Australian fixed and mobile telephones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks, and FaxStream® services.*
(2) *International outgoing minutes for international settlement purposes also include minutes from mobile telephone services, ISDN and public payphones.*
(3) *Includes all calls made from mobile telephones including long distance, international and data calls.*
(4) *Excludes advanced access services, such as ISDN and FaxStream® services.*
(5) *Facsimile access product.*
(6) *Expressed in equivalent number of clear voice channels.*
(7) *Includes cable, modem, satellite and ADSL.*
(8) *Full-time employees include full-time staff, fixed term contracted staff and expatriate staff in overseas controlled entities including the employees of Keycorp and the Telstra employees that have accepted offers of employment with Reach but excluding 1,281 employees of Hong Kong CSL. As at 30 June 2001, Hong Kong CSL had 1,281 employees. It does not include a full-time equivalent measure of part-time and casual staff, overtime worked, full and part-time contracted staff and a measure of overseas local hires. During the three-year period, full-time equivalents decreased, although only modestly in fiscal 1999 mainly due to an increase in temporary employees for our year 2000 work and contracted IT personnel. These figures also do not include work undertaken through outsourcing arrangements for work previously performed by employees. For these reasons and due to the full-service nature of our business, these measures of full-time employees may not be directly comparable with other telecommunications companies.*

Key Information

Exchange rate information

Our consolidated financial statements are shown in Australian dollars (A$) except where another currency is specified. For convenience, this report has translations of certain A$ into US dollars (US$) at an exchange rate as at 30 June 2001 of A$1.00 = US$0.5100. These translations are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

The tables below show the rates of exchange at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

- at the latest practicable date before the publication of this annual report, being 21 September 2001: A$1.00 = US$0.4841;
- the high and low exchange rates for six months preceding the date of this report:

	High	Low
March 2001	0.5292	0.4881
April 2001	0.5178	0.4828
May 2001	0.5290	0.5068
June 2001	0.5276	0.5062
July 2001	0.5162	0.5048
August 2001	0.5362	0.5103

- for the five most recent fiscal years:

Year ended 30 June	At period end	Average rate(1)	High	Low
1997	0.7550	0.7814	0.8180	0.7455
1998	0.6208	0.6805	0.7537	0.5867
1999	0.6611	0.6248	0.6712	0.5550
2000	0.5971	0.6238	0.6703	0.5685
2001	0.5100	0.5372	0.5996	0.4828

(1) *The average of the noon buying rates on the last day of each month during the year.*

Fluctuations in the A$ to US$ exchange rate will affect:

- the US$ equivalent of the A$ price of the shares on the Australian Stock Exchange (ASX). Consequently, this is likely to affect the market price of our American depositary shares (ADSs) in the United States; and
- the US$ amounts received by holders of ADSs on conversion by the depositary of cash dividends paid in A$ on the shares underlying the ADSs.

Key Information

Risk factors

The following describes some of the significant risks that could affect us. Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially adversely affect our business, profits, assets, liquidity and capital resources. They should be considered in connection with any forward-looking statements in this annual report and the warning regarding forward-looking statements on page 16 of this annual report.

We are subject to extensive regulation that may negatively affect our business

We face a number of regulatory risks in our Australian business that could have an adverse effect on our operations and financial performance. These regulatory risks relate to the power of the Communications Minister and independent statutory regulators, principally the ACCC and the ACA. There is substantial uncertainty concerning the regulatory action that may be taken, our compliance costs and the effect this will have on our business operations and profitability. Regulatory actions could also adversely affect our plans to upgrade and expand our networks.

Australia has generally applicable and established competition law. There is further telecommunications-specific competition legislation that prohibits participants with substantial market power in a telecommunications market from taking advantage of that power for a prohibited purpose or with the effect or likely effect of substantially lessening competition. This legislation is relatively new and there is still only limited precedent as to its interpretation or application. Accordingly, it is often difficult for us to assess how the regulators and the courts may see these provisions operating in practice. There is a risk that we could be exposed to significant penalties and compensation payments in relation to our current and future activities. This may make it prudent on some occasions for us to cease or choose not to engage in business activities in which we might otherwise engage or avoid, defer or abandon certain capital projects.

In addition, the operations of our investments in other countries are also subject to extensive regulation, which has a significant effect on their businesses. Changes in those regulations or changes in the policies of the governments of these countries could have a significant negative effect on the performance of our investments, and on our consolidated results.

For more information regarding our regulatory environment and our obligations and potential liabilities under Australian and overseas regulations, see "Competition and Regulation - Regulation".

We expect that competition in the Australian telecommunications market will cause us to continue to lose market share and reduce our traditional telephony prices and profits from current products and services

The Australian telecommunications market has become increasingly competitive since the Commonwealth Government introduced open competition on 1 July 1997. Although the overall market has experienced growth to date, we have lost substantial market share in some key markets. In response, we have lowered the prices of our products and services, particularly the prices for our local calls and national long distance calls, international telephone services and mobile handsets and connections. We expect that these trends will continue due to competitive activity and regulatory facilitation of access to our networks, products and services. We cannot accurately predict the extent of our future market share losses.

We expect competitors to engage in vigorous price competition. We also expect that our competitors will continue to market aggressively to those of our customers who purchase large volumes of telecommunications services from us. The loss of these customers could have an adverse effect on our financial results in the market or markets in which this type of competition occurs.

Features of the current regulatory regime, such as automatic access to the customer's preferred provider of long distance, fixed-to-mobile and international telecommunication services, called preselection, and

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single and multi-line fixed-network number portability, inbound number portability (INP) and mobile number portability, facilitate competitors entering and competing in the Australian telecommunications market. As a result, we could lose retail customers and suffer deteriorating margins.

In addition, because of the intense competitive environment in the Australian telecommunications market, some carriers and providers who have purchased wholesale telecommunications services from us may not be able to continue operating or may become insolvent. We may therefore not be able to collect amounts owing to us from those companies. We provide for doubtful debts but no guarantee can be given that these provisions will be adequate. For more information on our competitive environment, see "Competition and Regulation - Competition".

The introduction of mobile number portability could cause us to lose market share or adversely affect our profits

The ACA requires mobile carriers and carriage service providers to implement mobile number portability (MNP) from 25 September 2001. Implementation of MNP will allow mobile phone customers to retain their existing mobile phone number when changing service providers. This may add to competitive pressures.

The Commonwealth continues to control and regulate us

The Commonwealth currently owns 50.1% of our issued shares and will continue to have a controlling interest in us. So long as the Commonwealth owns a majority of our shares, it will have the right under our constitution to decide any matter requiring approval by the holders of a simple majority of the issued shares, including the election of directors, with the exception of matters upon which the Commonwealth is not permitted to vote under the Australian Corporations Act 2001 (Cwth) (Corporations Act) or applicable ASX listing rules.

In addition, under the Telstra Corporation Act 1991 (Cwth) (Telstra Act), the Communications Minister may direct us to act in ways that benefit the public interest even though those actions may not be in the best interests of our other shareholders.

The Commonwealth Government is responsible for the regulation of the telecommunications industry. The Commonwealth Government and its regulatory agencies, in carrying out their functions have taken actions, and may take further actions, which constrain our conduct or restrict our commercial operations. We expect that the government will continue to exercise its legislative and regulatory responsibilities and powers to promote industry competition and that the Commonwealth's separate equity interest in us will not be a determinative consideration in that context.

There is also a risk that current or future governments will take steps that further alter our competitive position or the manner in which the Australian telecommunications industry is regulated.

We are required to incur new debt in order to undertake expansion and develop our business, and we may be unable to obtain future financing at favourable rates

Because the Telstra Act requires that the Commonwealth own at least 50.1% of our shares, we are not able to sell new shares in order to raise capital to fund acquisitions, expand and otherwise develop our business unless the Commonwealth Government increases its shareholding on an equivalent pro-rata basis. Therefore, we usually need to obtain additional capital financing via debt or other non-equity instruments, principally by borrowing money from banks or selling bonds to investors. Incurring additional debt to raise capital increases the amount of interest we are required to pay, which increases overall expenses and negatively affects profits.

Key Information

The telecommunications industry has in recent years generally seen a substantial increase in gearing and downgrading of ratings, in many cases spurred by purchases of third generation mobile licences and other acquisitions. This has led to cautionary warnings by a number of major central banks against an over exposure to the telecommunications industry by banks. As a consequence, the availability of funding has contracted and the price (margin) has increased. Although many of the concerns affecting European telecommunications companies do not directly apply to us, in the future, banks may be unwilling to lend money to us at rates we consider favourable, or at all. Furthermore, the interest rates required by lenders on new debt may rise to compensate for the increased size and risk associated with debt securities in the telecommunications sector generally. If we are unable to borrow the amounts we need at affordable rates, it may restrict our ability to pursue our business strategies and adversely affect our ability to finance our operations.

Fluctuations in currency exchange rates may adversely affect our results

Because we have made several international investments and have substantially expanded our operations outside Australia, movements in the exchange rates of the Australian dollar against other currencies could affect adversely our revenues and operating results. A rise in the value of the Australian dollar relative to other currencies in which we operate or have made investments would reduce the relative value in Australian dollars of our revenues, dividends, or assets in those countries, and therefore, may adversely affect our operating results or financial position.

In addition we have raised, and may raise in an increasing proportion in the future, financing in currencies other than the Australian dollar, principally the Euro. Accordingly, the value of those liabilities will be affected by the fluctuations of the Australian dollar against the currency in which the financing is denominated. Generally, we swap foreign currency borrowings into Australian dollar equivalents at drawdown and through to maturity in order to remove foreign exchange risk. There are exceptions where the funds obtained are used for investments denominated in a foreign currency and in these cases the borrowings are left in the currency of the investment.

However, we can give no assurance that we will be successful in managing foreign currency risk exposure. More information on our exposure to risk from foreign currency exchange rate fluctuations is provided in “Quantitative and Qualitative Disclosures about Market Risk”.

If growth in wireless business and the internet slows, our revenues may not grow as rapidly as in the past and may even decrease, which in turn could adversely affect our profitability

In recent years, our revenues have grown in large part because of rapid expansion in our wireless communications and internet businesses mainly resulting from the expansion of the wireless and internet markets in Australia. We have seen some indications that these businesses are not likely to continue expanding at the same rate in future years as has been the case in recent years. If these markets do not continue to expand, then, in the absence of new products and services, our revenue growth may slow, which in turn could affect our consolidated financial position and results of operations.

If the revenue growth in our wireless and internet businesses slows, or if we are not able to attract and keep an expanded customer base, we may be unable to generate increasing profits at the same level as in the past from these businesses.

Key Information

Rapid technological changes and the convergence of traditional telecommunications markets with data, internet and media markets exposes us to significant operational, competitive and technological risks

Rapid changes in telecommunications and IT are continuing to redefine the markets in which we operate, the products and services required by our customers, and the ability of companies to compete in the telecommunications industry in Australia and elsewhere in the world.

These changes broaden the range, reduce the costs and expand the capacities and functions of infrastructures capable of delivering these products and services. Partially as a result of these changes, the prices that can be charged for many products and services have been falling. We have invested substantial capital and other resources in the development and modernisation of our networks and systems. With the accelerating pace of technological change, the returns from our investments are increasingly less certain.

There is a risk that competitors may deploy or develop technologies that provide them with lower costs or other operating advantages compared with us. This could give these competitors an advantage if we are unable promptly and efficiently to provide the services that they provide. It could also require us to incur significant capital expenditures in addition to those already planned in order to remain competitive and could render some previous capital investments ineffective.

To address the converging telecommunications, data, internet and media markets, we intend to devote considerable resources to enhancing our ability to deliver services required by these markets and expand further into content markets.

As these markets converge, we expect that a number of new competitors may enter the markets in which we have traditionally competed and that we may confront established competitors in new markets we seek to enter. These competitors may have significant experience and capability in providing services such as data transmission, internet and on-line services. As a result, the convergence of these markets could result in reduced market share and profitability in our traditional markets and could adversely affect our ability to win market share and operate profitably in these new markets.

Part of our strategy in these converging markets is to acquire or form alliances with enterprises with complementary skills and capabilities. We have limited experience in initiating and implementing these types of investments and alliances. There is a risk that we will not make acquisitions or form alliances that will allow us to be successful. There is also a risk that our existing alliances may not provide us with the benefits we hope to obtain from them, that structural changes could diminish their value to us or that some of our partners may seek to exit these alliances.

There are perceived health risks associated with electromagnetic energy. This perception could expose us to liability or negatively affect our operations

Allegations have been made, but not proven, that health risks are created by emissions of electromagnetic energy. The weight of national and international scientific opinion is that there is no substantiated evidence of public health effects from such energy at typical levels. In our operations, we comply with the electromagnetic energy emissions levels permitted by legislation. While to date we have been able to insure these risks, premiums are rising to a point where the risks may not be economically insurable. However, there is a risk that an actual or perceived health risk associated with mobile telecommunications equipment could:

- lead to litigation against us;
- adversely affect us by reducing the number or the growth rate of mobile telecommunications services or lowering usage per customer; or
- hinder us in installing new mobile telecommunications equipment.

Key Information

Any of these, or a combination of more than one, could have a negative effect on our results or financial position. For more information on the issue of electromagnetic energy, see “Information on the Company - Networks and systems - Electromagnetic energy”.

System failures could result in reduced user traffic, reduced revenue and harm to our reputation

Our technical infrastructure is vulnerable to damage or interruption from floods, windstorms, fires, power loss, telecommunication failures, cable cuts, intentional wrongdoing and similar events. As well, the systems that make up our infrastructure require regular maintenance and upgrades that may cause disruption in their service. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other damage to or failure of our systems could result in interruptions in service for our other systems. System failures, hardware or software failures or computer viruses could also affect the quality of our services and cause temporary service interruptions. Any of these occurrences could result in customer dissatisfaction and damages or compensation claims as well as reduced revenues.

Our ability to pursue our strategy with respect to some investments in which we share control or do not own a controlling interest, may be limited

Some of our domestic Australian and international activities are conducted through subsidiaries and other equity investments. Under the governing documents for some of these entities, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions require the agreement of our partners. The risk of disagreement or deadlock is inherent in joint venture entities. Our partners may have different approaches with respect to the investment and the markets in which they operate and we may be unable to reach agreement with our investment partners. In some cases, strategic or venture partners may choose not to continue their partnership. In addition, our arrangements with our partners may expose us to additional investment, capital expenditure or financing requirements. For more information on our investments, and our possible liabilities under those investments, see “Information on the Company”.

In some cases, we do not participate in the control of, or do not own a controlling interest in, these investments. Where this is the case, our partners may have the right to make decisions on certain key business matters with which we do not agree. This could negatively affect our ability to pursue our business strategies with respect to those entities and the markets in which they operate.

We may not be able to realise an adequate return on some of our investments

We have made substantial investments in a strategic alliance in Asia with PCCW. These investments include the IP infrastructure venture, Reach and the wireless communications venture, RWC.

Reach and RWC are intended to be self-financing and any financing facilities into which they enter are therefore intended to be without recourse to PCCW or us. However, in the short-term, these businesses are likely to use any surplus funds to expand their businesses and consequently may not generate any cash flow in the form of dividends or other distributions to us. In addition, although we are planning to seek public listings of the shares in these businesses in the future, there is no assurance as to when or if we will be able to do so.

If those companies’ operating cash flows do not grow as expected, they are likely to require additional financing in order to fully implement their intended network expansion plans and fund operating losses in some of their business lines. PCCW has disclosed that it has incurred substantial debt, the servicing of which uses up much of its resources and could impair its ability to implement its business plan, including its plans with respect to Reach and RWC. PCCW may therefore find it difficult to generate sufficient cash to assist it in funding the full extent of the financial requirements of Reach and RWC.

Key Information

Reach faces substantial, increasing competition from global operators in markets in which it operates, or intends to operate, including Australia, Hong Kong and other markets in Asia. Reach's competitors may be able to develop and expand their network infrastructures and service offerings more quickly, and compete more effectively than Reach can.

In addition, new market entrants or the creation of stronger competitors through combinations could result in increased price competition, which would make it difficult for Reach to retain existing customers or attract new customers at existing price levels.

RWC, through Hong Kong CSL, faces very heavy competition in the provision of mobile services in Hong Kong, which has resulted in a substantial deterioration in its market share, revenues and profits since 1998 until early 2001, although these have since stabilised.

Effective 1 February 2001, we reduced the valuation of our investments in RWC. This write-down partly reflects the effect of the competitive and financial factors referred to above, as well as changes in the market valuation of wireless and telecommunications companies in Asia and around the world generally. Further competitive and financing difficulties faced by Reach, RWC or PCCW and further revaluations of wireless and telecommunications shares and assets by the market may require further adjustments to the value of our Asian investments in the future. This could make it difficult for us to realise a return from these investments and have a further negative effect on our consolidated earnings. For a discussion of the impact of factors affecting our investments in Asia on our financial results, see "Operating and Financial Review and Prospects - New business ventures".

The value of our operations and investments may be adversely affected by political and economic developments in Australia or other countries

Our business is dependent on general economic conditions in Australia, including levels of GDP, interest rates and inflation. A significant deterioration in these conditions could adversely affect our business and results of operations.

We may also be adversely affected by developments in other countries where we have made equity investments or entered into ventures in the wireless or telecommunications sectors including in Hong Kong and other countries in Asia. The level of acceptance of our services in these markets may limit our ability to expand our products and services there. Accordingly, we may be required to commit substantial resources to developing and marketing our products and services for selected international markets and to developing international sales and support channels. As well, some of these countries have political, economic, regulatory and legal systems that are different from those in Australia and may be less predictable. As a result, our international operations will be subject to numerous unique risks, including:

- multiple and conflicting regulations regarding communications, use of data and control of internet access;
- changes in regulatory requirements, import and export restrictions and tariffs;
- the burden of complying with the laws of a variety of jurisdictions;
- fluctuations in currency exchange rates;
- changes in political and economic stability;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights in certain countries.

In addition, with respect to our investments in Reach and RWC, some of Reach's and all of RWC's operating assets are located in Hong Kong, while a significant part of Reach's revenues and all of RWC's revenues are currently derived from operations conducted in Hong Kong. As a result, their financial condition and results of operations may be influenced by the political situation in Hong Kong and by the general state of the Hong

Key Information

Kong economy and the economies of the surrounding region, particularly the People's Republic of China (PRC). Hong Kong is a special administrative region of the PRC with its own government and legislature, and it enjoys a high degree of autonomy from the PRC. However, there can be no assurance that Hong Kong will continue to enjoy its current levels of autonomy from the PRC and may in the future become subject to extensive regulation by the PRC Government, the effects of which cannot be predicted.

Any, some or all of these factors could materially and adversely affect our future revenues, operating results and financial condition.

Cautionary statement regarding forward-looking statements

Some of the information contained in this annual report may constitute "forward-looking statements" that are subject to various risks and uncertainties. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "continue", "plan", "intend", "believe" or other similar words. These statements discuss future expectations concerning results of operations or of financial condition or provide other forward-looking information. Our actual results, performance or achievements could be significantly different from the results expressed in, or implied by, those forward-looking statements. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this annual report are set forth above under the caption "Risk factors" and elsewhere in this annual report. Given these risks, uncertainties and other factors, you should not place an undue reliance on any forward-looking statement, which speaks only as of the date made.

Information on the Company

History and development of the company

Our origins date back to 1901, when the Postmaster-General's Department was established by the Commonwealth Government to manage all domestic telephone, telegraph and postal services. The Overseas Telecommunications Commission (OTC) was established in 1946 to manage Australia's international telecommunications.

The Australian Telecommunications Commission, trading as Telecom Australia, was created as a separate entity in July 1975 following the break up of the Postmaster-General's Department. While continuing to trade as Telecom Australia, the Commission became the Australian Telecommunications Corporation in January 1989. OTC and Telecom Australia became the Australian and Overseas Telecommunications Corporation Limited following a merger in February 1992.

Telstra Corporation Limited became the legal corporate name of the merged entity in April 1993. The domestic trading name, Telecom Australia, was changed to Telstra on 1 July 1995 to distinguish Telstra from other telecommunications companies in increasingly competitive and deregulated markets. The company has been trading as Telstra internationally since 1993.

We were incorporated as an Australian public limited liability company in November 1991. Following the opening of Australia's telecommunications markets to full competition in July 1997, we underwent a partial privatisation in November 1997, under which the Commonwealth sold approximately 33.3% of our issued shares to the public. Following the intitial privatisation, those of our shares that are not held by the Commonwealth, are quoted on the Australian Stock Exchange and on the New Zealand Stock Exchange. American depositary shares, each representing five shares evidenced by American depositary receipts, have been issued by the Bank of New York, as depositary, and are listed on the New York Stock Exchange.

A further global offering by the Commonwealth of up to 16.6% of our issued shares was launched in September 1999. The shares sold by the Commonwealth were listed on the Australian Stock Exchange and the New Zealand Stock Exchange, in the form of instalment receipts, and the New York Stock Exchange, in the form of interim American Depository Receipts on 18 October 1999. The Commonwealth currently owns 50.1% of our issued shares, and it is required by legislation to own at least that much.

Organisational structure

Our internal organisation structure continues to evolve to meet the needs of the market environment in which we operate. As at 1 July 2000, we had four strategic business units. In March 2001, a separate business unit of Telstra International was established, and in July 2001, Infrastructure Services and Wholesale was divided into two separate business units. See "Operating and Financial Review and Prospects" for a discussion of the financial performance of our reportable segments during the last three fiscal years.

Our current structure consists of six strategic business units and is outlined below.

A list of our subsidiaries is provided in note 23 to our financial statements.

Strategic business units

- **Domestic Retail**: Our domestic retail business is divided into three strategic business units: Telstra Retail, Telstra OnAir™ and Telstra Country Wide™ and is responsible for approximately 8.8 million Australian fixed line services (comprising 5.8 million Telstra Retail services and 3 million Telstra Country Wide™ services) and 5.2 million mobile services.
    - **Telstra Retail:** This business unit's primary activities are sales, marketing, products service innovation, customer care and billing. Telstra Retail also manages our information, connection

Information on the Company

and public payphone services, as well as our advertising and 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.

- **Telstra OnAir**™ is responsible for our mobile and wireless networks and associated systems within Australia. It provides for all mobile retail sales and after sales support, customer service, product development and pricing.
- **Telstra Country Wide**™ is responsible for providing telecommunication services to customers in regional, rural and remote parts of Australia. This business unit was formed in June 2000, with a key strategy to establish a strong presence in regional Australia. Telstra Country Wide™ is responsible for the telecommunications needs of consumers and businesses that reside and operate outside the mainland major metropolitan areas and in all of Tasmania, the Northern Territory and overseas territories.

- **Telstra Wholesale**: Among the services Telstra Wholesale provides are interconnection services, access to our network facilities and transmission services. Our wholesale customers include licensed carriers, carriage service providers and ISP.
- **Telstra International** manages our international interests and directs our offshore growth strategy.
- **Infrastructure Services** is responsible for research and development, planning, design, construction and operation of our communications networks and our associated systems that deliver technology solutions, our products, services and customer support. It also has responsibility for customer service installation and repairs. In July 2001, we announced that our wholly owned subsidiary, Network Design and Construction Limited (NDC), would become part of the portfolio of Infrastructure Services. NDC competes for some of our annual network expenditure against other suppliers. It also performs construction activities for others, including other telecommunications companies.

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 assurance, shared services for processing functions, treasury, investor relations, productivity directorate and other corporate services.
- **Legal & Regulatory** provides legal services and corporate secretarial functions and has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to industry regulators.
- **Human Resources** manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programmes.
- **Corporate Relations** manages corporate communications including media relations, employee communications and external relations including government affairs.

Our organisational structure for financial reporting purposes has evolved over recent years to meet our business needs and has included the following:

- in fiscal 1999, we had five strategic business units that were: Commercial & Consumer, Business & International, Products & Marketing, Network Technology & Multimedia and Carrier Services Groups.

Information on the Company

- in fiscal 2000, the business unit reporting structure changed to: Commercial & Consumer, Telstra Business Solutions, Telstra OnAir™, Wholesale & International, Convergent Business and Network & Technology Groups.
- in fiscal 2001, the business unit reporting structure consisted of Telstra Retail, (including Telstra Country Wide™), Telstra OnAir™, Telstra International and Infrastructure Services & Wholesale.

Marketing and customer service

We believe our future competitive advantage will come from providing customers with product and service packages and solutions that meet their total communication requirements. We are committed to customer service and have adopted a customer service charter.

We approach each market segment from a customer's perspective to give us a better understanding of their key communication needs.

We customise for each segment our:

- advertising and promotions;
- customer contact and sales channels;
- product design and support; and
- product and service packages.

We own and operate over 100 shops nationwide and have 43 Telstra licensed stores that sell a range of consumer communications products, including mobile telecommunication services.

We also sell our services:

- through external channels consisting of third party retail stores, dealers and independent contractors; and
- to wholesale customers who package our products as solutions to their retail consumer market.

Residential customers and small businesses

We segment our residential customers based on their usage patterns, allowing us to match their telecommunications requirements to changes in lifestyle needs. We segment most of our small business customers into three small business segments based on the type of business they operate and their customer interface. This segmentation allows us to match their telecommunications requirements to meet the needs of their own customers.

We incorporate segment information into our sales systems so we can tailor our marketing to meet the needs of particular customers. This information assists the customer-driven sales approach used by our sales consultants. Customers are able to interface with us on-line, face to face via our shops and door-to-door sales representatives, and through our phone sales channels. Our phone sales channels are equipped with technology to assist our customers reach a customer service representative who can help them with their specific requirements. Our field sales force markets tailored products and services to small business and residential customers. We also conduct telemarketing campaigns from our national telemarketing centre.

Regional, rural and remote customers

Telstra Country Wide™ was established to improve service levels and business performance and to strengthen relations with customers and communities outside the mainland major metropolitan areas in Australia, in all of Tasmania, the Northern Territory and overseas territories.

Information on the Company

Through an organisational network led by 28 regionally-based area general managers across four regions, the sales, marketing, customer service, installation and fault repair requirements of customers in regional, rural and remote Australia are being addressed at a local level.

Medium and large businesses and governments

We provide medium and large businesses and Australian federal, state and territory governments with a comprehensive range of products and services, from basic services to complex voice and data networks and totally managed solutions. We have segmented our medium and large business and government customer base by size and industry to help identify their key business drivers and telecommunications needs and to develop appropriate product packages.

Our account managers are supported by specialised presales consultants, engineers, communication consultants and technical design specialists. This team is backed by customer ordering and provisioning, billing and service assurance systems specifically developed to meet the needs of this sector. In addition, a variety of indirect channels such as dealers, service providers, equipment suppliers and other alliances and partners are designed to service our business and government customers' needs in a cost effective manner.

A key strategic initiative in customer relationship management is underway to aggregate the customer information (including small businesses) to improve the service we can offer and to broaden our relationship with customers in full compliance with existing and planned privacy requirements.

International businesses

We have international sales and technical professionals in Australia and overseas to service our multinational customers. Through our own capacity, strategic alliances and ventures, we offer voice, data and wireless services, internet, network management and call centre solutions internationally, with particular strength in the Asia-Pacific region.

Mobile telecommunications customers

Telstra MobileNet® offers mobile services on both our GSM and CDMA digital networks. We have recently established a new marketing division and realigned our customer segmentation to focus more closely on the particular telecommunications needs of each customer group.

We meet the sales and service needs of our customers directly through internet, telephone, Telstra shops, Telstra licensed stores, Telstra business stores and indirectly through more than 3,000 retail outlets nationwide through our channel partners. We also have a relationship with an independent contractor to provide customer service in relation to a small proportion of our MobileNet® customers.

Medium and large business customers are serviced through Telstra Retail.

Directory services

We distribute printed White Pages™ directories and Yellow Pages® directories to virtually every household and business in Australia. Both directories are available in print, voice and on-line media and White Pages™ directories are also available on CD-Rom. Over 400,000 customers advertise in our directories. We advertise and promote our directory products to end users to enhance the value of the directory products as an advertising medium. At the same time, we promote our products directly to advertisers.

Pay television

We own 50% of FOXTEL, Australia's leading pay television provider with around 744,000 subscribers as at 30 June 2001. FOXTEL currently provides over 40 television channels, including movies, sports, news and other entertainment channels as well as re-transmission to cable customers of the five free-to-air television networks. Each of Publishing and Broadcasting Ltd (PBL) and The News Corporation Limited has a 25% interest in FOXTEL.

Information on the Company

On-line services subscribers

We market our BigPond™ dialup and broadband internet on-line services widely, with sales of BigPond™ products made through a number of channels including retail outlets, direct Telstra sales channels and directly over the internet. Customer service for BigPond™ and telstra.com® is provided by telephone-based support staff in addition to e-mail based support.

Wholesale customers

We have established a dedicated business unit to service the needs of our wholesale customers under our wholesale brand - Telstra Wholesale. Our wholesale customers include licensed carriers, carriage service providers and ISPs. We intend to continue extending our wholesale product range. We now provide our customers automated on-line interfaces on our website, telstrawholesale.com.

Products and services

We offer a broad range of telecommunications and information products and services to a diverse customer base. Table 1 shows our operating revenue by major product and service category and as a percentage of total operating revenue for the last three fiscal years. See also “Operating and Financial Review and Prospects” for a discussion of the revenue performance of our products and services during the last three fiscal years.

Table 1 - Operating revenue by product and service category

	Year ended 30 June					
	2001		2000		1999	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Basic access	**2,361**	**10**	2,005	10	1,855	10
Local calls	**2,143**	**9**	2,646	13	2,727	15
National long distance calls - fixed-to-fixed	**1,267**	**5**	1,406	7	1,485	8
National long distance calls - fixed-to-mobile	**1,287**	**6**	1,220	6	1,290	7
International telephone services	**786**	**3**	972	5	1,103	6
Mobile services	**2,940**	**13**	2,667	13	2,321	13
Mobile handsets	**215**	**1**	326	2	312	2
Data and internet services	**3,143**	**14**	2,841	14	2,483	14
Directory services	**1,148**	**5**	1,122	5	1,077	6
Intercarrier services	**1,168**	**5**	828	4	617	3
Inbound calling products	**434**	**2**	433	2	400	2
Solutions management	**306**	**1**	235	1	183	1
Other sales and services	**2,260**	**10**	1,908	10	1,718	9
Sales revenue - usual	**19,458**	**84**	18,609	90	17,571	96
Sales revenue - unusual	**(779)**	**(3)**	734	4	-	-
Other revenue (1)						
usual	**764**	**3**	1,238	6	649	4
unusual	**3,643**	**16**	-	-	-	-
Operating revenue	**23,086**	**100**	20,581	100	18,220	100

(1) *Our other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.*

Information on the Company

Basic access

We provide basic access services to most homes and businesses in Australia. We also sell access services to carriage service providers who then sell these services to their customers. Our basic access service consists of installing, renting and maintaining connections between our customers' premises and our PSTN to provide basic voice, facsimile and internet services. Our basic access service does not include enhanced products like ISDN access, ADSL and FaxStream® services. These are recorded under "Data and internet services".

We charge our customers fees for connecting new lines and reconnecting existing lines. We charge all our residential customers approximately the same rates for basic access service even though it is more expensive for us to provide basic access service to our customers located in rural areas than in metropolitan areas. Consequently, a portion of the call revenue we receive from our urban residential customers subsidises our costs of providing basic access service to our rural customers.

Housing growth and customer requirements for additional basic access lines drives demand for residential basic access lines. Demand for commercial basic access lines has historically tracked economic growth in Australia. Growth in basic access lines has slowed in recent years but this has been offset, to some extent, by our success in encouraging customers to adopt alternative access services that have more capabilities, such as ISDN services and now internet access products. Growth in the number of in-home offices and increasing demand for integrated voice and data services has caused some of our customers to switch to these alternative access services.

Demand for additional lines arises from increasing customer convenience requirements, internet access demand and demand for other services, such as dedicated voice, electronic funds transfer and facsimile lines.

Although our ability to promote additional lines has in some cases been limited by existing capacity in our customer access network, we market additional lines in areas where we have capacity available. In some areas, we augment our network capacity with technologies, such as pair gain systems, line concentrators, fixed radio access and ISDN. ADSL will alleviate the shortage of copper pairs for second lines.

During the last three years, we have been selectively upgrading our customer access network to reduce the number of faults and thereby improve our service levels. This upgrade has also assisted us to meet the demands for service in a more timely way and provide our network with additional capacity for further line growth.

In fiscal 2001, and in the first quarter of fiscal 2002, further rebalancing occurred involving increasing line rentals to recoup the actual cost of providing network services and decreasing call prices.

Effective 1 August 2001, we have revised community service town relationships and introduced two new calling plans, the wide area call plan, and a regional call plan. These new calling plans can benefit eligible customers living in outer metropolitan areas who have historically been just outside the local call distance to the city and country customers just outside local call distance from their nearest major town.

Local calls

We provide local call services to most residential and business customers in Australia. We generally charge for local calls on an untimed per call basis and we charge a lower rate for calls within the same exchange area, referred to as a Neighbourhood Call™. We also provide local call services to carriage service providers at a commercially negotiated or regulated rate. These carriage service providers resell local call services and bill their customers directly.

Information on the Company

In fiscal 2001 we were successful in winning a A$150 million Commonwealth Government tender to provide untimed local rate calls to improve telecommunications for customers in extended zones, which are rural and remote zones that cover approximately 80% of the Australian continent. As part of this project, we are currently in the process of providing temporary satellite services to supplement capacity and upgrading the radio sections of our telecommunications infrastructure to not only provide untimed local rate calls but to significantly improve services in these areas.

National long distance calls

We are the leading provider of national long distance services in Australia. This comprises fixed-to-fixed long distance calls and fixed-to-mobile calls made from our PSTN network. We provide these services to our residential and business customers. We also provide national long distance services to other carriers for resale.

We charge for national long distance calls on a timed basis after a call connection fee. Different rates apply for fixed-to-fixed and fixed-to-mobile calls. These charges usually depend on the duration, destination, time of day and day of the week of the call but are also offered on a capped price basis. During fiscal 2001 we introduced a suite of calling options to allow our customers to choose the best package most suitable for their individual needs.

In addition, we offer a variety of specials to increase the use of our network in low demand periods.

International telephone services

We are the leading provider of international telephone services in Australia. We offer our customers international telephone services to more than 230 countries and territories. In addition, through Reach, we offer international outbound telephone services on a wholesale basis.

We generally charge for international telephone calls on a per second basis after a call connection fee. The charge usually depends on the duration of the call and the destination of the call regardless of the time of day or day of the week on which the call is made. Our Easy ½ Hours® service allows customers to purchase calls in 30 minute blocks of time using a specific dialling code (0018). In the first quarter of fiscal 2002, a new 0011 10 minute capped call offer was introduced for HomeLine™ Plus and BusinessLine™ Plus customers to encourage more frequent calling overseas. We also market a range of permanent and special offers to attract new customers and encourage existing customers to call more often.

Residential customers make the substantial majority of our international outgoing calls. These customers tend to treat international calls as a discretionary expense, more so than national long distance calls. As prices have fallen, our customers have made more calls for longer periods of time.

During fiscal 2001, the top three destinations for outgoing traffic and the top three sources for incoming traffic are shown in the table below:

Country	Percentage of total outgoing minutes[1]	Percentage of total incoming minutes[1]
United Kingdom	20	15
United States	16	23
New Zealand	15	20

(1) *Figures quoted are those used for settlement purposes.*

Information on the Company

Our overseas wholesale customers are now managed by Reach. Prior to the creation of Reach, inbound and outbound traffic on the international network was delivered largely under bilateral contracts with major overseas carriers. The international network was also used to source and deliver transit traffic. We now have a services agreement with Reach to cover these arrangements.

Reach pays us for international traffic that terminates in Australia. These termination charges are based on the cost of delivering traffic to destinations in Australia, using the domestic network, rather than the previous bilateral arrangements, which were based on the cost of using the international network, and were specific to each country of origin.

Mobile goods and services

We are the leading provider of mobile telecommunications services in Australia in terms of the number of customers and the geographical coverage of our services.

The mobile telecommunications market in Australia is characterised by a significant degree of penetration which we estimate at over 60% of the Australian population at 30 June 2001. With our expansion into mobile data technology, we also provide our customers with a range of information services.

The Australian mobiles market is highly competitive. To compete in this market, we rely on:

- our innovative marketing plans;
- using a number of different distribution methods to deliver our products and services to our customers; and
- our well-known MobileNet® brand name.

Our mobile telecommunications services include:

- digital cellular services;
- sales of mobile handsets; and
- a wide range of added features and functions.

Our digital mobile service allows customers to send and receive voice and data calls. We also offer our mobile customers additional services, including:

- voicemail;
- call waiting;
- call forwarding;
- mobile facsimile and data services;
- operator assisted paging;
- operator through connect;
- SMS, including pocket news;
- WAP services, including content such as financial, sports, e-mail, weather, flights and directories;
- packet data services using GPRS; and
- other information services available through telstra.com®.

We believe that these additional services enhance customer loyalty and satisfaction and increase customer use of our mobile telephone service.

In February 2001, we acquired a controlling interest in RWC which owns 100% of Hong Kong CSL, one of the leading providers of mobile services in Hong Kong. For further information see "- International investments".

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GSM digital service

Our digital GSM network covers more than 95% of the Australian population. We have continued to expand our digital GSM coverage into regional centres and along highways that link regional centres. We have also focused on improving depth of coverage in major cities, particularly in-building and underground coverage. We offer international roaming in 90 countries.

We offer our GSM digital customers different pricing options that vary depending on committed usage rates and length of contract. Our GSM digital customers who opt for a higher monthly access fee generally pay a lower air-time charge.

The number of our GSM digital mobile customers has increased rapidly since we introduced GSM digital services in 1993. We attribute this growth to:

- increasing recognition of the value of mobile service by both business and private users;
- the coverage and enhanced features of our GSM digital service; and
- our strong distribution capabilities, particularly in retail stores.

CDMA digital service

Our CDMA network offers the largest cellular mobile phone coverage in Australia, reaching more than one million square kilometres (using an external antenna) and covering more than 97% of the population. CDMA has a number of advantages over GSM in some applications for users who require wider service coverage, faster data speed and reduced background noise than circuit-switched GSM.

Analogue service

Our analogue network was completely closed in fiscal 2001 as required by Commonwealth law.

Data and internet services

We provide the following:

- data network and internet services;
- wideband IP, private IP solutions (Telstra private IP service, an IP-VPN) and dial IP.

We also provide WAN solutions such as:

- domestic and international frame relay;
- domestic and international ATM, international private lines and global private IP.

Other services include:

- dedicated network solutions such as digital data services, voice grade dedicated lines, packet switched services, media, audio and video network services;
- internet access (Telstra's ISP service – BigPond™ Home, BigPond™ Business, BigPond™ Broadband, Internet Direct, specialised applications (security services and applications and hosting)).

The current telecommunications trends indicate increased and more sophisticated computer networking by business customers. This is coupled with the demand for higher speed services and a shift from dedicated to switched data services, in particular towards IP environments. IP networking offers the potential data, but multimedia and voice applications to be carried over the same networking solution.

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Our data strategy is based on the early delivery of new generation IP and internet services. It is driven by:

- businesses embracing new IP/internet based technologies and services;
- customer demand for higher capacity services; and
- customer need for competitive, cost-effective global solutions.

We are also leveraging off our strong position as a provider of data and IT products and our existing competencies in supplying corporations' outsourcing requirements to provide managed storage systems and managed hosting solutions.

The services we provide vary in bandwidth and also in the degree of network management and network redundancy provided. We have the skills required to operate and manage complex IP networks.

Telstra dial IP enables customers to remotely access their office network, at anytime, over any standard telephone line (PSTN/ISDN) from Australia, or other countries. Our private IP solutions offer networking which enables businesses to access their network via frame relay, ISDN, ATM, ADSL or secure dial up, as suited to the requirements of each site and application. Customers can rely on the built-in intelligence and security of Telstra's IP network to manage the routing and delivery of their valuable data. Our wideband IP service offers bandwidth-on-demand access dynamically controllable through a secure, personalised web page. This enables local area networking (LAN) interworking between offices to be extended on-demand to accommodate applications such as large file transfers or video conferencing.

Telstra Internet Direct provides larger corporate, government and wholesale customers with high quality dedicated Internet access within Australia at transmission rates up to 155 Mbps via ATM. In addition, we offer a range of internet products and packages under our BigPond™ brands. BigPond™ Home and Business offer dial-up modem and ISDN internet services to residential and business users across Australia through over 100 different points of presence (PoPs). BigPond™ broadband provides broadband internet services to consumer and business customers via hybrid fibre coaxial cable, satellite or ADSL access technologies.

During fiscal 2001, we also introduced our MegaPoP™ product that is dial IP access for ISPs and carrier service providers supporting public dial up internet access from PSTN/ISDN.

Transaction services

We offer low speed, switched data services used mainly for electronic funds transfer and point of sale applications. These services provide a low cost, dial-up or leased end-to-end connection between remote terminals and central computers.

We offer a range of electronic commerce services such as electronic data interchange-based trading networks and business-to-consumer applications to support on-line payments and general insurance products.

Other data services

We offer other data services, in some cases with business partners, including:

- games-based entertainment, children's education and on-line music services;
- Conferlink® services that provide audio, video and internet conferencing;
- V-commerce™ services based on interactive voice response technology; and
- administration and support services to funds managers for their back office administration and asset management operations.

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Text services

Our text services consist mainly of facsimile products and services marketed under our FaxStream® brand name.

On-line services

We are providing more on-line services in response to the demands made by our customers.

We announced the availability of our on-line communications hub, telstra.com® in March 2000. After registering on the site, a user may personalise the homepage to suit his or her particular needs and interests. By 30 June 2001 there were approximately 500,000 registered users, which has grown from approximately 100,000 users at 30 June 2000.

Types of on-line services provided on telstra.com® are:

- web-based e-mail that may be accessed from any location;
- a text message to a designated mobile phone service when new e-mails are received;
- direct access to information on our products that may be purchased on-line;
- payment on-line of an account with us;
- direct access to our current directories databases in White Pages™ and Yellow Pages®; and
- news, finance, weather, travel and entertainment updates.

Directory services

We are the main provider of directory services in Australia through our wholly owned subsidiary Pacific Access Pty Ltd.

The directory services we offer include printed White Pages™ directories and Yellow Pages® directories, which are also available through voice and on-line media. The White Pages™ directories are also available on CD-Rom. Each telephone subscriber receives one free listing of name, address and telephone number in the White Pages™ directories and may purchase special listings, such as bolded printing. Businesses may list their business details in our Yellow Pages® directories free of charge, or purchase premium advertising and promotional space.

We operate four internet sites that are among the most frequently visited Australian internet sites:

- the Yellow Pages® *OnLine* site (www.yellowpages.com.au);
- the White Pages™ *OnLine* site (www.whitepages.com.au);
- the GOeureka™ site (www.goeureka.yellowpages.com.au); and
- the location and navigation *OnLine* site Whereis™ (www.whereis.com.au).

Through our directories business, we are developing a range of electronic commerce and internet products and services based on our directory products with a concentration on areas such as advertising, contact lists, location and navigation services applications, applications for small and medium businesses and electronic business solutions. For example, we operate a site dedicated to the on-line needs of Australia's small and medium enterprises at www.pacificaccess.com.au. This SME site provides on-line information, tools and applications to help SMEs with their telecommunications and marketing requirements.

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Intercarrier services

In addition to providing services for resale, we provide a range of other services to carriers and carriage service providers. These include:

- interconnection services including originating and terminating access to our fixed and mobile networks, preselection services, and (to carriers) access to our network facilities such as ducts, towers and exchange space;
- transmission services, including leased lines;
- data services;
- mobile telecommunications services; and
- systems maintenance and billing services.

Inbound calling products

We offer:

- inbound call services including Freecall™ 1800, which is a reverse charge call service used widely by large and small businesses to extend their market reach and attract sales;
- Priority® One3 numbers, used by larger businesses and franchise operations for service calls;
- Priority® One3 caller dependent routing to the nearest business location, enabling efficient delivery of customer service;
- Priority™ 1300 services, which provide features equivalent to Freecall™ 1800;
- call centre products such as network-based services for business call centres that include interactive voice response and on-line customer selection menus; and
- InfoCall® 190 - telephone premium rate services, where we bill the calling customers for both content and carriage on our bill and undertake a revenue share arrangement with the service provider.

We also supply a range of products to our consumer and business customers that offer alternative billing options, including prepaid cards, automated reverse charging and calling cards.

Facilities management services

We provide management of all or part of a business customer's IT and/or telecommunications services including management of each of the following:

- managed voice services: our network based enhanced voice and data switching products and IPVPN products and the provision of related professional services;

- managed data services: our core data products including IP-based network solutions, ATM, frame relay, ISDN, ADSL and dedicated data network, equipment and the provision of professional services;

- managed contact services: a customer's call or contact centre including network services, equipment and third party hardware/applications and professional services;

- managed mobility services: fleet management of mobile phone networks and new wireless based technologies such as wireless LANs;

- managed IT services: IT based products and services including firewalls, desktops, peripheral services and application service products; and

- whole of business solutions: complex once off or whole of business solutions incorporating a range of the above services.

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Payphones

We are the leading provider of payphones in Australia. As at 30 June 2001, we operated approximately 35,300 public payphones. Other operators have approximately 39,800 payphones that are connected to a payphone access line provided by us. Our USO requires us to make payphone services reasonably accessible throughout Australia, including in non-metropolitan and rural areas. Approximately half of our public payphones are in these areas.

Other sales and services

Our other sales and services mainly include domestic information and connection services, video and teleconferencing, audio and video services and customer premises equipment, such as branded phones, telephone rental and other telecommunications equipment.

We provide information and connection services through a number of call centres in Australia and through White Pages™ *OnLine* and Yellow Pages® *OnLine*. Between December and March of fiscal 2001, we introduced voice recognition technology to allow the automation of the 2000 most frequently requested numbers. In fiscal 2001, we responded to over 365 million calls with the majority of these basic operator services being provided without charge to the customer. For the last two years we have charged for directory assistance services provided to mobiles and business customers. We cannot charge or amend charges for our directory assistance services without the approval of the Communications Minister.

Pay television

We own 50% of FOXTEL with each of Publishing & Broadcasting Ltd and The News Corporation Limited owning a 25% interest. The FOXTEL partners have committed, with very limited exceptions, to confine their involvement in the provision of pay television services in Australia to participation in FOXTEL. Publishing and Broadcasting (PBL) and News Corporation have made long-term programming commitments to FOXTEL.

FOXTEL has entered into various programme supply arrangements, including some with minimum licence fee commitments. At 30 June 2001, the amount of FOXTEL's fee commitment was A$1,964 million. To the extent that FOXTEL does not meet these commitments, the FOXTEL partners are jointly and severally liable for any shortfall.

We are the exclusive long-term supplier of cable distribution services for FOXTEL's cable pay television services in our cabled areas and we receive a share of FOXTEL's cable pay television revenues. We have agreed with FOXTEL that we will not supply pay television distribution services on our broadband cable network to anyone else unless we are required to do so by law. The Federal Court decided in August 2000 that this arrangement does not preclude third parties from obtaining access (pursuant to the telecommunications access regime under the Trade Practices Act 1974 (Cwth) (TPA)) to our broadband cable network for the delivery of analogue pay television services.

In April 2001, the ACCC issued interim determinations stating that there was spare capacity on our hybrid-fibre coaxial (HFC) network and allocated 6 analogue channels to access seekers. We and Foxtel have initiated negotiations to assist these access seekers to gain use of the HFC network.

In addition, we can independently, or through partnerships and alliances, provide a broad range of other communications, data and information services using our broadband network.

Under arrangement with the FOXTEL partners, FOXTEL may provide, in addition to pay television services, a limited range of information and other services, but it may not supply telephony services. Within cabled areas, there are limitations on FOXTEL's ability to provide services, including on-line services. Outside cabled areas, FOXTEL may decide to provide a range of information and other services, including on-line services, but must give preference to us in partnering to develop those services.

In fiscal 1999, FOXTEL introduced a commercial satellite service which enables pay television to be delivered to approximately two million homes not passed by our broadband cable, excluding homes in areas serviced by the Australian pay television provider, Austar. FOXTEL has licensed movie programming to Austar for satellite delivery in areas serviced by Austar on an exclusive basis, with the effect that FOXTEL may not provide a satellite service containing this programming in those areas.

In 2001, FOXTEL acquired the pay TV rights to the Australian Football League (AFL). The AFL is a major component of sports viewing in Australia. Under the terms of the agreement, FOXTEL has acquired the exclusive pay TV rights to all AFL matches for a term of five years commencing in 2002. The agreement also obliges FOXTEL to offer some form of AFL to the other pay TV operations, namely Austar and Optus Vision. However, FOXTEL is free to set the charge for such a service.

International investments

A component of our strategy is to expand our business activities outside Australia, particularly in the areas of wireless telecommunications (both voice and data) and data, through investment, acquisition or alliance opportunities generally.

On 7 February 2001 we completed the first stage of our Asian expansion strategy with the:

- formation of Reach, a 50:50 joint venture which merges our international infrastructure assets with those of PCCW creating a leading wholesale provider of voice, data and internet connectivity services in the Asia-Pacific region;
- acquisition of a 60% interest in RWC. RWC currently owns one of Hong Kong's leading mobiles businesses, Hong Kong CSL, and is intended to be the primary vehicle for execution of our wireless strategy in Asia. We have board control of RWC, including the right to appoint the Chairman; and
- purchase of a convertible note from PCCW with a face value of US$750 million. The note is subordinated but is secured by an equitable mortgage over half of PCCW's 50% shareholding in Reach (i.e. 25% of Reach's total shares).

We also have a number of smaller off-shore investments and joint ventures, which include:

- a 35% equity interest in the satellite communications operator, Xantic (formerly Station 12 B.V.) in the Netherlands;
- a 50% share of the New Zealand joint venture, Telstra Saturn Limited which has been established to provide a range of convergent voice, video and data services to retail and business customers in New Zealand; and
- a 39.9% equity interest in Australia-Japan Cable Holdings Limited, a network cable provider, based in Bermuda.

Networks and systems

We operate fixed and mobile telecommunications networks to support our diverse range of products and services. An extensive national and international transmission infrastructure and a largely centralised network management centre supports our networks. We have centralised the operational management of

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our core networks by establishing a single global operations centre. Our global operations centre has a disaster recovery back-up facility in an alternative location.

We invest a substantial amount of capital and other resources in our networks and systems. For example, we have completed deployment of a new digital mobile network based on CDMA, which has replaced our analogue mobile network. We also incur expenditure to upgrade services available on the customer access network. In addition, we have ongoing programmes to:

- improve work practices;
- streamline processes;
- eliminate duplication of overhead costs; and
- improve record keeping for property, plant and equipment.

In addition to our capital expenditure programme, we spent A$29 million in fiscal 2001, A$29 million in fiscal 2000 and A$34 million in fiscal 1999 on research and development. These amounts do not include labour and depreciation. Our research and development activities cover diverse areas of our business and focus on developing new competitive products for our customers.

We intend to continue to selectively invest in our networks and systems, particularly to cater for the increasing demand for data services such as internet services. Data traffic has grown to such an extent that its volume now exceeds that of voice traffic on our networks.

The nature of data technologies is continuing to evolve from a multi-service ATM frame relay IP environment, towards a pure IP environment. We are well positioned to support both ATM frame relay and IP in the medium term. Future investment will focus on cost-optimised, carrier-grade IP networking.

We are increasing our support of services that require high bandwidth by continuing the roll out of various technologies, such as ADSL, or, where appropriate, satellite-based services, in addition to our existing hybrid fibre coaxial cable.

The Infrastructure Services group ensures that there is alignment across all systems and network related activity and develops and has responsibility for our network and IT strategy and architecture.

Transmission infrastructure

Our domestic inter-exchange transmission infrastructure consists of both terrestrial and non-terrestrial transmission systems. Our domestic terrestrial systems are almost exclusively digital and use approximately 3.2 million kilometres of optical fibre and approximately 2,280 digital radio systems. Our major transmission routes incorporate synchronous digital hierarchy technology. We provide services between Tasmania and mainland Australia through one of the longest unrepeatered digital undersea cables in the world. We have implemented wave division multiplexing (WDM) technology into our network between South Hedland (in Western Australia) via Adelaide, Melbourne and Sydney, to Brisbane, to increase capacity at reduced unit costs. This represents approximately 20,000 kilometres of WDM transmission systems. We are planning additional WDM systems on parts of the route from South Hedland to Brisbane, and we are also looking at introducing WDM into the metropolitan part of the network.

Our international transmission requirements are provided by Reach. Reach owns international gateway switches in Sydney and Perth and an expanding network of switches around the world as part of its PoPs rollout programme.

Reach has interests in more than 50 submarine cable systems in the Asia-Pacific region and worldwide.

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We use satellite systems to supplement our international traffic capacity where undersea cable capacity may be limited or non-existent and also to provide route diversity and circuit redundancy as well as specialist satellite-based applications.

Public switched telephone network (PSTN)

Our PSTN is fully digitalised and connects virtually all Australian homes. It concentrates traffic from more than 10,000 access sites to approximately 307 digital nodal switches across Australia. Our transmission infrastructure connects these digital switches to Reach's two international gateway switches. Additionally, our intelligent network (IN) platforms support advanced services, including card-based and toll-free products.

The access sites that connect our customers to our local access switches use:

- copper;
- fibre optic cable;
- radio; and
- satellite.

Australia has a large geographic area with concentrated population centres. In urban areas, most of our customers are within five kilometres of the local exchange and within 2.5 kilometres of an access site. In provincial towns, approximately 50% of customers are within 2.5 kilometres of an access site. In rural areas, customers tend to be further from access sites. All our customers have single-party services.

We are continuing to improve the quality of our customer access network to assist us in retaining our customers, increasing our operating efficiency and developing and deploying new products and technologies.

We are trialing the use of CDMA-based wireless local loop equipment to provide telephone service where economically attractive. In other remote areas, also typically served by radio-based access, we will continue to upgrade our service through our remote Australia telecommunications enhancement programme. We undertook this programme to meet the demands of a growing number of customers for new high speed data and internet services. We are deploying an expanded range of satellite-based services to continue our commitment to the rural and remote areas of Australia. These satellite services include telephony services, access to the internet and corporate data applications.

Our PSTN supports voice, facsimile and data products. The rapid growth in the popularity of the internet is quickly changing the combination of these products. Internet users tend to maintain local call connections with their ISPs for longer periods of time than regular voice calls. These factors have the potential to affect the available capacity on our PSTN. We are monitoring the traffic flows and managing our network capacity accordingly.

In addition, we are actively promoting our ISDN service to our customers, including ISPs, and have introduced alternative technologies to provide internet access without using our PSTN, such as through our broadband network and our other data networks. During fiscal 2001 we introduced our MegaPoP™ infrastructure, which provides network bypass for dial-up internet traffic. This infrastructure is also used to provide wholesale dial-up internet access.

Integrated services digital network (ISDN)

Our ISDN services are provided in two ways:

- through an overlay network; and
- through a new composite service integrated with our PSTN.

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The overlay network has 28 nodes situated in capital and provincial cities in Australia. We expect to exit from the overlay network by the end of fiscal 2002. Our new composite ISDN service is based on the ETSI (European) standard. We market this ISDN service under our OnRamp® trademark. We expect OnRamp® services to replace the services we currently provide through the overlay network.

As at 30 June 2001, our OnRamp® service is available to 96% of the Australian population, either immediately or with the deployment of modular units.

Intelligent network platforms

We operate a number of IN platforms that support a range of advanced services including:

- inbound services such as Freecall™ 1800,Priority® One3, Priority® 1300 and InfoCall® 190;
- calling card (Telecard™);
- prepaid card (Phoneaway®, Say G'Day™);
- information services numbers;
- number portability;
- advanced network routing; and
- screening functions.

Our inbound services are important to our major business customers because they support their call centre and customer service operations.

We also operate two additional IN platforms, one of which provides the full range of enhanced features which support our MobileNet® products, and the other of which provides a selected range of IN services supported by our New Zealand joint venture, Telstra Saturn Limited.

We currently use multiple platforms to support our IN services. We are in the final stages of a programme to reduce the number of platforms we use by introducing a new IN platform and we expect this will assist us to reduce our operating costs in the future. We expect that this will assist us to reduce our operating costs in the future and to maintain our product leadership in the increasingly competitive market place.

Data networks

We operate a number of data networks, including:

- our switched data network (SDN);
- a national transaction switching network;
- our digital data network; and
- our dial IP platform.

Our SDN is comprised of 300 switches, linked to access multiplexers at more than 1,200 sites around Australia. It provides:

- public packet switching data services suitable for a wide range of data applications;
- site-to-site and multi-site WAN connectivity;
- full national coverage for frame-relay data services from 64 kbps up to 45 Mbps;
- full national coverage for ATM data services, supporting access rates from two mbps to 155 Mbps; and
- IP-VPN services, supporting a range of access types and value-add features.

Our retail customers use ATM and frame relay data services on the SDN to build wide-area corporate data networks. Our wholesale customers use the SDN as a key element of their own retail offerings. Increasingly,

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we are using the SDN as a building block for other services, including dial IP, ADSL, our mobile networks, and for connecting regional centres to our national internet backbone network via MegaPoP™.

Our national transaction switching network is suitable for electronic funds transfer and inventory applications. This network provides dedicated and dial-up access in a secure environment, suitable for transmitting transactions.

Our digital data network provides dedicated site-to-site DDS, at speeds of up to two megabits per second. This network has extensive coverage across Australia.

Our dial IP platform supports dial-up access from the ISDN or public switched telephone networks to LANs, WANs, and on-line data applications.

Internet protocol (IP) networks

We operate a national internet backbone network. It is a fully IP-routed network, which provides the backbone for all our Internet Direct services, all Telstra's BigPond™ internet offerings, as well as Telstra Wholesale's internet.

Our internet backbone network connects to the rest of the internet via the international links provided by Reach, and connects domestically via peering links with Australia's other main ISPs.

We operate two major internet data centres in Melbourne and Sydney. The computer server infrastructure in these centres controls access to the network and provides applications including e-mail, news, chat, web hosting and games. The server infrastructure supports real time activation of customers and also provides billing functionality, service monitoring and surveillance. Caching servers are deployed to store and serve often-requested internet content so that:

- customers receive faster web page delivery; and
- we are able to contain our internet traffic costs.

We have introduced a new platform supporting wholesale and Telstra internet services. This has been used to provide a BigPond™ Home product with universal local call access across Australia. BigPond™ Home is now available throughout Australia with dial-up access at the cost of a local call.

We deliver our wideband IP and ethernet services through ethernet switches located in major customer buildings and interconnected by a network of high speed transmission links and IP switches/routers.

Broadband network

Telstra delivers broadband capability through a variety of technologies, using cable modem, ADSL and satellite services.

Our hybrid fibre co-axial cable broadband network passes 2.5 million homes. Approximately 70% of the network is underground. The optic fibre component of this broadband network consists of two forward and one return path fibres, with nodes capable of serving up to 1,200 customers each.

We designed the cable network to provide two-way transmission for interactive services and high-speed data transfer. Presently, the cable network transmits pay television services, and in most of the coverage areas, provides high speed internet access.

ADSL is a broadband access technology for the PSTN. Under ADSL there are three very fast options available to customers in ADSL-enabled areas in Australia:

- an internet service for residential customers that allows customers to use the internet through their existing telephone lines without tying up the phone line or needing an additional line;

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- an internet service for companies to provide their staff, offices or branches with remote access capability to the corporate network; and
- a service for ISPs to provide their customers with ADSL internet access.

In August 2000 we commenced the rollout of our ADSL services, and we achieved our target coverage for fiscal 2001 of 575 enabled exchanges. We have experienced network performance issues with ADSL, partly due to difficulties with third-party equipment. We and our vendors have committed considerable resources to restoring network performance by stabilising the current technology and ensuring the scalability of the network. This has resulted in gradual improvement of performance. However, work on restoring network performance is ongoing. In the interim, we have rebated affected retail and wholesale customers.

We also offer broadband services, via a satellite download/dialup backchannel, in areas of Australia unable to access broadband via cable modem or ADSL.

Mobile telecommunications networks

We own and operate a number of networks for the provision of mobile telephone services that together cover more than 97% of the Australian population. We serve over 5.4 million services in operation (SIOs) with these networks. Through our 60% investment in RWC, we also operate mobile services in Hong Kong.

In Australia, our GSM digital network operates in the 900MHz and 1800MHz spectrum band. As at 30 June 2001, our GSM digital network in Australia had 53 mobile switches and 3,453 base stations including 630 micro cells. We are continuing to expand the capacity of the GSM network and the 300 new base stations established in fiscal 2001 provide additional capacity and enhance depth of coverage, while retaining our lead in breadth of coverage. During the year, we have expanded the capacity, capability and reach of the many value-added services incorporated into our GSM network. They include:

- personalised answering services;
- voice and text messaging;
- voicemail;
- information services;
- WAP and SMS based information services;
- calling line and conference and call control and forwarding services;
- international roaming to more than 90 countries; and
- GPRS packet data service.

The GPRS service is available in the vast majority of our GSM network and provides "always on" data access to WAP and internet information services.

Our second digital mobile telecommunications network in Australia is based on CDMA technology, and operates in the 800MHz band that our analogue network used previously. As at 30 June 2001, there were 2,056 CDMA base stations nationally. The CDMA network originally was designed to provide coverage equivalent to the old analogue network. It has been further expanded to cover over 1 million square kilometres, nearly double the area of the GSM network. CDMA functionality was enhanced in fiscal 2001 to have substantially the same services as GSM including SMS, voice messaging memo, fax, data and WAP.

Our analogue network was completely closed in the first half of fiscal 2001.

We also have a mobile radio packet data network operating to the Motorola DataTac protocol in major capital cities and in some large regional centres. This network services mobile electronic funds transfer systems and specialised data applications by allowing data to be sent to and received from large mainframe computer systems.

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Electromagnetic energy

Certain reports have suggested that electromagnetic energy (EME) emissions from mobile phone base stations and radio communications facilities, including handsets, may have adverse health consequences for users and the community.

We are committed to addressing these concerns responsibly through compliance with relevant radio frequency standards and comprehensive policies and procedures to protect the health and safety of the community and employees.

We also maintain a comprehensive EME research programme, monitor international research developments and provide assistance to other Australian institutions researching EME. We rely on the expert advice of international health authorities, such as the World Health Organisation (WHO), for overall assessment of safety and health impacts.

Other leading expert and advisory bodies also include:

- The International Commission on Non-Iodising Radiation Protection (ICNIRP);
- The United Kingdom Parliament Stewart Inquiry;
- The French Expert Group (Zmirou Report); and
- Australian Radiation Protection and Nuclear Safety Agency (ARPANSA).

These organisations routinely review the science relevant to the EME generated by radio communications services. The consensus amongst these organisations is that:

- there is no substantiated scientific evidence of health effects from the EME generated by radio communications services that comply with national and international safety standards; and
- the level of EME around a base station is typically many times less than the safety limits set by international standards.

In addition, ARPANSA has conducted an extensive study of base station emissions in Australia and has found that base station emission levels in the community are significantly lower than the Australian safety standard. ARPANSA have also reported that the existing background emission levels from AM and FM radio or television are significantly higher than the emission levels from base stations.

Despite this evidence, lawsuits have been initiated against providers of mobile telecommunications services in some jurisdictions around the world.

The Commonwealth Government has established a Committee on Electromagnetic Energy Public Health Issues to advise on the issue. This Committee is funded by a levy on holders of radio-communications licences and is co-ordinated through ARPANSA.

In December 1999, the Australian Senate agreed to an Inquiry by the Senate Environment, Recreation, Communications and the Arts References Committee into electromagnetic emissions, with a particular emphasis on mobile phones, research funding and EME standards.

The Committee received 148 submissions from a range of areas. Three reports were subsequently presented to the President of the Senate in May 2001, all of which concluded that there are no substantiated health effects from mobile phones.

The Commonwealth Government is still to formally respond to the report. However, it is not expected to adversely impact any area of our current operating practices.

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The ACA has set up a twin track process for developing new EME regulations. In this process, ARPANSA is developing a new national EME safety standard and the Australian Communications Industry Forum (ACIF) is developing a code of practice for the deployment of radio communications infrastructure. This is expected to encompass the requirements of the ARPANSA standard and may introduce greater community consultation in the telecommunications industry.

The risk or the perception that a risk of adverse health consequences exists may adversely affect this sector of our business by causing reduced consumer growth, reduced usage per customer or the filing of compensation claims by customers or others.

Information processes and systems

We have a range of information processes and systems to support our delivery of products and services. We intend to increase the benefits of our offerings to customers by:

- introducing new products to the market faster;
- further integrating our customer access technology and systems across channels; and
- reducing our overall IT total cost of ownership.

To achieve this strategy, we announced in fiscal 2001 that we would maintain primarily centralised control of IT strategy and architecture while:

- decentralising responsibility for our IT systems to our business units;
- rationalising our existing systems and related processes;
- developing and deploying new systems and processes;
- continuing to centrally operate and support our end-to-end IT operations infrastructure;
- implementing new management disciplines; and
- outsourcing most of our remaining IT applications development and maintenance functions.

We have recently invested and will continue to invest in many new systems and processes in the following seven principal areas:

- sales and marketing;
- customer ordering and provisioning;
- on-line access for customers;
- billing and credit management;
- service assurance;
- workforce management; and
- back office processes.

We have aligned our provisioning and billing databases and taken steps to improve validation of data entry. This action has reduced service order rejects and billing anomalies. We have also introduced an integrated credit management system for the management of mass market accounts.

Our flexible billing system called Flexcab® offers our customers customised billing options and formats. Flexcab® has allowed us to shorten the amount of time needed to market new products and services and provides improved support to our business operations. Flexcab® also supplies detailed local call records enabling us to respond to customer complaints effectively.

Our workforce management system aligns work tasks more efficiently so that we can give customers better service through more accurate and timely installations and repairs.

Through our data mode of operation (DMO) initiative we are commencing deployment of workflow and message-oriented middleware software, to control the flow of tasks between applications and collect

Information on the Company

messages from one system and pass onto another. Our future systems architecture will use this middleware software to enable easier more efficient integration of application package solutions to meet our business needs. This new capability will also deliver greater flexibility and reduce time to market by allowing business process and data translation to be configured more easily and customised externally to our IT applications. Our intention is to use more "off the shelf" products and move away from building IT applications.

We are continuing to review and upgrade procedures relating to systems security, data integrity and disaster recovery. Under this programme, we have tested the use of facilities that would be used as an alternative data centre in the unlikely event of destruction or substantial impairment to the large data centre where our billing systems are primarily run. If the transition to these alternative facilities became necessary, there would be a delay in the billing of customers and the collection of related receipts.

Information technology alliances

We have a 22.6% equity interest in IBM Global Services Australia Limited (IBM GSA), also owned by IBM Australia (54.4%) and Lend Lease (23%). We have outsourced our data centre operations and a significant proportion of our applications maintenance and enhancement activities to IBM GSA for a 10 year period from July 1997. We supply network services to IBM GSA's customers across Australia.

Property, plant and equipment

Overview

A large part of our network is constructed on land occupied under our statutory powers and immunities. We also own and occupy land that includes strategic sites, such as the properties on which our telephone exchanges are located. We own approximately 5,400 freehold sites and occupy approximately 6,200 sites on a leasehold or other basis. Most of our sites are related directly to our telecommunications operations and are used for housing network equipment of various types, such as telephone exchanges, transmission stations, microwave radio equipment and mobile radio repeater equipment. Some of our operational sites are on leased land or land to which we have access by statutory right or other formal or informal arrangement. In addition to our operational sites, we own or lease a range of properties used for office accommodation, storage and other miscellaneous purposes.

Land access powers

The land access powers conferred on carriers by the Telecommunications Act 1997 (Cwth) (Telecommunications Act) are more limited than those conferred by previous legislation. For this reason, in some circumstances we must obtain the consent of the relevant town planning authority as well as from the owner of the land before network construction activities may commence. Where the construction activities are to occur on land where native title exists, the native title claimants and holders may also need to be involved. Obtaining these consents may cause delay to the commencement of construction.

In some circumstances where we rely on the land access powers conferred by the Telecommunications Act to carry out construction activities, or where native title exists, compensation may be claimed against us.

Native title claims

As at 30 June 2001, we were a party to about 47 contested native title claims in the Federal Court of Australia and approximately 261 claims issued in the Federal Court of Australia but presently being mediated by the National Native Title Tribunal. The claimants seek determinations by the Federal Court that native title exists in areas that include the sites of our telecommunications facilities. These are not claims for money.

Information on the Company

The main respondent party in each proceeding is the relevant state or territory. We have become a party to the claims to ensure that our rights in respect of existing telecommunications facilities are not adversely affected. We believe that under the current law, any determination that native title exists should not adversely affect those rights created prior to 1 January 1994. We have been advised that the validation provisions of the Native Title Act also offer protection to facilities installed between 1 January 1994 and 23 December 1996 on land previously the subject of grants of a freehold estate or lease or the site of public works. We have been advised that all facilities installed under powers and immunities conferred by the Telecommunications Act 1991, which remained in force to 30 June 1997, will either be valid or have the benefit of the validation provisions of the Native Title Act. Telstra's current practices are such that the installation of facilities pursuant to the Telecommunications Act since that time should either be valid or have the benefit of the validation provisions of the Native Title Act.

The Commonwealth may be required to compensate native title holders where the construction of our infrastructure on land has extinguished or impaired native title. We may be required to indemnify the Commonwealth for any compensation paid to native title holders for any act performed by the Commonwealth relating to telecommunications services prior to 1 July 1975. We may also be directly liable in certain circumstances to pay compensation to native title holders for our activities on native title land.

The amount, if any, of our liabilities is not known but will depend in each case on the nature and extent of the native title rights and interest determined to exist and the degree to which our activities impinge on or restrict the exercise of those rights. No claims for compensation that are directly relevant to us have been brought to date.

Environmental issues

Environmental aspects covering the handling and storage of dangerous goods, noise from fixed plant, visual amenity, and disposal of waste, including obsolete and decommissioned equipment, are required to be managed as part of operating and maintaining plant and equipment on occupied sites. We minimise the potential risks associated with these environmental aspects through various control procedures. Incident processes are in place to mitigate the potential for significant impacts. Each decommissioned plant is screened for hazardous substances such as PCBs and CFCs prior to recycling, and all hazardous materials are disposed of in compliance with regulatory requirements. The divestment of sites undergoes environmental screening and remediation, if required, prior to sale.

There are no current significant environmental issues that impede the utilisation or integrity of our network operation.

Competition and Regulation

Competition

Overview

Competition in Australia's telecommunications industry began in 1989 when competitors began to provide a limited number of services in the market. In 1991, competitors started reselling our services, particularly national long distance and international telephone services. Competition intensified in 1992 when Cable & Wireless Optus entered the Australian telecommunications market and began reselling our analogue mobile telephone service and offering national long distance and international telephone services. We started offering digital mobile telephone services over our own network in 1993. In the same year, Cable & Wireless Optus and Vodafone Holdings (Australia) Pty Limited began offering those services over their own networks.

On 1 July 1997, the Commonwealth Government introduced the current regulatory regime allowing for open competition. Since then there has been a significant increase in the number of carriage service providers that have entered the Australian telecommunications market. At 30 June 2001, we supplied services to over 100 wholesale customers who compete in the retail telecommunications market.

From a position of being the sole provider of telecommunications products and services in Australia, inevitably, competition has reduced our market share. However, competition has also contributed to overall market telecommunication services growth. We expect both these trends to continue but at a lesser rate.

We are permitted to compete in all telecommunications markets throughout Australia. Our competitors are also permitted to compete in all these markets. As convergence becomes more prominent, our competitors may seek to take advantage of their position in one market to enter or improve their position in another market.

Access and local calls

We currently face infrastructure competition in basic access and local call services in the central business districts of the major capital cities and major metropolitan areas. We expect that competition will increase significantly for these services in these areas and beyond as competitors continue to deploy their own infrastructure and continue their aggressive reselling of our local call services and reduce prices. We expect more carriage service providers to engage in this competition as they seek to gain market share by providing a full service package to their customers. We offer carriage service providers complete access and local call services for resale.

Our main facilities-based competitors are Cable & Wireless Optus, whose issued capital is being acquired by Singapore Telecommunications Limited in the first half of fiscal 2002 (fixed and mobile), Vodafone (mobile), AAPT Limited (fixed) and Primus (fixed). Relatively new competitors include Powertel, Hutchison and MCI Worldcom. These carriers and others have established dedicated connections with large business customers, mainly in central business districts. Dedicated connections allow a competitor to direct a business' telecommunications traffic to their own networks, including local, long distance and international calls and data transmission. In addition, Cable & Wireless Optus is selectively offering basic access services and local calls to residential and business customers over its hybrid fibre co-axial cable network. The impact of local number portability, which was extended to all carriers in fiscal 2000, has contributed to the development of facilities-based competition in these markets.

Competition and Regulation

As a result of an ACCC declaration, we were required to offer unconditioned local loop (ULL) services from August 2000 at prices, terms and conditions that can be arbitrated by the ACCC. This may provide a range of additional advantages to our competitors. In addition, the ACA has held spectrum auctions of various frequency bands including spectrum in the 3.4GHz band that offers an alternative to fixed line delivery of telephony and data services. This auction, as well as prior auctions of mobile services spectrum, was subject to intense bidding by current and prospective competitors. The Communications Minister may make rules that limit our ability or the ability of others to participate in these auctions.

National long distance and international telephone services

Competition has significantly eroded our market share for national long distance and international telephone services.

A number of our competitors own their own switches, lease access and transmission capacity and resell services mainly from ourselves and Cable & Wireless Optus. Smaller competitors only resell complete services.

Our largest competitor for national long distance services in the Australian market is Cable & Wireless Optus which operates its own network. Other competitors include:

- AAPT (TCNZ);
- Primus Telecommunications;
- Hutchison/Orange;
- MCI Worldcom;
- RSLCom; and
- Equant (formerly known as GlobalOne).

Our competitors are free to develop their own infrastructure and to use it to provide additional telecommunications services. Their success in the market depends upon several factors, including:

- customer sensitivity to pricing;
- the effectiveness of promotions and other marketing campaigns;
- the quality of services provided; and
- the degree of intervention by the ACCC in these markets.

Carriage service providers must provide their customers with call-by-call selection or "override" dialling and default choice or "preselection", in respect of national long distance, international calls and fixed-to-mobile calls all of which further assist other carriage service providers to compete. See "Competition and Regulation - Regulation" for a discussion of regulatory requirements for preselection.

Wholesale originating and terminating access and transmission services are important for facilities-based provision of national long distance and international telephony services. The pricing of these services influences the development of retail offerings by our competitors.

Competition already exists in the wholesale provision of transmission services on major domestic and international routes. The pricing of these services is dictated by commercial negotiation and is falling as new competitors enter the wholesale market. The regulatory processes also provide a framework to determine terms, conditions and pricing of transmission services, particularly on routes that are not fully competitive.

Competition and Regulation

Mobile telecommunications services

The mobile telecommunications market is one of the most competitive telecommunications markets in Australia and we estimate that market penetration at 30 June 2001 was approximately 60%. As this level of market saturation increases, we expect the rate of further market penetration to slow.

In the mobile services market, we currently compete with:

- Cable & Wireless Optus and Vodafone, which each operate GSM digital networks;
- Hutchison, which operates a CDMA digital network and resells our CDMA service; and
- a range of other competitors, which resell either Cable & Wireless Optus or Vodafone GSM services.

Competition for mobile telecommunication services is mainly based on:

- handset subsidies (though the level of subsidies is reducing as the industry repositions);
- geographic and in-building coverage area;
- service quality;
- sales channel strength; and
- air-time charge differentiation.

To compete for these services, we rely on:

- our skills in creating attractive value propositions for customers;
- our leadership in network coverage including the availability of two networks;
- the strength of our MobileNet® brand name;
- our extensive internal and external distribution channels; and
- enhanced mobiles services including SMS and WAP (the most popular services being e-mail, chat, games, sport and travel information).

The availability of spectrum will determine, in part, the number of mobile telecommunications carriers. In the recent ACA frequency band auctions, we purchased all the available 800 MHz spectrum to further support expansion of our national CDMA network. We also secured 2GHz spectrum on a national basis up to the bid limit imposed by the Minister for future deployment of advanced third generation mobile services.

We intend to be the market leader in the deployment of third generation services. We are building applications and customer familiarity by providing data services at increasing speeds on the GSM and CDMA networks (2.5G services). We will build a third generation network using 2GHz spectrum as future demand dictates.

The Commonwealth Government has mandated mobile number portability to be effected on 25 September 2001. This will mean that customers will be able to change mobile service carriers while retaining their numbers.

This may have the effect of increasing the rate at which mobile customers switch between networks. This will also provide us with the opportunity to attract new customers to our mobile network.

Data services

Our competition in growth markets such as frame relay and ATM networks is intense, both at retail and wholesale levels. While we are the clear market leader, there are typically 20 general and niche players operating in competition.

Competition and Regulation

For more traditional data and leased line products operating in mature markets, competition is less intense, and we offer both retail and wholesale products.

With our new IP products such as private IP and wideband IP, we are operating at the forefront of service provider offerings, not only in Australia but worldwide. A close working relationship with our vendor partners has been necessary to achieve this.

Internet access services

For internet access services, competition is generally based on quality of service, price, speed and availability of local call access and associated information or transaction services. The internet service provider market in Australia is highly competitive, with approximately 700 competing service providers. Our key competitors in this market are OzEmail and Cable & Wireless Optus/Microplex. Other competitors include America OnLine, AAPT Connect.Com and iPrimus. Other competitors such as iiNet exist in state or regional areas.

We are the largest internet service provider in Australia. We believe we will remain a strong competitor in the provision of internet and on-line services based on:

- our BigPond™ product range;
- the speed and geographic reach of our internet infrastructure;
- the importance we place on customer service and support;
- the growing range of available information and transaction services; and
- development of new products.

We will also seek to participate in alliances and partnerships with a broad range of:

- content developers and providers;
- established businesses;
- financial institutions;
- educational bodies; and
- merchant organisations.

On-line services

Our on-line, content and web hosting services are subject to a high level of competition from domestic and international competitors. We seek to differentiate ourselves through a variety of factors, including brand recognition and the entertainment, educational and commercial value of our content. We are meeting customer demand by offering our own content and forging alliances with content providers.

Our competitors in this highly diverse market include ninemsn, News Limited, Yahoo! (Australia/New Zealand) and Cable & Wireless Optus.

We provide services under a range of brands including telstra.com®, Yellow Pages®, White Pages™, GOeureka™ and Whereis™.

Wholesale services

Telstra Wholesale currently has 108 wholesale customers, with approximately 27 wholesale competitors. Telstra Wholesale is focused on the delivery of communication services to intermediaries operating in Australia.

Competition and Regulation

The inbound calling products market has become very competitive with the introduction of INP on 30 November 2000. Under INP, customers are able to retain their inbound number when changing carriers. Many carriage service providers who were buying our inbound services and re-selling these services in the past have developed their own IN infrastructure and have been progressively porting these inbound services over time. The service providers with newly developed IN infrastructure include:

- AAPT/TCNZ;
- Primus Telecommunications;
- RSLCom; and
- PowerTel.

We compete in this market by providing a wide variety of products and services and by providing a high quality of targeted services to our wholesale customers. Because we are the telecommunications company with the most extensive infrastructure in Australia, we are in a dominant competitive position in this market.

Pay television

The pay television services market is competitive. FOXTEL, of which we own 50%, is the leading pay television provider in Australia with around 744,000 subscribers, including satellite customers, as at 30 June 2001. FOXTEL is well positioned to compete on the basis of its brand, diverse programme offerings and cable delivery arrangements with us.

FOXTEL and Optus Vision are the main providers of pay television services over cable in largely overlapping areas. FOXTEL also provides satellite services to homes not passed by our cable network. In addition, Austar distributes pay television through wireless and wireline systems in many regional areas and has similar programming to FOXTEL. FOXTEL has licensed some programming to Austar on an exclusive basis and FOXTEL may not provide a satellite service containing this programming in areas serviced by Austar. Other pay television operators offer limited pay television services. Pay television providers compete with free-to-air television operators and are prevented by law from holding exclusive broadcast rights to many major sports programmes.

Competition is currently based on a number of factors including:

- programming;
- brand;
- price;
- marketing and service support; and
- means and geographic scope of service delivery.

Competition continues to evolve in this market. FOXTEL has historically experienced high customer churn rates, although churn rates have fallen substantially in recent years.

We anticipate that churn will continue to decline following FOXTEL's acquisition of the pay TV rights to the AFL in fiscal 2001.

The ACCC made a broadband access declaration in September 1999 declaring an analogue cable subscription television broadcast carriage service. Several potential subscription television competitors have sought access under the declaration to our broadband cable network to provide subscription television services. We are involved in arbitration with two of these competitors. The ACCC has not declared a digital service at this stage. See "Regulation - Access".

Competition and Regulation

Directories

We compete with a variety of domestic and international companies and alliances in our other markets. For example, we expect to experience increasing competition in our directory services business as we continue to maintain the integrated public number database for use by eligible carriage service providers and others wishing to offer competitive directory services. Public number directory publishers may also seek access to the database. We have already experienced increased competition in this business from regional competitors.

In our payphones business, we expect increasing competition due to new market entrants and indirect competition from increased mobile telephone use.

Regulation

Overview

Some of the major features of the Australian telecommunications regulatory regime are:

- industry specific competition regulation;
- extensive industry specific consumer protection regulation;
- industry codes and standards under a self-regulatory regime;
- no limits on the number of carriers;
- carriage service providers with many of the same access rights and obligations as carriers; and
- limited carrier land access rights and statutory immunities.

Reviews have been undertaken in fiscal 2001 and are continuing in fiscal 2002 on some specific telecommunications regulations and industry codes with the most significant being the Productivity Commission's review of telecommunications competition regulation.

Principal industry regulators

The Communications Minister and the Communications Minister's Department are primarily responsible for telecommunications industry policy and legislation.

The Communications Minister can make rules in connection with the implementation and operation of certain aspects of the regulatory regime and, at his discretion, impose or vary the conditions of a carrier licence. In addition, the Communications Minister has the power under section 159 of the Telecommunications (Consumer Protection and Service Standards) Act 1999 (Cwth) to give binding directions to us to take specified action towards ensuring that we comply with that Act. This Ministerial direction power applies in addition to the Ministerial power in Part 3 of the Telstra Act to give such directions in relation to the exercise of powers by us as appear to the Minister to be necessary in the public interest.

The ACCC administers the TPA. The TPA regulates competition generally and protects consumers and also includes specific provisions governing the telecommunications industry. The ACCC administers the telecommunications access regime, provisions for controlling anti-competitive conduct and our retail price caps and price control arrangements.

Competition and Regulation

The ACA is responsible for regulating the non-competition aspects of the telecommunications industry under the Telecommunications Act and the Telecommunications (Consumer Protection and Service Standards) Act including:

- carrier licensing;
- technical regulation;
- quality of service;
- the customer service guarantee (CSG);
- preselection, numbering and number portability;
- the USO;
- the DDS obligation;
- spectrum management; and
- industry codes and standards.

The ACA may give written directions to carriers, carriage service providers and content service providers requiring them to comply with various provisions of the Telecommunications Act, the Telecommunications (Consumer Protection and Service Standards) Act, their licences, conditions and registered industry codes. Breach of such a direction is subject to a penalty of up to A$10 million.

Both the ACCC and the ACA are independent statutory agencies. The ACCC is not generally subject to the control or direction of the Communications Minister or the Commonwealth. The Communications Minister has a power of direction in relation to the ACA. However, both the ACCC and the ACA can take action regarding the regulation of the telecommunications industry without the prior approval or knowledge of the Communications Minister or the Commonwealth.

The industry also self-regulates through codes and standards

Bodies that represent one or more sections of the industry, such as the ACIF, may develop industry codes governing activities of carriers, carriage service providers and other industry participants. These activities mainly relate to matters affecting:

- consumers;
- inter-carrier operations;
- interconnection and performance of networks;
- radio;
- environmental issues; and
- customer equipment and cabling.

The ACA may register such codes under the Telecommunications Act and direct industry participants to comply with a registered code and, in the absence of a registered code, set mandatory industry standards. If a carrier or carriage service provider does not comply, they may be subject to a penalty of up to A$250,000. The ACIF also has compliance mechanisms for breach by an industry participant of an ACIF code to which the participant agreed, which include non-monetary “public censure” sanctions.

Competition and Regulation

The codes registered under Part 6 of the Telecommunications Act with the ACA at 30 June 2001 are for:

- the protection of personal information to customers;
- the handling of life threatening and unwelcome calls;
- call charging and billing accuracy;
- end-to-end network performance;
- preselection;
- commercial churn;
- calling number display;
- complaint handling;
- customer information on prices, terms and conditions;
- billing;
- credit management;
- customer transfer; and
- mobile number portability.

The Telecommunications Access Forum (TAF), an industry body open to all carriers and carriage service providers, can recommend telecommunications services for declaration by the ACCC under the access regime. The TAF may also develop access codes to be submitted for approval and registration by the ACCC.

The Telecommunications Industry Ombudsman (TIO) is an industry-funded body established to investigate and resolve retail customer complaints about telecommunications services and carrier land access disputes. Participation is mandatory for all carriers and most carriage service providers unless exempted by the ACA.

Carriers, carriage service providers and content service providers

We are a carrier, carriage service provider and a content service provider.

- a carrier is any person holding a carrier licence. In general, the owner of network infrastructure must not use the infrastructure to supply telecommunications services to the public unless it holds a carrier licence;
- a carriage service provider supplies a telecommunications service to the public using network infrastructure owned by a carrier; and
- a content service provider is a person who uses a telecommunications service to supply to the public a content service, such as a broadcasting service or an on-line information or entertainment service.

Competition regulation

Competition rule

In addition to the general requirements of trade practices law, a carrier or carriage service provider must not engage in anti-competitive conduct in breach of the competition rule. A carrier or a carriage service provider may breach the competition rule if it:

- contravenes general trade practices rules relating to anti-competitive conduct in respect of a telecommunications market; or
- has a substantial degree of market power and takes advantage of that power with the effect or likely effect of substantially lessening competition in any telecommunications market, taking into account other conduct if necessary.

Competition and Regulation

The ACCC can issue a Part A competition notice if it has reason to believe that a carrier or a carriage service provider has contravened the competition rule. A Part A competition notice need not describe conduct in very specific terms, but may instead describe the general kind of conduct which the ACCC believes is in breach of the competition rule. Any repetition of the conduct while the competition notice is in force can lead to penalties or damages being awarded against the carrier or carriage service provider.

The ACCC can also issue a Part B competition notice. This Part B notice, which the ACCC may issue simultaneously with, or after a Part A notice, will be more detailed than the Part A notice. The sole function of a Part B notice is its evidentiary effect. It is presumptive evidence of the information in it and can be used in court proceedings against the carrier or carriage service provider for penalties or damages.

To issue a competition notice (Part A or Part B) the ACCC need only have a "reason to believe" that there is a breach of the competition rule, rather than being affirmatively satisfied of a breach of the competition rule after full investigation.

Any person (including a carrier's or carriage service provider's competitors) may apply at any time to the Federal Court for an injunction to restrain anti-competitive conduct, whether or not a competition notice has been issued.

A carrier or a carriage service provider may be liable to pay penalties of up to A$10 million plus A$1 million per day of contravention, and for compensatory damages to affected third parties, if:

- it continues to engage in conduct the subject of a competition notice after the notice comes into effect; and
- the Federal Court finds that the conduct is in breach of the competition rule.

In recent years, we have been issued with nine notices by the ACCC. In particular:

- we were issued with two competition notices by the ACCC in early calendar 1998, claiming that we were acting anti-competitively in the manner in which we charged ISPs for access to our internet backbone. Although we considered the ACCC's claim to be unfounded, we resolved this matter by changing our conduct to overcome the ACCC's concerns;
- between 10 August 1998 and 9 April 1999, we were issued with six competition notices by the ACCC claiming that we acted anti-competitively in the manner in which we provide competitors with services that facilitate customers switching between ourselves and those competitors (known in the industry as "commercial churn"). This matter was settled without any finding of a breach of the TPA by us; and
- on 6 September 2001, we were issued with a Part A competition notice in relation to the price at which we offer our wholesale ADSL service, Flexstream®. The notice alleges that the price does not allow our competitors to compete with our retail ADSL offerings. The ACCC also claims that we have refused to deliver a Layer 2 ADSL product to our wholesale customers. The ACCC alleges that this conduct is anti-competitive. The notice is due to come into effect on 30 November 2001. After that time, if we engage in conduct which is specified in the notice, and which the Federal Court believes has an anti-competitive effect, we could be liable for penalties and damages as a result of that conduct. We believe it is unlikely that we will be found to have breached the TPA and therefore, it is unlikely that any such consequences will result.

With the exception of the most recent notice, none of the competition notices remain in force.

The ACCC may issue further competition notices in the future if it believes we are acting anti-competitively.

No final decision in relation to a competition notice has yet been handed down by a court.

Competition and Regulation

The ACCC may also give a carrier or carriage service provider a written notice advising it of the action the ACCC believes should be taken to ensure that the carrier or carriage service provider does not continue to engage in the kind of conduct dealt with in a Part A competition notice. An advisory notice can be issued at the same time as, or after, a part A competition notice. While such a written notice from the ACCC is of an advisory nature only, in practical terms there may be significant pressure on a carrier or a carriage service provider to comply with the notice given the potential breadth and ambiguity of a Part A competition notice and the ability of the ACCC to revoke a Part A competition notice if the carrier or carriage service provider complies with the advisory notice. Also, a court may have regard to the ACCC's advisory opinion in determining whether a carrier or a carriage service provider is liable for penalties or damages if the court finds it to have been in breach of the competition rule.

Information gathering powers

The ACCC may seek information from carriers or carriage service providers with substantial market power in the telecommunications industry concerning charges for products and services (including in our case only, charges for "basic carriage services") subject to a right of appeal to the Australian Competition Tribunal. The ACCC may publish information concerning charges and services if it is satisfied that there would be a net public benefit in doing so and has a further general power to obtain information in relation to designated telecommunications matters.

The ACCC must report to the Communications Minister on matters relating to competition as required by the Communications Minister. The ACCC may require carriers and carriage service providers to provide it with information in connection with these reports. These reports may be public or confidential, but public reports must not contain information that would prejudice substantially the interests of any person.

Record-keeping rules

The ACCC has finalised new record-keeping rules. These accounting rules require detailed six-monthly reporting to the ACCC of non-public cost and revenue information in relation to our wholesale and retail services.

The ACCC will be able to refer to this information on our costs and revenues in its market conduct and access investigations. Similar accounting rules apply to both Cable & Wireless Optus and Vodafone. AAPT and Primus are required to comply with the same rules, but only in relation to retail services.

The ACCC also has power to disclose or require us to disclose reports prepared under the record-keeping rules to the industry, or specified other carriers, or to the public, subject to our very limited right of appeal to the Australian Competition Tribunal. This could result in sensitive cost information being published to our commercial detriment. Before exercising this power, the ACCC must have regard to our legitimate commercial interests.

The ACCC also has power to require carriers to maintain non-financial records, and to provide reports to the ACCC, where the ACCC believes this will assist it in carrying out its functions. During fiscal 2001, the ACCC issued two non-financial record-keeping rules against us in relation to our provisioning of our wholesale ULL and ADSL services. These record-keeping rules require us to provide reports to the ACCC each week on matters including the number of ULL services ordered by wholesale customers, the number of services provisioned, etc.

Competition and Regulation

2000 review

The Productivity Commission commenced a review of the industry specific competition regulation in June 2000 and has submitted its final report to the Minister (the Treasurer). We do not currently know the findings in the Productivity Commission's final report. However, the Productivity Commission released its draft report in March 2001. The indications, based on the Productivity Commission draft report, are that the Productivity Commission supports most of our arguments and is prepared to recommend the relaxation of the existing intrusive arrangements in the TPA, as well as providing greater certainty about access pricing. If the Productivity Commission's final report were to reflect its draft report, and if the Government were to implement its recommendations, then Telstra may have greater flexibility both in relation to its market conduct and in relation to the prices it charges for access to its regulated services.

Retail price restrictions

The government has set retail price controls on some of our services and groups of services that apply from 1 July 2001 to 30 June 2002. The Telstra Carriers Charges Price Control Arrangement, Notification and Disallowance Determination No 1 of 2000, amends the original determination and incorporates the goods and services tax, which came into effect from 1 July 2000, in the cap on standard and payphone local telephone call prices.

CPI-X price restriction

We cannot increase prices for the basket of:

- connections;
- basic access;
- local calls;
- national long distance and international calls;
- domestic and international leased lines; and
- fixed-to-mobile calls and mobile telecommunications services,

beyond annual increases in the Consumer Price Index (CPI) over the previous year, less 5.5%. If the annual increase in CPI is less than 5.5%, we are required to reduce our prices accordingly. Previously this cap was set at CPI less 7.5%.

We cannot increase prices beyond annual increases in CPI for a basket of line rentals and local calls and a basket of connection services. Previously we were constrained in increasing our prices for individual services under specific price caps, such as, residential line rental, national long distance calls and international calls. This change provided scope for rebalancing line rentals and call charges that we put into effect on several occasions from March 2000.

A cap of CPI minus 1% applies to a basket of services for residential customers that include connections, line rentals, local calls, national long distance and international calls. Revenue-weights for services in this basket are set at the average for the bottom 50% of our preselected residential customers by bill size.

Line rentals for the bottom 10% of our preselected residential customers by bill size must not increase by more than CPI in one year unless we can satisfy the ACCC that we will have products or arrangements in place to ensure that these customers' bills do not, on average, increase by more than CPI.

The ACCC has powers to monitor and report on our compliance with price controls.

Competition and Regulation

Local call charges

We and other carriage service providers must offer untimed local calls to:

- residential and charity customers for all local calls; and
- business customers for local voice calls.

We must offer a standard price for untimed local calls where we are required to provide these calls.

We must not charge more than A$0.40 for untimed local calls from payphones or more than A$0.22 (including goods and services tax) for any other untimed retail local calls. Our standard local call price is set at A$0.40 for calls from payphones, A$0.22 for most other untimed local calls. We also offer reduced rates with some of our service plans and discounted neighbourhood call rates.

We must also ensure that both:

- our average price for untimed local calls provided to residential/charity customers in non-metropolitan areas in a fiscal year does not exceed the average price charged by us to residential or charity customers in metropolitan areas in the previous fiscal year; and
- our average price for untimed local calls provided to business customers in non-metropolitan areas in a fiscal year does not exceed the average price charged by us to business customers in metropolitan areas in the previous fiscal year.

Directory assistance service charges

We cannot impose or alter a charge for our directory assistance services without the approval of the Communications Minister. In October 1999 we commenced charging business and mobile customers for national and long distance directory assistance services after notification to, and subsequent approval of, the Minister. Our residential customers continue to receive these directory services without charge.

Access

The ACCC has broad powers to determine those of our services to which competitors will have access and the terms and conditions under which we provide this access.

Declaration of services

The TPA creates an access regime specific to the telecommunications industry. The ACCC may declare telecommunications services or other services that facilitate the supply of a telecommunications service to be "declared services". Carriers and carriage service providers have a qualified right to acquire declared services from other carriers and carriage service providers.

Services can be declared by the ACCC either:

- in accordance with an industry recommendation; or
- after conducting a public inquiry and finding that the declaration of a particular service will promote the long-term interests of end users.

In determining whether the long-term interests of end users will be promoted, the ACCC must have regard only to whether declaring the service is likely to:

- promote competition in markets for telecommunications and related services;
- achieve "any-to-any" connectivity; and
- encourage the economically efficient use of, and investment in, telecommunications infrastructure.

Competition and Regulation

Carriers and carriage service providers must comply with "standard access obligations"

Unless exempted by the ACCC, carriers and carriage service providers who supply declared services to themselves or anyone else must comply with "standard access obligations". They must provide the declared services to carriers, carriage service providers or content service providers who require them in order to provide telecommunications services or content services to end users.

Standard access obligations are subject to exceptions including:

- available capacity;
- protected contractual rights; and
- the reliability and creditworthiness of the party seeking access.

Services not declared are not subject to regulation under this access regime. Therefore, access to non-declared services is a commercial matter, subject only to the general trade practices law.

Current declared services

The ACCC has issued statements listing the following as declared or deemed services:

- originating and terminating access for domestic PSTN and ISDN and GSM mobile telecommunications networks;
- transmission capacity on all routes (except links between mainland capital cities) on bandwidths of 2, 4, 6, 8, 34/45, 140/155 or higher megabits per second;
- digital data access service (domestic carriage of data between exchange or other network facilities and customer premises);
- conditioned local loop service (a bundled service for the supply of unswitched voice transmission capacity in the local loop);
- the diversion of calls made to disused analogue numbers to the customers' new GSM-based numbers;
- an ULL service using unconditioned copper wire in our local loop;
- local PSTN originating and terminating services (which in our view is not materially different from the domestic PSTN originating and terminating access described above);
- local carriage services (in effect, this is local call resale); and
- analogue cable subscription television broadcast carriage service.

In addition to these declared services:

- the ACCC has been asked by Corporate Macquarie Telecommunications and Cable & Wireless Optus to declare line rental services;
- the ACCC has announced a public inquiry into whether to declare spectrum unbundling on the local loop; and
- the ACCC has just commenced a declaration inquiry into whether to declare a technology neutral mobile service. If the ACCC makes this declaration then, based on the ACCC's suggested service description, CDMA originating and terminating access services may become declared services.

Competition and Regulation

Terms and conditions of access

A carrier or carriage service provider may give the ACCC access undertakings which set forth the terms and conditions on which it will offer to supply declared services. An undertaking only becomes operative if it is accepted by the ACCC. If an access undertaking adopts terms and conditions set out in a telecommunications access code approved by the ACCC, the undertaking must be accepted by the ACCC. If not, the ACCC may accept an undertaking only if satisfied that its terms and conditions are reasonable. This requires, among other things, consideration of the long-term interests of end users and the access provider's legitimate business interests.

The terms and conditions (including price) of standard access obligations are to be resolved by commercial negotiations. If negotiations fail but an access undertaking, including the relevant terms and conditions, has been provided by the access provider and has been accepted by the ACCC, the access undertaking will apply. If there is no such undertaking, the ACCC may arbitrate the terms and conditions on which the standard access obligation will be met.

Access arbitrations

There is a detailed regime for ACCC arbitration of access disputes. We are currently involved in access arbitrations about declared services with Cable & Wireless Optus, AAPT, Primus Telecommunications, Television and Radio Broadcasting Services Australia, Macquarie Corporate Telecommunications, XYZed, RSL.Com, dingo blue, C7, WorldxChange, ihug, Powertel, Chime Communications and People Telecommunications. These arbitrations relate to terms and conditions for the following declared services: PSTN originating and terminating access, local carriage services, GSM termination, ULL and analogue cable subscription television broadcast carriage service.

The ACCC must take into account a number of matters including the following in making a final arbitral determination:

- promoting the long-term interests of end users;
- the legitimate business interests of the access provider and its investment in facilities;
- the direct costs of providing access; and
- any other matters that the ACCC considers relevant.

The ACCC has wide discretion in access disputes to deal with any matter relating to access to the declared service, and may terminate an arbitration in certain circumstances.

The ACCC has powers, if requested by a party, to give directions in relation to access negotiations even prior to the notification of a dispute, such as requiring one party to provide information to the other, or requiring a party to carry out research or investigations to obtain relevant information. This could lead to involvement by the ACCC well before the arbitration of an access dispute.

ACCC decisions in relation to undertakings and final arbitral determinations are subject to appeal on the merits to the Australian Competition Tribunal.

In conducting an access arbitration, the ACCC may make an interim determination which will bind the parties during the course of the arbitration, including on important matters such as access price. Unlike final determinations, for interim determinations there is no requirement that the ACCC take into account the statutory matters listed above, and there is no appeal on the merits to the Australian Competition Tribunal. Interim determinations can operate for a maximum of 12 months.

Competition and Regulation

The ACCC has power to backdate the effect of a final determination to the date of notification of the access dispute, but not before 5 July 1999. Therefore should the ACCC determine that it wishes to reduce an access price, the benefit of that reduction can be made available to the access seeker from the date of notification of the dispute, unless the arbitration predates 5 July 1999, irrespective of the length of the arbitration.

In September 2001, Federal Parliament passed the Trade Practices Amendment (Telecommunications) Bill 2001 (Cwth) which makes a number of amendments to the arbitration process in the TPA. It is expected that these changes will come into effect in the near future. The amendments are designed to 'streamline' the way in which the ACCC deals with arbitrations and include:

- requiring the ACCC to release pricing principles at the same time, or as soon as practicable after, the declaration of a service;
- requiring the ACCC to exercise its powers in relation to resolve disputes in a timely manner through the use of alternative dispute resolution measures;
- allowing the ACCC to use information from one arbitration in another arbitration (after consultation with affected parties), if that will lead to a more efficient or timely resolution of issues;
- allowing the ACCC to 'join' arbitrations if that will lead to a more efficient or timely resolution of issues;
- allowing the ACCC to backdate the terms and conditions of access, to the date on which the parties to the determination commenced negotiations with a view to agreeing on terms and conditions; and
- if an application for merits review of an ACCC final arbitration is lodged with the Australian Competition Tribunal, then the Tribunal may only have regard to:
  - evidence given to the ACCC in connection with the making of its final arbitration determination; and
  - any other information that was referred to in the ACCC's reasons for making the determination.

As a result of the amending legislation, Australian Competition Tribunal review decisions of ACCC determinations or orders, cannot be stayed. In addition, the amending legislation will mean that Federal Court appeals from Tribunal decisions do not affect the operation of Tribunal decisions and Tribunal decisions cannot be stayed.

The procedural changes relating to the way the ACCC conducts its arbitrations apply to arbitrations notified to the ACCC after the commencement of the amending legislation. The change that restricts the evidence that can be led before the Australian Competition Tribunal on review of an ACCC final determination, will affect applications for merits review lodged with the Australian Competition Tribunal after the commencement of the legislation.

Access pricing

The Communications Minister may make a pricing determination setting out compulsory principles for establishing access prices that must be followed by the ACCC. To date no ministerial pricing determination has been issued.

Competition and Regulation

The ACCC has published general Access Pricing Principles setting out how the ACCC proposes to approach price issues when considering access undertakings and determining access disputes. In general, the ACCC proposes that the prices of declared services which are:

- necessary for competition in a dependent market;
- supplied in markets where the forces of competition, or the threat of competition, work poorly to constrain the price of access to efficient levels; and
- well developed in the market.

They should be cost-based. In particular, it proposes to require access prices for such services to be based on the total service long run incremental cost (TSLRIC) of providing the service. TSLRIC is generally regarded as the incremental cost incurred in the long-term of providing a service assuming all of its other production activities remain unchanged. That is, the cost that would be avoided in the long-term if a service were not provided. TSLRIC (as defined by the ACCC) consists of the ongoing or operating and maintenance costs incurred in providing a service using the most efficient means commercially available and valuing inputs using current prices, including common costs that are causally related to the service. In defining the TSLRIC standard, the ACCC states it has taken into account the legitimate business interests of the party providing the relevant service by including in TSLRIC a normal commercial return on capital.

Local call resale

The ACCC has stated that for local call resale, it is likely to adopt pricing on the basis of our retail price less "average retail" (or avoidable) costs (not TSLRIC) in any access dispute.

PSTN originating/terminating access

In July 2000, the ACCC rejected our proposed undertaking for domestic PSTN originating and terminating access. In rejecting the undertaking, the ACCC formed the view that the cost (including unrecovered capital USO cost and access deficit) incurred by an efficient company in providing such access is 1.77 cents per minute for fiscal 2000 and 1.53 cents per minute for fiscal 2001. This is substantially less than both the charges we had proposed in the undertaking based on our estimate of efficient costs and a normal return on capital, being 2.30 cents per minute for fiscal 2000 and 2.00 cents per minute for fiscal 2001.

The ACCC has now made final determinations on PSTN access price for two arbitrations. We appealed these decisions with the Australian Competition Tribunal in September 2000, seeking to have our view of the appropriate price payable for the service considered by the Tribunal. Proceedings are currently underway.

The ACCC's view on PSTN access costs will also directly impact its view on the cost of provision of ULL and other PSTN based services.

GSM termination

The ACCC has issued final pricing principles for GSM termination. These principles tie reductions in the GSM termination rate to downward movements in mobile services retail prices. The ACCC is currently considering the details of how this approach will be implemented.

PSTN termination to non-dominant carriers

The ACCC has issued final pricing principles for PSTN Termination to Non-Dominant Carriers. The ACCC determined that the charges for termination of the non-dominant PSTN networks should be based upon our de-averaged TSLRIC, and that no access deficit contribution should be included in the TSLRIC of non-dominant networks. The ACCC also found that where a non-dominant PSTN network has costs significantly lower than those of Telstra's TSLRIC, the ACCC may assess whether an argument exists for looking specifically at the TSLRIC of the particular services of the non-dominant PSTN network.

Competition and Regulation

Unconditioned local loop (ULL)

In July 1999, the ACCC announced that the provision of ULL would be a declared service.

The ULL service was launched in August 2000 at the same time as we launched our wholesale and retail ADSL services. ACIF have developed codes governing the technical aspects of service provision. The TAF is addressing network modernisation issues, particularly the right to replace copper with fibre in the customer access network even though this may alter the provision of the copper based ULL.

The ACCC has issued a discussion paper on the pricing of the declared ULL service. The ACCC analysis has produced ULL prices substantially lower than our indicative published prices. Some of this difference relates to our continued use of certain costs which the ACCC has previously rejected in the PSTN undertaking. This includes line provisioning and trench sharing, the cost of capital and the efficient level of indirect costs that should be included. In the short-term this is likely to adversely affect our ability to negotiate commercially with third parties and finalise agreements. We consider the key regulatory risks for ULL are:

- disputes on ULL prices being lodged with the ACCC - some disputes have been notified;
- arbitrated prices being substantially lower than our current cost-based offer price;
- anti-competitive conduct allegations from third parties for other products, such as wholesale and retail broadband access, which have prices that may be affected by the determination by the ACCC on ULL; and
- limits on the scope for network modernisation from ULL services in place.

We consider the loss of direct access to customers serviced by ULL-based services and line sharing, which is spectrum unbundling on the local loop, will be a significant commercial risk to us in the future. Spectrum unbundling refers to the use of a single line to provide different services. The low frequency portion of the line is used to provide voice services and the high frequency portion of the line is used to provide data services such as high speed internet access.

Carrier-to-carrier access obligations

Each carrier must provide access on request to other carriers to:

- its customer cabling and customer equipment and facilities (including lines, towers, ducts and land) in place on 30 June 1991 or installed since that date using statutory powers, if it is reasonable to do so;
- information relating to the operation of its networks; and
- its underground ducts and certain of its towers and sites with the aim of ensuring that facilities are collocated on towers and in underground ducts, unless the ACA finds that collocation is not technically feasible.

Access to these facilities and information is on commercially negotiated or arbitrated terms and conditions. We have entered into a number of facilities access agreements with other carriers. The Communications Minister can determine pricing principles for access to customer cabling and equipment, network infrastructure and information relating to the operation of a network, but has not done so to date.

Carriers must also comply with the Facilities Access Code issued by the ACCC in relation to access to underground facilities and certain towers and sites. Legislation enables the ACCC to develop codes setting out conditions that are to be met in providing information or access to information or in consulting on network modification or reconfiguration.

Competition and Regulation

Broadband access

Owners of broadband cable networks are carriers. Persons who supply carriage services using broadband cable networks, such as we supply, are carriage service providers.

Under the 1999 analogue cable subscription television broadcast carriage service declaration, broadcasters may claim access to our broadband network to deliver their subscription television services at prices which, in the absence of agreement, can be arbitrated by the ACCC.

The ACCC has not declared a digital service.

Carrier licences

Carrier licences are issued by the ACA. The annual charge for a carrier licence is currently A$10,000 plus a pro-rata revenue-based contribution to industry regulatory costs.

There is no legislative limit on the number of carrier licences that may be issued. A licence applies to the ownership of certain types of facilities used to supply services to the public and does not distinguish between fixed, mobile or satellite services.

All carriers must, as a condition of their carrier licence, comply with the Telecommunications Act, the Telecommunications (Consumer Protection and Service Standards) Act and the standard access obligations. Any breach of licence conditions is subject to a penalty of up to A$10 million.

Carrier licences can be cancelled only on very limited grounds such as a failure to pay an annual licence charge or a universal service levy.

The Communications Minister may impose conditions on any carrier licence. The Communications Minister must consult with the carrier before doing so. Our carrier licence currently requires us to:

- provide operator and directory assistance services;
- annually produce, publish and provide an alphabetical telephone directory;
- establish and maintain an integrated public number database and provide access to the database to all carriage service providers;
- ensure reductions in connection and annual charges for certain basic telecommunications services of at least specified amounts if a customer does not rent a handset from us for use with that service;
- have in place and report against an approved industry development plan and comply with the plan to the extent it relates to research and development;
- provide resale (for a limited time) of, and/or roaming on, our analogue service to the operators of proposed new digital mobile networks on commercially negotiated or arbitrated terms and conditions; and
- extend an equivalent mobile service to those areas previously served by the analogue network. We are providing this through our CDMA network.

Carriage service provider obligations

A carriage service provider that provides certain basic telecommunications services must provide or arrange for the provision of:

- itemised billing services;
- operator services; and
- directory assistance services to end users.

Competition and Regulation

We must provide operator and directory assistance services to carriage service providers on request, on terms and conditions commercially negotiated or arbitrated terms and conditions. A carriage service provider must supply information for the integrated public number database.

Powers and immunities

A carrier may enter onto land and exercise any of the following powers:

- the power to inspect the land to determine whether the land is suitable for the carrier's purposes;
- the power to install a facility on the land; and
- the power to maintain a facility that is situated on the land.

A carrier may only exercise the power to install a facility if:

- the carrier holds a facility installation permit, which the ACA may only issue subject to stringent conditions;
- the facility has been determined to be a "low impact facility" by the Communications Minister (for example, specified types of underground conduit and cable); or
- the facility is a temporary defence facility.

If we engage in these activities, we must restore land and are liable to pay compensation to land owners for financial loss or damage caused by our activities. We are also subject to a Telecommunications Code of Practice providing for notice and objection mechanisms. The Secretary to the Commonwealth Department of the Environment may impose conditions on some facilities' installation activities.

Facilities other than those described above may only be installed with the permission of the relevant landowner and in compliance with all relevant State, Territory and local laws.

No limitation of tort liability

The ACA has power to impose a cap on our liability in tort for damages claims but has decided not to do so.

Number portability

Number portability allows customers to switch certain services to another carriage service provider but keep the same telephone number.

The ACA numbering plan mandates number portability for some services

The ACA has put in place a numbering plan for Australia. Pursuant to a direction by the ACCC, the plan sets out the following rules:

- local number portability was operational on a trial basis from November 1999 and fully operational by 1 January 2000 as mandated by the ACA. There are a few specific cases where an exemption has been granted;
- INP affecting all 1800, 1300 and One3 numbers became operational on 30 November 2000; and
- mobile number portability is scheduled to become available from 25 September 2001.

The ACCC has also made a draft decision to mandate portability for premium rate (19xx) services.

Competition and Regulation

At the same time as number portability was implemented for freephone and local rate services, the ACA changed the way in which numbers are allocated to carriage service providers from the previous block allocation arrangements to a centralised number pool approach.

In July 2001, the ACCC released a draft paper concerning number portability of Premium Rate (190x) and the National Rate (1700) numbers. The ACCC's preliminary review is that the benefits to end users of mandating premium rate number portability outweigh the costs of its provision. If this view is maintained in its final report, it would lead to the ACCC directing the ACA to introduce portability for Premium Rate service numbers. The ACCC also expressed the preliminary view that an assessment of national rate number portability should be deferred until such time as a carriage service provider requests an allocation of 1700 numbers. If the ACCC mandates premium rate number portability in its final decision, then we would face significant costs in upgrading our network to accommodate the required changes.

Terms and conditions of supply are negotiated or arbitrated

The terms and conditions on which carriage service providers supply number portability are set by commercial negotiation or arbitration.

The Communications Minister may make a number portability pricing principles determination that would govern any arbitration. However, no such determination has been made to date. In June 1999, the ACCC issued a paper setting out the local number portability pricing principles that it would be inclined to apply if it were required to arbitrate in relation to terms and conditions for the provision of local number portability. These principles state that each carrier or carriage service provider should bear the costs it incurs in its own network to meet the obligation under the numbering plan to provide local number portability.

Mobile number portability

The ACCC has issued a direction to the ACA to mandate the implementation of mobile number portability. The ACA has mandated that mobile number portability must be available by 25 September 2001. Compliance will require significant capital expenditure and the resolution of numerous technical issues. The majority of these matters have been resolved by the industry through ACIF, which has produced a number of codes, specifications and guidelines addressing technical, operational and customer issues as well as co-ordinating cross industry matters such as network and systems testing. The ACCC's final report on mobile number portability pricing principles only allows us to recover from other carriers or carriage service providers our efficiently incurred transit costs of providing mobile number portability from other carriers or carriage service providers. We may, however, partially recoup the costs incurred in making mobile number portability available through a parting fee which would apply to our end users and those of our resellers. The effect of mobile number portability is expected to increase customers' ease of switching between mobile providers while retaining their mobile number.

Preselection and override codes

Preselection allows customers, while connected to a carriage service provider, to specify another carriage service provider to provide some telecommunications services. Override codes allow a customer to select a different carriage service provider on a call-by-call basis.

Currently, carriage service providers must provide for the preselection of one carriage service provider for the following voice calls:

- national long distance calls;
- fixed to mobile calls;
- international calls; and
- some operator services.

Competition and Regulation

An override function for these voice calls must also be provided. The ACA may in the future require carriage service providers to provide for preselection of different carriage service providers for different call types or for preselection to be extended to other services such as mobile telecommunications preselection. The ACA is currently conducting an inquiry on this issue.

The terms and conditions for provision of preselection are as agreed between the carriage service providers. In the absence of agreement, there is provision for arbitration by an agreed arbitrator or the ACCC.

Analogue network closure

In compliance with a direction by the Communications Minister, aimed at encouraging greater competition, we closed down the analogue AMPS cellular mobile network in the first half of fiscal 2001. The replacement digital CDMA network is now almost fully deployed, and covers over 50% more land area than the previous AMPS network. It is notable that, following a detailed independent review, the ACA itself has publicly acknowledged that the CDMA network equals, and in many cases exceeds, the coverage performance of AMPS.

Interception

Carriers are required by law to cooperate with law enforcement agencies in Australia. They must, unless exempted by the Communications Minister, ensure that telecommunications services passing over their networks can be intercepted by agencies that hold an interception warrant. This requirement can lead to delay in the launch of particular carriage services until the services can be made interceptable. Moreover, carriers are required to bear the capital and ongoing costs of implementing interception capability in their networks. The Telecommunications Act requires a review to be undertaken of the longer-term cost-effectiveness of telecommunications interception. This review was conducted by the ACA. The report is being considered by the government and may lead to some changes to industry obligations to assist law enforcement agencies.

Universal service and digital data service (DDS) obligations

Except for two pilot areas where USO contestability is being trialed (see below), we are currently the national universal service provider for the whole of Australia. This means that we must ensure that standard telephone services and payphones are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business, and that any additional carriage services that might be prescribed by regulation are provided. As part of this obligation, we must make prescribed equipment and services available for persons with a disability for use in connection with a standard telephone service. The current standard telephone service is primarily a carriage service for the purposes of voice telephony that passes a connectivity test. However, although this has not been done to date, additional purposes for the standard telephone service may be prescribed by regulation. If such regulations were made, this would be likely to result in substantial additional costs.

We have also been declared a DDS provider which requires us to ensure that all people in Australia have reasonable access on a commercial basis to a 64 kilobits per second ISDN. Currently, 96% of the Australian population can access ISDN. For the remaining 4% of the population we are required to provide access to a satellite downlink service, with broadly comparable data speed to ISDN, through the special digital data service obligation (SDDS). These customers may be entitled to a rebate of up to 50% of the price of purchasing and installing the necessary satellite receiving equipment.

In our roles as the national universal service provider, DDS provider and SDDS provider, we are required to submit plans to the Communications Minister on how we will progressively fulfil our USO, DDS and SDDS obligations. The Minister has approved our universal service plan and DDS plans for ISDN and satellite.

Competition and Regulation

The Communications Minister may determine a system to select carriers to be national universal service providers or a regional universal service provider for all or some universal services for particular years.

The losses that result from supplying loss-making services and from facilitating the satellite subsidy in the course of fulfilling the USO and DDS obligation are required to be shared among all carriers. The Telecommunications Act provides that a universal service provider's net universal service cost as assessed by the ACA is to be shared amongst the universal service provider and other participating carriers on a basis proportional to the eligible revenue of each carrier.

For this purpose, the ACA assesses levy debits (required contributions to recognised USO costs) of other participating carriers, thereby requiring them to make payments into a Universal Service Reserve from which payments are ultimately made to the universal service provider equal to the amount of its corresponding levy credit.

However, current legislation does not ensure that the costs we incur in providing the USO are fully recognised and properly funded by all industry participants. In accordance with the current legislation, the Telecommunications Laws Amendment (Universal Service Cap) Act 1999, the Communications Minister has determined that the net USO cost for fiscal 1999 was A$280 million and A$281 million for fiscal 2000. These amounts are significantly less than our own assessment of the USO costs. On this basis, the other participating carriers were required to pay us A$51.2 million for fiscal 1999 and A$65.7m for fiscal 2000, based on the ACA assessments of eligible revenue for those years.

As provider of the USO, we receive no contribution from other carriers for any non-recognised USO costs.

The Communications Minister has also been given the power to determine the cost of the USO for up to three years in advance. This is a departure from previous arrangements under which the universal service provider made a cost claim to the ACA within 90 days of the end of the relevant financial year. The intention is that the availability of forward estimates of USO costs will provide increased certainty to all industry participants in USO costing and funding. In September 2000, the ACA provided the Communications Minister with net USO cost estimates for the fiscal years 2001 to 2003 inclusive. In accordance with that advice, the Communications Minister determined on 11 April 2001 that net USO costs for fiscal year 2001 were A$299 million. Once the ACA assesses eligible revenue shares and associated levy debit, we expect to receive around A$70 million from the other carriers in respect of fiscal 2001.

The Communications Minister directed the ACA (with industry support) to review their estimates of net USO costs for fiscal years 2002 and 2003, with special focus on a number of critical aspects. An Advisory Committee comprising the ACA and industry representatives has been established to undertake this review.

USO contestability

In July 2000, further proposed USO amendments were introduced into Parliament. The Telecommunications (Consumer Protection and Service Standards) Act 1999 provides for contestability in the supply of the USO, with multiple service providers (authorised by the ACA) entitled to compete for customers in defined geographic areas and to receive a per-customer subsidy. These arrangements commenced on 1 July 2001 in two pilot regions, with individual subsidies ranging from A$120 to A$1,920 per annum per service in fiscal 2001/2002.

Importantly, under this Act, carriage service providers (non-infrastructure owners) will be able to provide USO services in addition to carriers (infrastructure owners). Also, carriage service providers earning eligible revenue above a particular level may be required by Ministerial determination to contribute funding to the USO cost. However, it is not clear when the Communications Minister will exercise this power and what eligible revenue threshold level (if any) may be determined. Where contestability is established in an area,

Competition and Regulation

it is proposed that one supplier will be designated the "carrier of last resort". In the first instance, we will be the carrier of last resort required us to provide back-up service in the event of exit or default by other carriers.

The draft legislation contains many Ministerial and regulatory agency discretions. These discretions may have a material impact on the nature of the USO, the determined cost of the USO, our share of that cost and industry funding requirements.

Customer service guarantee

At the direction of the Communications Minister, the ACA has made mandatory standards for carriage service providers in relation to the connection and restoration of basic telephone services and enhanced call-handling features and the keeping of appointments with customers related to these specific activities. These customer service standards have been in effect since 1 January 1998. Following a direction by the Communications Minister, the ACA issued in May 2000, a new CSG standard that came into effect in July 2000. The new standard only applies to eligible customers with five or less specified telephone services and tightens some connection and restoration timeframes.

The standards apply to the standard telephone service and specified enhanced call handling features, as defined in the standard. They set connection times, fault repair times, and standards for the keeping of appointments for these activities. The damages payable under the new standards are:

- for a missed appointment, A$12 for a residential or charity customer and A$20 for a business customer; and
- for a delayed connection or repair, A$12 for residential customers and A$20 for business customers for each working day of delay up to five working days and A$40 per working day of delay after that.

However, damages cannot exceed A$25,000 per customer for each contravention.

The ACA has power to give directions to a carriage service provider either to take specified action to avoid contravening a standard or to ensure that the carriage service provider's compliance with a standard reaches a specified target. Contravention of a direction can lead to penalties imposed by the Federal Court of up to A$10 million.

From August 2000, if a carriage service provider has reason to believe that an event has occurred that is reasonably likely to result in it being liable to pay damages to a customer for a breach of a standard, the carriage service provider must notify the customer and pay those damages, whether by account credit or otherwise, within a prescribed period, whether or not the customer has claimed those damages.

A carriage service provider has a right of contribution to damages where the contravention of a standard is wholly or partly attributable to the acts or omissions of another carriage service provider, for example, where a carrier such as we are provides services to the carriage service provider. This provision took effect from February 2000.

Supply terms and conditions

Under a determination made by the ACA, carriage service providers that formulate a standard form of agreement relating to the supply to an ordinary customer by the provider of designated goods and services have been required since March 2000 to provide customers with concise summaries of the terms and conditions on which customers acquire their goods and services. We provide these summaries to existing and new customers.

Competition and Regulation

Broadcasting regulation

The Broadcasting Services Act 1992 was amended in 1998 and 2000 to provide for the introduction of digital television from January 2001.

The Broadcasting Services Amendment (Digital Television and Datacasting) Act 2000 was introduced in 2000. This Act provides the regime for digital television and datacasting services, including a schedule of reviews under the legislation dealing with issues such as the datacasting regime and duration of the simulcast period.

In early fiscal 2001, the Commonwealth Government gazetted an exception to the definition of "broadcasting" contained in the Broadcasting Services Act 1992 for internet audio and video streaming that is delivered via the internet.

In April 2001, the ACA requested registration for the auction of datacasting transmitter licences. However, the auction was cancelled.

Hong Kong telecommunications regulation

We own 50% of Reach which, through its wholly owned subsidiary Reach Networks Hong Kong Ltd (Reach Networks), conducts a wholesale connectivity business from Hong Kong. Reach is actively seeking opportunities to expand its PoPs in selected parts of Asia as markets liberalise. Reach Networks holds a Fixed Telecommunications Network Services licence, under which it operates a network for the carriage of traffic to and from Hong Kong. We also own 60% of RWC which, through its wholly owned subsidiary Hong Kong CSL conducts a cellular mobile business in Hong Kong. Hong Kong CSL holds a Public Radio Communication Services licence, which covers the establishment and maintenance of a cellular network in Hong Kong.

Below is a brief outline of the Hong Kong telecommunications regulatory regime and the key regulatory requirements with which Reach Networks and Hong Kong CSL must comply.

Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong)

The legislative framework governing the provision of telecommunication services and facilities in Hong Kong is principally based on the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

The Telecommunications Ordinance regulates the licensing and control of telecommunications services and telecommunications apparatus and equipment, including fixed wireline and wireless services, public mobile telephone services and certain aspects of internet services.

The Telecommunications Authority (TA) is the principal telecommunications regulator in Hong Kong and is responsible for administering the Telecommunications Ordinance. The Office of the Telecommunications Authority (OFTA) was established in 1993 under the Telecommunications Ordinance and its key functions are to assist the TA in administering and enforcing the provisions of the Telecommunications Ordinance. The TA's powers include:

- issuing licences;
- making rules and determinations in relation to the provision of telecommunications network services by licensees, including setting interconnection charges on particular routes; and
- requiring a licensee to comply with the terms of its license and any applicable legislation, and to suspend or revoke licenses as enforcement measures or for the protection of the public interest.

Competition and Regulation

Telecommunications Regulations (Chapter 106G of the Laws of Hong Kong)

The Telecommunications Regulations set out the general licence conditions of the different licences which may be granted by the TA, the maximum terms for certain licences as well as the fees payable by the licensee in respect of licences granted by the TA.

Competition provisions

The telecommunications market in Hong Kong is almost fully liberalised and is now one of the most competitive markets in the world.

Unlike many countries, Hong Kong does not have a general competition law. The TA currently regulates anti-competitive behaviour by including competition related provisions in licences. For example the FTNS licence mandates that the licensee “shall not engage in any conduct which, in the opinion of the Authority, has the purpose or effect of preventing or substantially restricting competition in the operation of the service or in any market for the provision or acquisition of a telecommunications installation, service or apparatus.”

There is a proposal to regulate the acquisition of carriers in Hong Kong where certain concentration thresholds are exceeded. The TA issued a consultation paper on this proposal on 17 April 2001, seeking views and comments by 12 June 2001. We, along with other interested parties, provided our views and comments on this consultation paper.

Third generation mobile services licence

On 18 July 2001 a memorandum was issued by the Hong Kong Government indicating OFTA will auction third generation mobile services licences. Key features include: four licences will be auctioned, licences will be valid for 15 years, bidders will bid a percentage of third generation network turnover throughout the life of the licence, bidding will start at the reserve price of 5% of third generation network turnover subject to a minimum payment of HK$50 million for each of the first five years and rising minimum payments from year six onwards. Licence winners will be required to share up to 30% of their networks with mobile virtual network operators. On 19 September 2001, the TA announced that Hong Kong CSL was one of four successful provisional bidders for a third generation mobile services licence at the reserve price.

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The following discussion should be read in conjunction with the annual consolidated financial statements, including the notes to those financial statements, that are included with this annual report. Those financial statements have been prepared in accordance with Australian GAAP which differ in certain significant respects from US GAAP. For a discussion of the principal differences between Australian GAAP and US GAAP as they relate to us, and a reconciliation of the net income and shareholders' equity to US GAAP, refer to note 30 to the financial statements.

This section includes statements of future expectations and forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those in the forward-looking statements. A discussion of some of the principal risks that could affect our business is presented in this annual report under the heading "Key Information - Risk factors". Also refer to "Key Information - Cautionary statement regarding forward-looking statements".

In this section, we refer to our fiscal years ended 30 June 1999, 30 June 2000 and 30 June 2001 as fiscal 1999, fiscal 2000 and fiscal 2001, and we have referred to the three fiscal years ended 30 June 2001 as the three-year period.

Overview of key factors affecting our business and financial performance

During the three-year period, we have increased our revenues in non-traditional markets such as mobile telecommunications, data and the internet and other value-added services. We are continuing to implement operational changes to improve our productivity and operating efficiency and are focused on product development and bringing new products to the market efficiently.

While we plan to control and reduce our operating costs, we are focusing on four areas as opportunities to increase our revenues:

- **Domestic retail operations:** Although growth in our revenues from this market has been limited by additional competition, this market remains the main focus and most important part of our company and provides us with the cash flow to continue to invest and develop our business. We are improving our marketing and our customer service in this area by offering a broad range of product packages that include traditional products packaged with new products, rebalancing our prices to reduce per call charges while increasing basic access fees, providing high speed internet access products, continuing to increase the number of mobile service users and providing more products on our mobile networks.
- **Applications and content:** As telecommunications, computing and media technologies converge, we intend to focus on enhancing our capabilities to provide new and innovative application and content services and expand further into these converged markets. We will enhance our capabilities across a number of content services and access and delivery technologies to position ourselves to take advantage of opportunities in these new markets as they unfold.
- **International expansion:** We intend to expand our business and grow revenues and profits by expanding outside Australia, particularly in the Asia-Pacific region. Our existing investments in Reach and RWC provide us with a foundation in Asia. We will also continue to explore other selected international investment, acquisition and alliance opportunities.

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- **Domestic wholesale services:** As the telecommunications market expands in Australia, we intend to increase our wholesale revenues by improving and expanding our products and service offerings to other carriers and carriage service providers in Australia. We believe that growth opportunities exist for carriers that offer value-added wholesale services, such as managed network services and we have shaped our domestic wholesale strategy to pursue these opportunities.

In recent years, we have devoted substantial capital to upgrade our telecommunications networks, eliminate components that were no longer useful and improve the systems used to operate our networks. As an example, in fiscal 2001 we closed our analogue mobile network and undertook the rollout of our CDMA mobile network.

We have also focused on our operating efficiency and continued to strive to be more commercially oriented. Our efforts along these lines have included:

- streamlining our systems and processes;
- improving work practices, including the implementation of a new enterprise agreement; and
- systematically reviewing our cost structures and the way we deliver service to our customers.

So far these initiatives have allowed us to achieve cost efficiencies in many areas while at the same time improving customer services. They also have resulted in a significant reduction in the number of our full-time employees.

We are near completion of our planned reduction of 10,000 full-time employees by the end of fiscal 2002 through a number of initiatives, including the impact of our major "next generation" cost reduction, or NGCR, programme, which we announced in March 2000. In the three-year period, our full-time employees were reduced from 52,840 in fiscal 1999 to 44,874 in fiscal 2001. This number of full-time employees in fiscal 2001 does not include 1,281 employees of Hong Kong CSL that were consolidated with our results upon the acquisition of our interest in RWC.

We have now moved into the second phase of our NGCR programme and have identified some specific opportunities to reduce operating costs in this second phase. These opportunities include:

- reductions in the cost to bring new products to the market in our mobiles division;
- obtaining better value from our capital expenditures;
- rationalising our various IT and network platforms;
- managing total labour costs more efficiently; and
- consolidating our managed services businesses.

We are committed to continuing our review of areas of the business where cost efficiencies can be gained while simultaneously improving customer service.

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Outlook

We expect our financial results in fiscal 2002 and future years to be affected by the following principal factors:

- continuing rapid changes to our competitive environment as competition intensifies and our regulators amend the applicable laws and regulations to continue opening the markets in which we compete;
- actions taken by our regulators and by the Commonwealth Government to control our prices and mandate services that we are required to provide;
- our ability to introduce new value-added products and services to compensate for lower prices and volume in our traditional product lines;
- the ongoing results of our investments in Reach and RWC;
- our ongoing efforts to control our costs and maintain our efficiency; and
- economic conditions globally and in Australia.

Through our revenue growth and expense containment initiatives, we expect to maintain strong cash flows from our operating activities. We expect that we will be able to fund planned ongoing operational capital requirements in our networks and systems through our operating cash flows. We will continue to consider strategic acquisitions, alliances and other investment opportunities, some of which may be substantial, that may arise from time to time, although we intend to maintain a conservative debt-to-equity ratio and strong interest cover.

Competitive environment

In recent years, the Commonwealth Government has adopted laws and regulations that continue to open competition in the Australian telecommunications markets. As at 30 June 2001, there were approximately 70 licensed carriers and 1000 ISPs which includes 120 providers who are also carriage service providers, competing in Australia. While increased competition has resulted in lost market share and falling prices, the overall volume of telecommunications services purchased in Australia has continued to grow. In response to a growing and competitive market we have introduced innovative products and services and improved our operating efficiency. We expect that these trends will continue to be major factors affecting our future operations and financial results for at least the next several years.

Regulatory environment

Our regulators, within the framework of the regulatory regime, have broad discretion to regulate our business and operations. Actions by the regulators may have a significant adverse effect on our operations and financial performance over the next several years.

The Productivity Commission recently conducted a review of the industry specific competition regulation. We expect that it will hand down its final report in September 2001. This may result in legislative changes to the regulatory environment in the future, which may be favourable or unfavourable to Telstra.

In September 2001, Parliament passed legislative changes designed to streamline ACCC arbitration and any subsequent appeal proceedings. It is expected that the changes will come into effect in the near future. The changes include limits on evidence that can be submitted to appeal proceedings and back dating of ACCC arbitration decisions to the commencement of commercial negotiations. These changes may adversely impact the operating environment for Telstra.

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Over the three-year period, the ACCC and ACA have increased their level of activity in telecommunications markets, including in some highly competitive markets. Legislation has facilitated their ability to exercise their powers and has reduced our ability to challenge their actions. If current trends continue, their actions could adversely affect our operations and profitability as well as our plans to upgrade and expand our networks. Example of the type of regulatory developments that have occurred during the last three fiscal years that in the aggregate could have a significant effect on our future financial results include:

- the ACCC's declaration of local call resale and access to our ULL;
- the ACCC's announced pricing principles for local carriage services which impact ACCC arbitration determinations on the local call resale price;
- legislative capping of our ability to recover costs associated with our universal service obligation and the tendering trial for the universal service obligation;
- the ACCC's pricing principles for ULL services and associated ULL arbitration pricing determinations;
- ACA's mandating of mobile number portability effective 25 September 2001, which will increase competitive pressures in our mobile market; and
- reduced evidentiary threshold for the ACCC to commence competition notice proceedings.

In fiscal 2001, we sold our global wholesale business to Reach, our 50% owned Asian joint venture with PCCW. Effective 1 February 2001, our revenue from the global wholesale business is attributed to Reach. At the same time, we acquired a 60% interest in RWC. The main asset of RWC is one of Hong Kong's leading wireless businesses, Hong Kong CSL.

Results of operations

Most of our operating revenues for the three-year period came from basic access, local calls, national long distance calls, mobile goods and services, data and internet services, directory services and inter-carrier services. During the last three fiscal years, we have successfully grown our revenues and managed costs, although margin pressures have continued.

Telephony products have historically generated most of our operating profit and have been more profitable than our non-telephony products such as data. However, the percentage of our overall profit generated from these telephony products has declined as the profitability and volumes of our non-telephony products have improved. We expect that this trend will continue.

We have experienced strong revenue growth in our mobiles, data and the internet businesses. However, margins in the mobiles business contracted during the three-year period. This was primarily because competition and the trend toward handset upgrades in this market has resulted in high mobile handset subsidies and mobile dealer commissions. We also incurred additional expenses to move customers from our analogue network to our digital network. In addition, depreciation expense associated with our mobile telecommunications business grew during the three-year period that reflected our continued investment in our GSM digital network, our continued rollout of the CDMA network and the accelerated depreciation associated with our analogue network due to its closure. With an increasingly competitive mobile telecommunications market, we expect to experience continued pressure on our mobile telecommunication margins in the future but revenue growth to continue.

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Our ongoing obligation to provide universal service to all Australians continues to affect our profitability adversely, as we are unable to recover fully our costs of complying with this obligation. We have had to devote a large amount of resources to be able to provide the universal services to all Australians. The government has limited the amount that we may charge our customers for this service and the amount we may recover from the other participants in the Australian telecommunications industry for our cost of providing this service. See "Competition and Regulation - Regulation" for a discussion of the extent that the regulators have limited our recovery of the costs of providing these services.

As competition has intensified during the three-year period, the volume of telecommunications services purchased in Australia has increased and the range of products and services offered has continued to expand. We also have greater opportunity to increase wholesale revenue by providing services to other carriers and carriage service providers. However, we also expect to continue to lose market share in some of our retail markets as a result of increasing competition.

In this year's results we have a number of one-off items that include the following:

- the sale of our global wholesale business effective on 1 February 2001 into Reach. We have recognised 50% of our profit on the sale in fiscal 2001 (A$852 million) and the balance has been deferred and will be credited to profit and loss over the next 20 years. After taking into account goodwill amortisation and deferred profit amortisation, we recognised A$48 million equity accounted profit on our 50% interest in Reach in fiscal 2001;
- effective 1 February 2001 we acquired a 60% controlling interest in RWC. We have consolidated the operating results from RWC and after taking into account the outside equity interests of the other shareholder, PCCW, our net profit was A$3 million for the five months ended 30 June 2001. In addition, we have also recognised that there has been a general decline in the value of telecommunications companies over the last year. Based on an independent valuation of our interest in RWC, we have recognised the decline in its value by writing down the value of our investment by A$999 million to A$2,086 million;
- the one-time benefit of A$725 million in other revenue arising from the release from our obligations under the Telstra Additional Contributions agreement to the Telstra superannuation fund;
- the application of US accounting rules on revenue recognition to our accounts for both Australian and US reporting purposes. This instruction on accounting treatment is referred to as US Securities Exchange Commission Staff Accounting Bulletin 101, or SAB 101. The aggregate effect of this change on our fiscal 2001 revenue was a negative A$779 million and in our profit before income tax expense was a negative A$219 million. The effect on revenue in our product lines of SAB 101 is described below in "Operating revenue";
- we acquired a controlling interest in Keycorp Limited (Keycorp) in December 2000 at a cost of A$438 million, which was satisfied by the transfer to Keycorp of our EFTPOS carriage business. Keycorp's results have been consolidated in our Group results since 1 January 2001. The effect of this change on our fiscal 2001 revenue was a positive A$49 million; and
- we have continued to review our investments with some write-downs being taken to account in the current year. Our yearly result also included a profit on sale of investments in Computershare Limited (Computershare) of A$245 million.

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Operating revenues

Table 1 provides a breakdown of our revenue by major product and service category for the three-year period and expressed as a percentage of our total operating revenue.

Table 1 - Operating revenue by product and service category

	Year ended 30 June					
	2001		2000		1999	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Basic access	**2,361**	**10**	2,005	10	1,855	10
Local calls	**2,143**	**9**	2,646	13	2,727	15
National long distance calls - fixed-to-fixed	**1,267**	**5**	1,406	7	1,485	8
National long distance calls - fixed-to-mobile	**1,287**	**6**	1,220	6	1,290	7
International telephone services	**786**	**3**	972	5	1,103	6
Mobile services	**2,940**	**13**	2,667	13	2,321	13
Mobile handsets	**215**	**1**	326	2	312	2
Data and internet services	**3,143**	**14**	2,841	14	2,483	14
Directory services	**1,148**	**5**	1,122	5	1,077	6
Intercarrier services	**1,168**	**5**	828	4	617	3
Inbound calling products	**434**	**2**	433	2	400	2
Solutions management	**306**	**1**	235	1	183	1
Other sales and services	**2,260**	**10**	1,908	8	1,718	9
Sales revenue - usual	**19,458**	**84**	18,609	90	17,571	96
Sales revenue - unusual	**(779)**	**(3)**	734	4	-	-
Other revenue [(1)]						
usual	**764**	**3**	1,238	6	649	4
unusual	**3,643**	**16**	-	-	-	-
Operating revenue	**23,086**	**100**	20,581	100	18,220	100

(1) Our other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.

In the following discussion, we analyse revenue for each of our significant products and services. The principal areas of strong operating revenue growth were:

- mobile goods and services;
- data and internet services;
- intercarrier services; and
- other sales and services, particularly revenue from controlled entities.

Fiscal 2000 and fiscal 2001 saw a shift in revenue to basic access from local calls and national and international long distance as we rebalanced our prices to provide lower per call charges but charged higher prices for basic access. At the same time, competition has continued to intensify during the three-year period and we have lost market share in some of our retail markets as a result of increasing competition. We have seen a continued shift in growth from our traditional retail operations to new services such as mobiles, data and internet services and our wholesale operations.

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We expect that we may continue to lose market share in our retail operations as competition becomes more intense in the future. However, the volume of telecommunications services purchased in Australia has increased and the range of products and services offered has continued to expand. We expect that continued expansion will partly offset lost market share in our retail operations and give us a greater opportunity to increase wholesale revenue by providing services to other carriers and carriage service providers.

Categorisation of our operating revenue

We categorise revenue from products and services we sell to wholesale customers depending on the nature of the product or service. For example, we categorise operating revenue from interconnect and CDMA resale services as intercarrier services revenue. On the other hand, we categorise operating revenue from other resale services according to the product or service resold.

We are actively promoting alternative access services that are faster and have more capabilities than basic access service. As more of our customers purchase these alternative services, operating revenue will move from one category to another. For example, as our customers switch from buying basic access service to buying other forms of access service, such as ISDN or our FaxStream® facsimile access product, operating revenue will shift from the basic access category to the data and internet services category.

In addition, we categorise all our operating revenue from calls arising from our ISDN and FaxStream® services under data and internet services. As a result, our operating revenue from local calls, national long distance calls and international telephone services does not reflect calls made over these access services.

The rates we charge our customers are subject to regulated price caps

The rates we charge our retail customers for basic access, local, national long distance and international calls, domestic and international leased lines, fixed-to-mobile calls and mobile goods and services are subject to price controls. These controls impose caps based on annual increases in the consumer price index for the previous year less, in some cases, a specified percentage. If the annual increase in the consumer price index is less than the percentage, we must reduce our prices. In addition, as we reduce our average local call prices in areas where competition exists or is likely to exist, we are required by regulation to reduce local call prices in other areas of Australia in the following year. In addition, our local call prices in all areas of Australia must not exceed the current A$0.22 (GST included) per call price cap, except for calls from payphones which are capped at A$0.40 (GST included) per call.

In recent years, we have reduced prices for a number of our products and services faster than the rate of reduction required under the regulations.

Amendments to the price control regulations in fiscal 2000 allowed us to rebalance our access and calling charges, which we did in March 2000 and continued with a number of calling plan options in fiscal 2001. However, these changes may also result in the ACCC requiring us to rebalance our wholesale charges with the effect of reducing the interconnection prices that we may charge other carriers and carriage service providers faster than we are commercially able to rebalance our retail charges. See “Competition and Regulation - Regulation”.

Accounting policies - SAB 101

In fiscal 2001, we have adopted US SEC Staff Accounting Bulletin 101 (SAB 101) titled “Revenue Recognition”. We have adopted SAB 101 in our Australian accounts to ensure that we have consistent and conservative revenue recognition policies. As a result of the adoption of SAB 101 we reviewed our revenue streams and determined that we needed to change our revenue recognition policies on three revenue streams, basic access, mobiles and directories, to ensure we only recognised revenue received when the service was

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provided. We have been able to defer the costs we incur in providing these services relating to this revenue. We were required to look at the revenue and expenses deferred in prior periods and determine:

- the effect on prior periods of adopting SAB 101; and
- the current year effect.

In accordance with Australian Accounting Standards, the effect of the adoption of SAB 101 has been brought to account in fiscal 2001. SAB 101 has affected revenues, expenses and earnings before interest and tax of our basic access, directories and mobile product lines for fiscal 2001. The effect on the revenue and expenses of these products is discussed below in the section relating to each product and in "Operating expenses". For more information on the effect of this accounting policy change, see note 1.8 to our consolidated financial statements included with this annual report.

Basic access

Our basic access revenue includes monthly rental fees as well as installation and connection charges from telephone service connections between a customer's premises and our PSTN network. It excludes our internal charges to calling products for the use of our network. Basic access revenues are affected by housing growth, general economic conditions and demand for telephone services and additional lines and competition. Basic access revenue is also affected by customers moving to our other higher value access services, such as ISDN.

Table 2 shows information about our basic access performance.

Table 2 - Basic access data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Basic access revenue					
Retail	**2,058**	1,841	1,755	**11.8**	4.9
Domestic wholesale	**303**	164	100	**84.8**	64.0
	A$2,361	A$2,005	A$1,855	**17.8**	8.1
SAB 101 revenue adjustment - unusual . . .	**(540)**	-	-		
Basic access revenue (incl. unusuals)	**A$1,821**	A$2,005	A$1,855		
Basic access lines in service (at year end)(1)					
Residential	**6.29**	6.51	6.87	**(3.4)**	(6.2)
Business	**2.47**	2.36	2.46	**4.7**	(4.1)
Sub-total	**8.76**	8.87	9.33	**(1.2)**	(4.9)
Domestic wholesale	**1.30**	1.18	0.51	**10.2**	131.4
Total access lines in service	**10.06**	10.05	9.84	**0.1**	2.1

Note: statistical data represents management's best estimates.

1) Excludes basic access lines for our internal use.

Our operating revenue from basic access services increased significantly in both the retail and domestic wholesale markets over the three-year period primarily as a result of access price rebalancing first introduced in March 2000. The increases in our basic access fees were generally offset by lower local call charges and some capped long distance calls. Under the new basic access pricing structure, we charge our residential and business customers different basic access rates depending on the package chosen. Wholesale customers get the standard (unpackaged) basic access service rates (with the "business" and

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"residential" differentiation still applying). The Telstra Retail packages are not available to Telstra Wholesale's customers (ie Telstra Retail's competitors) who are expected to develop their own retail market focused packages.

Our operating revenue from basic access services during the three-year period was also affected by increasing competition, particularly in the residential market. The number of residential retail basic access lines has decreased during the three-year period, while business retail basic access lines increased slightly. The change in mix of our basic access customers has positively affected our basic access revenue during the three-year period. Domestic wholesale basic access increased during the three-year period reflecting the increased penetration of our competitors in this market.

During the three-year period, our basic access revenues have also been affected by increased penetration of pricing packages. In February 2001, we announced an important new marketing initiative, Telstra HomeLine™ Options, which allows residential customers to choose options of bundled products, with different basic access rates and varying calling charges, to meet their particular circumstances. We expect the bundling of products available under Telstra HomeLine™ Options will encourage more customers to review their choices of not only staying with us as their sole service provider but may also encourage customers to come back into our retail base of customers.

Our revenue in fiscal 2001 included a negative adjustment of A$540 million to reflect the effect of SAB 101 on this product group. This adjustment reflects the fact that under SAB 101, we now defer the revenue associated with new connections and in-place services over the average life per customer for access to our network, which is five years. Previously, we recognised revenue when billed. The deferred revenue reflected in this negative adjustment will be recognised over the next five fiscal years. See "Changes in accounting policies".

Local calls

Our local call revenue comes from our local call charges and from additional billable value-added services. For the most part, we charge for local calls without a time limit. Our operating revenue from local calls generally varies with changing general economic conditions and in the number of basic access lines in service. Our operating revenue from local calls has been positively affected by our efforts to increase the number of services used by our customers by offering them such value-added services as voicemail, call waiting, call forwarding, call conferencing and our call return feature. Retail revenue for local calls has been negatively affected by price decreases as a result of competition through local call resale and rebalancing (line rental increases and call price decreases), although with some offset from wholesale revenue growth.

Our operating revenue from local calls has not yet been significantly affected by:

- other carriers having direct access to our local loop;
- the full impact of local number portability which was extended to all carriers in fiscal 2000; and
- the use of wireless networks as a substitute for fixed line calling.

Nevertheless, we expect that these factors may have a more pronounced effect on our local call revenue in future years. In addition, some of our local call revenue will shift to other product categories as our customers move from our basic access service to our enhanced access services, such as ISDN and increase their use of internet services. It is also being impacted by customers shifting usage to mobile and fixed-to-mobile calling.

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Table 3 shows information about our local call business.

Table 3 - Local call data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Local call revenue					
Retail	**1,683**	2,271	2,446	**(25.9)**	(7.2)
Domestic wholesale	**295**	223	158	**32.3**	41.1
Sub-total	**1,978**	2,494	2,604	**(20.7)**	(4.2)
Value-added services					
Retail	**141**	138	n/a	**2.2**	-
Domestic wholesale	**24**	14	n/a	**68.9**	-
Sub-total	**165**	152	123	**8.3**	23.6
Total local call revenue	**A$2,143**	A$2,646	A$2,727	**(19.0)**	(3.0)
Number of local calls	**11,198**	11,346	11,190	**(1.3)**	1.4

Note: statistical data represents management's best estimates.

Our operating revenue from local calls declined during the three-year period. The primary reasons for the reduced local call revenue in fiscal 2001 include:

- the full-year impact of lower local call prices as part of our access and calls rebalancing introduced in March 2000. We decreased local call prices and capped some long distance call prices as offsets to higher basic access fees. We also rebalanced in fiscal 2001;
- the absorption of the impact of the goods and services tax (GST) in some of our local call prices with the introduction of GST on 1 July 2000. This reduced the level of call revenue by approximately A$158 million. For example, basic local calls from 1 July 2000 continued to be charged to our customers at 22 cents per call (inclusive of GST) so that our revenue reduced to 20 cents per call;
- the loss of our market share in the local call market as our competitors moved to grow their customer base and market share through either building their own access networks or supplying their customers through the wholesale services of other carriers;
- the increased penetration of products that provide our customers with different pricing options; and
- our business and government customers use products that provide local calls of short duration at a lower timed rate.

Our operating revenue from billable value-added services, such as calling number display and call return, again increased during the three-year period although at a slower rate than fiscal 2000. Customers using our calling number display services increased from 503,000 in fiscal 2000 to 785,000 in fiscal 2001.

Over the three-year period, revenue from domestic wholesale has increased significantly, from A$158 million in fiscal 1999 to A$223 million in fiscal 2000 and A$295 million in fiscal 2001. These increases reflect increased competition in the retail market and an increase in the number of carriage service providers in this market. While this has negatively affected our retail revenues, we also provide this service on a wholesale basis, which has grown significantly as a result of the increased competition in the retail market. Prices for our domestic wholesale services are competitive based on retail price less avoidable costs.

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National long distance calls

Our operating revenue from national long distance calls consists of:

- revenue from calls made from our PSTN network to a fixed network (fixed-to-fixed); and
- calls made from our PSTN network to a mobile network (fixed-to-mobile).

We generally charge for national long distance calls based on the time of day, day of week, destination and duration of the call and whether the call is fixed-to-fixed or fixed-to-mobile. A variety of promotions and pricing options are offered to encourage customers to use our service and to inform them about the price and value of our service. The majority of our operating revenue from national long distance calls comes from our residential and small business customers.

Our national long distance calls revenue is largely driven by general economic conditions and customer perceptions about the cost and value of our service relative to competitor alternatives. Falling prices have led to increases in the overall market volume of minutes of calls. However, competitive activity continues to negatively affect our national long distance calls revenue and our share of that market directly through override and preselection and indirectly through competition for access lines. Competitive pressures are likely to continue to increase.

Table 4 shows information about our national long distance calls.

Table 4 - National long distance call data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Fixed-to-fixed revenue					
Retail	**1,252**	1,390	1,461	**(9.9)**	(4.9)
Domestic wholesale	**15**	16	24	**(6.3)**	(33.3)
Total fixed-to-fixed revenue	**A$1,267**	A$1,406	A$1,485	**(9.9)**	(5.3)
Fixed-to-mobile revenue					
Retail	**1,261**	1,176	1,191	**7.2**	(1.3)
Domestic wholesale	**26**	44	99	**(40.9)**	(55.6)
Total fixed-to-mobile revenue	**A$1,287**	A$1,220	A$1,290	**5.5**	(5.4)
Total national long distance revenue	**A$2,554**	A$2,626	A$2,775	**(2.7)**	(5.4)
Fixed-to-fixed minutes	**8,833**	9,396	9,331	**(6.0)**	0.7
Fixed-to-mobile minutes	**3,268**	3,022	2,975	**8.1**	1.6
Total national long distance minutes	**12,101**	12,418	12,306	**(2.6)**	0.9

Note: statistical data represents management's best estimates.

Fixed-to-fixed revenue

The fixed-to-fixed market continued to be highly competitive. In fiscal 2001 our operating revenue from fixed-to-fixed calls declined at a higher rate than the decline in fiscal 2000 compared with fiscal 1999 primarily due to access rebalancing introduced in March 2000. Retail market share continues to decline, though this is mainly due to losses in the corporate and small to medium sized businesses segments. Aggressive competition in all areas of the business market have led to reductions in volumes and revenue. Residential share is more stable.

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Our operating revenue for fixed-to-fixed calls has also been negatively affected by the churn out of customers through increased competition in the local call market. Where the customer changes their provider for local call services they tend to select the same provider for long distance services.

To address competition we have introduced competitively priced packages.

Fixed-to-mobile revenue

Our fixed-to-mobile revenue during the three-year period, was affected by the introduction of fixed-to-mobile preselection from 1 October 1999 whereby the carriage service provider selected for fixed-to-fixed calls automatically became the customer's provider for fixed-to-mobile calls.

Consequently in fiscal 2000, our operating revenue from retail fixed-to-mobile calls declined, reflecting the initial impact of preselection on market share and competitive pricing. In fiscal 2001, the retail fixed-to-mobile revenue growth was positively affected by the overall growth in the mobile telephony market. Although prices are still subject to competitive pressure, reductions have not been as significant as those surrounding the preselection period.

Fixed-to-mobile revenue has also been affected by the effect of our loss of market share in local calls. This is because, generally, customers will choose the same carriage service provider for local calls as they do for fixed-to-fixed international calls.

International telephone services

Our operating revenue from international telephone services includes operating revenue we generate from:

- international calls made from Australia to a destination outside Australia;
- the fees we charge overseas telecommunications companies for transmitting and terminating international calls made from outside Australia to a destination in Australia;
- the fees we charge overseas telecommunications companies for the use of our network for international calls originating outside of Australia that are destined for another country; and
- operator-assisted international calls.

Effective 1 February 2001, we completed the sale of our global wholesale business to Reach. Accordingly, fiscal 2001 international telephone service revenues reflect revenue from inbound calls and transit traffic for the period from only 1 July 2000 through to 31 January 2001. We now account for Reach under the equity accounting method.

Our operating revenue from international outgoing calls is largely driven by general economic conditions, customer perceptions about the cost and value of our service, competition, promotion and advertising. Competition has, and is expected to continue, to affect our international telephone services business.

Since fiscal 1999, our customers have been able to select between different pricing structures. These are generally based on destination, duration, time of day and day of week of the call, but may also include flexible features such as allowing customers to make overseas calls that are charged in 30 minute blocks of time.

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Table 5 shows information about our international telephone services.

Table 5 - International telephone service data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
International telephone service revenue					
Inbound	**297**	333	278	**(10.8)**	19.8
Outbound	**325**	364	431	**(10.7)**	(15.5)
Transit	**73**	166	220	**(56.0)**	(24.5)
International assisted/other	**91**	109	174	**(16.5)**	(37.4)
International telephone services revenue . .	**A$786**	A$972	A$1,103	**(19.1)**	(11.9)
international incoming minutes.	**747**	1,033	787	**(27.7)**	31.3
International outgoing minutes[(1)]	**877**	893	725	**(1.8)**	23.1

Note: statistical data represents management's best estimates.

(1) International outgoing minutes for international settlement purposes also include international outgoing minutes from mobile telephone service, ISDN and public payphones.

Our revenue from international telephone services continued to decline over the three-year period principally as a result of competitive pricing pressures which more than offset growth in volumes. In addition, effective from 1 February 2001, our revenues from transit traffic and inbound calls are now recognised by Reach.

Outbound volume increased significantly in fiscal 2000 compared to fiscal 1999 but decreased slightly in fiscal 2001. The large increase in outgoing minutes in fiscal 2000 was due to:

- the significant price reductions ranging from 69% to 74% introduced at the end of the previous financial year for high traffic destinations such as Japan, United Kingdom, New Zealand and the United States;
- a small number of special offers made under Easy ½ Hours® whereby the set prices for calls from Australia to the five most popular international destinations, were reduced for certain days at a time; and
- the higher number of international calls made over the Christmas and New Year period due to the turn of the century.

However, higher volumes were not sufficient to offset the lower prices during the three-year period.

During fiscal 2001 outbound international telephone traffic has also been negatively affected by the continued penetration of HomeLine™ Plus rates which have reduced revenues from calling to some countries by up to 30%. Over 1.9 million customers are now on HomeLine™ Plus.

Until its transfer to the books of Reach beginning in February 2001, our operating revenue from international incoming calls continued its upward trend, particularly in September and October during the Sydney 2000 Olympics. Until January it more than offset the decline in both outbound and transit revenue. The lower A$ exchange rate also improved inbound revenue which is received in foreign currency.

During the three-year period, operating revenue from transit traffic continued to decline as competition reduced returns on some traffic routes. Therefore, while volumes increased, changes in countries called and prices have led to a reduction in revenue. Transit revenue is recognised in the books of Reach from February 2001.

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Over the three-year period our revenue from operator assisted international calls continued to decline significantly as more of our customers make their international calls by dialling directly rather than relying on an operator to make the connection.

Mobile goods and services

Our operating revenue from mobile telecommunications services is driven mainly by the increasing popularity of mobile telephone services in Australia and increasing usage, as well as value-added services. Plan options allow free and discounted calls at certain times to other MobileNet® customers and to fixed line services. Voice airtime charges have been trending downward during the past two years and we expect this trend will continue in future years, particularly as this market continues to be more competitive.

The mobile telecommunications market grew substantially during the three-year period, particularly stimulated by the introduction of low access fee plans and the increasing popularity of prepaid offerings. However, the rate of growth has declined and we expect this trend to continue as the market becomes more saturated. We also expect that average revenue per user for voice calls will continue to decline as the percentage of the population with mobile telephone services extends to more low-volume customers and air-time charges trend downwards. Mobile data use and increasing usage by mobile dependant customers should, however, offset the decline, over time.

A significant component of operating revenue from mobile telecommunications services relates to sales of mobile handsets to dealers, which we sell at a small mark-up to cover our distribution costs. However, due to strong competition in the mobile telecommunications services market, mobile dealers generally offer substantial discounts on mobile handsets to the ultimate customers. We have subsidised substantially the losses incurred by our dealers on mobile handset sales. We are progressively lowering (and in some cases removing) handset subsidies.

In fiscal 2000, we rolled out a new mobile network with national coverage based on digital technology known as CDMA. This new network complements our existing GSM digital network and provides coverage in all areas previously covered by our analogue network. CDMA now has a substantial base of customers, as well as resale customers. Our analogue network substantially closed, as required by law, in December 1999 and was completely closed in the first half of fiscal 2001.

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Table 6 shows information about our mobile telecommunications services.

Table 6 - Mobile goods and services data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
	(in millions except SIO, in thousands)			(% change)	
Access fees and call charges	**2,611**	2,479	2,226	**5.3**	11.4
International roaming	**120**	90	73	**33.3**	23.3
Mobile MessageBank®	**86**	69	22	**24.6**	213.6
Mobile data	**123**	29	-	**324.1**	-
Mobile services revenue	**A$2,940**	A$2,667	A$2,321	**10.2**	14.9
Mobile handset sales	**215**	326	312	**(34.0)**	4.5
Mobile goods and services revenue[(1)]	**A$3,155**	A$2,993	A$2,633	**5.4**	13.7
SAB 101 revenue adjustment - unusual	**(34)**	-	-		
Mobiles goods and services revenue (including unusuals)	**A$3,121**	A$2,993	A$2,633		
Services in operation (SIO)					
GSM	**4,744**	3,766	2,762	**26.0**	36.4
CDMA	**469**	280	-	**67.5**	-
Analogue	**-**	80	673	**-**	(88.1)
Total mobile services	**5,213**	4,126	3,435	**26.3**	20.1
Mobile telephone minutes[(2)]	**5,383**	4,464	3,221	**20.6**	38.6
Average revenue per SIO per month	**A$52.47**	A$58.79	A$59.49	**(10.8)**	(1.2)

Note: statistical data represents management's best estimates.

(1) *Excludes revenue from:*
- *call termination charges, including calls from our fixed network which we categorise as national long distance;*
- *resale of analogue and CDMA resale services to other carriers, which is included in intercarrier services revenue; and*
- *Hong Kong CSL.*

(2) *Outbound minutes based on calling party pays billing.*

Mobile services revenue increased during the three-year period principally due to the strong growth in the number of mobile telephone customers and minutes of use. Although volumes and customers increased significantly during the three-year period, revenue growth was tempered by lower average airtime charges, and a higher percentage of new customers connecting on pre-paid services. Generally, pre-paid customers have lower usage patterns than our other customers. At 30 June 2001 pre-paid users comprised approximately 23% of total users. As a result of these factors, average revenue per user per month has trended downward with a 2.5% decrease in fiscal 2000 compared to fiscal 1999 and a 14.6% decrease in fiscal 2001 compared to fiscal 2000.

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During the three-year period, revenue growth was supported by the positive trend of strong growth in value-added services such as:

- international roaming;
- MessageBank® (voice message service); and
- a significant increase in demand for short messaging services (SMS), shown under mobile data. In June 2001, the number of SMS messages per subscriber was 14.1 compared with the average of 5.7 in June 2000. The increase in use of this service is due in part to the removal of intercarrier SMS restrictions in April 2000, allowing the free flow of messages between different networks.

Handset sales revenue declined during the period due to lower volumes and a greater proportion of lower-priced handsets sold primarily to our prepaid customers. In addition, significant sales of handsets occurred in the prior corresponding periods when analogue customers moved to a digital network in preparation for the closure of the majority of our analogue network in December 1999. The decline in handset sales revenue in the current period has been more than offset by the continued growth in mobile services.

During the three-year period, the number of SIOs increased primarily due to:

- revised pricing tariffs and promotional offerings including targeting offerings to analogue customers moving to digital services as well as the launch of CDMA;
- an expanded range of channels to market;
- the continued growth from the sale of the prepaid phone pack offering for customers with anticipated low calling patterns; and
- overall market growth.

While the number of our CDMA SIOs is modest compared with the number of our GSM network SIOs, the rate of CDMA SIO growth continued to be strong in fiscal 2001 following the complete deployment of our CDMA network in October 2000.

During the three-year period, the disconnection or "churn" rate on our digital networks declined from approximately 20% in fiscal 1999 to 17% in fiscal 2001. This improvement reflects the significant efforts we have made over this period to retain our customer base in a highly competitive market. Churn rates are influenced by a number of factors, the most significant of which is competition from other carriers. Other factors influencing churn rates include customers' payment defaults and short-term disconnections.

Our revenue in fiscal 2001 included a negative adjustment of A$34 million to reflect the effect of SAB 101 on our mobiles business. This adjustment reflects the fact that under SAB 101, we now recognise revenue on some services such as upfront connection fees and some prepaid services over the average customer life rather than at the point of sale. The deferred revenue reflected in this negative adjustment will be recognised over the next two fiscal years. See "Changes in accounting policies".

Data and internet services

Our operating revenue from data and internet services is driven primarily by:

- demand for capacity to support business networking;
- the increased use of data services by small and medium-sized enterprises;
- the introduction of new products to meet customer needs;
- the increased use of the internet by businesses and consumers; and
- the movement of our customers from basic access and associated calling products to other access services, such as ISDN.

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While the data and internet markets have been experiencing growth, competition has put strong pressure on our prices. We expect that these trends will continue.

Table 7 shows information about our data and internet services.

Table 7 - Data and internet services

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
	(in millions, except access lines)			(% change)	
Data and internet services revenue					
Retail	**2,669**	2,442	2,164	**9.3**	12.8
Domestic Wholesale	**474**	399	319	**18.8**	25.1
Total data and internet services revenue[(1)] .	**A$3,143**	A$2,841	A$2,483	**10.6**	14.4
Consisting of:					
Integrated services (incl. ISDN)	**1,259**	1,186	991	**6.2**	19.7
Packet switching	**428**	340	212	**25.9**	60.4
Internet and internet service provider revenue.	**374**	249	168	**50.2**	48.2
Sub-total	**A$2,061**	A$1,775	A$1,371	**16.1**	29.5
Data and leased lines	**783**	754	799	**3.8**	(5.6)
Text (including FaxStream®)	**299**	312	313	**(4.2)**	(0.3)
Total data and internet services revenue . .	**A$3,143**	A$2,841	A$2,483	**10.6**	14.4
ISDN access lines (basic access line equivalents)	**1,248.0**	1,048.8	722.3	**19.0**	45.2
FaxStream® services access lines	**413.0**	426.8	407.1	**(3.3)**	4.9

Note: statistical data represents management's best estimates.

(1) *Excludes calling charges associated with internal access.*

Our operating revenue from data and internet services grew strongly during the three-year period mainly due to increased revenue from ISDN, packet switching including domestic and international frame relay, and internet services. This growth was mostly due to:

- increased customer demand for flexible, high capacity data transmission; and
- increased penetration and use of the internet.

Strong revenue growth continued in packet switching mainly due to growth in LAN/WAN products such as frame relay and Telstra ATM which offer high speed transmission for video, voice and the internet.

Growth in revenue for integrated services (including ISDN), particularly in ISDN international calls, was due in part to the increased demand arising from the staging of Sydney 2000 Olympics in September 2000. The rate of growth, however, has flattened somewhat in the second half of fiscal 2001.

In August 2000, we commenced the rollout of ADSL services. Over time, we expect that there will be some managed migration of our existing ISDN customers to the new service as well as other customers moving from basic access to ADSL rather than ISDN in the future. Hence, we expect ISDN growth may slow as the ADSL roll-out continues, although this should not be dramatic. Revenue from ADSL, which was not significant in fiscal 2001, is included in the internet and ISPs line.

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During the three-year period our revenue from internet and ISP services has continued to grow strongly even though we have been reducing our prices due to the strong competitive environment. Our subscriber base for Telstra BigPond™ Home and Business has continued to grow during fiscal 2001. However, despite the higher volumes, our revenue per subscriber has decreased due to the lower prices that have occurred in this highly competitive market. Over time, we expect our operating revenue from internet access and internet service provider services to become a larger component of this product category.

FaxStream® is a mature product facing competition from other data and internet products. Service numbers started to decline in fiscal 2001.

Directory services

Our operating revenue from directory services consists of advertising fees for special listings and revenue from value-added directory products and services, such as electronic and on-line services.

Table 8 shows information about our directory services revenue.

Table 8 - Directory services

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Directory services revenue	**A$1,148**	A$1,122	A$1,077	**2.3**	4.2
SAB 101 revenue adjustment - unusual . . .	**(205)**	-	-		
Directory services revenue (incl. unusual) . .	**A$943**	A$1,122	A$1,077	**(16.0)**	4.2

During the three-year period, our directory services revenue grew moderately as we experienced increasing competition, particularly from print, voice and electronic media alternatives, radio, television and direct marketing.

In fiscal 2001, we experienced stable growth of approximately 4% in White Pages™ directory revenue through increased development and marketing of the product options available. Yellow Pages® directory revenue increased, in fiscal 2001, but only marginally at approximately 1%.

Although measured off a relatively small base, electronic, internet and other directory revenues increased by approximately 40% in fiscal 2001 to A$42 million compared with fiscal 2000.

In fiscal 2001, revenue growth was also stimulated in part through the launch of our Yellow Pages® internet product, Yellow Pages® *OnLine* Solutions which provides customers with priority internet listings and hyperlink services as well as from growth in the White Pages™ directory revenue.

Our revenue in fiscal 2001 included a negative adjustment of A$205 million to reflect the effect of SAB 101 on our directories business. This adjustment reflects the fact that under SAB 101, we now recognise all revenue when the Yellow Pages® directory is published, instead of 40% at point of sale and 60% when the directory is published. The deferred revenue reflected in this negative adjustment will be recognised in fiscal 2002. See "Changes in accounting policy".

Intercarrier services

Our operating revenue from intercarrier services consists of revenue from providing telecommunications services to other carriers or carriage service providers. Our operating revenue from resale activity is currently categorised according to the product or service to which it pertains.

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During the three-year period, many new competitors have entered the Australian telecommunications market as carriers or carriage service providers. As the Australian telecommunications markets expand generally and as new competitors enter these markets, we expect that demand for our intercarrier services will increase.

Table 9 shows information about our intercarrier services revenue.

Table 9 - Intercarrier services data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Intercarrier services revenue	**A$1,168**	A$828	A$617	**41.1**	34.2

Our operating revenue from intercarrier services increased during the three-year period, mainly due to:

- increased originating traffic on our network by customers of other carriers; and
- increased terminating calls by other carriers on both our mobile and fixed networks.

During the three-year period, growth in the overall mobile telecommunications market, and our competitors' share of the national long distance market in particular, has supported growth in intercarrier services revenue.

The continuing strong growth in operating revenue from intercarrier services during the three-year period has been affected by:

- the introduction of fixed-to-mobile preselection on 1 October 1999 that has led to an increase in traffic from other carriers' customers, originating on our fixed network and terminating on our mobile network, as well as the increased market growth of mobile telephony services; and
- our loss of retail market share in the provision of basic access, local calls, fixed-to-fixed and mobile services due to competition. A high proportion of these services are now provided by other carriers many of which use our intercarrier services to deliver their services to their customers;
- an increase in the number of carriers in the Australian telecommunications market and increased demand from other carriers for the use of our facilities. This has occurred particularly in:
    - mobile towers, where we allow other carriers to install their equipment and share our transmission facilities; and
    - our exchanges, where other carriers co-locate their equipment needed for the provision of ULL and ADSL.

Given that we have the only national CDMA network, we have also provided CDMA to other carriers for resale to their customers since November 1999, but this amount is still relatively immaterial. At 30 June 2001 we were providing CDMA resale to Cable & Wireless Optus, Hutchison and Primus and more recently to smaller carriers Southern Cross and Austar.

We expect the total market for intercarrier services will continue to grow but we expect that our share of operating revenue for intercarrier services will grow at a more moderate rate in the future due to competitive pressures and regulated prices.

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Inbound calling products

Our operating revenue from inbound calling products consists principally of:

- subscription and call charges for inbound calling services, such as Freecall™ 1800, Freecall™ One8, Priority® 1300 and Priority® One 3; and
- revenue from enhanced call centre products using network voice processing, which provides access to advanced call-handling capabilities without customers having to purchase and maintain their own networks.

The revenue for inbound calling services refers to:

- the fees charged to the business customer for the provision of the inbound calling numbers; and
- the call charges applicable to the party making the call.

For example, under Priority® 1300 and Priority® One3 the calling party from a PSTN service incurs a cost of 25 cents (including GST) whereas calls made from a PSTN service under the Freecall™1800 and Freecall™ One8 service are all charged to the party called with no cost incurred by the caller. Different charges apply for calls made from ISDN, mobiles and payphones.

Table 10 shows information about our inbound calling products revenue.

Table 10 - Inbound calling products data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Inbound calling products revenue.	**A$434**	A$433	A$400	**0.2**	8.3

Following consistent growth in fiscal 1999 and fiscal 2000, revenue growth for inbound calling products was relatively flat in fiscal 2001. The primary reason was the increase in competitive pressure surrounding the introduction of INP on 30 November 2000. INP allows customers to switch providers of this service without changing the telephone number for the service rendered. We have reduced our pricing of this product in response to the increased competitive pressures.

Underlying the revenue trend has been a general shift from the Freecall 1800 product to the Priority® One3 and Priority 1300 products. Priority 1300 is used by larger customers as a call centre product and is also a cost effective alternative to the 1800 service for medium-size businesses.

Solutions management

Our operating revenue from our Managed Solutions™ product is derived from managing all or part of a customer's IT or telecommunications services including managing:

- our network based enhanced voice and data switching products and virtual private network products and the provision of related professional services;
- our core data products including ATM, frame relay, ISDN, ADSL and dedicated data network, equipment;
- a customer's call or contact centre including network services, equipment and third party hardware/ applications and professional services;
- mobile phone networks and new wireless based technologies such as wireless LANs;
- IT based products and services including firewalls, desktops, peripheral services and application service products; and
- complex once-off or whole of business solutions incorporating a range of the above services.

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Table 11 shows information about our solutions management revenue.

Table 11 - Solutions management data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Solutions management revenue	**A$306**	A$235	A$183	**30.2**	28.4

On 31 March 2000, we acquired the remaining 50% of Advantra Pty Ltd (Advantra) that we did not previously own. Advantra is a specialised network services provider. During the three-year period, increased demand from the banking and financing sector, along with the effect of consolidating Advantra's results for the last quarter of fiscal 2000 and all of fiscal 2001, combined to increase revenues from our solutions management products.

Other sales and services

The principal components of operating revenue we record in other sales and services are:

- revenue from various controlled entities;
- customers premises equipment;
- payphones;
- domestic operator-assisted calls; and
- other minor revenue items, including voicemail for fixed lines, recorded services and other enhanced call products and radio services.

Table 12 shows information about the four main items included under our other sales and services revenue.

Table 12 - Other sales and services

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
Other sales and services revenue from:					
Various controlled entities revenue	**1,273**	824	675	**54.5**	22.1
Customer premises equipment	**287**	336	368	**(14.6)**	(8.7)
Payphones	**166**	190	207	**(12.6)**	(8.2)
Domestic operator-assisted calls	**82**	63	61	**30.2**	3.3
Sub-total	**A$1,808**	A$1,413	A$1,311	**28.0**	7.8
Other minor items	**452**	495	407	**(8.7)**	21.6
Total other sales and services	**A$2,260**	A$1,908	A$1,718	**18.4**	11.1
JORN revenue adjustment - unusual	**-**	734	-		
Other sales and service revenue (incl. unusual items)	**A$2,260**	A$2,642	A$1,718		

During the three-year period, our operating revenue from other sales and services increased substantially, principally as a result of increased revenue from controlled entities. In fiscal 2001 this was particularly derived from:

- the increase in construction revenue by Network Design and Construction Limited; and
- the impact of our holding in RWC which has been consolidated with our results effective 1 February 2001.

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There was an increase in domestic operator–assisted calls, reflecting the continuing demand for our "call connect" service, as well as for chargeable directory assistance services provided to business and mobile services.

There was also continued growth in voicemail for fixed lines. There are now 1,414,000 customers using this service compared with 1,162,000 at the end of fiscal 2000 and 688,000 at the end of fiscal 1999.

In fiscal 2000, we recognised an unusual item for the design, construction and maintenance contract for Jindalee Operational Radar Network (JORN) of A$734 million in each of our revenues and expenses. In 1997 and prior years, we recorded provisions for losses of A$585 million for this contract. As Lockheed Martin Corporation and Tenix Defence Pty Ltd have assumed full responsibility for the JORN project, we showed in our profit and loss statement in fiscal 2000 both the revenue and expenses associated with this project. The revenues were recorded in other sales and services and the expenses were recorded in direct cost of sales.

Other revenue

Table 13 shows information about other revenue by category.

Table 13 - Other revenue by category

	Year ended 30 June		
	2001	2000	1999
		(in millions)	
	A$	A$	A$
Proceeds from sale of:			
Property, plant and equipment	**288**	243	246
Investments	**57**	48	15
Controlled entities - usual	**4**	248	-
Controlled entities - unusual.	**116**	-	-
Listed entities - usual	**-**	129	-
Listed entities - unusual.	**546**	-	-
Patents, trademarks and licences.	**14**	-	-
Business - usual.	**17**	149	69
Business - unusual	**2,256**	-	-
Associates	**-**	25	-
Joint Ventures.	**5**	-	-
Total proceeds from sale of assets	**3,303**	842	330
Interest received/receivable	**103**	62	49
Dividends received/receivable	**16**	12	13
Miscellaneous revenue - usual	**260**	322	257
Miscellaneous revenue - unusual	**725**	-	-
Total other revenue	**4,407**	1,238	649

During fiscal 2001, other revenue increased significantly compared with fiscal 2000. The main reason for the increase was revenue from:

- the disposal of our global wholesale business in February 2001 to Reach for A$2,256 million;
- the sale of our 15% interest in Computershare for A$546 million; and
- the writeback of A$725 million superannuation contributions due to the release of our obligation to continue to pay contributions to Telstra Superannuation Scheme.

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During fiscal 2000, other revenue also increased significantly compared with fiscal 1999. The main reason for the increase was increased revenue for asset sales, including:

- A$195 million from the sale of our wholly owned entity, Telstra New Zealand Limited to a joint venture in which we hold a 50% interest;
- A$170 million from the sale of our global satellite communications business, Immarsat Holdings plc in exchange for a 35% interest in the joint venture now holding these assets; and
- A$115 million from the sale of a portion of our interest in Infonet Services Corporation.

Operating expenses

We categorise our operating expenses (before interest expense) into labour expense, direct cost of sales, depreciation and amortisation and other operating expenses.

Table 14 provides a breakdown of our reported operating expenses (before interest expense) by each of our major categories of operating expenses for the three-year period.

Table 14 - Operating expense and share of net equity accounted losses data

	Year ended 30 June		
	2001	2000	1999
		(in millions)	
	A$	A$	A$
Labour expense - usual	**3,122**	3,228	3,270
Labour expense - unusual	**-**	572	-
Direct cost of sales - usual	**3,693**	3,329	3,002
Direct cost of sales - unusual	**(560)**	734	-
Depreciation and amortisation	**2,871**	2,646	2,502
Other expenses - usual	**3,891**	4,035	3,507
Other expenses - unusual	**2,820**	-	-
Total operating expenses	**15,837**	14,544	12,281
Share of net equity accounted losses	**183**	58	41
Total operating expenses and net equity accounted losses	**16,020**	14,602	12,322

During the three-year period, our reported operating expenses (before interest expense) were affected by a number of unusual items or one-time events, which make year-to-year comparisons difficult. Significant unusual items in fiscal 2000 and fiscal 2001 included the following:

- A$572 million in labour expense in fiscal 2000, reflecting a provision for the estimated costs of planned redundancies and restructuring costs for fiscal 2001 and fiscal 2002;
- A$734 million in direct costs of sales in fiscal 2000 arising from the finalisation of our obligations under the JORN contract;
- a reduction of A$560 in direct costs of sales in fiscal 2001 reflecting the cumulative effect of the application of SAB 101 on recognition of operating expenses; and
- A$2,820 million in other operating expenses in fiscal 2001 reflecting the writedown of some of our assets and investments and the costs of asset and investment sales.

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In addition to these unusual items, our operating expenses (before interest expense) in fiscal 2001 reflected some other noteworthy items that should be considered in comparing fiscal 2001 operating expenses with fiscal 2000 operating expenses including:

- operating expenses associated with the consolidation of our new business venture RWC from 1 February 2001 and Keycorp from 12 December 2000;
- operating expenses associated with our global wholesale business, which was sold to Reach effective 1 February 2001.

If we eliminate the effects of these one-time items and the reported unusual items in order to obtain a like-for-like comparison of fiscal 2001 operating expenses to fiscal 2000 operating expenses, our operating expenses (before depreciation, amortisation) in fiscal 2001 increased by 0.8% to A$9,912 million compared to operating expenses (before depreciation, amortisation and interest expense) of A$9,904 million in fiscal 2000, despite significant revenue growth during the period. This operating expense performance primarily reflects our ongoing cost control and cost containment efforts and the substantial success we have had with our staff reduction program.

In addition, in fiscal 2001, our share of net equity accounted losses included the first-time inclusion of our share of profit from Reach for the five months ended 30 June 2001 and the non-recurring writedown of certain investments in listed entities. If we eliminate the effects of these items and the reported unusual items in order to obtain a like-for-like comparison of fiscal 2001 with fiscal 2000, operating expenses and our share of net equity accounted losses (before depreciation, amortisation and interest expense) increased by only 0.8% to A$10,041 million from A$9,962 million.

To determine the underlying operating expenses (before depreciation, amortisation and interest expense) and the underlying operating expenses and share of net equity accounted losses (before depreciation, amortisation and interest expense) in fiscal 2001 and fiscal 2000 to generate this comparison, we have applied the following adjustments to our reported usual operating expenses:

- excluded A$45 million and A$23 million from fiscal 2001 related to labour costs of RWC and Keycorp, respectively;
- excluded A$186 million and A$15 million from fiscal 2001 related to direct cost of sales of RWC and Keycorp, respectively;
- excluded A$103 million and A$13 million from fiscal 2001 related to other operating expenses of RWC and Keycorp, respectively;
- excluded A$13 million from fiscal 2000 related to labour expenses of our global wholesale business for the five months ended 30 June 2000;
- excluded A$138 million from fiscal 2000 related to direct cost of sales (other than the cost of terminating outgoing international calls) of our global wholesale business for the five months ended 30 June 2000;
- excluded A$34 million from fiscal 2000 related to other operating costs for our global wholesale business for the five months ended 30 June 2000;
- excluded A$409 million in fiscal 2001 and A$503 million in fiscal 2000 for investment writedowns and costs of asset and investment sales; and
- excluded from share of net equity accounted losses in fiscal 2001 is our share of equity accounted profit of A$48 million from Reach and our equity accounted loss of A$102 million attributable to the writedown of our investments in Solution 6, My Internet and Xantic.

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The following tables provide more detailed information about expenses from each of our expense groupings.

Labour expense

Labour expense includes:

- salary and wages and related on-costs, including employer contributions to superannuation funds, workers' compensation, leave entitlements and payroll tax;
- costs of engaging contractor labour and agency costs; and
- redundancy and restructuring costs, some of which are shown as an unusual item.

Our full-time employees include full-time staff, fixed-term contracted staff and expatriate staff in overseas controlled entities. The figures do not include a full-time equivalent measure of part-time and casual staff, overtime worked, full and part-time contracted staff or a measure of overseas local hires, such as our employees of Hong Kong CSL. These figures do not include persons involved in work undertaken through outsourcing arrangements for work previously performed by employees. For these reasons and due to the full service nature of our business, we believe that these measures of full-time employees may not be directly comparable with other telecommunications companies.

Table 15 shows information about our labour expenses.

Table 15 - Labour expense data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
	(in millions, except staff numbers in whole numbers)			(% change)	
Labour expense - usual	**3,122**	3,228	3,270	**(3.3)**	(1.3)
Labour expense - unusual.	**-**	572	-	**-**	-
Labour expense	**A$3,122**	A$3,800	A$3,270	**(17.8)**	16.2
Full-time employees[1].	**44,874**	50,761	52,840	**(11.6)**	(3.9)

[1] *Fiscal 2001 employee figures do not include 1,281 Hong Kong CSL employees but do include 318 employees who were seconded to Reach for the 5 month period ending 30 June 2001.*

During the three-year period, labour expense (excluding unusual items) decreased, primarily reflecting the reduction of our labour force. The reduction in labour expense from a lower number of full-time employees, including overtime expense, has been partly offset by:

- the use of employment agency staff in preference to full-time staff in order to manage costs more closely, better utilise staff as a variable resource to handle peaks and troughs and satisfy specialised needs;
- increased labour rates across most areas of the business through award increases and the higher demand for high calibre staff retention;
- additional Advantra staff costs resulting from the consolidation of Advantra from April 2000; and
- additional labour expense associated with the consolidation of RWC effective 1 February 2001 and Keycorp effective 12 December 2000, which together added A$68 million to our total labour expense in fiscal 2001.

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Since 30 June 1999, we have reduced our full-time employees from 52,840 to 44,874 (excluding 1,281 employees of RWC which is now part of our consolidated group). The decrease in the number of our full-time employees is a result of our implementation of several cost reduction measures. These reductions were partly offset by increases in overall staff numbers as we acquired other entities such as Advantra which had 975 full-time employees at 30 June 2001 and Keycorp which had 339 full-time employees at 30 June 2001. A decrease of 230 full-time employees occurred as at 30 June 2001 as we divested other entities such as Lawpoint and Atlas Travel Technologies.

We entered into new business unit based enterprise agreements with our award staff during fiscal 2001 which were certified in the Australian Industrial Relations Commission on 21 December 2000. These new agreements are effective for a period of two years and delivered a 4% increase to the majority of our award based staff. A further 4% increase will be delivered on 21 December 2001. Staff on individual contracts received on average increases of just over 4% in October 2000 compared with an average increase of 4.2% in October 1999.

Based on the latest actuarial advice provided on the financial position of the defined benefit superannuation funds as at 30 June 2000, we anticipate that the current surplus in the superannuation schemes will continue. Employer contributions were not required in fiscal 2001 and on the basis of that actuarial advice, Telstra can continue on an employer contribution holiday until 30 June 2004, at which time the next actuarial investigation as at 30 June 2003 will be complete. Additional information on the superannuation fund surpluses and factors that contributed to these surpluses are disclosed in note 22 to our financial statements.

In the second half of fiscal 2000, a provision of A$572 million was raised for the estimated costs of redundancies and restructuring to occur over the two following years. The A$572 million provision appears as an unusual item in fiscal 2000. In fiscal 2000, business restructuring and actual redundancy resulted in the termination of employment of 1,374 staff between 1 March 2000 and 30 June 2000 at a cost of A$86 million. Of the remaining A$486 million allocated towards planned redundancy and restructuring, A$45 million was allocated for costs associated with restructuring. Actual redundancy of 6,545 staff occurred in fiscal 2001 at a cost of A$369 million and restructuring costs of A$23 million. A total redundancy and restructuring provision of A$94 million remains for fiscal 2002. Where redundancies have occurred that are not part of the approved plan for which provision had been made, associated costs have been charged to labour expense. For fiscal 2001, an additional A$44 million has been charged to labour expense for redundancies. This represents a reduction of 524 staff.

Direct cost of sales

The largest component of our direct cost of sales is payments we make to other carriers to terminate international and domestic outgoing calls and international transit traffic. Other significant components of our direct cost of sales are the costs of mobile handsets, mobile handset subsidies, dealer bonuses, commissions paid to indirect distribution channels, external construction and directory publishing costs.

Table 16 - Direct cost of sales

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
	A$	A$	A$		
Direct cost of sales - usual	**3,693**	3,329	3,002	**10.9**	10.9
Direct cost of sales - unusual	**(560)**	734	-	**(176.3)**	-
Total direct cost of sales	**3,133**	4,063	3,002	**(22.9)**	35.3

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Before taking into account unusual items, our direct cost of sales increased during the three-year period, mainly because of increased payments to other carriers to terminate outgoing calls made by our customers on our competitors' networks and the cost of goods sold of A$201 million in RWC and Keycorp in fiscal 2001 which were not included in the prior periods.

In addition, direct cost of sales before unusual items increased in fiscal 2001 compared to fiscal 2000, largely due to increased charges for the termination of outgoing international calls following the sale of our global wholesale business to Reach in February 2001. Since Reach now provides us with global wholesale services that previously were provided internally, the charges we pay for terminating outgoing calls are higher than the charges we previously paid to other international carriers. Overall, these charges have increased by 44% in fiscal 2001 compared to fiscal 2000, which was driven by the increased charges paid to Reach and higher volumes of international outbound traffic terminating on offshore networks. However, coincidental with the increase in direct cost of sales relating to increased charges for terminating outgoing calls, our labour expenses, depreciation and amortisation and other expenses associated with our global wholesale business have decreased, as these expenses are now incurred by Reach.

The increase in direct cost of sales during the three-year period included an increase in payments to other mobile carriers as more calls made by our mobile customers terminated on other carriers' mobile networks. Overall, the increase in direct cost of sales primarily reflected growth in the total mobile telecommunications market, increased payments to domestic carriers and increased payments to terminate international outgoing calls. The increase in payments to other carriers from increased volumes, were partly offset by new negotiated interconnect rates which were lower in fiscal 2001 than in fiscal 2000.

Costs of external construction also increased during the three-year period. These costs are related to the cost of construction activities provided by Network Design and Construction (NDC) to external parties. The increase during the three-year period was due to the increase in NDC's activities in performing work for external parties from a very low base in fiscal 1999.

In fiscal 2000, we changed our accounting policy for mobile handset subsidies. When a customer enters into a mobile contract with us for two years or more, we defer the cost of the handset subsidies over the terms of the contract. The write-down of the subsidy is a charge to direct cost of sales and is not shown as an amortisation expense. As a result of this change in policy, we expensed A$81 million and deferred A$174 million of handset subsidies in fiscal 2000 compared to A$213 million expensed and A$293 million deferred mobile handset subsidies in fiscal 2001. In prior years, these risks would have been included as a direct cost of sales in the year in which the customer entered into the contract.

Our direct costs of sales in fiscal 2001 included an unusual item of A$560 million to reflect the effect of SAB 101 on our operating expenses. Under SAB 101, we now defer the recognition of some revenue, and the expenses associated with that revenue, relating to our basic access and mobiles product lines. The nature of these deferrals is described above in relation to each of these product lines in "Operating revenue". The deferred expenses will be recognised coincident with the recognition of associated revenues. See "Changes in accounting policies".

Our direct costs of sales in fiscal 2000 included an unusual item of A$734 million. This related to expenses arising from the finalisation of our obligations under the JORN contract.

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Depreciation and amortisation

Our depreciation and amortisation expense has been, and will remain a major component of our cost structure, reflecting our capital investments.

Table 17 - Depreciation and amortisation

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
	A$	A$	A$		
Depreciation	**2,386**	2,343	2,290	**1.8**	2.3
Amortisation (excluding goodwill)	**442**	283	199	**56.2**	42.2
Amortisation (goodwill)	**43**	20	13	**115.0**	53.8
Total depreciation and amortisation	**2,871**	2,646	2,502	**8.5**	5.8

During the three-year period, the increase in depreciation and amortisation, excluding goodwill, was mainly attributable to the growth in the communications plant asset base and capitalised software development, which is consistent with our level of capital expenditure activity. The increase in depreciation and amortisation expense in fiscal 2001 also reflected an increase in goodwill amortisation attributable to the acquisition of RWC and increased depreciation expense incurred by RWC and Keycorp following the acquisitions of those companies, partially offset by the elimination of depreciation and amortisation associated with our global wholesale business following its sale to Reach.

Expenditure incurred in the development and enhancement of computer systems is capitalised as business software. Software developed for internal use is amortised over a five year service life. The increase in the amortisation charge during the three-year period reflects the growth of these software assets and the continuing effect of the accounting policy change implemented in fiscal 1997 to capitalise software developed for internal use and overhead and interest cost on construction of capital assets.

The rollout of our CDMA network has now been completed and the analogue network was fully depreciated as of December 1999 and has ceased operating altogether as of October 2000. The full effect of the depreciation of the CDMA network will begin to be reflected in fiscal 2002, although a substantial portion of these depreciation expenses have also been reflected in fiscal 2001.

The increase in depreciation and software amortisation was offset, in part, during the three-year period by:

- the net effect of changes in service lives for some key elements of our network, which were effective from 1 July 2000, including service lives for local switches and pair gains systems, which were extended by one year to fiscal 2008, and lives for ducts and pipes, which were extended by five years to 30 years;
- an increased number of leased motor vehicles rather than acquisition through outright purchase; and
- the sale and leaseback of midrange IT equipment in December 2000.

Other operating expenses

Our other operating expenses include such costs as:

- service contracts and agreements for outsourced activities, such as IT, cleaning services and warehousing and distribution;
- promotion and advertising;

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- property costs - including rent, maintenance, municipal rates, land tax and power;
- network maintenance materials;
- travelling and fares;
- rental expense on operating leases;
- fleet running costs;
- bad and doubtful debts;
- the carrying value of assets disposed of;
- the cost of directory services paper sold; and
- losses from partnerships.

Table 18 shows our other operating expenses during the three-year period.

Table 18 - Other operating expenses data

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
	A$	A$	A$		
General operating costs - usual	**3,891**	4,035	3,507	**(3.6)**	15.1
General operating costs - unusual.	**2,820**	-	-	**-**	-
Total other operating costs	**6,711**	4,035	3,507	**66.3**	15.1

Our other operating expenses, not including unusual items, decreased in fiscal 2001 compared with fiscal 2000, principally due to:

- reductions in general discretionary items such as travel and fares, minor equipment and miscellaneous purchases in line with our cost reduction initiatives;
- significant productivity improvements in our service provision activities;
- the settlement of disputed amounts provided for in prior years and a general reduction in our provision for doubtful debts; and
- changes to our practice in purchasing and selling paper stocks for our directories business as a result of the introduction of GST. Previously, our directories business purchased paper stock and sold it to its printers. These costs and revenues are no longer incurred.

The decrease in our regular operating expenses from fiscal 2000 to fiscal 2001 has been offset in part by the following:

- higher rental expense for our operating leases, in particular for increased leased motor vehicles and for leased computers as a result of the sale and leaseback of our midrange IT equipment;
- an overall increase in service contracts and agreements, including services related to customer support, outsourced information technology, outsourced power equipment maintenance, Advantra, BigPond™ support and in increased directory assistance outsourcing; and
- a A$31 million write-off of software previously capitalised, but assessed as no longer having revenue generating capacity; and
- the first inclusion of operating expenses associated with RWC and Keycorp which are now consolidated.

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Other operating expenses increased in fiscal 2000 compared with fiscal 1999 as a result of:

- increased outsourcing of installation and maintenance costs for information technology support and service support;
- increased lease payments and a moderate increase in leases for property and buildings;
- higher promotion and advertising expenses for new call plans and special offers, prepaid mobile phone packages, the launch of our new CDMA network as well as promotions for our indoor MobileNet® coverage and Olympics promotions;
- IT expenses including the cost of software changes to our systems for the GST of A$49 million and Year 2000 expenses of A$85 million in fiscal 2000 compared with A$166 million in the prior year; and
- the book value of our assets that we sold during the year.

In fiscal 2000, the increase in other operating expenses was affected, in part, by lower costs of materials used in maintenance, decrease in bad and doubtful debts, other motor vehicle expenses and general discretionary expenses.

Our other operating expenses also include writedowns of investments and the cost of asset and investment sales. These expenses, excluding unusual items, amounted to A$409 million in fiscal 2001 compared to A$503 million in fiscal 2000 and A$308 million in fiscal 1999. Significant expense items relating to asset and investment sales in fiscal 2001 included the sale and leaseback of our midrange IT equipment for A$107 million, the book value related to the sale of our interest in Extant for A$37 million and various equipment sales and asset sales amounting to A$199 million. We also have a policy of writing down investments in entities we do not control to recoverable amount. Writedowns of investments based on this policy amounted to A$66 million in fiscal 2001, which included Solution 6, SMS Management and Technology Limited formerly Sausage Software, and Commander Communications, one of Keycorp's investments and other smaller investments. Our other operating expenses in fiscal 2001 that were categorised as unusual items amounted to A$2,820 million. There were no unusual items in fiscal 2000 and fiscal 1999. These unusual items for 2001 included:

- the cost of sale of our investment in Computershare of A$301 million;
- the writedown of our investment in RWC of A$999 million; and
- the cost of sale of our global wholesale business and controlled entities to Reach of A$1,520 million.

Share of net equity accounted losses

Table 19 - Share of net losses of associates and joint ventures

	Year ended 30 June				
	2001	2000	1999	**2001/2000**	2000/1999
		(in millions)		(% change)	
	A$	A$	A$		
Share of net losses of associates and joint venture entities	**183**	58	41	**215.5**	41.0

Net equity accounted losses have increased in fiscal 2001 largely due to increased losses from Solution 6, Telstra Saturn and Dynegy. In addition, we wrote down the book value of our investments in the listed entities Solution 6, My Internet and Xantic in fiscal 2001 by an aggregate of A$102 million. These losses were offset, in part, by our net equity accounted profits from Reach of A$48 million in fiscal 2001.

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Borrowing costs

Our borrowing costs have been influenced by:

- the level of our debt;
- interest rates; and
- an implicit interest charge relating to our commitment to make additional annual payments over and above normal employer contributions to a superannuation fund.

Our borrowing cost charged to the profit and loss statement is also influenced by the amount of interest that we capitalise on our constructed assets and capitalised software.

Our borrowing costs increased from A$578 million in fiscal 1999 to A$630 million in fiscal 2000 and A$769 million in fiscal 2001.

The increase in borrowing costs in fiscal 2001 was mainly due to a higher level of debt compared to fiscal 2000 from borrowings incurred to invest in RWC and a convertible note in PCCW. The increase in our borrowing costs in fiscal 2001 was offset, in part, by the cessation of our obligation to contribute to our main superannuation fund. In August 2000, we reached an agreement with the Commonwealth and the Telstra Superannuation Scheme to end our obligation to make additional payments of A$121 million per year over and above employer contributions to the fund. In fiscal 1994 and fiscal 1995, we recorded provisions equalling the net present value of our obligation to make these contributions. Interest expense arose from the difference between the actual amount of the payments we were required to make and the recorded amount of these discounted provisions. This contributed A$93 million to interest expense in fiscal 1999 and A$89 million to interest expense in fiscal 2000. However, because we are no longer required to make these additional payments, this did not contribute to our interest expense in fiscal 2001 and will not contribute to interest expense in future periods. In fiscal 2000, borrowing costs increased compared to fiscal 1999 primarily as a result of additional borrowings in October 1999 to finance the payment of a special dividend of A$2,059 million, offset in part by higher capitalised interest on constructed assets.

Income tax expense

Income tax expense increased significantly in fiscal 2001, up 33.4% from A$1,676 million in fiscal 2000 to A$2,236 million in fiscal 2001. This was due to a 17.7% increase in reported profit before income tax expense, as well as an increase in the effective tax rate from 31.3% in fiscal 2000 to 35.5% in fiscal 2001. The increase in effective tax rate was due to our share of associates net losses and increased write downs of investments which are are not tax deductible. Australian company income tax rates were reduced from 34% of taxable income in fiscal 2001 to 30% in fiscal 2002. This lowering of income tax rates reduced the income tax expense we recognised in our accounts for fiscal 2001 from fiscal 2000 by A$56 million.

In fiscal 2000, our effective tax rate decreased from 34.4% in fiscal 1999 to 31.3%. However, the rate in fiscal 2000 took into account the future income tax rates that applied from 1 July 2000 that affect the rates at which we record future income tax benefits and deferred income tax balances at 30 June 2000. Australian company income tax rates were reduced from 36% of taxable income in fiscal 2000 to 34% in fiscal 2001. This lowering of income tax rates reduced the income tax expense we recognised in our accounts for fiscal 2000 from fiscal 1999 by A$172 million.

New business ventures

As part of our strategy to expand our operations outside Australia, we invested in new ventures in Asia during fiscal 2001.

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Reach

In February 2001, we sold our global wholesale business, including some offshore controlled entities, to Reach in exchange for 50% ownership in Reach and cash of US$375 million (A$680 million). We obtained an independent valuation of our global wholesale business as at 31 January 2001, which resulted in a fair value of US$1.3 billion (A$2.37 billion) being placed on this business.

We recognised a profit on the sale of US$935 million (A$1,704 million). Under Australian GAAP, 50% of the gain, or A$852 million was deferred and will be recognised in the share of net profits (losses) of associates and joint venture entities line in our statement of financial performance over 20 years. The profit impact of the sale after taxation in fiscal 2001 was A$875 million.

Under Australian GAAP, Reach's profit in fiscal 2001 was A$160 million. After taking into account goodwill amortisation and deferred profit amortisation, we recognised A$48 million equity accounted profit on our 50% interest in Reach in fiscal 2001.

Regional Wireless Company (RWC)

In February 2001,we also acquired a 60% ownership interest in RWC, which in turn owns 100% of Hong Kong CSL. We paid US$1,694 million (A$3,085 million), including incidental acquisition costs, to acquire this controlling interest.

Upon completion, in accordance with Australian Accounting Standards, a valuation was undertaken to determine the fair value of our investment. The independent valuation of RWC was US$1,900 million (A3,477 million), placing a value of our 60% share at US$1,140 million (A$2,086 million). The difference between the valuation obtained as at 31 January 2001 and the purchase price valued at October 2000 is principally due to the movement in global telecommunication asset prices between the signing of the agreements and completion. This has resulted in a write-off of costs associated with our acquisition of RWC of A$999 million.

On consolidation of RWC, we have recognised goodwill on acquisition of A$1,461 million, which will be amortised over 20 years. On acquisition, other intangibles recognised included Hong Kong CSL's brands of A$212 million, a customer base of A$468 million and spectrum licences of A$79 million which are amortised over their estimated useful lives.

PCCW

Also in February 2001, we purchased a convertible note from PCCW for US$750 million (A$1,372 million). The convertible note has a term of 6 years, with an interest coupon of 5% for the first four years and 7% for the remaining two years. Interest compounds quarterly and accrues on the principal amount of the note. Interest is paid when the principal amount of the note is redeemed. After four years, PCCW have an option to pay interest as incurred. At our option, half of the principal amount of the note is redeemable after four years and the remainder at the end of six years. The principal amount is redeemable at any time by PCCW. The note is convertible into PCCW shares at our option at any time at a particular conversion price and, subject to certain share price hurdles, is convertible at PCCW's option at the end of four years and six years at the same conversion price. This convertible note is secured by half of PCCW's 50% interest in Reach.

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Liquidity and capital resources

Capitalisation

Table 20 shows our capitalisation in accordance with Australian GAAP as at 30 June 2001.

Table 20 - Capitalisation

	As at 30 June 2001 (in millions) A$	US$(2)
Cash(1)	1,077	549
Short-term debt(3)	2,604	1,328
Long-term debt		
Telecom/Telstra bonds (unsecured)	2,193	1,119
Loans (unsecured)	9,163	4,673
Financed leases	30	15
Total long-term debt	11,386	5,807
Shareholders' equity		
Ordinary shares (12,866,600,200 fully paid ordinary shares issued)	6,433	3,281
Reserves	11	6
Retained profits	6,795	3,465
Minority interests(4)	483	246
Total shareholders' equity(5)	13,722	6,998
Total capitalisation(6)	27,712	14,132

(1) *For purposes of calculating net debt, we also had other interest bearing financial assets of A$2,013 million.*
(2) *Translated at the noon buying rate on 30 June 2001 of A$1.00 = US$0.51. The noon buying rate on 21 September 2001 was A$1.00 = US$0.4841.*
(3) *Includes the current portion of long-term debt.*
(4) *Minority interests are not classified as shareholders' equity under US GAAP.*
(5) *Total shareholders' equity under US GAAP is A$17,795 million. Refer to note 30 of the audited financial statements.*
(6) *Total capitalisation consists of short-term debt, long-term debt and shareholders' equity, including minority interests.*

Table 21 provides information regarding our cash flows and liquidity during the three-year period.

Table 21 - Cash flow data

	Year ended 30 June		
	2001	2000	1999
		(in millions)	
	A$	A$	A$
Net cash provided by operating activities	**6,599**	6,547	6,574
Net cash used in investing activities	**(6,370)**	(4,896)	(4,064)
Net cash provided by (used in) financing activities	**94**	(1,881)	(2,484)
Net increase/(decrease) in cash	**323**	(230)	26

Net cash provided by operating activities

Our primary source of liquidity is cash generated from operations. Net cash provided by operating activities is after interest paid and received.

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During the three-year period, net cash provided by operating activities has remained relatively flat reflecting increased receipts from customers which have been largely offset by higher taxation and interest payments, and to a lesser degree, increased payments to suppliers and employees.

In fiscal 2001, net cash provided by operating activities was negatively affected by payment of an extra tax instalment required by the introduction of the new tax system, which amounted to A$274 million, and additional interest payments relating to the funding of our investments in RWC and the PCCW convertible note.

Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital assets, trademark, licences and investments, offset by cash receipts from the sale of capital assets and investments. During the year, we committed a substantial amount of capital and other resources to upgrade and rationalise our network infrastructure and improve many of our systems.

Table 22 below summarises the net cash we used in investing activities during the three-year period.

Table 22 - Net cash used in investing activities

		Year ended 30 June	
	2001	2000	1999
		(in millions)	
	A$	A$	A$
Switching	**735**	647	626
Transmission	**429**	693	602
Customer access	**971**	1,285	864
Mobile telecommunications networks	**390**	628	616
Broadband network	**33**	30	34
International telecommunications infrastructure	**100**	125	138
Capitalised software	**737**	599	502
Other	**749**	722	926
Sub total capital expenditure	**4,144**	4,729	4,308
Capitalised interest included in above	**(108)**	(125)	(92)
Capital expenditure excluding capitalised interest	**4,036**	4,604	4,216
Add: patents, trademarks and licences (including 3G spectrum)	**332**	101	58
Add: investments	**3,236**	598	112
Capital expenditures (excluding interest) and investments	**7,604**	5,303	4,386
Sale of capital equipment, investments and other	**(1,234)**	(407)	(322)
Net cash used in investing activities	**6,370**	4,896	4,064
Capital expenditures (including interest) and investments	**7,712**	5,428	4,478

Over the three-year period, capital expenditure and investments increased primarily as a result of increased expenditure on investments and to a lesser degree patents, trademarks and licences, offset in part through higher proceeds from the sale of capital equipment and investments. In fiscal 2001, our capital expenditures declined compared to fiscal 2000, as the level of activity on rehabilitation of our customer access network declined from its peak in fiscal 2000 and rollout of our CDMA digital mobile network neared completion. Capitalised software has increased over the three-year period reflecting the higher level of activity on systems to support new products and services such as ADSL.

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Our principal cash investments during fiscal 2001 included:

- A$3,056 million to acquire a 60% interest in RWC; and
- A$46 million additional investment in FOXTEL.

Our principal cash investments during fiscal 2000 included:

- A$208 million additional investment in Computershare;
- A$103 million in Solution 6;
- A$63 million to acquire the remaining interest in Pacific Access; and
- A$33 million additional investment in FOXTEL.

In fiscal 1999, our investments included:

- A$84 million acquisition of 5% interest in Computershare; and
- A$20 million additional investment in FOXTEL.

We expect to incur future capital expenditures in areas including:

- the development of infrastructure and new products and services to meet the changing needs of our customers;
- our DMO programme;
- the provision of additional coverage and depth for our digital GSM and our digital CDMA mobile telecommunications networks;
- upgrading and remediating our customer access network;
- development of on-line products and services, especially associated with the internet and telstra.com®;
- the provision of enhanced telecommunications services to remote customers;
- internal business support infrastructure such as enhanced financial and IT systems; and
- investment in or acquisition of enterprises that complement and fit within our growth strategy.

We expect that our cash flow from operating activities and available borrowings will be sufficient to meet our anticipated capital expenditure and investment requirements.

Net cash provided by (used in) financing activities

In fiscal 2001, we experienced a net inflow from financing activities of A$94 million compared with an outflow from financing activities of A$1.9 billion in fiscal 2000. This change was principally driven by a reduction in dividends paid of A$2.1 billion following a special dividend of A$2,059 million declared in respect of fiscal 1999 but paid in fiscal 2000, combined with an increase in cash from borrowings of A$1.3 billion. These were offset in part by the investment in a PCCW convertible note for A$1.4 billion. In fiscal 2000, compared to fiscal 1999, the decrease in cash used in financing activities of A$603 million was driven by the net increase in borrowings of A$3,176 million offset by an increase in dividends paid of A$2,573 million largely reflecting the special dividend payment made in fiscal 2000.

For fiscal 1999, we declared total dividends of A$4,247 million, comprising ordinary dividends of A$2,188 million and a special dividend, payable as part of the final dividend of A$2,059 million. To replenish our working capital after the payment of the final dividend of A$3,346 million in the first half of fiscal 2000, we increased our borrowings.

Operating and Financial Review and Prospects

Capital resources

Cash and cash equivalents at the end of fiscal 2001 were A$1,077 million, compared with A$751 million in fiscal 2000 and A$979 million in fiscal 1999. At 30 June 2001, our total debt was A$13,990 million with net debt of A$10,630 million after deducting cash of A$201 million, other interest bearing financial assets of A$2,889 million and loans to employees of A$270 million. Approximately 26% of our total debt consisted of domestic borrowings with the balance sourced from a variety of offshore markets. Our current debt that matures in less than 12 months comprised approximately 19% of our total debt, which had an average maturity of approximately four years. For a summary of the maturity profile of our debt, see note 16 - Borrowings - to our financial statements that are included with this annual report.

We have access to A$600 million and US$150 million of committed standby bank lines and A$1.25 billion of an undrawn committed syndicated loan is available until September 2005. These standby lines comprise bilateral arrangements with 7 banks which fall due for renewal at various times throughout the year. We have 3 commercial paper programmes with a total borrowing capacity of A$2 billion, US$4 billion and Euro 4 billion. In each case, we issue commercial paper through dealers on a best endeavours basis. Our commercial paper facilities are not committed and do not provide guaranteed access to funds.

Other than borrowings in foreign currency specifically held as hedges against foreign currency assets, all foreign currency borrowings are fully hedged at drawdown to A$ equivalents using cross currency swaps and we do not use derivatives for speculative purposes. Our foreign currency exchange risk is managed centrally by our treasury which is part of our Finance & Administration business unit. For additional information regarding our foreign currency position and the management of our foreign currency exchange risk, see "Quantitative and Qualitative Disclosure about Market Risk" and note 29 to our consolidated financial statements.

We had net current liabilities of A$3,026 million at 30 June 2001, A$4,532 at 30 June 2000 and A$5,600 million at 30 June 1999.

In fiscal 2001, our negative working capital decreased largely due to an increase in trade receivables and reductions in current borrowings and provisions. These were offset in part by increased trade creditors and revenue received in advance. In fiscal 2000, our negative working capital decreased due to the payment of a special dividend in October 1999 which was provided for in fiscal 1999. This was offset in part by higher short-term borrowings and higher receivables.

Our current liabilities are typically in excess of our current assets, which is in common with most international telecommunications companies. We believe that our negative working capital position does not create a liquidity risk because we can delay the timing of our discretionary capital expenditures should cash inflows from our diverse customer base diminish at any point in time. Also, our standby bank lines and commercial paper programmes provide us with additional sources of liquidity, should the need arise.

Segment information

Our business is currently organised and managed along business unit lines as described under "Information on the Company - Organisational structure".

The following areas qualify as reportable segments under Statement of Financial Accounting Standards No. 131 for fiscal 2001 and comparatives for prior years have been derived based on the new structure:

- Telstra Retail (including Telstra Country Wide™);
- Telstra OnAir™;
- Telstra International; and
- Infrastructure Services and Wholesale.

Operating and Financial Review and Prospects

Telstra Country Wide™ and Telstra Retail have been combined as a single reportable business segment for reconciliation and disclosure purposes, as they are considered substantially similar. Network Design and Construction and Corporate Centre functions are not reportable segments and have been aggregated in the "Other" segment. More detailed information is provided in "Information on the Company - Organisational structure".

Our analysis of results by segment for the three-year period

Our reporting structure has altered considerably over the last three years. While we have reconstructed our segment reporting for fiscal 2000 and fiscal 1999 on the basis of the reporting structure for fiscal 2001, our analysis of the results is confined to fiscal 2001 compared with fiscal 2000. A more detailed discussion and analysis of the changes in our operating revenues in our major product groups, and our principal operating expense categories, is provided above in "Operating revenue" and "Operating expenses", respectively.

Table 23 provides a summary of our revenues and results for each of our business segments. For more information on our business segment results, see note 5 to our consolidated financial statements included with this annual report.

Table 23 - Segment summary data

	Year ended 30 June				
	2001	2000 (in millions)	1999	**2001/2000** (% change)	2000/1999
	A$	A$	A$		
Sales revenue from external customers					
Telstra Retail	**11,558**	12,451	12,308	**(7.2)**	1.2
Telstra OnAir™	**3,145**	3,002	2,656	**4.8**	13.0
Telstra International	**1,265**	1,183	1,176	**6.9**	0.6
Infrastructure Services & Wholesale	**2,437**	1,799	1,390	**35.5**	29.4
Profit before interest and income tax expense(1)					
Telstra Retail	**3,720**	4,098	4,026	**(9.2)**	1.8
Telstra OnAir™	**771**	761	477	**1.3**	59.5
Telstra International	**(137)**	365	173	**(137.5)**	111.0
Infrastructure Services & Wholesale	**1,524**	901	684	**69.1**	31.7
Total assets(2)					
Telstra Retail	**26,422**	19,882	15,751	**32.9**	26.2
Telstra OnAir™	**3,066**	2,257	1,483	**35.8**	52.2
Telstra International	**2,629**	2,288	1,933	**14.9**	18.4
Infrastructure Services & Wholesale	**21,823**	21,744	20,953	**0.4**	3.8

(1) Generally, most internal charges between business segments are charged on a direct cost recovery basis.

(2) These include internal funding arrangements that are offset by amounts in the category "Other" shown in note 5 to the financial statements but not included in this summary of reportable segments.

Operating and Financial Review and Prospects

Telstra Retail and Telstra Country Wide™

Telstra Retail is responsible for our residential, business and government customers, other than wholesale services which in fiscal 2001 were provided by Infrastructure Services & Wholesale, mobile services which are provided by Telstra OnAir™, and those customers included in Telstra Country Wide™.

Telstra Country Wide™ is responsible for customers that reside and operate outside the mainland major metropolitan areas, in all of Tasmania, the Northern Territory and overseas territories.

Sales revenue in the Telstra Retail segment is principally made up of revenues from basic access, local calls, national long distance, international telephone services, data and internet services and directory services. Our revenue for fiscal 2001 was 7% lower than in fiscal 2000, mainly due to the application of more prescriptive rules on revenue recognition to our accounts (see note 3 (c) to our consolidated financial statements included with this annual report). The unusual item for the SAB101 cumulative adjustment decreased Telstra Retail segment revenue by A$745 million.

Excluding this adjustment, Telstra Retail sales revenue declined, principally due to a general downturn in economic activity and reduced pricing and market share as a result of competition particularly in local, international and domestic long distance markets. The lower revenue from these markets was offset in part with continued strong growth in data and internet services.

Profit before interest and income tax expense fell in fiscal 2001 by 9.2%. This was due to largely to the decline in this segment's sales revenue.

Telstra OnAir™

Telstra OnAir™ is responsible for our mobile and wireless networks and associated systems within Australia and all mobile retail sales and after sales support, customer service, product development and pricing.

Sales revenue principally includes revenue from mobiles goods and services detailed in "Operating revenue" above, including the negative adjustment of A$34 million to reflect the effect of SAB 101 on our mobiles business.

Revenue from terminating traffic from either our own fixed line or mobile networks or those of our competitors is not included in this segment. Revenue growth in this segment was relatively modest in fiscal 2001, at 4.8%. This growth was principally due to:

- increased services in operation and usage driven by revised pricing tariffs, promotional offerings and overall market growth;
- increased prepaid sales;
- higher revenue from international roaming positively impacted by the Sydney Olympics; and
- strong growth in our short messaging service.

Profit before interest and income tax expense remained relatively flat with cost increases offsetting the modest revenue growth. Increased costs during the year included:

- directly variable costs associated with service contracts;
- labour costs driven by increased staff in response to growth in services in operation and increasing specialised product development needs; and
- payments to other carriers associated with increased international roaming activity.

These increased costs were slightly offset by a reduction in deferred mobile handset subsidies in fiscal 2001. We changed our accounting policy associated with the treatment of mobile handset subsidies for fiscal 2000 as described above in "Operating expenses - Direct cost of sales".

Operating and Financial Review and Prospects

Infrastructure Services and Wholesale

In fiscal 2001, Infrastructure Services and Wholesale was responsible for planning, design, construction and operation of our domestic fixed communication networks and associated systems to deliver technology solutions, customer service installation and repairs and provision of domestic wholesale products and services to other carriers and carriage service providers.

Sales revenue is made up of revenue from our intercarrier services and wholesale data, internet, local calls and basic access services. Revenue grew strongly by 35.5% in fiscal 2001. Growth in the overall mobile telecommunications market and our competitors' share of the national long distance market in particular, has supported growth in intercarrier services. Wholesale basic access revenue grew with increased shared use of mobile towers and general access to exchanges. Wholesale local call resale continued to grow, as strong competition resulted in a decline in our retail customers offset by an increase in our wholesale customer base. Growth in other contestable products, particularly broadband and internet related products, was also achieved through more market driven pricing and offerings.

Profit before interest and income tax expense also grew as a result of the higher revenue and cost containment efforts. Despite increases to depreciation and amortisation costs associated with continued capital expenditure, and further increases in payments to other carriers or carriage service providers, other costs were reduced through productivity gains, aggressive cost management and cessation of Y2K and GST projects.

Telstra International

Telstra International manages our interests in the Asia-Pacific region, including Reach and RWC, and our operations in Vietnam, India, Singapore, New Zealand, Japan and Sri Lanka.

Sales revenue was significantly affected our new investments in Asia. Our sales revenue for this segment in fiscal 2001 included consolidated revenue from RWC, effective 1 February 2001. Offsetting this additional revenue was the elimination of sales revenue from our global wholesale business following its sale to Reach effective 1 February 2001. We now equity account for our share of Reach's results.

Profit before interest and income tax expense in this segment was negative in fiscal 2001 primarily due to elimination of profit from our global wholesale business and unusual expenses of A$1,520 million relating to the sale of the global wholesale business and controlled entities to Reach and A$999 million related to the writedown of our investment in RWC. Our results for fiscal 2001 were impacted by equity accounted losses in associates.

Research and development

Our research and development activities cover diverse areas of our business and focus on developing new competitive products for our customers. In fiscal 2001 we spent A$29 million on our research and development, compared with A$29 million in fiscal 2000 and A$34 million in fiscal 1999. These amounts do not include the labour and depreciation associated with the research and development activities.

Changes in accounting policies

In fiscal 2000, we changed our accounting policy regarding the treatment of mobile handset subsidies so that where mobile handsets are sold as part of service contracts for two years and greater, the cost of the subsidy is written off over two years rather than expensed in the year the contract is signed.

Operating and Financial Review and Prospects

We adopted SAB 101 “Revenue Recognition”, the effect of which is described above in “Operating revenue”. Further information regarding the changes in our accounting policies is provided in note 1.8 to our consolidated financial statements included with this annual report.

The effect of adopting SAB 101 on our revenue, expenses (before interest and taxation), assets and liabilities is summarised in the table below:

	Revenue (Reduction)	Expenses Reduction	EBIT	Deferred Asset	Deferred Revenue
			(in millions)		
	A$	A$	A$	A$	A$
Basic access					
effect to 1 July 2000	(539)	(539)	-	539	539
effect in fiscal 2001	(1)	(1)	-	1	1
	(540)	(540)	-	540	540
Yellow Pages®					
effect to 1 July 2000	(204)	-	(204)	(3)	200
effect in fiscal 2001	(1)	-	(1)	(16)	(14)
	(205)	-	(205)	(19)	186
Mobiles					
effect to 1 July 2000	(34)	(34)	-	34	34
effect in fiscal 2001	-	14	(14)	(14)	-
	(34)	(20)	(14)	20	34
Total of all products	(779)	(560)	(219)	541	760

Directors, Management and Employees

Directors

As at 29 August 2001, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected[(1)]	Year appointment expires
Robert C Mansfield	50	Chairman	1999	-	2002
John T Ralph	68	Deputy Chairman	1996	2000	2003
Zygmunt E Switkowski	53	Chief Executive Officer, Managing Director	1999	-	-
N Ross Adler	56	Director	1996	1998	2001
Sam H Chisholm	61	Director	2000	-	2003
Anthony J Clark	62	Director	1996	1999	2002
John E Fletcher	50	Director	2000	-	2003
Malcolm G Irving	71	Director	1997	1999	2002
Catherine B Livingstone	45	Director	2000	-	2003
Donald G McGauchie	51	Director	1998	-	2001
Elizabeth A Nosworthy	55	Director	1991	1998	2001
John W Stocker	56	Director	1996	1999	2002

(1) *Other than the chief executive officer, one third of directors are subject to re-election by rotation each year.*

Mrs Moar, Mr Roberts and Mr Vizard retired during the year, and Mr Chisholm, Mr Fletcher and Ms Livingstone were appointed to the board.

A brief biography for each of the directors as at 29 August 2001 is presented below:

Robert C Mansfield - AO, BCom, FASA, CPA
Age 50
Chairman
Director since November 1999 and Chairman since January 2000

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

John T Ralph - AC, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melbourne & Queensland), DUniv(ACU)
Age 68
Deputy Chairman
Director and Deputy Chairman since October 1996

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

Directors, Management and Employees

Zygmunt E Switkowski - BSc (Hons), PhD
Age 53
Chief Executive Officer and Managing Director
Managing 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 Director of Reach Ltd, Foxtel and the Business Council of Australia.

N Ross Adler - AO, BCom, MBA
Age 56
Director since October 1996

Chairman, Austrade, the Board of the Art Gallery of South Australia and the World Congress on Information Technology 2002; Director, Commonwealth Bank of Australia; Chairman Finance Committee and Council Member, Adelaide University.

Sam H Chisholm
Age 61
Director since November 2000

Formerly Chief Executive and Managing Director, British Sky Broadcasting Ltd and Executive Director, News Corporation Ltd (1990 - 1997); previously Chief Executive and Managing Director, Nine Network Australia Ltd (1973 - 1990).

Anthony J Clark - AM, FCA, FCPA, FAICD
Age 62
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.

John E Fletcher - FCPA
Age 50
Director since November 2000

Managing Director and Chief Executive Officer of Coles Myer Ltd from 10 September 2001. Former Chief Executive and Managing Director, Brambles Industries Ltd (retired 1 August 2001). Mr Fletcher was employed by Brambles in various management positions for 27 years including an assignment in Europe. Director, Sinclair Knight Merz Pty Limited; Member, Australian-German Chamber of Industry and Commerce.

Malcolm G Irving - AM**,** BCom, Hon DLit
Age 71
Director since July 1997

Chairman, Keycorp Limited, ADI Ltd, Willis Australia Ltd Group and Cabonne Ltd; Director, Caltex Australia Ltd.

Directors, Management and Employees

Catherine B Livingstone - BA (Hons), CA
Age 45
Director since November 2000

Director, CSIRO, Export Finance and Insurance Corporation (EFIC), Goodman Fielder Ltd, Q-Vis Ltd, Rural Press Ltd, Australian Business Foundation and the Sydney Institute; Member, Department of Accounting and Finance Advisory Board and Division of Economic and Financial Studies Advisory Board, Macquarie University; former Managing Director, Cochlear Ltd.

Donald G McGauchie
Age 51
Director since September 1998

Senior Partner, C&E McGauchie - Terrick West; Chairman, WoolStock Australia Ltd; Deputy Chairman, Australian Wool Testing Authority Ltd; Director, Reserve Bank of Australia, Ridley Corporation Ltd, National Foods Ltd, GrainCorp Ltd, Australian Centre for International Agricultural Research and International Policy Council Agriculture Food and Trade; Member, Foreign Affairs Council.

Elizabeth A Nosworthy - BA, LLB, LLM
Age 55
Director since December 1991

Chairman, Stanwell Corporation Ltd; Director, David Jones Ltd, GPT Management Ltd, RP Data Ltd, Queensland Treasury Corporation, City of Brisbane Arts and Environment Ltd and Foundation for Development Cooperation Ltd; Councillor, Australian National University.

John W Stocker - AO, MB, BS, BMedSc, PhD, FRACP, FTSE
Age 56
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.

Directors, Management and Employees

Senior management

The executive officers who are not directors are:

Name	Position	Year appointed to position	Year appointed to Telstra
Bruce Akhurst	Group Managing Director, Telstra Wholesale, Media, Legal & Regulatory and Group General Counsel	1999	1996
Doug Campbell	Group Managing Director, Telstra Country Wide™	2000	1989
David Moffatt	Group Managing Director, Finance & Administration and Chief Financial Officer	2001	2001
Gerry Moriarty	Group Managing Director, Infrastructure Services	2000	1993
Brian Pilbeam	Managing Director, Corporate Relations	2000	1998
Ted Pretty	Group Managing Director, Telstra Retail	2000	1997
Bill Scales	Managing Director, Human Resources, Chief of Staff	2000	2000
Dick Simpson	President, Telstra International	2001	1999
David Thodey	Group Managing Director, Telstra OnAir™	2001	2001

A brief biography of each of the executive officers who are not directors, is as follows:

Bruce J Akhurst - BEc (Hons), LLB,

Mr Akhurst has recently assumed responsibility for Telstra Wholesale. In addition, he retains responsibility for Telstra's digital media strategy (including our investment in Foxtel) and for Legal and Regulatory. He joined Telstra as General Counsel in 1996 and became Group Managing Director, Legal & Regulatory in 1999. Before joining Telstra, he was managing partner at a national law firm.

Douglas C Campbell - BEng, FAICD

Mr Campbell has 30 years experience in the telecommunications industry. He 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.

David Moffatt - BBus (Mgt), FCPA

Prior to joining Telstra, Mr Moffatt was Chief Executive Officer, General Electric - Australia and New Zealand. Prior to that, he was CEO, GE Capital - Australia and New Zealand, where he planned and managed GE Capital's entry into Australia and New Zealand. Before joining GE, Mr Moffatt was the Chief Financial Officer of Palmer Tube Mills. He has also held leadership positions with Citibank and Bain & Company.

Gerry Moriarty - AM, FTSE, FIEAust, BEng (Hons)

Mr Moriarty has more than 30 years experience in the telecommunications and broadcasting industries. Prior to joining Telstra, he held senior executive positions with the ABC, TVNZ, Broadcast Communications Ltd and NZBC. In June 2001, Mr Moriarty was awarded membership of the General Division of the Order of Australia for (amongst other things) service to the information technology and telecommunication sectors.

Directors, Management and Employees

Brian Pilbeam

Mr Pilbeam manages external affairs and corporate communication, including government and media relations, employee communications, customer relations, cross-company public affairs and issues management. He joined Telstra in May 1998 to lead the technology delivery, marketing and stakeholder management elements of Telstra's support of the Sydney 2000 Olympic Games. Previously Mr Pilbeam was head of Asia-Pacific marketing, communications and public affairs for Eastman Kodak Company.

Ted N Pretty - BA, LLB (Hons)

Prior to joining Telstra, Mr Pretty was a director of Optus Communications and an adviser to BellSouth Corporation. Mr Pretty was previously a partner in 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.

Bill Scales - AO

Mr Scales manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programmes. He was Secretary of the Victorian Department of Premier and Cabinet. For 6 years Mr Scales was Chairman and CEO of the Industry Commission and before that was Chairman and CEO of the Automotive Industry Authority. Prior to his involvement with governments, Mr Scales held general management positions in the manufacturing sector.

Dick Simpson

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 in IBM. Mr Simpson was formerly Group Managing Director, Telstra OnAir™ (including International).

David Thodey - BA

David Thodey joined Telstra in 2001 after a distinguished 22 year career with IBM. He was formerly CEO and Managing Director of IBM Australia/New Zealand and held a variety of senior management positions with the company both in Australia and abroad. He is on the advisory board of the Macquarie Graduate School of Management and the Australian Institute of Company Directors.

During fiscal 2001, the following executive officers completed service with us:

- Paul Rizzo, former Group Managing Director, Finance and Administration; and
- Robert Cartwright, former Group Managing Director, Employee Relations.

Business address

The business address for each of the above directors and officers is:

c/- the Company Secretary
Telstra Corporation Limited
Level 41, 242 Exhibition Street
Melbourne Vic 3000
Australia.

Directors, Management and Employees

Compensation of directors and officers

For fiscal 2001, the aggregate amount of remuneration earned by the directors and executive officers as a group was A$14 million. Executive officers refers to not only those who hold these positions as at 29 August 2001 but also those who completed their service with us during the year as described under "Directors" and "Senior management".

This amount consists of:

- A$810,000 that has been set aside or accrued during fiscal 2001 to provide pension and retirement benefits; and
- A$13.19 million representing remuneration, other than amounts for pension and retirement benefits.

Our Group Managing Directors, as shown under "Directors, Management and Employees - Senior management", participate in two incentive plans and amounts paid and accrued under these plans for fiscal 2001 are included in the above remuneration figures.

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. Senior manager total remuneration has a variable, or "at risk" component dependant on achievement of defined goals. For achievement targeted performance, a senior manager's at risk component could be higher at the discretion of the Appointments and Compensation Committee of the board. 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 2001 was comprised of a fixed annual base fee, share allocation through DirectShare 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 A$	DirectShare A$	Total fee A$	Other benefits(1) A$	Total A$
Robert Mansfield	Chairman and Director	196,000	44,000	240,000	19,200	259,200
John T Ralph	Deputy Chairman	98,000	22,000	120,000	9,600	129,600
N Ross Adler	Director	61,250	13,750	75,000	6,000	81,000
Sam H Chisholm(4).	Director(2)	-	-	-	-	-
Anthony J Clark	Director	53,083	11,917	65,000	5,200	70,200
John E Fletcher	Director(2)	32,198	8,049	40,247	3,219	43,466
Malcolm G Irving	Director	61,250	13,750	75,000	-(5)	75,000
Catherine B Livingstone . . .	Director(2)	32,198	8,049	40,247	3,219	43,466
Donald G McGauchie	Director	53,083	11,917	65,000	5,200	70,200
Cecilia A Moar	Director(3)	19,802	5,421	25,223	47,980	73,203
Elizabeth A Nosworthy. . . .	Director	73,500	16,500	90,000	7,200	97,200
Christopher I Roberts	Director(3)	19,802	5,421	25,223	164,980	190,203
John W Stocker	Director	61,250	13,750	75,000	6,000	81,000
Stephen W Vizard	Director(3)	19,802	5,421	25,223	81,980	107,203

(1) *Other benefits include superannuation and payments on retirement.*
(2) *Director from 17 November 2000.*
(3) *Retired as a director on 17 November 2000.*
(4) *Fee declined by director's choice.*
(5) *Superannuation not applicable.*

Directors, Management and Employees

DirectShare

From 1 August 2000, directors received 20% of their remuneration by way of restricted Telstra shares through the DirectShare Plan. The shares were purchased on market and allocated to the participating director at market price. The shares are held in trust for a period of 5 years unless the participating director ceases earlier with the Telstra Group.

Senior executive remuneration

Our 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

Our 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 management incentive plan rewards senior managers for meeting or exceeding specific key business objectives, at the corporate, business unit and individual level. The incentive for fiscal 2001 was between 12% and 23% of the total remuneration package, depending on the senior manager's role. 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 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 30 day average of the Telstra accumulation index exceeds the 30 day average of the All Industrials Accumulation index 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.

Directors, Management and Employees

Offers under Telstra Growthshare are made to managers at the discretion of the board. For fiscal 2001 and beyond, between 21% and 34% of total senior manager potential reward was delivered through Telstra Growthshare. Cumulatively over a five year period the total number of shares and options over shares delivered through Telstra Growthshare is not expected to exceed 1% of shares on issue.

The previous cash-based long-term incentive was progressively phased out, ceasing in fiscal 2001. It was a three-year incentive plan designed to reward senior managers for sustained achievement of business improvement. Rewards were 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 included an annual payment based on dividends declared in respect of earnings. For fiscal 2001, the actual payments for cash-based long-term incentive comprised 16% to 27% of the total remuneration package, depending on the senior manager's role.

Telstra employee share ownership plans

All employees, including our senior managers, 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 increasing their shareholding in us, 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 were 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).

Directors, Management and Employees

Senior executive emoluments (current employees)

Australian Corporations Act requires disclosure of the details of the nature and amount of each element of the emolument of each director and each of the five named officers of the company receiving the highest emoluments. The information for the chief executive officer, who is also a director, and the five other officers who received the highest emoluments during fiscal 2001, is provided in the following table:

Name and Position	Remuneration					Telstra Growthshare(4)	
	Fixed(1) A$	Variable Short-term(2) A$	Variable Long-term(2) A$	Other(3) A$	Total A$	Restricted shares	Options
Zygmunt Switkowski, Managing Director and Chief Executive Officer	1,150,000	540,000	656,000	832	2,346,832	50,000(5) 96,000(6)	300,000(5) 464,000(6)
Ted Pretty, Group Managing Director, Telstra Retail	1,000,000	200,000	184,000	-	1,384,000	21,000(5) -(6)	120,000(5) -(6)
Gerry Moriarty, Group Managing Director, Infrastructure Services	787,500	218,000	210,000	832	1,216,332	28,000(5) 48,000(6)	160,000(5) 232,000(6)
Douglas Campbell, Group Managing Director, Telstra Country Wide™	700,000	199,000	261,000	832	1,160,832	26,000(5) 42,000(6)	160,000(5) 203,000(6)
Bruce Akhurst, Group Managing Director, Telstra Wholesale, Media, Legal & Regulatory and Group General Counsel	625,000	234,000	205,000	832	1,064,832	21,000(5) 39,000(6)	120,000(5) 188,000(6)
David Moffatt, Group Managing Director, Finance & Administration and Chief Financial Officer	314,384	212,500	-	400,000	926,884	40,000(7)	150,000(7)

Senior executive emoluments (ceased employees)

Name and Position	Remuneration					Telstra Growthshare(4)	
	Fixed(1) A$	Variable Short-term(2) A$	Variable Long-term(2) A$	Other(3) A$	Total A$	Restricted shares	Options
Robert Cartwright, former Group Managing Director, Employee Relations	295,342	199,016	148,000	828,578	1,470,936	15,167(5) 18,333(6)	86,667(5) 88,333(6)
Paul Rizzo, former Group Managing Director, Finance & Administration	389,315	204,167	216,000	353,292	1,162,774	-	-

Directors, Management and Employees

Details of allocations to all managers under Telstra Growthshare:

Issue date	Total options/ restricted shares allocated	Eligible managers participating	Exercise price[(4)] A$	Expiry date	Allocation date	Market price at allocation date[(4)] A$
Options	3,370,000	45	8.02	13 Sept 2009	13 Sept 1999	8.02
	4,684,200	113	6.28	8 Sept 2010	8 Sept 2000	6.28
	168,710	2	6.55	16 Mar 2011	16 Mar 2001	6.55
Restricted shares	573,500	45	n/a	13 Sept 2004	13 Sept 1999	8.02
	961,900	112	n/a	8 Sept 2005	8 Sept 2000	6.28
	43,817	2	n/a	16 Mar 2006	16 Mar 2001	6.55

(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 2001 and is based on actual performance for Telstra and the individual. This year Telstra has changed its treatment of incentive plans to show figures for actual performance for Telstra and the individual attributed to fiscal 2001 rather than target performance for Telstra and the individual. Fiscal 2001 is the last year of the cash based long-term incentive which has been replaced by Telstra Growthshare.*

(3) *Includes the benefit of interest free loans under TESOP 97 and TESOP 99 as well as payments made on commencement of service or cessation of service.*

(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 fiscal 2000 and 2001 is that the 30 day average Telstra Accumulation Index must exceed the 30 Day Average All Industrials Accumulation Index at any time during the stated 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 the 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 the 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. 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.*

(5) *September 1999 GrowthShare allocation at an exercise price of A$8.02. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of A$1.38 per option. The value of the restricted shares is taken to be their market price at the allocation date.*

(6) *September 2000 GrowthShare allocation at an exercise price of A$6.28. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of A$0.89 per option.The value of the restricted shares is taken to be their market price at the allocation date.*

(7) *March 2001 GrowthShare allocation at an exercise price of A$6.55. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of A$0.80 per option. The value of the restricted shares is taken to be their market price at the allocation date.*

Directors, Management and Employees

Directors' and senior management's shareholdings in Telstra

As at 29 August 2001

Directors

	Number of shares held		
	Direct interest	Indirect interest	Total
R C Mansfield	26,886	82,400	109,286
J T Ralph	4,444	50,000	54,444
Z E Switkowski (1) (2)	29,700	76,100	105,800
N R Adler	2,153	100,000	102,153
S H Chisholm	-	-	-
A J Clark	11,866	50,000	61,866
J E Fletcher	1,237	32,000	33,237
M G Irving	26,153	38,000	64,153
C B Livingstone	11,637	5,000	16,637
D G McGauchie	1,866	18,700	20,566
E A Nosworthy	9,583	29,200	38,783
J W Stocker	2,953	50,555	53,508

(1) *Includes:*
- *400 shares acquired with an interest free loan and 200 free shares under the terms of the Telstra Employee Share Ownership Plan 1999;*
- *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; and*
- *80 loyalty shares received under the "one for ten loyalty offer" available to all employees who participated in the 1999 public offer.*

(2) *During fiscal 2001, Dr Switkowski was granted 96,000 restricted shares and 464,000 options under the terms and conditions of the Telstra Growthshare Trust Deed. These options and shares are in addition to the above.*

Senior management

	Number of shares held		
	Direct interest	Indirect interest	Total
Bruce Akhurst	30,000	-	30,000
Doug Campbell	9,700	-	9,700
Gerry Moriarty	43,080	-	43,080
Ted Pretty	2,000	-	2,000

Employees

As a full service communications company, we continue to be one of Australia's largest employers.

	As at 30 June				
	2001	2000	1999	1998	1997
Full-time employees	**44,874**	50,761	52,840	57,234	66,109

Our full-time employees include full-time staff, fixed-term contracted staff and expatriate staff in overseas controlled entities and employees who have accepted to transfer to Reach. The figures do not include a full-time equivalent measure of part-time and casual staff; overtime worked, full and part-time contracted staff; or a measure of overseas local hires such as employees of Hong Kong CSL. As at 30 June 2001, Hong Kong CSL

Directors, Management and Employees

had 1,281 employees. These figures do not include persons involved in work undertaken through outsourcing arrangements for work previously performed by employees. For these reasons, and due to the full service nature of our business, we believe that these measures of full-time employees may not be directly comparable with other telecommunications companies.

In March 2000, we announced that we would reduce our full-time positions by 10,000. Significant progress has been made in achieving this target by the end of fiscal 2001. As part of this, executive positions have been reduced by 290 since March 2000.

These reductions were partly offset by increases in overall staff numbers as we acquired controlling interests in other entities such as Advantra Pty Ltd (700 in fiscal 2001), InsNet Pty Ltd (50 in fiscal 2001) and Keycorp Ltd (340 in fiscal 2001). Decreases occurred (230 in fiscal 2001) as we divested other entities such as Lawpoint Pty Ltd and Atlas Travel Technologies Pty Ltd. In addition, increases in positions resulted from our investment in RWC. Our numbers, as at 30 June 2001, include 222 employees who are to transfer to Reach. This will not occur until fiscal 2002.

A number of major corporate initiatives facilitated the reductions in our full-time staff, and will continue to generate ongoing savings into the coming financial year. Examples of these initiatives are:

- the Call Centre Optimisation Project commenced - as part of the NGCR programme, Telstra is rationalising the number of call centres it operates across the company;
- Telstra established a shared services unit which consolidates corporate support functions into one area;
- Telstra continued to improve its systems and processes and adopted new technology in its operating areas;
- Telstra reduced the number of executives in the company by 290; and
- Telstra's internal IT operations have been outsourced to IBM GSA.

The majority of our Australian employees receive superannuation benefits mainly through the Telstra Superannuation Scheme and, in the case of some employees who were employed prior to 1990, the Commonwealth Superannuation Scheme.

Labour relations

We continue to update our staff policies and procedures, and provide managers and staff with a much simpler and less ambiguous range of employment conditions. Following on from our application, the Australian Industrial Relations Commission (AIRC) in March this year simplified ten Awards and set aside one. The review was conducted over two to three years, in conjunction with unions, under the provisions of Item 49, 50 and 51 of the Workplace Relations Act, and has resulted in the number of pages of Award documentation covering Telstra to be reduced from 420 to 151 pages.

In addition, many employee procedures and processes have been simplified through a programme of process re-design, making the most of web based and intranet capabilities. As a result we have significantly reduced cycle times, improved data integrity and consistency and benefited from real-time system updates.

During this financial year, we negotiated our Enterprise Agreements. In contrast to the previous single Enterprise Agreement, this time we negotiated four independent Agreements. This was done to allow Business Units the increased flexibility to best meet their specific operating needs. In addition, this year the Enterprise Agreements encompass a number of workplace flexibility and efficiency initiatives as well as replacing the previous classification systems that we had operated over many years. The new classification

Directors, Management and Employees

workstreams contain single pay points for each band replacing the old incremental system. Our agreements remain in place until December 2002, and they provided the vast majority of staff with a 4% pay increase in December 2000, and a further 4% increase to be paid in December 2001.

Safety and environment

Our focus on leadership in safety, together with measurable accountabilities through all levels of management, is strategically designed to reinforce the value we place on our people and their safety. Since the inception of the Telstra Health and Safety Management System in 1997, we have become a safer place to work. During fiscal 2001, lost-time injuries reduced by a further 40%, and our lost-time injury frequency rate reduced from 9 to 7.4.

Our staff are adopting new ways of working that have a positive impact on the environment. For instance, integrated recycling facilities for paper waste and other recyclables are now located at our major offices; this has resulted in reducing waste going to landfill by over 50% at these sites. Our field staff have access to on-line waste service provisioning, which provides a high-degree of monitoring and compliance assurance. We are continually reviewing our internal paper-based processes and progressively developing on-line alternatives for staff. Areas that have been e-processed during the year include on-line training, internal newsletters and information bulletins to staff, human resource forms and tools such as application and ordering forms, employee opinion surveys and staff annual reviews.

Major Shareholders and Related Parties

Major shareholders

The shareholdings of each person known by us to be the owner of more than 5% of our voting securities, as at 31 August 2001, is shown in the following table. The table also shows, as a group, the shareholdings of our directors and officers:

Title of class	Identity of person or group	Amount owned	% of class
Shares	The Commonwealth	6,446,206,763	50.1
Shares	Listed shareholders	6,420,393,437	49.9
		12,866,600,200	100.0
Shares	Directors and officers as a group	745,213[1]	

(1) *Refers to direct and indirect holdings.*

As at 31 August 2001, we are not aware of any shareholders, other than the Commonwealth, whose shares represent more than 5% of the issued and outstanding shares.

Distribution of shares as at 31 August 2001

The following table summarises the distribution of public listed shares:

	Number of shareholders[1]		Shares[2]	
Size of holding	Number	%	Number	%
1 - 1,000	1,197,138	62.07	743,574,605	11.58
1,001 - 2,000	364,792	18.91	570,852,287	8.89
2,001 - 5,000	273,051	14.16	850,445,198	13.25
5,001 - 10,000	64,101	3.32	459,204,232	7.15
10,001- 100,000	28,941	1.50	564,741,187	8.80
100,001 and over	800	0.04	3,231,787,197	50.33
Total	1,928,823	100.00	6,420,604,706	100.00

(1) *Number of shareholders holding less than a marketable parcel of shares was 7,069 shareholders who held 557,412 shares.*

(2) *Not including those shares held by the Commonwealth, except for 211,269 listed shares which are held by the Commonwealth.*

As at 31 August 2001, we had 1,173 shareholders who were resident in the United States. This does not include ADS holders.

Major Shareholders and Related Parties

Twenty largest shareholders as at 31 August 2001

The following table sets out the top 20 shareholders other than the Commonwealth when multiple holdings are grouped together:

Shareholders		Number of shares	% of issued shares[(1)]
1	Chase Manhattan Nominees Limited	523,045,292	8.15
2	National Nominees Limited	386,716,706	6.02
3	Westpac Custodian Nominees Limited	313,283,835	4.88
4	Commonwealth Custodial Services Limited	123,534,630	1.92
5	AMP Life Limited	104,654,190	1.63
6	Queensland Investment Corporation	103,105,837	1.61
7	Telstra ESOP Trustee Pty Ltd	92,386,326	1.44
8	CitiCorp Nominees Pty Limited	90,654,677	1.41
9	ANZ Nominees Limited	76,188,687	1.19
10	RBC Global Services Australia Nominees Pty Ltd	70,946,500	1.11
11	AMP Nominees Pty Ltd	69,914,796	1.09
12	MLC Limited	59,336,874	0.92
13	New Zealand Register	57,108,912	0.89
14	CitiCorp Nominees Pty Limited - CFS Wsle Imputation Fnd A/C	55,015,953	0.86
15	Perpetual Trustees Nominees Limited	50,081,494	0.78
16	NRMA Nominees Pty Limited	41,209,183	0.64
17	Perpetual Trustees Victoria	40,104,826	0.62
18	Mercantile Mutual Life	34,167,171	0.53
19	CitiCorp Nominees Pty Limited - CFS Imputation Fund A/C	34,092,341	0.53
20	HSBC Custody Nominees (Aust)	30,540,861	0.48
	Total	2,356,089,091	36.70

(1) *Not including those shares held by the Commonwealth.*

Substantial shareholders

As at 31 August 2001, other than the Commonwealth of Australia, we did not have any substantial shareholders.

Relationship with the Commonwealth of Australia

We have a number of distinct relationships with the Commonwealth, including as shareholder, regulator and customer. The Commonwealth is our controlling shareholder and has special rights and privileges under the Telstra Act. Our relationship with all of our shareholders, including the Commonwealth is, in general, regulated by the Australian Corporations Act, the ASX listing rules and our constitution. Commonwealth departments and independent agencies are also responsible for the regulation of the telecommunications industry generally and us in particular under the Telstra Act, the Trade Practices Act, the Telecommunications Act and the Telecommunications (Consumer Protection and Service Standards) Act.

Major Shareholders and Related Parties

The Commonwealth as shareholder

At the end of fiscal 2001, the Commonwealth owned 50.1% of our shares after reducing its shareholding by 16.6% in the first half of fiscal 2000. The Telstra Act precludes any reduction in the Commonwealth's voting rights, paid-up capital or rights to distributions of capital or profit, if any, below a 50.1% interest without amending legislation. The effect of this is that we cannot introduce a dividend reinvestment plan or raise new equity capital in a way that would reduce the Commonwealth's ownership below this level. There can be no assurance that the Commonwealth would be willing to subscribe for additional shares in us and our ability to raise additional equity capital could be constrained as a result. Whilst the current government has stated that it favours the eventual full privatisation of Telstra, it is not currently considering passing enabling legislation. The main opposition party, the Australian Labor Party, has stated that it is opposed to further privatisation of Telstra. A federal election is expected to take place in the second quarter of fiscal 2002.

We are required under the Telstra Act to provide the Commonwealth with certain information that we would not generally be required to disclose concurrently, if at all, to other shareholders. This information includes:

- annual provision of our three-year corporate plan;
- interim financial statements, if requested by the Communications Minister; and
- reports regarding significant proposed events, including corporate restructurings, acquisitions and divestitures or joint venture and partnership activities.

We are also required to keep the Communications Minister and the Minister for Finance and Administration generally informed about our operations and to give them such information about our operations as they require. Our management is required to appear before and, with limited exceptions, provide information to Parliamentary Committees.

The Communications Minister has the power, under the Telstra Act, to give us, after consultation with our board of directors, such written directions as appear to the Communications Minister to be necessary in the public interest. To date, no directions have been issued under this power. Our board of directors must ensure that we comply with any such direction. The Communications Minister may not give such directions in relation to the amounts to be charged for work done, or services, goods or information supplied, by us. The Communications Minister, however, has some discretionary powers in relation to charges. The Communications Minister also has the power to direct us under the Telecommunications (Consumer Protection and Service Standards) Act.

The Telstra Act deems the Commonwealth Auditor-General to have been appointed as our auditor for the purposes of the Australian Corporations Act. The Auditor-General cannot be removed without legislative amendment.

The Commonwealth, as holder of more than 50% of our shares, like any other majority shareholder in an Australian company, has the ability to control us. This includes the power to pass any resolution at a shareholders' meeting requiring a simple majority, which includes the appointment and removal of directors, with the exception of matters upon which the Commonwealth is not permitted to vote under the Australian Corporations Act or applicable listing rules.

The Commonwealth has a set of general policies which apply to partially owned government business enterprises, which provide significant commercial freedoms in the conduct of their business, subject to the oversight of appropriate Ministers. These general policies are applied principally through the Telstra Act, the Commonwealth Authorities and Companies Act and our constitution.

Major Shareholders and Related Parties

The Commonwealth as regulator

We are currently regulated by the Commonwealth and its departments and independent agencies under a number of statutes including:

- the Telstra Act;
- the Telecommunications (Consumer Protection and Service Standards) Act 1999;
- the Trade Practices Act; and
- the Telecommunications Act.

The Commonwealth's role as regulator is independent and distinct from its role as shareholder. The government views the legislation, which established the current regime, as providing the fundamental legal and institutional reforms required to enhance competition within the Australian telecommunications industry. Like other regulatory regimes, the government does not expect the current regime to remain static. It will change over time in light of experience and new developments in the industry.

The Australian Labor Party has stated that it is committed to a competitive communications industry environment. It supported, on a bipartisan basis, the government's 1999 legislative changes to the regulatory regime. However, like other regulatory regimes, the Australian Labor Party does not expect the current communications regime to remain static. It will change over time in light of experience and new developments in the industry and a future Labor Government's policies will address that continuously changing regulatory environment in the national interest.

We are also subject to a range of other Commonwealth legislation, some of which does not apply to our competitors. This legislation covers a wide range of areas including administrative law, environmental law and employment related law.

The Commonwealth as customer

The Commonwealth is a major user of our services and we estimate its approximate recent annual expenditures on our services have been around A$385 million. The Commonwealth, as a result of telecommunications liberalisation, is moving towards a whole-of-government approach to the purchase of telecommunications services and will increasingly seek to take advantage of open competition when purchasing telecommunications services. This has resulted, and may continue to result, in a reduction of business being awarded to us.

Major Shareholders and Related Parties

Related party transactions

We hold 22.6% of the shares in IBM GSA. We have a 10 year IT services agreement with IBM GSA which commenced on 24 July 1997. This service agreement requires IBM GSA to provide us with certain IT services such as applications development and maintenance and operations services as required by us.

On 1 February 2001, we sold the assets in our global wholesale business to Reach. These assets included our undersea cables, leased capacity on cable owned by third parties, some satellite capacity, exchanges and other infrastructure. We received A$2,372 million from the sale of these assets, which we received in the form of our 50% interest in Reach and A$680 million in cash.

We entered into a committed supply agreement with Reach effective from 1 February 2001. Under the agreement, we have committed to use Reach's facilities for 90% of our calls leaving Australia and 90% of our requirements for international transmission capacity and global internet access. PCCW has a similar arrangement with Reach for its requirements from Hong Kong. These percentage commitments will reduce over time. We and PCCW pay Reach for the provision of these services.

At the same time, we and Reach have entered into a similar committed supply agreement for calls coming into Australia. Under this agreement, Reach is required to use our domestic Australian facilities for all voice traffic destined for our customers and has committed to use our domestic Australian facilities for 90% of its transmission capacity and data termination requirements until February 2003. Thereafter this percentage commitment reduces. Reach pays a market based price for these services.

For more information regarding transactions between us and related parties, please refer to note 27 to our consolidated financial statements included with this annual report.

Listing Information

Markets in which our shares are traded

We are listed, and those of our shares that are not held by the Commonwealth are quoted, on the ASX and on the New Zealand Stock Exchange (NZSE). American depositary shares (ADSs), each representing five shares, have been issued by The Bank of New York, as depositary, and are listed on the New York Stock Exchange (NYSE).

The stock market operated by the ASX is the principal stock exchange in Australia. The exchange operates by way of the Stock Exchange Automated Trading System (SEATS), which is a fully computerised system.

Trading on SEATS takes place each business day between the hours of 10:00 am and 4:05 pm, Australian Eastern Standard Time or Australian Eastern Standard Summer Time. At 4:05 pm each day, the ASX subsequently matches any buy and sell orders in the system that satisfy both buyers and sellers. The prices of all listed shares are continuously quoted while the market is open and the system prioritises orders first by price and second by time of placement in the system. Exchange participants can cross stock between buying and selling orders, at the buy or sell quote provided those quotes are no more than one marketable bid apart and can cross outside this range in amounts of A$1 million or more. Transactions on the ASX are settled on the third business day following the trade date.

Our securities were initially listed on 17 November 1997. This followed the sale by the Commonwealth of 33.3% of our shares.

Subsequently on 18 October 1999 the Commonwealth sold an additional 16.6% of our shares.

Price history of our securities

The following tables give the price history of our securities.

Table A shows the high and low market prices for instalment receipts (IRs) and interim ADSs for the period of trading of the IRs and interim ADSs:

- the period of issue of the first global offering (T1) being 17 November 1997 until 26 October 1998; and
- the period of issue of the second global offering (T2) from 18 October 1999 until 16 October 2000.

Table A(1) - High and low closing price for IRs and interim ADSs – on an annual basis - for a period of five years or time of trading if less than five years

	A$ per IR		US$ per interim ADS	
Period	**High**	**Low**	**High**	**Low**
T1[(1)]				
Fiscal 1998				
From 17 November 1997 - 30 June 1998 . . .	4.14	2.53	54.38	35.56
Fiscal 1999				
From 1 July 1998 - 26 October 1998.	4.81	4.23	59.00	48.25
T2[(2)]				
Fiscal 2000				
From 18 October 1999 - 30 June 2000	5.98	3.59	19.06	9.88
Fiscal 2001				
From 1 July 2000 - 16 October 2000.	4.42	2.59	12.88	7.00

(1) *Each interim ADS represented 20 instalment receipts.*
(2) *Each interim ADS represented 5 instalment receipts.*

Listing Information

Table A (2) - High and low closing price for IRs and interim ADSs - on a quarterly basis for the two most recent full financial years and any subsequent period

	A$ per IR		US$ per interim ADS	
Period	**High**	**Low**	**High**	**Low**
T1[(1)]				
1997				
17 November - 31 December .	3.25	2.53	42.19	35.57
1998				
1 January - 31 March	3.98	3.09	54.38	40.13
1 April - 30 June	4.14	3.58	51.25	41.94
1 July -30 September	4.81	4.23	59.00	48.25
1 October - 26 October	4.81	4.35	58.19	54.50
T2[(2)]				
1999				
18 October - 31 December . .	5.98	4.51	19.06	14.06
2000				
1 January - 31 March	5.70	4.30	17.19	13.63
1 April -30 June	4.77	3.59	14.13	9.88
1 July - 30 September	4.42	2.59	12.88	7.00
1 October - 16 October	3.22	2.76	8.38	7.13

(1) *Each interim ADS represented 20 instalment receipts.*
(2) *Each interim ADS represented 5 instalment receipts.*

Table B shows the high and low closing prices for shares and ADSs:

- highest and lowest closing sale prices for shares as derived from the daily official list of the ASX; and
- highest and lowest closing sale prices of ADSs quoted on the NYSE.

Table B(1) - High and low closing price for shares and ADSs - on an annual basis - for a period of five years or time of trading if less than five years

	A$ per share		US$ per ADS[(1)]	
Period	**High**	**Low**	**High**	**Low**
Fiscal 1999				
From 27 October 1998 - 30 June 1999. . .	9.15	6.21	29.44	19.31
Fiscal 2000				
. . . .	9.16	6.50	29.69	18.38
Fiscal 2001				
. . . .	7.44	5.31	22.00	13.85

(1) *Prior to 23 August 1999, each ADS represented 20 ordinary shares.*

Listing Information

Table B(2) - High and low closing price for shares and ADSs - on a quarterly basis for the two most recent full financial years

	A$ per share		US$ per ADS(1)	
Period	**High**	**Low**	**High**	**Low**
1999				
1 July - 30 September	8.95	7.78	29.69	25.59
1 October - 31 December . . .	9.16	7.34	28.81	24.00
2000				
1 January - 31 March	8.71	7.18	27.31	22.81
1 April -30 June	7.77	6.50	23.50	18.38
1 July - 30 September	7.44	5.65	22.00	15.75
1 October - 31 December . . .	6.94	5.84	18.13	15.38
2001				
1 January - 31 March	7.19	6.28	19.81	15.61
1 April -30 June	6.92	5.31	17.55	13.85

(1) *Prior to 23 August 1999, each ADS represented 20 ordinary shares.*

Table C shows for the most recent six months, the high and low market prices for each month.

	A$ per share		US$ per ADS(1)	
Period	**High**	**Low**	**High**	**Low**
2001				
March.	6.73	6.38	17.15	15.61
April	6.92	6.33	17.55	15.30
May	6.68	6.37	17.45	16.25
June.	6.71	5.31	17.50	13.85
July	5.42	4.85	13.90	12.30
August	5.24	4.81	13.45	12.70

(1) *Each ADS represented 5 ordinary shares*

There were 6,420,604,706 shares issued and available for trading on the market at 30 June 2001. This does not include those shares held by the Commonwealth. At that date 4,408,353 ADSs (equivalent to 22,041,765 shares) were held by 15 record holders.

The closing price for our shares on the ASX on 21 September 2001 was A$5.28 and the closing price for our ADSs on the New York stock exchange was US$12.50.

Legal Proceedings

General

We are involved in routine litigation. Governmental authorities and other parties frequently threaten us with legal proceedings. However, we do not consider that there are any current proceedings which could materially adversely affect our overall business or financial position.

In July 2001, the ACCC commenced litigation against us in relation to representations that the ACCC alleges we made to customers of One.Tel's Next Generation mobile network, when those customers were seeking to move to another provider after the appointment of administrators to handle One.Tel's insolvency. The matter is proceeding before the courts, but is unlikely to have any material effect on our overall business or financial position.

Legal proceedings settled

The legal proceedings in the Federal Court of Australia involving us and AAPT Limited (AAPT) were settled in September 2000. The proceedings involved claims by us for unpaid charges and cross-claims by AAPT, including cross-claims for misuse of market power. The settlement did not have a material adverse effect on our financial results or position.

The legal proceedings in the Federal Court of Australia involving us and First Netcom Pty Ltd (First Netcom) were settled in August 2001. The proceedings involved claims by us for unpaid charges and cross-claims by First Netcom, including cross-claims for misuse of market power. First Netcom was placed into voluntary liquidation in November 2000. The settlement did not have a material adverse effect on our financial resources or position.

The remaining unresolved claim in the legal proceedings in the Federal Court of Australia, brought against us by Cable & Wireless Optus Ltd and two of its subsidiaries, was settled in July 2001. The remaining claim in the proceedings involved claims by Optus that we had misused our market power by reason of the arrangements for the supply of pay TV carriage services from us to Foxtel and the construction of our broadband network. The settlement did not have a material adverse effect on our financial results or position.

Constitution and Documents on Display

Our constitution

The following provides information on the material provisions of our constitution. Our constitution describes many of the rights of a shareholder.

Shareholders' approval required

Our affairs are managed by our directors. However, the approval of shareholders is required for certain important matters, such as the election of directors and the sale or disposal of our main undertaking. As the Commonwealth holds 50.1% of our issued shares it has the power to control most decisions made by shareholders.

Directors and shareholders may call a meeting

The directors may call a general meeting at their discretion. The directors must also call, and arrange to hold, a general meeting on the request of:

- shareholders who hold at least 5% of the votes that may be cast at the general meeting; or
- at least 100 shareholders who are entitled to vote at the general meeting.

General meeting attendance and notice

All shareholders are notified of and may attend all general meetings. We send a notice of the meeting to all shareholders at least 28 days before the meeting.

Voting rights

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, by proxy, attorney, or representative, depending on whether the shareholder is an individual or a company.

Three shareholders, (one of whom must be the Commonwealth) must be present in person or by proxy, attorney or representative to form a quorum. If there is no quorum present at a meeting 15 minutes after the time set for the start of the meeting, then:

- if the meeting was called by a shareholder or shareholders, the meeting is adjourned to the same day, time and place in the next week or to such other day, time and place as the shareholder or shareholders who called the meeting appoint by notice to shareholders and others entitled to notice of the meeting; or
- in any other case, the meeting is adjourned to the same day, time and place in the next week or to such other day, time and place as the directors appoint by notice to shareholders and others entitled to notice of the meeting.

At the adjourned meeting, the quorum is two shareholders, present in person or by proxy, attorney or representative. One shareholder must be the Commonwealth, unless the Commonwealth received written notice of the original meeting and did not attend that meeting. The adjourned meeting is dissolved if this quorum is not present within 15 minutes of the time specified for the meeting.

Constitution and Documents on Display

Shareholders must vote on a show of hands unless a poll is called. A poll may be called either before a vote is taken or before or immediately after the voting results on a show of hands are declared. A poll may be called by:

- the chairman of the meeting;
- not less than five shareholders who may vote on the resolution; or
- a shareholder or shareholders who together hold at least 5% of the votes that may be cast on the resolution on a poll.

If the demand for a poll is withdrawn, the vote is decided on a show of hands.

Subject to any rights or restrictions attaching to our shares, on a show of hands, each shareholder present in person or by proxy, attorney or representative, has one vote and on a poll, has one vote for each fully paid share. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, the number of votes attaching to the shares is pro-rated accordingly.

An ordinary resolution is passed:

- on a show of hands, by a majority of shareholders present in person or by proxy voting in favour of the resolution; and
- on a poll, by shareholders present in person or by proxy holding at least a majority of the votes cast in favour of the ordinary resolution.

A special resolution is passed:

- on a show of hands, by at least 75% of shareholders present in person or by proxy voting in favour of the resolution; and
- on a poll, by shareholders present in person or by proxy that represent at least 75% of the votes cast in favour of the special resolution.

The chairman has a discretionary tie-breaking vote if the chairman may vote at the meeting.

Dividends

Subject to any special rights attaching to our shares and to the terms of any issue of shares to the contrary, shareholders receive dividends according to the number of shares held and the amount paid up on those shares. Currently, no special rights attach to any of our shares.

Rights to profits

The power to declare dividends and to fix the time for their payment is vested in the board of directors.

Our directors may, before declaring or paying a dividend, set aside out of our profits any amount that they think should be applied as a reserve. Our directors may also carry forward profits which they consider should not be distributed as a dividend, without transferring those profits to a reserve.

A declaration by our directors as to the amount of the profits available for dividend is conclusive and binding on all shareholders.

Documents to be sent to shareholders

Shareholders will receive a copy of any financial statements or other documents, which we must send to shareholders under our constitution, the Corporations Act or the listing rules of the ASX.

Constitution and Documents on Display

Number of directors

At all times, we must have between three and 13 directors on the board of directors. Shareholders may vote to increase the maximum number of directors.

Officers' indemnity and insurance

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer provided that:

- the liability is not owed to us or a related body corporate;
- the liability is not for a pecuniary penalty or compensation order made by a Court under the Corporations Act; and
- the liability does not arise out of conduct involving a lack of good faith. Our constitution also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in successfully defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as a director of that other company. It is also subject to any corporate policy made by our chief executive officer. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

We may pay an insurance premium insuring a person who is or has been a director, secretary or executive officer of Telstra or of one of our related bodies corporate against certain liabilities incurred by that person in such a capacity. The insurance will not cover liabilities, which arise out of conduct involving a wilful breach of that person's duty to us or a breach of their duty not to improperly use their position or company information.

We may issue further shares but the Commonwealth must hold at least 50.1% of our shares

The directors may issue shares at their discretion. They must, however, act in accordance with our constitution, the Corporations Act, the Telstra Act, the listing rules of the ASX, any special rights conferred on holders of any shares and any direction from the company in general meeting where shareholders have been requested to authorise an issue of shares. However, under the Telstra Act, the Commonwealth must hold at least 50.1% of our issued shares. The Commonwealth may hold less than 50.1% of our issued shares only if legislation is passed permitting it to do so.

Winding-up

If Telstra is wound up, our surplus assets, after paid up capital, including credited as paid, has been repaid, will be distributed to shareholders in the following order:

- to any shareholders with special or preferential rights attaching to their shares (presently, there are none); and
- to other shareholders in proportion to the capital paid up, including credited as paid, or which ought to have been paid up, including credited as paid, at the commencement of the winding-up, on their shares.

Constitution and Documents on Display

Restrictions on foreign ownership

Our constitution contains provisions designed to enable us to monitor and enforce the foreign ownership restrictions. We have adopted rules to implement these provisions, which bind all shareholders. These are outlined at the section "Exchange Controls and Foreign Ownership".

Directors' interests

A director who has a material personal interest in a proposal, arrangement or contract that is being considered at a meeting of our directors has a limited right to be present at the relevant meeting and to vote on the matter.

The power to vote and be present only exists in certain circumstances prescribed by the Corporations Act. These are:

- when the board has passed a resolution that identifies the director, and their interest, and states that the other directors are satisfied the interest should not disqualify the director; or
- where the Australian Securities & Investments Commission (ASIC) makes a declaration or class order that the director may vote notwithstanding their material personal interest.

The directors' power to vote compensation to themselves in the absence of an independent quorum is limited. If there are not enough directors to form a quorum because interested directors are disqualified, the directors must:

- call a general meeting to consider a resolution to deal with the matter; or
- seek a declaration from ASIC allowing the interested director to vote and be included in the quorum. Note, however, that ASIC will only exercise this power when the matter needs to be dealt with urgently and cannot be dealt with in a general meeting.

Borrowing powers

Our directors may exercise all of our borrowing powers in their absolute discretion. This power may only be varied by amending our constitution, which would require a special resolution to be passed by our shareholders at a general meeting.

Retirement of directors

Our directors (other than the Chief Executive Officer) may not retain office for more than three years without offering themselves for re-election.

At the annual general meeting in each year at least one-third of our directors (other than the Chief Executive Officer) must retire from office.

The directors to retire by rotation at each annual general meeting are those who have been longest in office.

In addition, our board has adopted a policy that requires our directors to:

- retire at the AGM following their 72nd birthday. Persons over the age of 72 may be appointed or reappointed as directors but only if approved by shareholders passing a special resolution at a general meeting; and
- ensure that non-executive directors serve no more than 4 terms of 3 years per term.

Constitution and Documents on Display

Directors' share qualification

Our directors do not require a share qualification.

Alteration of rights

The rights attaching to our shares may only be varied or abrogated with the written consent of the holders of three-quarters of the issued shares of that class, or with the approval of a special resolution passed at a separate general meeting. Currently we have only one class of ordinary shares.

Calls

Our directors may only make calls on shareholders in respect of money unpaid on their shares. Our shareholders have no other liability to further capital calls.

Dividend policy

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, as previously foreshadowed, in determining the dividends declared from earnings for the year ended 30 June 2001, we excluded the "once off" book profits that arose from:

- any profit recorded in the sale of our global wholesale assets to Reach; 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.

Documents on display

It is possible to read and copy documents referred to in the annual report on Form 20-F that have been filed with the Securities Exchange Commission (SEC) at the SEC's public reference room located at 450 Fifth Street, N.W., Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information.

Exchange Controls and Foreign Ownership

Absence of exchange controls

The Reserve Bank of Australia does not currently inhibit the import and export of funds, and no approval is currently required for the movement of funds in and out of Australia. However, payments to or from (or relating to) Iraq, its agencies or nationals, the government of Libya or any undertaking owned or controlled by Libya or its agencies, the authorities of the Federal Republic of Yugoslavia (Serbia and Montenegro) or their agencies, the Taliban (also known as The Islamic Emirate of Afghanistan) or any undertaking owned or controlled by the Taliban, or the National Union for the Total Independence of Angola (UNITA) or its senior officials or adult members of the immediate families of its senior officials may not be made without the specific approval of the Reserve Bank of Australia.

Accordingly, at the present time, remittances of any dividends, interest or other payment by Telstra to non-Australian holders of its securities are not, subject to the above, restricted by exchange controls or other limitations.

These controls may change given the recent events in the United States.

Restrictions on foreign ownership

Telstra Act

The Telstra Act provides that an "unacceptable foreign-ownership situation" will exist in relation to Telstra if all "foreign persons" and their associates hold, in total, a "particular type of stake" in us of more than 35% of shares held by persons other than the Commonwealth, the "Aggregate Limit", or if any foreign person and its associates hold a particular type of stake in Telstra of more than 5% of shares held by persons other than the Commonwealth, the "Individual Limit". "Foreign person", "associate", "group", "particular type of stake", "direct control interest" and "interest" in a share are all defined in the Telstra Act and are summarised below under "Definitions".

Where an acquisition of shares or interests in shares in any company results in:

- an unacceptable foreign ownership situation in relation to Telstra;
- an increase in the total of any type of stake held by any group of foreign persons in Telstra where there exists a breach of the aggregate limit; or
- an increase in any type of stake in Telstra held by any foreign person who is already in breach of the individual limit,

and the person acquiring the shares knew or was reckless as to whether the acquisition would have that result, that person is guilty of an offence punishable on conviction by a fine not exceeding A$40,000.

The Communications Minister or Telstra may apply to the Federal Court for remedial orders where an unacceptable foreign ownership situation exists, including orders requiring the disposal of shares, restricting the exercise of rights attaching to shares or prohibiting or deferring receipt of sums due on shares. In addition, we are required under the Telstra Act to take all reasonable steps to ensure that an unacceptable foreign ownership situation does not exist in relation to us.

Our constitution contains provisions to enable us to monitor and enforce the foreign ownership restrictions. We have adopted rules to implement these provisions, which bind all shareholders. These are outlined below. They may be amended at any time by resolution of our board.

Exchange Controls and Foreign Ownership

On or after registration of a transfer or transmission application for a share, when the acquirer first becomes a shareholder, the acquirer must generally notify us whether it is either:

- a person with an interest in a share who is either a foreign person or an associate of a foreign person; or
- a person who holds a share in which a foreign person or an associate of a foreign person has an interest (foreign holder).

The information derived from these notifications will be reflected in a register by means of a foreign coding.

Systems have been established for shares traded on the ASX so that notifications are given by brokers as part of routine provision of ASX settlement information (the ASX systems). The ADR custodian under the ADR facilities is automatically treated as a foreign holder for the purposes of the constitution, as are all holders of shares on the New Zealand share register. In the case of other transfers or transmission applications, the onus is on the acquirer to notify us if it is a foreign holder.

All shares held by foreign holders will be treated as foreign unless the holder:

- notifies that some of its shares are ones in which a foreign person or associate of a foreign person has an interest (foreign shares) whereas others are not; and

  either:

- divides its holding into separate Holder Identification Numbers or Security Holder Reference Numbers under the ASX's CHESS system, one for foreign shares and one for shares which are not foreign; or
- agrees to provide bi-monthly notices indicating the breakdown of its holding into foreign and non-foreign shares.

The constitution and rules also contain provisions permitting us to send notices to registered holders of shares with a view to determining whether they are foreign holders or not, and requesting details of any foreign persons or associates of foreign persons having interests in the relevant shares, and any other information relating to foreign ownership which may be requested. Such notices must be answered within 30 days.

If we determine, as a result of information obtained from the notifications and responses to notices referred to above, that an unacceptable foreign ownership situation exists in relation to us, there is power under our constitution to require divestment of shares to remedy this situation. In exercising this divestment power, we are entitled to rely on foreign codings in the relevant register and upon the notifications and responses to notices referred to above. We will notify the ASX, NZSE and NYSE if the level of foreign codings comes within five percentage points of the aggregate limit, and after that at one percentage point intervals.

The divestment powers are broadly framed, and we and our directors are not liable to shareholders for the manner of their exercise.

If we believe that the individual limit has been breached, we may require that any shareholder whose shares are believed to form part of the contravening "stake" be divested within 30 days of the date a notice requiring divestment (disposal notice) is given.

If we believe the aggregate limit has been breached, the rules currently provide that disposal notices will be given to all holders whose foreign shares became registered in their names or which became coded as "foreign", on the day that the aggregate number of foreign coded registrations on the relevant register exceeded the limit and on each succeeding day whilst the limit is exceeded.

Exchange Controls and Foreign Ownership

The recipient of a disposal notice is required to divest the shares that are the subject of the notice before the divestment date specified in the notice. The divestment date will be the fifth business day of the month next following the month in which the disposal notice was issued unless that would be less than 30 days after the date of issue of the notice, in which case the divestment date will be the fifth business day of the next month.

No divestment will be required on a divestment date if foreign shares, as shown on the relevant register on that date, do not exceed the aggregate limit. If a disposal notice is not complied with, the constitution contains provisions empowering us to sell the relevant shares on behalf of the holder on or after the relevant divestment date (and the holder will lose the ability to transfer the shares itself after that date).

Transfers among foreign holders and ADR holders

Special arrangements apply to certain transfers from one foreign holder to another.

Disposal notices will not be given in respect of:

- foreign shares acquired from the international underwriters on closing of the international offerings in 1997 and 1999;
- foreign shares acquired under a particular form of ASX "special crossing" for transfers among foreign holders. Shares can only be transferred under such a special crossing if they are not, and are not liable to become, the subject of a disposal notice; or
- shares registered on the New Zealand branch share register or represented by ADRs, though shares may only be transferred onto the New Zealand branch share register or ADR programme if they are not, and are not liable to become, the subject of a disposal notice.

NZSE trading is only in shares registered on the New Zealand branch register.

All shares deposited in the ADR facility will be treated as foreign.

Holders of ADRs are subject to the individual limit, and must notify the depositary, as applicable, if any of the ADRs they hold form part of a "stake" which breaches the individual limit. Where the individual limit is breached, the depositary may be required to divest the relevant shares, and the corresponding ADRs may be cancelled. The deposit agreement contains provisions permitting the depositary to obtain, and supply to us information relevant in monitoring and enforcing the foreign ownership limits.

The above summary is not complete and is subject to, and qualified by, reference to the constitution and current rules and procedures that have been adopted by us for the administration of the foreign ownership provisions in the Telstra Act. Copies of the constitution, the rules and the Telstra Act, are available for inspection through the Company Secretary, Telstra Centre, 242 Exhibition Street, Melbourne, Victoria 3000, Australia during normal working hours.

Exchange Controls and Foreign Ownership

Definitions

"Foreign person" is defined in the Telstra Act as:

- a foreign citizen (defined in the Telstra Act as a non-Australian citizen) not ordinarily resident in Australia (a "foreign citizen");
- a company where a foreign citizen or a foreign company (defined in the Telstra Act as an overseas incorporated company) holds a particular type of stake in the company of more than 15%;
- a company where a group of two or more persons, each of whom is either a foreign citizen or a foreign company holds, in total, a particular type of stake in the company of more than 40%;
- the trustee of a trust estate in which a foreign citizen or a foreign company holds a substantial interest (essentially a 15% beneficial interest, including such foreign citizen's or foreign company's associates' interests); or
- the trustee of a trust estate in which two or more persons, each of whom is either a foreign citizen or a foreign company, hold an aggregate substantial interest (essentially a 40% beneficial interest including each such foreign citizen's or foreign company's associates' interests).

A "particular type of stake" in any company held by any person is defined as the aggregate of the "direct control interests" of that type in that company held by that person and that person's associates.

An "associate" of a person is defined to include:

- a wide range of direct and indirect relationships such as relatives, partners, employees and employers of the person;
- if the person is an employee of an individual, other employees of the individual;
- if the person is a company, an officer of the company and, if the person is an officer of a company, the company and other officers of the company;
- the trustee of a discretionary trust where the person or an associate of the person is a beneficiary;
- a company whose directors are accustomed, or under an obligation, to act in accordance with the wishes, directions or instructions of the person;
- a company where the person is accustomed, or under an obligation, to act in accordance with the company's wishes, directions or instructions;
- a company in which the person has a particular type of stake of at least 15% or, if the person is a company, a person who holds a particular type of stake of at least 15% in it; and
- an associate of an associate of the person.

For purposes of determining foreign ownership of any company, a person's associates also include any other person with whom the person has an arrangement enabling the person to jointly exercise voting power or certain types of power over, or over the appointment of, the board of directors of such company.

"Group", in relation to the foreign ownership limits, includes one person alone or a number of persons, even if they are not in any way associated with each other or acting together.

Exchange Controls and Foreign Ownership

A "direct control interest" of any person in any company is defined as the equivalent percentage of:

- the total paid up share capital of the company in which the person holds an interest;
- the voting power in the company that the person is in a position to control;
- the total rights to distributions of capital or profits of the company to its shareholders on a winding up held by the person;
- the total rights to distributions of capital or profits of the company to its shareholders, other than on a winding up, held by the person; and
- traced interests held via interposed entities.

"Interest in a share" is defined to include:

- legal or equitable interests in a share;
- certain rights under a contract to purchase a share;
- options to acquire a share or an interest in a share;
- a right to have a share transferred to the person's order; and
- an entitlement to acquire a share or an interest in a share or to exercise or control the exercise of a right attached to the share.

However, certain interests in shares are disregarded, including:

- certain interests of lenders under or following enforcement of security arrangements;
- interests of a trustee or manager of, or a custodian for, a unit trust or certain Australian complying or exempt superannuation funds if such trustee, manager or custodian reasonably believes that foreign persons hold beneficial interests in less than 40% of the capital and income in the trust or fund;
- interests held by an Australian registered life insurance company or a custodian for it, in respect of a statutory fund, if the company reasonably believes that less than 40% of policyholder liabilities of the fund are owed to foreign persons;
- interests held by nominees, custodians or depositaries, or brokers acting on clients' instructions in the ordinary course of business, provided in each case the holder has no beneficial interest or discretionary voting authority in respect of the underlying shares;
- certain interests held by the international underwriters and their related corporations;
- shareholder interests in companies other than us, which are not "foreign persons" under the Foreign Acquisitions and Takeovers Act 1975 (Cwth);
- interests held by persons who are not foreign persons and do not have any substantive foreign associates (that is, persons who directly or indirectly control them, with whom they act in concert or in accordance with whose wishes, instructions or directions they are obliged or accustomed to act);
- interests held by any person to the extent that, after such interests have been included in the "stake" of that person and any of its substantive foreign associates, such interests would also be included in the stake of a non-substantive associate of the person; and
- interests held by any person who is not a foreign person to the extent that, in determining the total of the stakes of a group of foreign persons, such interests would be counted more than once for that purpose.

References to "interests" in shares exclude disregarded interests.

Exchange Controls and Foreign Ownership

Foreign Acquisitions and Takeovers Act 1975 (Cwth)

The Foreign Acquisitions and Takeovers Act 1975 (Cwth) applies to any acquisition of an interest in the shares of an Australian company with total assets of A$50 million which results in any foreign person and its associates controlling 15% or more, or all foreign persons and their associates in aggregate controlling 40% or more, of shares or voting power. Any proposed acquisition which would result in these thresholds being exceeded should be notified to, and is subject to review and approval of, the Treasurer in advance of the acquisition.

Foreign ownership status

At 31 August 2001, the number of Telstra shares recorded as foreign on the Telstra register was 7.6610% of the total number of issued Telstra shares.

Taxation

Australian taxation

The ATO has provided an indicative opinion confirming the Australian income taxation implications of investment in IRs, interim ADSs, shares and ADSs as summarised in the following discussion.

The tax profile of each investor will determine the applicable Australian income taxation implications for that investor. For example, some investors, such as financial institutions, may hold their investments on income account rather than on capital account, in which case the comments below concerning capital gains implications will not be applicable. Certain tax non-residents may, irrespective of whether the assets they dispose of are capital gains tax assets that have the necessary connection with Australia (for the purpose of these discussions, these assets are referred to as "taxable Australian assets"), be liable to tax in respect of a profit on a dealing in the asset as ordinary income.

This discussion is based on the law in force at the date of this report. In 1999 the government conducted a review of business taxation in Australia and received an independent report setting out recommendations for consideration. Some of the recommendations have now been enacted. Other recommendations are currently before Parliament where both the House of Representatives and the Senate would need to pass appropriate legislation to give effect to the policy adopted. Some of the recommendations have been agreed to "in principle" by the government, some of the recommendations have been rejected by the government, and some of the recommendations are still being considered by the government. The legislation finally passed may have an effect on individual investors. There is a risk that changes to Australian business taxation may adversely affect us.

Treatment of instalment receipts

Taxation of distributions

The income taxation treatment of distributions to holders of IRs will mirror the income taxation treatment of distributions to holders of shares.

While the distributions on IRs are strictly speaking trust distributions, they will retain the character of the dividends on the underlying shares and will be treated in the same way for Australian income tax purposes as dividends on the underlying shares.

An "imputation system" operates in Australia in respect of company income tax. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate rate (which was 34% for fiscal year 2001 and was reduced to 30% from July 2001). The payment of Australian income tax by Australian companies generates a "franking credit" which, when the company pays a dividend to shareholders, generally flows through to resident shareholders.

At present, it is expected that we will be able to fully frank declared ordinary dividends out of fiscal year 2002 earnings. However, no assurance can be given as to the level of franking of ordinary dividends. This is because it depends upon, amongst other factors, our earnings, government legislation and our taxation position.

A rebate of tax equivalent to the franking credit (known as a "franking rebate") is available only to Australian resident shareholders.

Under certain rules, there are circumstances where an investor may not be entitled to the benefit of franking credits. The application of these rules depends on the individual's own circumstances including the period for which the IRs are held and the extent to which the investor, if a resident, is "at risk" in relation to their investment.

Taxation

Fully franked dividends (franked with "franking credits") paid to non-resident shareholders are not subject to the Australian non-resident dividend withholding tax (DWHT). Dividends which are not fully franked are generally subject to DWHT at the rate of 30% (unless reduced by a double tax treaty). In the case of residents of the United States, provided that the IRs are not effectively connected with a permanent establishment or a fixed base of a tax non-resident in Australia through which the tax non-resident carries on business in Australia or provides independent personal services, the rate is reduced under the double tax treaty to 15%.

Accordingly, dividends paid by us to tax non-residents, to the extent to which they are fully franked (with franking credits) will not be subject to DWHT. The unfranked part of any dividends paid by us to tax non-residents will be subject to DWHT. DWHT is deducted by the payer in the source country and so the tax non-resident will receive dividends net of DWHT.

Fully franked dividends (franked with franking credits) paid to tax non-residents and dividends which have been subject to DWHT are not subject to any further Australian income tax.

Taxation of capital gains

Tax non-residents will be liable for Australian income tax under the capital gains provisions on the gains realised on the disposal of certain assets which are "taxable Australian assets". Taxable Australian assets include a share (or interest in a share) in a public company where at any time in the preceding five years the non-resident's holding (together with the holding of associates) in the public company is 10% or more, and an interest in an Australian resident trust estate.

An IR is an interest in an Australian resident trust estate, and therefore is a "taxable Australian asset" for the purposes of the Australian income tax on capital gains. Because the 10% ownership threshold which applies to shares in public companies does not apply to interests in trust estates, the real gain on sale of an IR by a tax non-resident will be subject to the Australian income tax on capital gains. The tax non-resident rate of income tax currently ranges from 29% to 47% for individuals, and was 34% for corporations during fiscal year 2001 (and reduced to 30% from 1 July 2001).

The assessable capital gain will generally be the difference between the arms length consideration in respect of disposal of the IR and the cost base. The cost base of an IR will include the consideration on acquisition and incidental costs associated with acquisition. Individual tax non-residents who have held their IRs for at least 12 months prior to disposal should only be liable for Australian income tax under the capital gains tax provisions on 50% of the gain made on disposal.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

Generally, the "business profits" articles of Australia's double tax treaties provide that a resident of a treaty party is not subject to Australian income tax on "business profits" derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the United States, Article 7(1) of the Convention between Australia and the United States for the Avoidance of Double Taxation (the "U.S. Treaty") provides that the business profits of a U.S. enterprise are only taxable in the U.S. unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term "permanent establishment" is defined in Article 5 of the U.S. Treaty. In the view of the Australian Tax Office, capital gains realised on the disposal of IRs or interim ADRs would not be "business profits".

Taxation

Prospective investors should seek their own independent taxation advice should they wish to rely on a double tax treaty for relief from liability to pay Australian income tax upon the disposal of an IR.

Investors who incur a liability for Australian income tax will be required to file an income tax return in Australia.

Transfer of shares from trustee following payment of final instalment

The payment of the final instalment and transfer of legal title in the share from the trustee to the investor does not constitute a disposal of an asset for the purposes of the Australian income tax on capital gains, and does not give rise to any Australian income tax liability.

Failure to pay final instalment

The failure to pay the final instalment and subsequent sale by the trustee of the underlying share may have Australian income tax implications for investors. Investors should seek their own advice in relation to this issue.

Treatment of interim American depositary receipts

Taxation of distributions

The Australian income taxation treatment of distributions to holders of interim ADRs will mirror the Australian income taxation treatment of distributions to holders of IRs.

Accordingly, distributions to holders of interim ADRs will be treated in the same way as distributions to holders of IRs as discussed above.

Taxation of capital gains

As discussed above, an IR is an interest in an Australian resident trust estate, and therefore is a "taxable Australian asset" for the purposes of the Australian income tax on capital gains. The holder of an interim ADR (evidencing interim ADSs which represent IRs) will be subject to income tax in Australia as though the holder of the underlying IRs. As stated above, the 10% ownership threshold which applies to shares in public companies does not apply to interests in trust estates. Therefore, the disposal by tax non-residents of an interim ADR will be subject to the Australian income tax on capital gains.

The assessable capital gain will generally be the difference between the arms-length consideration in respect of disposal of the interim ADR and the cost base. The cost base of an interim ADR will include the consideration on acquisition and incidental costs associated with acquisition. Individual tax non-residents who have held their interim ADRs for at least 12 months prior to disposal should only be liable for Australian income tax under the capital gains tax provisions on 50% of the gain made on disposal.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets as ordinary income.

In relation to the potential of a double tax treaty between Australia and the country of residence of the investor to give relief from liability to pay Australian income tax upon disposal of an interim ADR, refer to the comments above in relation to the disposal of IRs.

Transfer of shares from trustee following payment of final instalment

The payment of the final instalment and transfer of legal title in the share from the trustee to the investor or to the depository, (in respect of interim ADRs) does not constitute a disposal of an asset for the purposes of the Australian income tax on capital gains, and does not give rise to any Australian income tax liability.

Taxation

Failure to pay final instalment

The failure to pay the final instalment and subsequent sale by the trustee of the underlying share may have Australian income tax implications for investors. Investors should seek their own advice in relation to this issue.

Treatment of shares

Taxation of dividends

An imputation system operates in Australia in respect of company income tax. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate rate (which was 34% for fiscal year 2001 and was reduced to 30% from 1 July 2001). The payment of Australian income tax by Australian companies generates a franking credit which, when the company pays a dividend to shareholders, generally flows through to resident shareholders.

At present, it is expected that we will be able to fully frank declared ordinary dividends out of fiscal year 2002 earnings. However, no assurance can be given as to the level of franking of ordinary dividends. This is because it depends upon, amongst other factors, our earnings, government legislation and our taxation position.

A rebate of tax equivalent to the franking credit (known as a “franking rebate”) is available only to Australian resident individual shareholders.

Under certain rules, there are circumstances where an investor may not be entitled to the benefit of franking credits. The application of these rules depends on the investor’s own circumstances including the period for which the shares are held and the extent to which the investor, if a resident, is “at risk” in relation to their investment.

Fully franked dividends (franked with franking credits) paid to non-resident shareholders are not subject to dividend withholding tax (DWHT). Dividends to the extent that they are not fully franked are generally subject to DWHT at the rate of 30% (unless reduced by a double tax treaty). In the case of residents of the United States, provided that the shares are not effectively connected with a permanent establishment or a fixed base of a tax non-resident in Australia through which the tax non-resident carries on business in Australia or provides independent personal services, the rate is reduced under the double tax treaty to 15%.

Accordingly, dividends paid by us to tax non-residents to the extent to which they are franked (with franking credits) will not be subject to DWHT. The unfranked part of any dividends paid by us to tax non-residents will be subject to DWHT. The payer in the source country deducts DWHT and so the tax non- resident will receive dividends on the shares net of DWHT.

Fully franked dividends (franked with franking credits) paid to tax non-residents and dividends that have been subject to DWHT are not subject to any further Australian income tax.

Taxation of capital gains

Tax non-residents will be liable for income tax under the capital gains provisions on the gains (in certain circumstances after an allowance for inflation in Australia) realised on the disposal of certain assets which are “taxable Australian assets”. Taxable Australian assets include a share (or interest in a share) in a public company where at any time in the preceding five-years the non-resident’s holding (together with the holding of associates) in the public company is 10% or more.

Tax non-residents who, together with their associates, hold less than 10% of our shares (or an interest in a share) will, on disposal of the shares, not be subject to any Australian income tax on capital gains.

Taxation

Restrictions on the extent of foreign ownership in us should ensure that tax non-resident investors qualify for this exemption.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets, as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

Generally, the "business profits" articles of Australia's double tax treaties provide that a resident of a treaty party is not subject to Australian income tax on "business profits" derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the United States, Article 7 (1) of the Convention between Australia and the United States for the Avoidance of Double Taxation (the U.S. Treaty) provides that the business profits of a U.S. enterprise are only taxable in the U.S. unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term "permanent establishment" is defined in Article 5 of the U.S. Treaty. In the view of the ATO, capital gains realised on the disposal of shares would not be "business profits" and the domestic capital gains tax provisions would apply. Investors should seek their own independent taxation advice should they wish to rely on a double-tax treaty for relief from liability to pay Australian income tax upon the disposal of a share.

Investors who incur a liability for Australian income tax will be required to file an income tax return in Australia.

Treatment of American depositary receipts

Tax non-resident holders of ADRs evidencing ADSs will be treated for Australian income tax purposes as the owners of the shares represented by the ADSs.

Taxation of distributions

The depositary will receive dividends on the shares represented by the ADSs net of DWHT (where payable). Holders of ADRs will not be subject to any further Australian income tax on distributions representing fully franked dividends (franked with franking credits) or dividends that have been subject to DWHT.

Taxation of capital gains

A disposal of an ADR by a tax non-resident investor will constitute a disposal by the investor of the Telstra shares represented by the ADS evidenced by that ADR. Tax non-residents who, together with their associates, hold less than 10% of the shares or interests in our shares (including through ADSs) will, on disposal of ADRs, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in us should ensure that tax non-resident investors qualify for this exemption.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

Generally, the "business profits" articles of Australia's double tax treaties provide that a resident of a treaty party is not subject to Australian income tax on "business profits" derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the United States, Article 7 (1) of the U.S. Treaty provides that the business profits of a U.S. enterprise are only taxable in the U.S. unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term "permanent establishment" is defined in Article 5 of the U.S. Treaty. In the view of the ATO, capital gains realised on the disposal of ADRs would not be "business profits" and the domestic capital gains tax

Taxation

provisions would apply. Investors should seek their own independent taxation advice should they wish to rely on a double-tax treaty for relief from liability to pay Australian income tax upon the disposal of a share.

Australian stamp duty

No stamp duty is chargeable on a transfer, or an agreement for the sale or transfer of marketable securities listed on a recognised stock exchange located outside Australia where the transfer is made either to:

- a foreign resident on the foreign resident's own behalf; or
- a foreign resident acting on behalf of, or as trustee for, another foreign resident,

which is to be registered on an overseas register of legal or beneficial title.

Instalment receipts, interim ADRs, ADRs and shares fall within the definition of marketable securities.

If the above exemption does not apply, stamp duty may be payable.

With ADRs, no duty is chargeable on a transfer for an agreement for the sale or transfer of an ADR that relates to shares quoted on the ASX or a recognised stock exchange located outside Australia or an ADR that relates to shares that upon issue, will be quoted on the ASX or a recognised stock exchange located outside Australia either to:

- a foreign resident on the foreign residents' own behalf, or
- a foreign resident acting on behalf of a trustee for another foreign resident,

which is to be registered on an overseas register of legal or beneficial title.

In general, stamp duty law in Australia distinguishes between transactions which are affected on the ASX "on-market", and those which are affected "off-market". Stamp duty for on-market trades of marketable securities is payable by the brokers involved at 0.15% for the selling broker and 0.15% for the buying broker. The stamp duty is paid to the State or Territory revenue office of the place where the broker takes the order. The brokers are reimbursed by their client. Unless the transfer of Telstra's marketable securities occurs on the NZSE or SEAQ International, London or other exemption applies, the stamp duty for off-market transfers of marketable securities is payable by the transferee at the rate of 0.3% (calculated on the higher of the sale price or the value of the underlying marketable securities) and is payable in the ACT.

Apart from the exemptions applicable to foreign residents, other particular exemptions may apply.

United States taxation

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning shares, IRs, ADSs or interim ADSs. It applies to shares, IRs, ADSs or interim ADSs held as capital assets for tax purposes. This section does not apply to members of special classes of holders subject to special rules, including:

- dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- tax-exempt organizations;
- life insurance companies;
- persons liable for alternative minimum tax;
- persons that actually or constructively own 10% or more of our voting stock;
- persons that hold shares, IRs, ADSs or interim ADSs as part of a straddle or a hedging or conversion transaction; or
- persons whose functional currency is not the U.S. dollar.

Taxation

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the Convention Between the United States of America and Australia, or the Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

A U.S. holder is a beneficial owner of shares, IRs, ADSs or interim ADSs that is:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

Holders should consult their own tax advisors regarding the United States federal, state and local and the Australian and other tax consequences of owning and disposing of shares, IRs, ADSs or interim ADSs in their particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, a U.S. holder of ADRs evidencing ADSs will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax. A U.S. holder of IRs or interim ADRs should be treated for United States federal income tax purposes as the owner of the shares or ADSs represented by such IRs or interim ADRs.

As used in this discussion, unless the context otherwise requires, the term “share” refers to a share or IR and the term “ADS” refers to an ADS or interim ADS.

Treatment of instalment payments

The following is a discussion of original issue discount, or OID, and foreign currency gain or loss and is based, in part, on Internal Revenue Code provisions and Treasury regulations that may be subject to varying interpretations.

Deduction of interest

For United States federal income tax purposes, the obligation of a U.S. holder to make the final instalment payment, which we will refer to as the purchase obligation, is properly treated as a debt obligation bearing OID to the extent that the amount of the final instalment payment exceeded the difference between:

- the fair market value of a share or ADS at the date of issuance of the IR or interim ADR; and
- the amount of the first instalment, all calculated in Australian dollars.

Both cash-basis and accrual-basis taxpayers are generally entitled to deduct as interest expense (subject to the limitations on the deductions of “investment interest” by non-corporate taxpayers and to other applicable limitations) the sum of the daily portions of OID with respect to each purchase obligation they had issued for each day during the taxable year in which the obligation remained outstanding. The daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID allocable to that period.

Taxation

The amount of OID allocable to an accrual period can be determined by multiplying the purchase obligation's adjusted issue price in Australian dollars at the beginning of the accrual period by the purchase obligation's yield to maturity. The purchase obligation's yield to maturity is determined, as of its issue date, on the basis of compounding at the close of each accrual period and adjusting for the length of each accrual period. The purchase obligation's adjusted issue price at the beginning of any accrual period is the obligation's "issue price" increased by any previously accrued OID.

The daily amounts of OID in Australian dollars should be converted into U.S. dollars using the average exchange rate in effect during the accrual period or, with respect to an accrual period that spans two taxable years, that part of the period within the taxable year. Alternatively, a U.S. holder may elect to use the exchange rate in effect on the last day of the accrual period, or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. A U.S. holder that makes this election and that makes a payment of interest within five business days of the last day of the holder's accrual period or taxable year may instead translate the interest accrued into U.S. dollars at the exchange rate in effect on the payment date. This election, if made, must be applied consistently to all debt instruments of the U.S. holder for the year of the election and subsequent years and cannot be revoked without the consent of the Internal Revenue Service.

Unrelated business taxable income

The purchase obligation constitutes "acquisition indebtedness" as defined in section 514 of the Internal Revenue Code. Accordingly, dividends received (and any gain realized on the sale of shares or ADSs) by a U.S. holder that is exempt from United States federal income tax, such as an Individual Retirement Account, Keogh plan, pension or other employee benefit plan with tax exempt trusts, may be treated, in part, as unrelated business taxable income to the extent the holder's total unrelated business taxable income for the taxable year exceeds US$1,000. The tax will apply to a portion of the dividends received during the holder's taxable year during any part of which the holder was an obligor on the purchase obligation and to a portion of the gain, if any, on the sale of shares or ADSs if the holder was an obligor on the purchase obligation during any part of the 12-month period preceding the sale (although the holder would generally be permitted to deduct a portion of the interest expense referred to above and the Australian withholding tax on dividends, if any, would generally be creditable against the holder's United States federal income tax liability).

Foreign currency gain or loss on sale or retirement of purchase obligation

A U.S. holder will recognize foreign currency gain or loss in respect of a purchase obligation as ordinary gain or loss in the earlier of the taxable year in which the holder paid the final instalment or in the taxable year of sale of the share or ADS. Foreign currency gain or loss is calculated separately in respect of the OID portion, if any, and the principal portion of the instalment payment.

A U.S. holder's foreign currency gain or loss in respect of the principal portion of the purchase obligation is based upon the difference, if any, between:

- the U.S. dollar amount of the adjusted issue price of the purchase obligation as translated at the exchange rate in effect on the date of the final instalment payment (or, if applicable, the date of sale of the shares or ADSs); and
- the U.S. dollar amount of such adjusted issue price as translated at the exchange rate in effect on the date of purchase of the shares or ADSs.

Taxation

The holder's foreign currency gain or loss in respect of any accrued OID portion for the instalment payment is equal to the difference between:

- the U.S. dollar amount of the accrued OID as translated at the exchange rate in effect on the date of the final instalment payment (or, if applicable, the date of sale of the shares or ADSs); and
- the U.S. dollar amount of the accrued OID as described above under "Deduction of interest".

Effect of purchase obligation upon sale of shares or ADSs

For purposes of calculating gain or loss on a sale or other disposition of shares or ADSs, a U.S. holder's tax basis in the shares or ADSs equals the U.S. dollar amount of the first instalment payment plus the U.S. dollar equivalent issue price of the purchase obligation, based upon the spot rate prevailing at the date of purchase. The amount realized on a sale or other disposition of shares or ADSs prior to payment of the final instalment would include, in addition to other amounts received, the U.S. dollar equivalent of the amount of any remaining purchase obligation assumed by the transferee less the amount of unaccrued OID, if any, in respect of the purchase obligation, all as based upon the spot rate prevailing on the date of sale or other disposition. The holder would recognize foreign currency gain or loss, if any, in the manner described above under "Foreign currency gain or loss on sale or retirement of purchase obligation" as if the holder had made an instalment payment in an amount equal to the amount of any remaining purchase obligation.

A U.S. holder that defaulted on the final instalment payment and whose shares or ADSs were, as a result, sold by the trustee would treat as an amount realized for purposes of the above, in addition to any amount received by the holder, the amount of the sales proceeds used by the trustee to pay the instalment (less the amount of unaccrued OID, if any). Foreign currency gain or loss, if any, would be recognized upon a default. If the sales proceeds were insufficient to pay in full the instalment in default, under certain circumstances the amount by which the instalment exceeded the sales proceeds may constitute ordinary income.

Taxation of distributions on shares or ADSs

Under the United States federal income tax laws, a U.S. holder must include in gross income the gross amount of any dividend paid by us out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). The holder must include any Australian tax withheld from the dividend payment in this gross amount even though the holder does not in fact receive it. The dividend is ordinary income that must be included in income when the holder, in the case of shares, or the depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that the holder must include in income will be the U.S. dollar value of the payments made in Australian dollars, determined at the spot Australian dollar/U.S. dollar rate on the date the dividend distribution is includible in income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the holder includes the dividend payment in income to the date the holder converts the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of the holder's basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Australian tax withheld in accordance with the Treaty and paid over to Australia will be creditable against a U.S. holder's United States federal income tax liability.

Taxation

Dividends constitute income from sources outside the United States, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to a U.S. holder.

Taxation of capital gains

A U.S. holder that sells or otherwise disposes of shares or ADSs will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount realized and the holder's tax basis, determined in U.S. dollars, in the shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Quantitative and Qualitative Disclosures about Market Risk

The potential for change in the market value of our financial assets and liabilities is referred to as "market risk". We enter into financial instruments to manage our exposure to interest rates and foreign currency rates that arise as part of our normal business operations.

Derivatives are financial instruments such as futures, forwards and swaps that derive their value from underlying assets, indices, reference rates or a combination of these factors. We only use derivative financial instruments, in accordance with board approved policies, to hedge market risks for an underlying physical position.

We are exposed to interest rate risk due to our borrowings

Our borrowings are generally for maturities of up to ten years and we manage our debt in accordance with set targeted interest rate profiles and debt portfolio maturity profiles. We use interest rate swaps, cross currency swaps and futures to achieve these defined levels.

Interest rate risk is calculated on our net debt portfolio that equals financial liabilities less matching short-term financial assets whose value is sensitive to interest rates.

Our net debt portfolio includes both physical borrowings such as bonds and commercial paper and associated derivative instruments such as interest rate swaps and cross currency swaps.

We have exposure to foreign currency risk due to our normal business operations and borrowings

Our foreign currency exchange risk is due to:

- firm or anticipated transactions for receipts and payments for international telecommunications traffic settled in foreign currencies;
- purchase commitments in foreign currencies;
- investments denominated in foreign currencies; and
- a portion of our borrowings that are denominated in foreign currencies.

We firstly remove the foreign exchange risk on our borrowings by effectively converting them to A$ borrowings at drawdown by applying cross currency swaps.

The remaining foreign exchange rate risks are managed through the use of forward foreign currency derivatives.

This foreign exchange risk is calculated on a net foreign exchange basis for individual currencies. This underlying foreign exchange risk is combined (offset) with the associated foreign exchange derivatives used to hedge these risks generating our net foreign exchange risk.

Our exposure to movements in market risks is measured on a fair value basis

Our estimated market risk exposures are measured on two bases:

- sensitivity analysis; and
- value-at-risk or "VaR".

The methods illustrated below show the potential costs of adverse movements in the fair value of the relevant portfolio.

Quantitative and Qualitative Disclosures about Market Risk

Sensitivity analysis

We undertake a sensitivity analysis on our net debt and foreign exchange exposure portfolios. This is based on an instantaneous adverse proportional movement of 10% in interest rates and exchange rates. The probability of this occurring is not factored into this analysis.

Also, the diverse nature of the portfolios is not taken into account and concurrent adverse movements in all exchange rates and interest rates is assumed. For these reasons, the analysis may be conservative and not represent likely market volatility since historically there is some degree of correlation between these factors and it is unlikely that there would be a concurrent adverse movement across all factors.

Table 23 - Adverse proportional movement of 10% across risk categories

	As at 30 June	
	2001	2000
	(in millions)	
	A$	A$
Risk Categories		
Interest rates	**159**	162
Foreign currency rates	**11**	47
Total	**170**	209

VaR

VaR represents the maximum potential loss due to adverse movements in markets over a defined time horizon with a specified confidence level.

For the VaR numbers reported below, a one month time horizon and a 99% confidence level were used. We consider a one month holding period is appropriate as our hedging activities are of a non-trading nature. This differs from many financial institutions who hedge for trading purposes where a one day period may be more appropriate.

We have derived the potential cost by applying historical volatility measures to the identified market risk. Unlike sensitivity analysis, VaR analysis takes into account the diversified nature of our net debt and net foreign exchange exposure portfolios and incorporates historical correlation between the markets.

We arrived at the VaR numbers by using a Monte Carlo simulation model developed by our consulting actuaries, William M Mercer Pty Ltd, which uses the JP Morgan RiskMetrics methodology and JP Morgan/ Reuters RiskMetrics data sets. The data sets from JP Morgan/Reuters comprise:

- interest rate and foreign exchange rate volatilities; and
- correlations between interest rates and foreign exchange rates.

The simulation model determines the distribution of the fair value of our debt portfolio and foreign exchange portfolio at future rates. This is undertaken by simulating interest and foreign exchange movements against our actual transaction portfolio. In deriving the VaR numbers, 50,000 simulations have been undertaken to ensure the production of stable, robust results.

Quantitative and Qualitative Disclosures about Market Risk

The VaR methodology adopted determines the maximum potential cost with a 99% confidence level (i.e., the value for which there is a 1% chance of being exceeded).

Table 24 - VaR[(1)]

	As at 30 June	
	2001	2000
	(in millions)	
One month holding period	**A$**	A$
Risk categories		
Interest rates	**159**	148
Foreign currency rates	**21**	33
Sub-total	**180**	181
Diversification effect[(2)]	**(16)**	(27)
Total	**164**	154

[(1)] For approximate conversions from monthly VaR cost multiply by 0.22 to give daily VaR and 3.5 to give twelve monthly VaR. These conversion factors assume that the portfolios continue with the same basis profiles, such as maturity and debt mix.

[(2)] Equals the difference between the total monthly VaR and the sum of the monthly VaRs for the two risk categories. This effect arises because there is a degree of correlation between the two market risk categories.

VaR calculations were undertaken for portfolio balances at the end of each quarter during fiscal 2001. The following table shows the high, low and average amounts of the portfolio VaR based on these quarterly results:

Table 25 - VaR[(1)] analysis

	As at 30 June 2001		
	High	**Low**	**Average**
		(in millions)	
	A$	A$	A$
Risk categories			
Interest rates	179	128	154
Foreign currency rates	26	19	22
Sub-total	205	147	176
Diversification effect[(2)]	(25)	(16)	(18)
Total	180	131	158

[(1)] For approximate conversions from monthly VaR cost multiply by 0.22 to give daily VaR and 3.5 to give twelve monthly VaR. These conversion factors assume that the portfolios continue with the same basis profiles, such as maturity and debt mix.

[(2)] Equals the difference between the total monthly VaR and the sum of the monthly VaRs for the two risk categories. This effect arises because there is a degree of correlation between the two market risk categories.

For additional information regarding our market risks see note 29 of our consolidated financial statements in this annual report.

Corporate Governance and Board Practices

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 2001.

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% of the shares in Telstra, we will remain subject to various ministerial and other controls to which other publicly 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 Act). 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 chief executive officer 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. We currently have 12 directors. A casual vacancy to the board may be filled or an additional director appointed, up to the maximum number of directors, 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 (i.e. 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 (between 24 hours and 30 working days) following the release of our annual results, the release of our 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. Changes to the interests of directors in our securities are, as required by law, then notified to the ASX.

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.

Corporate Governance and Board Practices

The Corporations Act 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 in a matter.

Meetings and committees of the board

The board normally meets nine times each year for scheduled meetings and on other occasions to 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.
- The members of the Audit Committee are:
    - Elizabeth Nosworthy (Chairman);
    - John Ralph;
    - John Stocker;
    - Malcolm Irving;
    - Robert Mansfield;
    - Ross Adler; and
    - Ziggy Switkowski.
- **Appointments and Compensation Committee** reviews senior manager remuneration and appointments including:
    - recommending the appointment of the chief executive officer to the board; and
    - reviewing and reporting to the board on the proposed remuneration strategy and package for the chief executive officer and senior executives and succession plans for senior executives.
- The members of the Appointments and Compensation Committee are:
    - John Ralph;
    - Robert Mansfield; and
    - Ziggy Switkowski.

Corporate Governance and Board Practices

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. We have 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 any 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 and the value at risk are shown in note 29 to our consolidated financial statements in this annual report.

External auditors

In accordance with the Telstra Act, our Australian auditor is the Auditor-General. Ernst & Young is the Australian sub-contractor to the Auditor-General 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 Auditor-General.

Audit committee charter

The audit committee is a committee of the board of directors whose primary function is to assist the board of directors in its oversight of:

- the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- the provision of advice to the board on the matter of financial statements, due diligence, financial systems integrity and business risks to enable the board to fulfil its fiduciary and stewardship obligations; and
- the establishment and maintenance of processes to ensure that there is:
    - compliance with all applicable laws, regulations and company policy; and
    - an adequate system of internal control, management of business risks and safeguard of assets.

Corporate Governance and Board Practices

These functions are carried out by:

- reviewing the appropriateness of the accounting principles adopted by management in the composition and presentation of financial reports;
- overseeing the financial reports and the results of the external audit of these reports;
- reviewing the external and internal audit and risk management programme and monitoring those results;
- monitoring compliance with a code of conduct covering individual and company ethics that recognises Telstra's business, environmental and statutory responsibilities;
- overseeing the establishment and management of risk limits and tolerances across and within, the business units and operations of Telstra; and
- evaluating the independence of both the non-executive directors and the external auditors.

The function of the audit committee is oversight. The management of the company is responsible for the preparation, presentation and integrity of the company's financial statements. Management is responsible for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out a proper audit of the company's annual financial reports including reviews of the company's six monthly financial reports and other procedures. Each member of the audit committee is entitled to rely on information, or professional or expert advice, given or prepared by:

- an employee of the company whom the member believes on reasonable grounds to be reliable and competent in relation to the matters concerned;
- a professional adviser or expert in relation to matters that the member believes on reasonable grounds to be within the person's professional or expert competence;
- another director or officer of the company in relation to matters within the director's or officer's authority; or
- a committee of directors on which the member did not serve in relation to matters within the committee's authority.

Membership of the committee

The audit committee consists of three or more independent directors as determined by the board in its business judgment. At least one member of the committee must have accounting or related financial management expertise.

Each member of the committee must be:

- independent of the management of the company and free from any relationship that, in the business judgment of the board, would interfere with the exercise of his or her independent judgment as a member of the committee; and
- have a working familiarity with basic finance and accounting practices.

The board elects both the chairman, who will not be the chairman of the company, and the members of the committee and reviews such membership at times considered appropriate by the board.

Corporate Governance and Board Practices

Structure and processes

Meetings

The audit committee meets four times per year or more frequently as circumstances require. The quorum for such meetings is two members of the committee. Any other board member may attend such meetings as he or she wishes. The external auditor attends an audit committee meeting when requested by the audit committee. The committee may ask management and/or others to attend these meetings and provide such input and advice as required.

Information to the audit committee is sent on a continuous basis to audit committee members and copied to other board members, as it becomes available. The chairman of the audit committee must determine, in consultation with management, the external auditor and committee members, the meeting agenda after a review of the material issued and in consideration of other significant events or issues arising. Any board member may require that the committee put a matter on the agenda for consideration.

Relationship with the external auditor

In accordance with section 36 of the Telstra Act and for so long as the Commonwealth of Australia owns more than 50% of the shares in Telstra:

- the auditor of the Telstra group for Australian financial reporting purposes is required by law to be the Auditor-General. The Auditor-General, in consultation with the Telstra audit committee and board, subcontracts this work to an accounting firm; and
- the audit committee and the board appoint the auditor for filings outside Australia.

The Auditor-General, as auditor of Telstra, owes duties to Telstra and its shareholders as a whole. The Auditor-General also owes statutory duties as an independent officer of the Commonwealth Parliament.

The auditor appointed by the Telstra audit committee and board, for filings outside Australia, is ultimately accountable to the board of directors and audit committee.

The audit committee and board of directors have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the external auditor appointed by Telstra for filings outside Australia.

The audit committee must:

- require the external auditor and its subcontractor to:
  - submit on a periodic basis to the audit committee a formal written statement delineating all relationships between the auditor and Telstra. The statement shall include a report of all fees billed for each of the following categories of services rendered by the external auditor:
    - the audit of the company's annual financial reports for the most recent fiscal year and the reviews of the financial statements included in the company's six monthly reports for that fiscal year;
    - IT consulting services for the most recent fiscal year, in the aggregate and by each service (and separately identifying fees for such services relating to financial information systems design and implementation); and
    - all other services rendered by the external auditor for the most recent fiscal year, in the aggregate and by each service,

- actively engage in discussions with the audit committee concerning any disclosed relationships or services that may impact the objectivity and independence of the external auditor and its subcontractor; and
- consider whether the external auditors' provision of:
  - IT consulting services relating to financial information systems design and implementation, and
  - other non-audit services to the company,
    - is compatible with maintaining the independence of the external auditors; and
  - if applicable, shall recommend that the board of directors take appropriate action in response to the external auditors report to satisfy itself of the external auditors' independence.

Recurring processes

The audit committee is required to, on an annual basis:

- review its charter to determine its adequacy for current circumstances and recommend to the board the formal adoption of the revised charter for future operations of the audit committee;
- meet separately with the internal auditor and the external auditor, with and without management, to discuss the results of their audits;
- review with management and the external auditor, the financial report to be included in the annual report including:
  - the external auditors' responsibilities under generally accepted auditing standards;
    - significant accounting policies;
    - management judgments and accounting estimates;
    - adjustments arising from the audit;
  - the external auditors' judgments about the quality, not just the acceptability, of accounting principles as applied in the financial report; and
  - prepare or consider any report or other disclosures to be included in the company's annual report or other communications to shareholders on the relationships between the external auditors and the company.

Continuous disclosure

We have in place a comprehensive continuous disclosure procedure, which we have followed since our securities first became quoted for trading on various stock exchanges in November 1997. We review and update the procedure on a regular basis.

The aim of the procedure is to ensure that we release price-sensitive information in a timely fashion to the various stock exchanges on which our shares and debt securities trade. Our procedure runs as follows:

- ultimate responsibility for continuous disclosure rests with the CEO and the Group Managing Director, Finance and Administration (GMD F&A). All Telstra stock exchange announcements must be first approved by either the CEO or GMD F&A before the announcement is made or disclosure released;

Corporate Governance and Board Practices

- our Continuous Disclosure Committee (Committee), chaired by the Group Managing Director, Legal & Regulatory (GMD L & R)/Group General Counsel, advises the GMD F&A and the CEO on disclosure matters. The Committee runs an internal disclosure system so that information that might be disclosable is internally identified and reviewed quickly. The Committee's membership includes the GMD L&R/Group General Counsel, the Managing Director - Corporate Relations, the General Counsel - Finance & Administration, the Director of Finance, the Director of Legal, the General Manager - Investor Relations Unit and the Company Secretary;
- senior management (including the CEO, all GMDs and their direct reports, all group controllers and all legal and regulatory counsel) must inform the Committee of any potentially price sensitive information or proposal as soon as they become aware of it. This is done quickly and efficiently through the use of an electronic continuous disclosure system. An electronic form containing details of the information is sent to the General Counsel - Finance & Administration, who consults with other members of the Committee including, if necessary, convening a meeting of the Committee to determine whether the matter is disclosable. They may also, if in doubt, consult with external counsel;
- a collective recommendation regarding disclosure is then made to the GMD F&A and the CEO. If the matter is disclosable, an announcement is prepared and sent via the Company Secretary's office electronically or by facsimile to all relevant stock exchanges;
- we implement several practices internally to reinforce the importance of Telstra's continuous disclosure obligations and the need to keep the Committee informed about potentially disclosable matters. These are reviewed regularly and include the following:
  - every director is made aware of our continuous disclosure obligations upon taking office; each member of senior management undertakes training with Telstra's General Counsel, Finance and Administration in relation to Telstra's continuous disclosure obligations;
  - a weekly e-mail is sent to all senior management reminding them to immediately send an electronic continuous disclosure form to the Co-ordinator if they become aware of any potentially price sensitive information or proposals;
  - the Committee maintains a list of issues which, although not yet disclosable, need to be monitored in case they become disclosable;
  - all proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal counsel to see if they raise anything disclosable;
  - an internal policy is in place governing communications with and provision of information to shareholders, brokers, analysts and financial media; and
  - the office of the company secretary maintains a record of all market announcements made. The announcements are also posted on Telstra's web site telstra.com® after market release is confirmed.

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 2001.

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 net profit for the year was A$4,058 million or an increase of 10.4% over the prior year's net profit of A$3,677 million. This was after:

- deducting income tax expense of A$2,236 million (2000: A$1,676 million); and
- allowing for after tax profits of A$3 million attributable to outside equity interests in controlled entities (2000: after tax loss of A$4 million).

Income tax expense is A$56 million (2000: A$172 million) less than would otherwise have been the case due to the lowering of the Australian company income tax rate from 36% in fiscal 2000, to 34% in fiscal 2001 and 30% in future years.

Our earnings per share increased from 28.6 cents per share in fiscal 2000 to 31.5 cents per share in the current year.

Review of operations

During a period of ongoing cost containment, we have continued to focus on areas that will deliver long-term growth for us. For more information, see "Operating and Financial Review and Prospects".

In this year's results we have a number of one off items that include the following:

- the sale of our global wholesale business from 1 February 2001 into our 50% owned joint venture, Reach. We have recognised 50% of our profit on sale in the current year (A$852 million) and the balance of the deferred profit will be credited to profit and loss over the next 20 years. Our share of net profit from Reach for the five months ended 30 June 2001 was A$48 million after taking into account:
  - our share of the net operating profit from Reach of A$80 million;
  - amortisation of deferred profit on sale of our business of A$18 million; reduced by
  - notional goodwill amortisation expense of A$50 million.
- the acquisition from February 2001 of a 60% controlling interest in Joint Venture (Bermuda) No2 Limited (referred to as RWC). The principal business of RWC is the wireless business of Hong Kong CSL. We have consolidated the operating results from RWC from 1 February 2001, and after taking into account the outside equity interests (OEI) of the other shareholder, our net profit was A$3 million for the 5 months ended 30 June 2001. In addition, we have also recognised that there has been a general decline in the value of telecommunications companies over the last year. Based on an independent valuation of our interest in RWC, we have recognised the decline in its value by writing down our investment by A$999 million to A$2,086 million;
- the once off benefit of A$725 million in other revenue arising from the release from our obligations under the Telstra Additional Contributions (TAC) agreement to the superannuation fund;

Directors' report

- the application of more prescriptive rules on revenue recognition to our accounts for both Australian and US reporting purposes. (This instruction on accounting treatment is referred to as US Securities Exchange Commission Staff Accounting Bulletin 101 (or SAB 101).) The main effect for Telstra of the application of SAB 101 has been that all revenue is deferred until either delivery has taken place or the service has been provided. This has resulted in a reduction in profit of A$219 million (or A$145 million after tax) and was mainly due to deferring the recognition of all of our revenue from telephone directories until publication has taken place rather than splitting between sales of commission when the contract was signed with the customer and the balance of the revenue deferred until publication;
- we acquired a controlling interest in Keycorp Limited in late December 2000 and their results have been consolidated in our Group results since 1 January 2001; and
- we have continued to review our investments with some write-downs being taken to account in the current year. Our yearly result also included a profit on sale of investments in Computershare of A$245 million.

Normalised results from operations

We have taken the reported results and adjusted for the once off items that have occurred in both fiscal 2001 and fiscal 2000 so that a like for like comparison of results may be made. This results in an underlying earnings before interest and tax of A$6.4 billion or a 5.5% increase. On the same normalised basis, our sales revenue increased in fiscal 2001 by 3.2% to A$18.9 billion with strong underlying growth in data and internet, mobiles services, basis access and intercarrier revenues. Total underlying revenue (excluding interest) increased by 2.9%.

Through the successful implementation of our ongoing cost reduction programme, the growth in underlying operating expenses (before depreciation, amortisation and interest) was contained to 0.8%. Total underlying expenses (before interest) increased by 1.6% to A$12.8 billion.

Operating capital expenditure reduced by 11.9% to A$4.2 billion, while investments for the period (before the Asian ventures) decreased by A$38 million to A$569 million after the purchase of our 3G spectrum licence for A$302 million.

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.

Dividends

The directors have declared a final dividend for the year ended 30 June 2001 of 11 cents per share (A$1,415 million) fully franked. The tax rate at which the dividend is franked is 30%. The record date for the final dividend will be 21 September 2001 with payment being made on 26 October 2001.

During fiscal 2001, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2000	30 August 2000	27 October 2000	10 cents franked to 100%	A$1,287 million
Interim dividend for the year ended 30 June 2001	7 March 2001	27 April 2001	8 cents franked to 100%	A$1,029 million

Directors' report

Under current legislation, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2002 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 other than:

- the completion of our strategic alliance with Pacific Century CyberWorks (PCCW) on 7 February 2001 in accordance with our 13 October 2000 agreements. The key terms of the alliance with effect from 1 February 2001 were:
  - the establishment of Reach, a 50:50 joint venture entity operating as a provider of voice, data and internet connectivity services in the Asia-Pacific region. Reach was formed through the combination of the sale of our global wholesale businesses and certain wholesale assets together with certain PCCW assets; and
  - the acquisition of a 60% controlling interest in RWC from PCCW; and
  - the purchase of a convertible note from PCCW with a face value of US$750 million. The note is subordinated but is secured by an equitable mortgage over half of PCCW's 50% shareholding in Reach (i.e. 25% of Reach's total shares).

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

Cecilia A Moar, Christopher I Roberts and Stephen W Vizard did not seek re-election and retired from office at the annual general meeting on 17 November 2000. The board thanks the directors for their valuable contribution during their terms of office and welcomes the appointment of new directors.

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 105 to 107;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 163;
- details of directors' shareholdings in Telstra are shown on page 115; and
- details of directors' emoluments are given on page 110.

Senior executive emoluments

This information is provided on pages 113 and 114 and forms part of this report.

Directors' report

Directors' and officers' indemnity

Constitution

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer provided that:

- the liability is not owed to us or a related body corporate;
- the liability is not for a pecuniary penalty or compensation order made by a Court under the Corporations Act; and
- the liability does not arise out of conduct involving a lack of good faith. Our constitution also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in successfully defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as a director of that other company. It is also subject to any corporate policy made by our chief executive officer. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms "officer", "employee" and "outside officer" are defined in our constitution.

Deeds of indemnity in favour of directors, officers and employees

Telstra has also 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 Act).

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.

Directors' report

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 Act. 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.

Robert C Mansfield
Chairman and Director
29 August 2001

Ziggy Switkowski
Chief Executive Officer and Managing Director
29 August 2001

Directors' report

Directors' meetings

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

	Board		Committees			
			Audit		Appointments and Compensation	
	a	b	a	b	a	b
R C Mansfield	19	19	6	6	2	2
J T Ralph	19	16	6	5	2	2
Z E Switkowski [(1)]	19	19	6	6	2	2
N R Adler	19	19	6	5	-	-
S H Chisholm[(2)]	8	8	-	-	-	-
A J Clark	19	16	-	-	-	-
J E Fletcher[(2)]	8	7	-	-	-	-
M G Irving	19	17	6	6	-	-
C B Livingstone[(2)]	8	8	-	-	-	-
D G McGauchie	19	19	-	-	-	-
C A Moar[(3)]	11	11	-	-	-	-
E A Nosworthy	19	19	6	6	-	-
C I Roberts[(3)]	11	10	-	-	-	-
J W Stocker	19	17	6	6	-	-
S W Vizard[(3)]	11	8	-	-	-	-

Column a: number of meetings held while a member.
Column b: number of meetings attended.
(1) *Attended audit committee meetings as chief executive officer.*
(2) *Appointed as a director on 17 November 2000.*
(3) *Retired as a director on 17 November 2000.*

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Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

Financial Report

as at 30 June 2001

Page Number

Financial Statements

Notes to the Financial Statements

This financial report combines the disclosure requirements for both Australian and United States generally accepted accounting principles.

Statement of Financial Performance - Profit and Loss Statement

for the year ended 30 June 2001

		Telstra Group				Telstra Entity	
		Year ended 30 June				Year ended 30 June	
		2001	2001	2000	1999	2001	2000
	Note	$m	US$m	$m	$m	$m	$m
Ordinary activities							
Revenue							
Sales revenue - usual	2	**19,458**	**9,924**	18,609	17,571	**18,290**	17,982
Sales revenue - unusual	2,3(c)	**(779)**	**(397)**	734	-	**(589)**	734
Other revenue - usual	2	**764**	**390**	1,238	649	**1,156**	1,419
Other revenue - unusual	2,3(c)	**3,643**	**1,858**	-	-	**2,981**	-
		23,086	**11,775**	20,581	18,220	**21,838**	20,135
Expenses							
Labour - usual		**3,122**	**1,592**	3,228	3,270	**2,724**	2,975
Labour - unusual	3(c)	**-**	**-**	572	-	**-**	572
Direct cost of sales - usual	3(a)	**3,693**	**1,883**	3,329	3,002	**2,949**	2,857
Direct cost of sales - unusual	3(c)	**(560)**	**(286)**	734	-	**(560)**	734
Depreciation and amortisation	3(a)	**2,871**	**1,464**	2,646	2,502	**2,618**	2,497
Other expenses - usual	3(a)	**3,891**	**1,984**	4,035	3,507	**4,990**	4,507
Other expenses - unusual	3(c)	**2,820**	**1,438**	-	-	**1,551**	-
		15,837	**8,075**	14,544	12,281	**14,272**	14,142
Borrowing costs	3(a)	**769**	**392**	630	578	**815**	625
Share of net losses of associates and joint venture entities	24	**183**	**93**	58	41	**-**	-
		16,789	**8,560**	15,232	12,900	**15,087**	14,767
Profit before income tax expense		**6,297**	**3,215**	5,349	5,320	**6,751**	5,368
Income tax expense	4	**2,292**	**1,169**	1,848	1,832	**2,244**	1,920
Effect of decrease in tax rates on deferred tax balances	4	**(56)**	**(29)**	(172)	-	**(64)**	(195)
Total income tax expense	4	**2,236**	**1,140**	1,676	1,832	**2,180**	1,725
Net profit		**4,061**	**2,075**	3,673	3,488	**4,571**	3,643
Outside equity interests in net profit		**(3)**	**(2)**	4	(2)	**-**	-
Net profit available to Telstra Entity shareholders		**4,058**	**2,073**	3,677	3,486	**4,571**	3,643
Other valuation adjustments to equity							
Net exchange differences on conversion of non-Australian controlled entities' financial statements		**61**	**31**	12	(8)	**-**	-
Share of associated and joint venture entities' reserves		**(33)**	**(17)**	(9)	-	**-**	-
Asset revaluation decrements taken through the reserve		**-**	**-**	(25)	(8)	**-**	(25)
Valuation adjustments available to Telstra Entity shareholders and recognised directly in equity		**28**	**14**	**(22)**	**(16)**	**-**	(25)
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners		**4,086**	**2,087**	3,655	3,470	**4,571**	3,618
		¢	US¢	¢	¢		
Basic and diluted earnings per share (cents)	6	**31.5**	**16.0**	28.6	27.1		
Final dividend per share (cents)	7	**11.0**	**6.0**	10.0	26.0		

The notes following the financial statements form part of the financial report.

Statement of Financial Position - Balance Sheet

as at 30 June 2001

		Telstra Group			Telstra Entity	
		As at 30 June			As at 30 June	
		2001	2001	2000	2001	2000
	Note	$m	US$m	$m	$m	$m
Current assets						
Cash	8	**1,077**	**549**	751	**795**	644
Receivables	9	**4,307**	**2,197**	3,587	**9,911**	3,952
Inventories	10	**320**	**163**	295	**200**	162
Other assets	14	**549**	**280**	256	**524**	246
Total current assets		**6,253**	**3,189**	4,889	**11,430**	5,004
Non current assets						
Receivables	9	**1,803**	**920**	258	**2,003**	483
Inventories	10	**8**	**4**	15	**8**	15
Investments - accounted for using the equity method	11	**1,259**	**642**	450	**33**	70
Investments - other	11	**143**	**73**	435	**3,244**	1,198
Property, plant and equipment	12	**22,803**	**11,630**	22,316	**21,867**	21,831
Future income tax benefit	4	**114**	**58**	111	**-**	-
Intangible assets	13	**3,012**	**1,535**	536	**373**	415
Other assets	14	**2,078**	**1,060**	1,329	**1,885**	1,290
Total non current assets		**31,220**	**15,922**	25,450	**29,413**	25,302
Total assets		**37,473**	**19,111**	30,339	**40,843**	30,306
Current liabilities						
Payables	15	**2,823**	**1,440**	2,528	**2,148**	2,380
Borrowings	16	**2,604**	**1,328**	3,316	**7,433**	3,942
Income tax payable	4	**657**	**335**	527	**622**	506
Provisions	17	**2,067**	**1,054**	2,315	**1,902**	2,172
Revenue received in advance		**1,128**	**575**	735	**904**	720
Total current liabilities		**9,279**	**4,732**	9,421	**13,009**	9,720
Non current liabilities						
Payables	15	**7**	**4**	624	**3**	622
Borrowings	16	**11,386**	**5,807**	6,505	**11,345**	6,470
Income tax payable	4	**91**	**46**	184	**91**	184
Deferred income tax		**1,573**	**802**	737	**1,472**	725
Provisions	17	**959**	**489**	1,162	**769**	913
Revenue received in advance		**456**	**233**	104	**432**	76
Total non current liabilities		**14,472**	**7,381**	9,316	**14,112**	8,990
Total liabilities		**23,751**	**12,113**	18,737	**27,121**	18,710
Net assets		**13,722**	**6,998**	11,602	**13,722**	11,596
Shareholders' equity						
Telstra Entity						
Contributed equity	18	**6,433**	**3,281**	6,433	**6,433**	6,433
Reserves		**11**	**6**	(8)	**277**	277
Retained profits		**6,795**	**3,465**	5,170	**7,012**	4,886
Shareholders' equity available to Telstra Entity shareholders		**13,239**	**6,752**	11,595	**13,722**	11,596
Outside equity interests						
Contributed equity		**490**	**249**	24	**-**	-
Reserves		**33**	**17**	(2)	**-**	-
Accumulated losses		**(40)**	**(20)**	(15)	**-**	-
Total outside equity interests		**483**	**246**	7	**-**	-
Total shareholders' equity		**13,722**	**6,998**	11,602	**13,722**	11,596

Expenditure commitments and contingent liabilities 20,21

The notes following the financial statements form part of the financial report.

Statement of Cash Flows

for the year ended 30 June 2001

		Telstra Group				Telstra Entity	
		Year ended 30 June				Year ended 30 June	
		2001	**2001**	2000	1999	**2001**	2000
	Note	**$m**	**US$m**	$m	$m	**$m**	$m
Cash flows from operating activities							
Receipts from trade and other receivables (inclusive of goods and services tax (GST)) (c)		**21,023**	**10,723**	18,533	17,603	**19,766**	18,759
Payments of accounts payable and to employees (inclusive of GST) (c)		**(11,136)**	**(5,679)**	(10,493)	(9,628)	**(10,355)**	(10,596)
Interest received		**70**	**36**	60	50	**166**	86
Borrowing costs paid		**(813)**	**(415)**	(622)	(558)	**(876)**	(638)
Dividends received		**16**	**8**	16	23	**39**	75
Income taxes paid		**(1,455)**	**(742)**	(947)	(916)	**(1,393)**	(892)
GST remitted to the Australian Taxation Office (ATO)		**(1,106)**	**(564)**	-	-	**(993)**	-
Net cash provided by operating activities (a)		**6,599**	**3,367**	6,547	6,574	**6,354**	6,794
Cash flows from investing activities							
Payments for:							
- property, plant and equipment		**(3,259)**	**(1,662)**	(4,006)	(3,707)	**(3,151)**	(3,904)
- internal use software assets		**(706)**	**(360)**	(577)	(502)	**(571)**	(571)
- patents, trademarks and licences		**(332)**	**(169)**	(101)	(58)	**(4)**	(98)
- deferred expenditure		**(71)**	**(36)**	(21)	(7)	**(14)**	(6)
Capital expenditure (before investments)		**(4,368)**	**(2,227)**	(4,705)	(4,274)	**(3,740)**	(4,579)
- shares in listed securities and shares in other corporations		**(38)**	**(19)**	(263)	(88)	**(20)**	(1)
- shares in controlled entities		**(3,056)**	**(1,559)**	(163)	-	**(2,165)**	(916)
- satellite consortia investments		**-**	**-**	(4)	(2)	**-**	(4)
- investment in joint venture entities		**(131)**	**(67)**	(37)	(22)	**-**	(1)
- investment in associated entities		**(11)**	**(6)**	(131)	-	**-**	(10)
Investment expenditure		**(3,236)**	**(1,651)**	(598)	(112)	**(2,185)**	(932)
Total capital expenditure	5	**(7,604)**	**(3,878)**	(5,303)	(4,386)	**(5,925)**	(5,511)
Proceeds from:							
- sale of listed securities and shares in other corporations		**392**	**200**	129	14	**-**	129
- sale of property, plant and equipment		**288**	**147**	243	246	**287**	240
- sale of business		**528**	**269**	-	50	**524**	139
- sale of patents, trademarks and licences		**14**	**7**	-	-	**14**	-
- sale of shares in controlled entities		**4**	**2**	27	1	**4**	-
- satellite consortia investments		**5**	**3**	1	11	**5**	1
- sale of joint venture entities and operations		**3**	**2**	7	-	**-**	7
Net cash used in investing activities		**(6,370)**	**(3,248)**	(4,896)	(4,064)	**(5,091)**	(4,995)
Cash flows from financing activities							
Proceeds from:							
- borrowings		**23,521**	**11,995**	15,396	8,884	**22,498**	15,452
- Telstra bonds		**-**	**-**	495	-	**-**	495
Repayment of:					-		-
- Telecom/Telstra bonds		**(565)**	**(288)**	(81)	(359)	**(565)**	(81)
- borrowings		**(19,193)**	**(9,789)**	(13,290)	(9,038)	**(19,373)**	(13,503)
- finance leases principal amount		**(14)**	**(7)**	(26)	(169)	**(17)**	(25)
Payments for convertible note		**(1,366)**	**(697)**	-	-	**(1,366)**	-
Employee share loans (net)		**27**	**14**	-	-	**27**	-
Dividends paid		**(2,316)**	**(1,182)**	(4,375)	(1,802)	**(2,316)**	(4,375)
Net cash used in financing activities		**94**	**46**	(1,881)	(2,484)	**(1,112)**	(2,037)
Net increase/(decrease) in cash		**323**	**165**	(230)	26	**151**	(238)
Cash at the beginning of the year		**744**	**379**	974	948	**644**	882
Cash at the end of the year (b)		**1,067**	**544**	744	974	**795**	644

The notes following the financial statements form part of the financial report.

Statement of Cash Flows (continued)

for the year ended 30 June 2001

		Telstra Group				Telstra Entity	
		Year ended 30 June				Year ended 30 June	
	Note	2001 $m	2001 US$m	2000 $m	1999 $m	2001 $m	2000 $m
Cash flow notes							
(a) Reconciliation of net profit to net cash inflows provided by operating activities							
Net profit		**4,061**	**2,075**	3,673	3,488	**4,571**	3,643
Add/(subtract) the following transactions							
Depreciation and amortisation	3(a)	**2,871**	**1,464**	2,646	2,502	**2,618**	2,497
Deferred mobile phone handset subsidies		**(79)**	**(40)**	(174)	-	**(79)**	(174)
Accrued interest on convertible note		**(29)**	**(15)**	-	-	**(29)**	-
Dividends received from associated entities	24	**1**	**1**	4	9	**1**	-
Reduction in value of property, plant and equipment	3(a)	**-**	**-**	-	2	**-**	-
Reduction in value of internal use software assets		**31**	**16**	-	-	**31**	-
(Profit)/loss on sale of controlled entities		**(4)**	**(2)**	(97)	1	**17**	(24)
(Profit) on sale of joint venture and associated entities		**(2)**	**(1)**	(25)	-	**-**	-
(Profit) on sale of listed securities and other corporations		**(266)**	**(136)**	(133)	(11)	**-**	(140)
(Profit) on sale of business		**(852)**	**(435)**	(58)	(33)	**(2,130)**	(87)
Net (profit)/loss on sale of property, plant and equipment	3(a)	**(7)**	**(4)**	(26)	13	**(10)**	(18)
Profit on sale of patents, trademarks and licences	3(a)	**(8)**	**(4)**	-	-	**(11)**	-
Increase in net taxes payable		**781**	**398**	729	915	**770**	463
Stocktake adjustment to property, plant and equipment		**-**	**-**	-	4	**-**	-
Borrowing costs included in the cost of constructed assets	3(a)	**(108)**	**(55)**	(125)	(92)	**(108)**	(125)
Share of joint venture entities' net losses	24	**128**	**65**	51	39	**-**	-
Share of associated entities' net losses/(profits)	24	**55**	**28**	7	2	**-**	-
Loss of value from investment in partnership		**-**	**-**	-	8	**-**	-
Provision for reduction in value of investments	3(a)	**1,065**	**543**	39	(1)	**2,176**	287
Net foreign currency conversion differences		**14**	**7**	(20)	-	**14**	(15)
Removal of additional contributions to the TSS		**(725)**	**(370)**	-	-	**(725)**	-
Decrease in non cash revenue received in advance		**779**	**397**	-	-	**589**	-
Increase in non cash operating deferred expenditure		**(560)**	**(286)**	-	-	**(560)**	-
Movements in operating activity assets and liabilities							
(Increase)/decrease in trade debtors and other debtors		**(464)**	**(236)**	(253)	30	**(407)**	(255)
(Increase)/decrease in inventories		**25**	**13**	(90)	40	**(31)**	(20)
Decrease in deferred expenditure and prepayments		**7**	**4**	13	11	**(29)**	17
Increase/(decrease) in accounts payable and other creditors		**457**	**233**	151	141	**227**	453
Increase/(decrease) in revenue received in advance		**(15)**	**(8)**	-	-	**1**	-
Increase/(decrease) in provisions		**(583)**	**(298)**	232	(486)	**(542)**	292
Movement in foreign currency conversion reserve		**26**	**13**	3	(8)	**-**	-
Net cash inflows from operating activities		**6,599**	**3,367**	6,547	6,574	**6,354**	6,794
(b) Reconciliation of cash							
Cash at the end of the year as shown in the statement of cash flows agrees to the net amount of the following items in the notes to the financial statements:							
Cash	8	**1,077**	**549**	751	979	**795**	644
Bank overdraft	16	**(10)**	**(5)**	(7)	(5)	**-**	-
		1,067	**544**	744	974	**795**	644

The notes following the financial statements form part of the financial report.

Statement of Cash Flows (continued)

for the year ended 30 June 2001

Cash flow notes (continued)

(c) Goods and Services Tax (GST)

Our receipts from trade and other receivables includes estimated GST of $1,999 million collected by us as agent for the ATO. Our payments of accounts payable and to employees include estimated GST payments made by us for goods and services obtained in undertaking both operating and investing activities. GST paid associated with operating activities amounted to $553 million whilst GST paid relating to investing activities amounted to $340 million.

(d) Significant financing and investing activities that involve components of non cash

Property, plant and equipment

Our property, plant and equipment includes borrowing costs of $77 million (2000: $102 million; 1999: $81 million) which have been included in the cost of constructed assets.

We acquired plant and equipment with a fair value of $14 million using finance leases during fiscal 2001 (2000: $23 million; 1999: $Nil). As these acquisitions did not involve cash, they are not reported in the statement of cash flows. Our finance lease liability also includes $3 million (2000: $9 million; 1999: $9 million) relating to non cash, foreign currency revaluations.

Sale and leaseback transactions

During fiscal 2001, we entered into a sale and leaseback of non communications plant, server and mid range IT equipment totalling $110 million. The leaseback entered into is classified as an operating lease, and the revenue received from the sale has directly offset the retirement expense. The cash inflow from this sale is recognised in our proceeds from the sale of property, plant and equipment.

In June 2000 we entered into a sale and leaseback of certain communication plant totalling $463 million. In June 1999 we entered into a similar transaction for $517 million. As the two sale and leasebacks entered into were finance leases, the gains on sale (which were not significant) were deferred and no sales revenue was recognised. Under the terms of the agreements, we prepaid all amounts due under the leases by offsetting them against the sale proceeds. As no cash flows resulted from these transactions they are not reported in the statement of cash flows.

Software assets (Internal use software assets)

Our software assets include borrowing costs of $31 million (2000: $23 million; 1999: $11 million) which have been included in the cost of constructed assets.

(e) Financing facilities

Details of credit standby arrangements and loan facilities are shown in note 16.

(f) Telstra's Asian Ventures

On 7 February 2001, we completed our strategic alliance with Pacific Century CyberWorks Limited (PCCW). The key terms of the strategic alliance remain as announced in our 31 December 2000 Half-Year Financial Report.

Under these arrangements, the following acquisitions and disposals took place with effect from 1 February 2001:

• **Reach Ltd**

Reach Ltd (Reach) was formed through the combination of our international wholesale businesses and certain wholesale assets together with certain PCCW assets. In return for the businesses and assets we contributed, we received net cash of $680 million and a 50% equity interest recorded at $1,727 million, including capitalised acquisition costs. Reach operates as a provider of voice, data and internet connectivity services in the Asia Pacific region.

The businesses we contributed included the global wholesale division of Telstra Corporation Limited and a number of controlled entities as listed below:

Global wholesale divisions
- Global Connect (part thereof)
- Global Wholesale - Australian Point of Presence (PoP)
- Telstra Inc. (part thereof)

Controlled entities
- Telstra Global Networks Limited
- Telstra Japan KK
- Telstra Korea Limited
- Telstra Germany GmbH
- Telstra France SA
- Telstra Singapore Pte Ltd
- Telstra International (HK) Holdings Limited
- Telstra Wholesale Trading Inc.
- Telstra (UK) Limited
- Telstra Global Wholesale (NZ) Limited
- Telstra (Malaysia Holdings) Sdn. Bhd.
- Australian Network Company Pty Ltd

Statement of Cash Flows (continued)

for the year ended 30 June 2001

Cash flow notes (continued)

The carrying amounts of cash, other assets and liabilities contributed (including cash, other assets and liabilities of the above divisions and controlled entities) is presented in the following table:

Assets and liabilities contributed by major class	Year ended 30 June 2001 A$m
Proceeds on disposal	
Cash	680
Issue of shares (excluding associated costs)	1,692
	2,372
Cash	64
Receivables	142
Property, plant and equipment	647
Other assets	87
Payables	(403)
Borrowings	(16)
Provisions	-
Carrying amount of assets contributed	521
Other items	47
Other associated costs (including stamp duty)	100
Book value of businesses and controlled entities contributed to Reach and associated costs 3(c)(ii)(b)	668
Net outflow of cash on contribution	(64)
Net inflow of cash as consideration	680
	616

Further details of our investment in Reach are described later in these financial statements (refer note 24(5)).

• Joint Venture (Bermuda) No. 2 Limited

We acquired a 60% controlling interest in Joint Venture (Bermuda) No. 2 Limited (known as Regional Wireless Company, or RWC). Consideration for this acquisition, which was paid in cash, totalled $3,085 million (including capitalised acquisition costs). RWC operates as a provider of wireless connectivity services in the Asia Pacific region.

The fair value of cash, other assets and liabilities we acquired as a result of the acquisition is presented in the following table:

Assets and liabilities contributed by major class	Year ended 30 June 2001 A$m
Cash	40
Receivables	50
Inventories	14
Property, plant and equipment	430
Identifiable intangible assets	759
Other assets	49
Payables	(198)
Provisions	(103)
Fair value of net assets acquired	1,041
Telstra share of fair value of net assets acquired	625
Goodwill on acquisition	1,461
Write off of acquisition costs	999
	3,085
Inflow of cash on acquisition	40
Outflow of cash on acquisition	3,085

Further details of our investment in RWC are described later in these financial statements, (refer note 23 (12)).

(g) Other acquisitions of businesses

On 12 December 2000, we acquired a 50.94% controlling interest in Keycorp Limited (Keycorp). As consideration, we sold our EFTPOS payments carriage, installation and maintenance business to Keycorp for $426 million. Keycorp's operating results from 12 December 2000 to 31 December 2000 were not considered significant to our group results and we commenced consolidating Keycorp's results from 1 January 2001.

The amount of cash, other assets and liabilities we acquired as a result of obtaining our interest in Keycorp are presented in the following table. This calculation has been based on information from Keycorp's financial report for the year ended 31 December 2000.

Statement of Cash Flows (continued)

for the year ended 30 June 2001

Cash flow notes (continued)

(g) Other acquisitions of businesses (continued)

	Acquisition of controlled entities and businesses Year ended 30 June 2001 A$m
Consideration for acquisition	
Sale of EFTPOS payments carriage, installation and maintenance business	426
Costs of acquisition	12
	438
Less elimination of goodwill (intercompany transaction)	426
	12
Outside equity interest (49.06%)	17
	29
Fair value of assets and liabilities acquired by major class	
Cash held by Keycorp on acquisition	1
Receivables	40
Inventories	29
Investments	20
Property, plant and equipment	5
Identifiable intangible assets	19
Other assets	7
Payables	(37)
Borrowings	(47)
Provisions	(3)
Fair value of net assets acquired	34
Less discount on acquisition	5
	29
Inflow of cash on acquisition	
Cash held by Keycorp on acquisition	1

There were no significant acquisitions of businesses during fiscal 2000 or 1999.

(h) Other disposals of businesses

In fiscal 2000, the cash, other assets and liabilities disposed of related to the sale of Telstra New Zealand and Netlink Limited (as a consolidated group), Modi Telstra Limited, Lawpoint Pty Ltd and the sale of assets to Xantic B.V. (formerly Station 12 B.V.) and are presented in the table below:

	Disposal of controlled entities and businesses Year ended 30 June 2000 A$m
Proceeds on disposal	
Cash	27
Issue of shares	391
	418
Carrying amounts of assets and liabilities disposed of by major class	
Cash net of bank overdrafts held by the entities on disposal	27
Receivables	81
Investments	23
Property, plant and equipment	93
Intangible assets	20
Other assets	3
Payables	(50)
Borrowings	(12)
Provisions	(4)
Net assets disposed	181
Net inflow of cash on disposals	-

Statement of Cash Flows (continued)

for the year ended 30 June 2001

Cash flow notes (continued)

(h) Other disposals of businesses (continued)

In fiscal 2000, we were involved in the following significant transactions that did not involve cash:

- on 6 April 2000 we sold Telstra New Zealand and its wholly owned controlled entity Netlink Limited in exchange for a 50% interest in Telstra Saturn Limited. We received shares valued at A$195 million.
- on 17 May 2000 we sold our 60% interest in our controlled entity Lawpoint Pty Ltd for $26 million in exchange for shares in Solution 6 Holdings Limited; and
- on 15 May 2000 we sold our global satellite business with tangible assets of $75 million (including our investment in INMARSAT HOLDINGS PLC), to Xantic 12 B.V., a joint venture entity, in exchange for shares in Xantic 12 B.V. valued at $170 million (a 35% interest). Cash was not received for this sale and no cash was used to pay for the shares in Xantic 12 B.V.

There were no significant disposals of businesses during fiscal 1999.

The notes following the financial statements form part of the financial report.

Statement of Changes in Shareholders' Equity

for the year ended 30 June 2001

Telstra Group

		Reserves					
	Contributed equity (i) $m	Asset revaluation (ii) $m	Foreign currency conversion (iii) $m	General (iv) $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 30 June 1998	6,433	65	(36)	1	4,570	46	11,079
- change in outside equity interests capital, reserves and retained profits (apart from operating profit after income tax benefit)	-	-	-	-	-	(10)	(10)
- profit after income tax expense/benefit	-	-	-	-	3,486	2	3,488
- reduction in value of property, plant and equipment	-	(8)	-	-	-	-	(8)
- adjustment on conversion of non-Australian controlled entities financial statements	-	-	(8)	-	-	-	(8)
- dividends (Note 7)	-	-	-	-	(4,247)	-	(4,247)
Balance at 30 June 1999	6,433	57	(44)	1	3,809	38	10,294
- change in outside equity interests capital, reserves and retained profits (apart from operating loss after income tax benefit)	-	-	-	-	-	(27)	(27)
- profit/(loss) after income tax expense/benefit	-	-	-	-	3,677	(4)	3,673
- reduction in value of property, plant and equipment	-	(25)	-	-	-	-	(25)
- share of joint venture entities' reserves (equity accounted)	-	-	(9)	-	-	-	(9)
- adjustment on conversion of non-Australian controlled entities financial statements	-	-	12	-	-	-	12
- dividends (Note 7)	-	-	-	-	(2,316)	-	(2,316)
Balance at 30 June 2000	6,433	32	(41)	1	5,170	7	11,602

(continued over page)

The notes following the financial statements form part of the financial report.

Statement of Changes in Shareholders' Equity (continued)

Telstra Group

	Contributed equity (i) $m	Reserves: Asset revaluation (ii) $m	Reserves: Foreign currency conversion (iii) $m	Reserves: General (iv) $m	Retained profits $m	Outside equity interests $m	Total $m
Balance at 30 June 2000	6,433	32	(41)	1	5,170	7	11,602
- change in outside equity interests capital, reserves and retained profits (apart from operating loss after income tax benefit) (v)	-	-	-	-	-	473	473
- profit/(loss) after income tax expense	-	-	-	-	4,058	3	4,061
- reduction in value of property, plant and equipment	-	-	-	-	-	-	-
- share of joint venture entities' and associates reserves (equity accounted)	-	-	(33)	3	-	-	(30)
- adjustment on conversion of non-Australian controlled entities financial statements	-	-	61	-	-	-	61
- transfer of foreign currency conversion reserve on sale of controlled entities	-	-	(12)	-	12	-	-
- dividends (Note 7)	-	-	-	-	(2,445)	-	(2,445)
Balance at 30 June 2001	6,433	32	(25)	4	6,795	483	13,722
Balance at 30 June 2001 US$m	3,281	17	(13)	2	3,465	246	6,998

(i) Refer to note 18 for details of the Telstra Group's contributed equity.

(ii) The asset revaluation reserve was previously used to record revaluations in the value of non current assets. From 1 July 2000, as allowed under AASB 1041, "Revaluation of Non-Current Assets", we have deemed the carrying value of our property, plant and equipment assets (refer to note 12) to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the statement of financial performance (refer note 1.8).

As a consequence of the new standard AASB 1041, we have also discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve is no longer able to be used for distribution to shareholders or for offsetting revaluation decrements due to legal restrictions.

(iii) The foreign currency conversion reserve is used to record exchange differences arising from the conversion of our non-Australian operations' financial statements into Australian dollars. Conversion for operations where entities operate on their own are taken to the foreign currency conversion reserve whilst conversion for those entities that operate with us are taken to the statement of financial performance (refer note 1.3). This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments.

The foreign currency conversion reserve applicable to joint venture and associated entities are shown in note 24.

(iv) The general reserve represents our share of the capital reserve of an associate as a result of equity accounting. The amount of reserves applicable to joint venture and associated entities are shown in note 24.

(v) Refer to statement of cash flows note (f) for further details on this movement.

The notes following the financial statements form part of the financial report.

Statement of Changes in Shareholders' Equity (continued)

for the year ended 30 June 2001

Telstra Entity

	Contributed equity (i) $m	Reserves: Asset revaluation (ii) $m	Retained profits $m	Total $m
Balance at 30 June 1998	6,433	310	4,220	10,963
- profit after income tax expense	-	-	3,586	3,586
- reduction in value of property, plant and equipment	-	(8)	-	(8)
- dividends (Note 7)	-	-	(4,247)	(4,247)
Balance at 30 June 1999	6,433	302	3,559	10,294
- profit after income tax expense	-	-	3,643	3,643
- reduction in value of property, plant and equipment	-	(25)	-	(25)
- dividends (Note 7)	-	-	(2,316)	(2,316)
Balance at 30 June 2000	**6,433**	**277**	**4,886**	**11,596**
- profit after income tax expense	**-**	**-**	**4,571**	**4,571**
- reduction in value of property, plant and equipment	**-**	**-**	**-**	**-**
- dividends (Note 7)	**-**	**-**	**(2,445)**	**(2,445)**
Balance at 30 June 2001	**6,433**	**277**	**7,012**	**13,722**

(i) Refer to note 18 for details of the Telstra Entity's contributed equity.

(ii) The asset revaluation reserve was previously used to record revaluations in the value of non current assets. From 1 July 2000, as allowed under AASB 1041, "Revaluation of Non-Current Assets", we have deemed the carrying value of our property, plant and equipment assets (refer to note 12) to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the statement of financial performance (refer note 1.8).

As a consequence of the new standard AASB 1041, we have also discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve is no longer able to be used for distribution to shareholders or for offsetting revaluation decrements. This is due to utilisation of $245 million by the Telstra Group in 1997 to record a reduction in the value of the broadband network and due to other legal restrictions.

The notes following the financial statements form part of the financial report.

Notes to the Financial Statements

1. Summary of accounting policies

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

Our financial or fiscal year ends on 30 June. Unless we state differently, the following applies:
- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2001 means fiscal 2001 and similarly for other fiscal years.

The main accounting policies we used in preparing the financial report of the Telstra Entity and the Telstra Group are listed below. These are presented to assist your understanding of the financial reports. These accounting policies have been used in previous periods unless a change in accounting policy has been made and brought to your attention.

1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with:
- the Australian Corporations Act 2001;
- Accounting Standards applicable in Australia;
- other authoritative pronouncements of the Australian Accounting Standards Board;
- Urgent Issues Group Consensus Views; and
- Australian generally accepted accounting principles (AGAAP).

We prepared this financial report using historical cost for all assets apart from some categories of investments. Refer note 1.3 for information relating to foreign currency conversion. Cost is the fair value of the consideration given in exchange for assets.

We review the recorded amounts of non-current assets at least every six months to ensure that they do not exceed their recoverable amounts. In assessing recoverable amounts, relevant cash flows are discounted to present value.

We have prepared this financial report using Australian dollars. For convenience of our international readers we show some information in United States dollars and this is clearly highlighted.

In preparing this financial report, we had to make estimates and assumptions that affect:
- the reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities; and
- revenues and expenses for the period.

Actual results could differ from those estimates.

Note 30 contains a reconciliation of the major differences between our financial report prepared under Australian generally accepted accounting principles and those applicable under United States generally accepted accounting principles.

The directors have elected to adopt the following Accounting Standards early for the year ended 30 June 2001:

- AASB 1005: "Segment Reporting";
- AASB 1027: "Earnings per Share";
- AASB 1041: "Revaluation of Non-Current Assets; and
- AASB 1029: "Interim Financial Reporting"

1.2 Preparing the financial report of the Telstra Group

Our consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the financial year and the consolidated results and cash flows for the financial year. The effect of all intergroup transactions and balances are removed in full from our consolidated financial report.

Where we do not control an entity for the whole year, results and cash flows for those entities are only included for that part of the year where control existed.

Our consolidated retained profits include controlled entities' retained profits/accumulated losses since the time they became a controlled entity. Outside equity interests in the results and equity of controlled entities are shown separately in our consolidated statement of financial performance and statement of financial position.

A controlled entity exists where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable that entity to operate with us in achieving our objectives. Our controlled entities are listed in note 23.

1.3 Foreign currency transactions and overseas investments

(a) Transactions

Transactions made using foreign currency are converted into Australian currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at market exchange rates at balance date. Currency conversion gains and losses are included in our profit or loss for the year.

Where we enter into a hedge for a specific expenditure commitment or for the construction of a qualifying asset, currency conversion gains and losses and hedging costs on forward foreign currency contracts are deferred and included with the expenditure commitment or cost of the asset.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.3 Foreign currency transactions and overseas investments (continued)

(a) Transactions (continued)

Where we enter into a hedge for general expenditure commitments or for the construction of a non-qualifying asset, currency conversion gains and losses are recorded in the statement of financial performance in the same period as the currency conversion differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract.

Premiums and discounts on forward exchange contracts arising at the time of entering into the hedge are amortised over the length of the forward exchange contract and included in borrowing costs.

(b) Conversion of non-Australian entities' financial reports

Non-Australian entities that operate with us

Where our non-Australian operations, either directly or indirectly, rely on us financially and operationally, their financial reports are converted to Australian dollars using a method known as the temporal method of accounting.

Under this method:
- monetary statement of financial position items such as cash and receivables are converted into Australian dollars using market exchange rates at balance date;
- non monetary statement of financial position items (including equity at the date of investment) are converted at market exchange rates applicable at the date of the transactions (or at the date of revaluation);
- statements of financial performance are converted into Australian dollars at average exchange rates for the year unless there are significant identifiable transactions which are converted at the exchange rate that existed on the date of the transaction; and
- currency conversion gains and losses are recorded in the statement of financial performance.

Non-Australian entities that operate on their own

Where our non-Australian operations operate independently of us both financially and operationally, their financial reports are converted to Australian dollars using the current rate method of accounting.

Under this method:
- assets and liabilities are converted into Australian dollars using market exchange rates at balance date;
- shareholders' equity at the date of investment is converted into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/losses) are converted at the exchange rates current at the dates of those movements;
- statements of financial performance are converted into Australian dollars at average exchange rates for the year unless there are significant identifiable transactions which are converted at the exchange rate that existed on the date of the transaction; and
- currency conversion gains and losses are recorded in the foreign currency conversion reserve.

1.4 Goods and Services Tax (GST)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

We do not include any estimate for GST in either accrued revenue or accrued expense balances. Our accruals refer to a combination of items some of which will be supported by the issue or receipt of a tax invoice at a later time depending on the nature of the item. In general, no tax invoice has been received or issued at the time the accrual is recorded.

To accord with Urgent Issues Group Abstract 31 - Accounting for Goods and Services Tax (GST), which requires cash flows on a gross basis, we have completed our cash flow statement in the following manner:

- we have derived from our accounting records, the amounts which we have shown in our statement of financial performance and statement of financial position, which are on a net GST basis where the GST is recoverable from the ATO;
- we have estimated the amount of GST that is required to be added to various line items in the cash flow statement by reference to our business activity statements prepared for the ATO; and
- our commitments, refer note 20, are recorded net of GST, except where there is non-recoverable GST.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.5 Insurance

We specifically carry the following types of insurance:
- property;
- fidelity (crime);
- general liability;
- travel/personal accident;
- general third party;
- directors and officers;
- company reimbursement; and
- other insurance from time to time.

For those risks where we have no insurance, any losses are charged to the statement of financial performance in the year in which the loss is reported.

The Telstra Entity and certain Australian wholly owned controlled entities are self insured for workers compensation. Further details are provided in note 1.24(b).

1.6 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars ($m or A$m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998 and issued under Section 341(1) of the Corporations Act 2001.

1.7 United States dollar conversions

This financial report has been prepared using Australian dollars (A$m). For the convenience of readers outside Australia we have converted our statement of financial performance, statement of financial position, statement of cash flows and United States generally accepted accounting principles disclosures from A$ to US$ for fiscal 2001.

These conversions appear under columns headed “US$m” and represent rounded millions of US dollars. The conversion has been made using the noon buying rate in New York City for cable transfers in non-US currencies. This rate is certified for custom purposes by the Federal Reserve Bank of New York. The rate on 30 June 2001 was A$1.00 = US$0.51.

These conversions are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.8 Change in accounting policies

The following accounting policy changes occurred during fiscal 2001.

(a) AASB 1041: "Revaluation of Non-Current Assets"

Australian Accounting Standard AASB 1041: "Revaluation of Non-Current Assets" applied to Telstra from 1 July 2000. Under this standard we have elected to:

- apply the cost basis of recording property, plant and equipment in our financial statements;
- discontinue our policy of revaluing property, plant and equipment upwards; and
- deem all of our revalued property, plant and equipment carrying amounts as at 30 June 2000 to be their cost going forward. This means that the asset revaluation reserve of $32 million is fixed as at 1 July 2000 and writedowns of previously revalued assets may no longer be made through the asset revaluation reserve.

This election had no impact on our financial position, financial performance or cash flows in this financial report. In accordance with our election and the requirements of AASB 1010: "Accounting for the Revaluation of Non-Current Assets", any writedown to recoverable amount that may be required in the future will be charged to the statement of financial performance.

(b) Revenue recognition

It is our policy to prepare our financial statements to satisfy both AGAAP and USGAAP and, in cases where there is no conflict between the two, we ensure that we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements. As a general rule USGAAP tends to be more prescriptive.

The US Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101) has application to us for our USGAAP accounts from 1 July 2000.

SAB101 gives the SEC staff's interpretation of existing accounting principles on the timing of recognition of revenues and associated expenses in the financial statements. As the underlying accounting principles of revenue recognition are the same for both AGAAP and USGAAP, we have applied the more detailed SAB101 guidance to the timing of revenue recognition to both AGAAP and USGAAP financial statements. We accounted for the adoption of SAB101 as a change in accounting principle effective 1 July 2000, and therefore we have not restated prior year financial statements.

The application of SAB101 on the financial statements in the current year has required the following determinations:

- the cumulative effect of SAB101 up to 1 July 2000, as if SAB101 had always applied; and
- the current year effect based on the calculation of the amount of the opening cumulative balance that needs to be recognised in the current year and the amount of new revenue and expenses that require some deferral in recognition until future years.

The major revenue and associated expense items impacted are:

- basic access installation and connection fees for in place and new services;
- up-front mobile phone connection fees;
- commission revenue for our printed directories; and
- on line directories and voice services.

Installation and connection fees

Previously and consistent with industry practice, certain installation and connection fees were recognised on connection of the service. Under SAB101, these installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. For mobile phone connections, this is an average of two years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Any costs in excess of the revenue deferred are recognised immediately.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.8 Change in accounting policies (continued)

(b) Revenue recognition (continued)

Commission revenue for printed directories

Previously, commission revenue for printed directories earned for sale of directory advertising space was recognised on signing of the advertising agreements with customers while the balance of the revenue was deferred until the directories were published. Under SAB101 we have deferred the recognition of all revenue earned for a directory until the directory is published.

On line directories and voice services

Previously, revenue for our on line directories and voice services was recognised when agreements for the service were made with the customer. Revenue for these services is now deferred over the life of service agreements, which is on average one year.

As a result of the change in revenue recognition accounting policy, our net profit after tax for fiscal 2001 has been decreased as follows:

	Telstra Group Year ended 30 June 2001 $m
Sales revenue - unusual	
Cumulative impact of deferring revenue as at 30 June 2000	(777)
Deferral of additional revenues under new policy for year ended 30 June 2001	(410)
Part release of cumulative impact for the year ended 30 June 2001	408
Total sales revenue - unusual impact	(779)
Direct cost of sales	
Cumulative impact of deferring expenses as at 30 June 2000	(573)
Deferral of additional expenses under new policy for year ended 30 June 2001	(191)
Part release of cumulative impact for the year ended 30 June 2001	204
Total direct cost of sales - unusual impact	(560)
Reduction in profit before income tax expense	(219)
Income tax benefit at 34%	74
Reduction in net profit for the year ended 30 June 2001	(145)

The effect on prior years restated net profit was not significant.

Effect on 31 December 2000 Half-Year Statement of Financial Performance from change in accounting policy

The effect on the 31 December 2000 Half-Year Statement of Financial Performance due to the SAB 101 change in accounting is presented as follows:

	Telstra Group Half-Year ended 31 December 2000 $m
Sales revenue - unusual	
Cumulative impact of deferring revenue as at 30 June 2000	(777)
Deferral of additional revenues under new policy for half-year ended 31 December 2000	(214)
Part release of cumulative impact for the half-year ended 31 December 2000	303
Total sales revenue - unusual impact	(688)
Direct cost of sales - unusual	
Cumulative impact of deferring expenses as at 30 June 2000	(573)
Deferral of additional expenses under new policy for half-year ended 31 December 2000	(102)
Part release of cumulative impact for the half-year ended 31 December 2000	102
Total direct cost of sales - unusual impact	(573)
Reduction in profit before income tax expense	(115)
Income tax benefit at 34%	39
Reduction in net profit for half year ended 31 December 2000	(76)

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.8 Change in accounting policies (continued)

The following accounting policy change occurred during fiscal 2000.

(c) 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 was increased as follows:

	Telstra Group and Telstra Entity
	Year ended 30 June
	2000
	$m
Deferral of mobile handset subsidies	255
Less amount charged to direct cost of sales	(81)
Net mobile handset subsidies deferred	174
Tax effect at 36%	(63)
	111

We review the deferred subsidy balance at each reporting date to determine that it is not carried in excess of its recoverable amount.

1.9 Recently issued Accounting Standards to be applied in Australia in future periods

The following is a list of the new and revised Australian Accounting Standards that we will need to apply in future financial reports.

- AASB 1042: "Discontinuing operations" - applicable for financial years ending on or before 30 June 2002
- AASB 1012: "Foreign currency translation" - applicable for financial years ending on or before 30 June 2003
- AASB 1028: "Employee benefits" - applicable for financial years for beginning on or after 1 July 2002
- AASB 1020: "Income taxes" - applicable for financial years ending on or before 30 June 2002

We have not yet determined the potential future impact of the above Australian Accounting Standards.

1.10 Comparative figures

Where necessary, we adjust comparative figures to align with changes in presentation in the current year. Due to the first time application of the following standards:
- AASB 1018: "Statement of Financial Performance";
- AASB 1034: "Financial Report Presentation and Disclosures"; and
- the new standard AASB 1040: "Statement of Financial Position",

we have adjusted comparative figures to correspond with the new presentation and disclosure format.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

Other specific accounting policies

Accounting policies that relate to specific notes to the financial statements appear below.

1.11 Revenue (note 2)

Sales revenue

Refer to note 1.8 for details of changes in our revenue recognition policies. Our categories of sales revenue listed in note 2 are recorded after deducting sales returns, trade allowances, duties and taxes.

(a) Delivery of services

Revenue from the provision of our telecommunications services includes:
- access to retail and wholesale fixed and mobile networks;
- telephone calls; and
- other services and facilities provided such as internet and data.

We record revenue earned from:
- providing access to the network over the period of access provided;
- telephone calls on completion of the call; and
- other services generally at completion, or over the period of service provided.

Installation and connection fees

Installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. For mobile phone connections, this is an average of two years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Any costs in excess of the revenue deferred are recognised immediately.

(b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

(c) Rent of network facilities

We earn rent mainly from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities provided. The revenue is recorded on an accrual basis over the rental period.

(d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract (refer note 1.16 for further information).

(e) Directory services

All of our Yellow Pages® directory advertising revenue is recognised on publication of the directories. Revenue from On line directories and voice services is deferred over the life of service agreements, which is on average one year.

Other revenue

(f) Dividend revenue

We record dividend revenue in the statement of financial performance from the following entities when declared by them:
- controlled entities;
- joint venture entities and associated entities (prior to equity accounting when received by the Telstra Entity); and
- listed investments and other investments.

We record distributions from trusts when we are presently entitled to the distribution.

For our consolidated financial statements, dividends and distributions received from joint venture entities and associated entities are recorded as a reduction of the balance in the investment account. They are not recorded in dividend revenue of the Telstra Group.

(g) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument (total return).

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.11 Revenue (Note 2) (continued)

Other revenue (continued)

(h) Revenue from the sale of non current assets

Revenue from the sale of our non current assets is recorded when all conditions required to complete the sale have been settled and finalised.

(i) Share of associated entities net profits/(losses)

We record our share of the associates' net profits/(losses) by taking up the associates' profit after tax multiplied by our ownership interest after adjusting for:
- amortisation of goodwill;
- deferral and subsequent reversal of unrealised profits after tax arising from transactions and the sale of assets from us to our associates; and
- deferral and subsequent reversal of unrealised profits after tax arising from trading and the sale of assets from our associates to us.

Where:
- we trade with our associates or our associates trade with us; and
- either party records the amount traded as an asset in the statement of financial position; then
- the profit after tax amount that is recorded in the statement of financial position is removed to the extent of our ownership percentage in the associate.

We apply the same accounting treatment for our investments in joint venture entities.

Revenue received in advance

Revenue received in advance consists mainly of revenue from providing access to the fixed and mobile network and directories advertising revenue. This revenue is initially recorded as a liability and then transferred to earned revenue in line with the revenue policies described above.

Accrued revenue

Accrued revenue represents revenue earned that has not been billed to the customer. This revenue is recorded in accordance with the revenue policies described above.

1.12 Income tax (note 4)

We use the liability method to calculate income tax. Income tax is calculated on accounting profit after allowing for permanent differences and is recorded as an expense. Permanent differences are:
- items of revenue or expense that are included in taxable income but will never be included in accounting profit; or
- items of revenue and expense that are included in accounting profit but will never be included in taxable income.

Deferred income tax assets and liabilities are:
- recorded at the tax rates that are expected to apply at the time these items are expected to be used; and
- are based on certain timing differences between the recorded amounts of assets and liabilities for accounting purposes and the recorded amounts used for tax purposes.

We do not record the future income tax benefit relating to tax losses as an asset unless the benefit is virtually certain of being used.

1.13 Cash (note 8)

Cash includes cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not greater than three months.

Bank deposits (including those with an original maturity in excess of three months, which are classified as receivables) are recorded at amounts to be received and interest revenue is recognised on an effective yield to maturity basis.

Bills of exchange and promissory notes (including those with an original maturity in excess of three months, which are classified as receivables) are valued at amortised cost with interest revenue recognised on an effective yield to maturity basis.

Statement of cash flows, cash is shown net of outstanding bank overdrafts. Bank overdrafts are shown in note 16.

1.14 Receivables (note 9)

Trade debtors are recorded at amounts to be received. A provision for doubtful debts is raised based on a general and specific review of outstanding amounts at balance date. Bad debts which have been specifically provided for in previous years are recorded against the provision for doubtful debts (the provision is reduced). In all other cases, bad debts are written off as an expense directly in the statement of financial performance.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.14 Receivables (note 9) (continued)

Employee share loans are carried at the amount advanced to each employee, less after tax dividend repayments and loan repayments. The outstanding principal on these loans is mainly interest free. The current portion of the loan receivable is calculated using estimated loan repayments expected to be received from tax adjusted dividend payments and estimated loan repayments as a result of staff exiting the employee share plans described in note 19.

1.15 Inventories (note 10)

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at cost or if net realisable value is lower than cost, at net realisable value.

We allocate cost to the majority of inventory items on hand at balance date using the weighted average cost basis. For the remaining quantities on hand, actual cost is used.

Current inventories are inventory items held for resale or items to be consumed into the telecommunications network within one year. Non current inventories are items which will be consumed into the telecommunications network after one year.

1.16 Construction contracts (note 10 and note 15)

(a) Valuation

We record construction contracts in progress at cost (net of any provision for foreseeable losses) less progress billings where profits are yet to be recognised.

Cost includes:
- both variable and fixed costs directly related to specific contracts;
- amounts which can be allocated to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

(b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion (refer to note 1.11(d) for more information).

Profits are recognised when:
- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

Progress billings are deducted from the construction work in progress balance and recorded in current inventories (refer note 10). Where progress billings exceed the balance of construction work in progress balance the net amount is shown as a current liability within other creditors.

1.17 Investments (note 11)

(a) Controlled entities

Our investments in controlled entities are valued at cost less any amount provided for permanent reduction in the investment value.

(b) Equity method of accounting

Our investments in associated entities and joint venture entities are accounted for using the equity method of accounting. Equity accounting adjustments are only recorded in the Telstra Group financial statements, except for partnerships, which are also recorded in the Telstra Entity financial statements. For the Telstra Entity we record equity accounted investments (other than partnerships) at cost less any amount provided for permanent reduction in the value of the investment.

For equity accounting we adjust the initial recorded amount of the investment for our share of:
- net profits or losses after tax since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses and adjustments to asset values;
- notional goodwill amortisation;
- any dividends or distributions received; and
- deferred profit brought to account.

Our share of all of these items, apart from dividends or distributions received and reserves, is recorded in the statement of financial performance.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.17 Investments (note 11) (continued)

(b) Equity method of accounting (continued)

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not start again until our share of profits and reserves exceeds the cumulative prior year share of losses and reserve reductions.

We also assess the recoverable amount of our equity accounted investments. Where the equity accounted amount of an investment has been reduced to recoverable amount, we only reverse reductions to the extent the new recoverable amount at balance date exceeds the carrying amount at that date.

Where we contribute or sell businesses or assets to a joint venture entity or associate in which we retain an ownership interest, a portion of the profit arising on contribution or sale is deferred. The amount deferred is determined with reference to our ownership percentage in the joint venture entity or associate. The deferred amount is released to the statement of financial performance through the equity accounted results over a period consistent with the utilisation of the underlying assets.

(c) Joint venture entities

A joint venture entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions.

(i) Joint venture entities that are partnerships

Our interest in partnerships (joint venture entities) is measured by applying the equity method of accounting in both the Telstra Group's and Telstra Entity's financial report. This involves adjusting the cost of the investment by our share of the partnership profit or loss. Our share of partnership profit or loss is calculated by multiplying the partnership profit or loss by our ownership interest and this amount is recorded in the statement of financial performance. Any goodwill that exists on acquisition of an interest in a partnership is amortised over the expected period of benefit. The amortisation is recorded in the share of joint venture profits and losses line in the statement of financial performance. This period is subject to a maximum of 20 years from the date of acquisition.

(ii) Joint venture entities that are not partnerships

The Telstra Entity uses the cost method of accounting for joint venture entities that are not partnerships and the Telstra Group records the equity accounted entries as described in note 1.17(b).

Any goodwill that exists on acquisition of an interest in a joint venture entity that is not a partnership is amortised over the expected period of benefit. The amortisation is recorded in the share of joint venture profits and losses line in the statement of financial performance. This period is subject to a maximum of 20 years from the date of acquisition.

(d) Joint venture operations

A joint venture operation means a contractual arrangement (that is not a joint venture entity) whereby two or more parties undertake an economic activity which is governed by joint control. This usually involves the shared use of assets. Joint control involves the contractually agreed sharing of control where two or more parties must consent to all major decisions. Where the investment is significant, we record assets and liabilities relating to our share in each asset and liability used in the joint venture operation (refer property, plant and equipment accounting policies note 1.18(a). We record expenses based on our percentage interest in the joint venture. We record revenue from the sale or use of our share of the output as described in our revenue policy (refer note 1.11(a)).

(e) Associated entities

Where we hold an interest in the equity of an entity and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. The Telstra Entity uses the cost method of accounting for associated entities and the Telstra Group records the equity accounted entries as described in note 1.17(b).

Any goodwill that arises on acquisition of an interest in an associated entity is amortised over the expected period of benefit. The amortisation is included in the share of associates profits and losses line in the statement of financial performance. This period is subject to a maximum of 20 years from the date of acquisition.

(f) Satellite consortium investment

Our participation in the INTELSAT satellite consortium is recorded as an investment. This investment is made in US dollars. INTELSAT's value is based on our share of INTELSAT's net assets at balance date, converted to Australian currency at the exchange rate at balance date. Any gain or loss is taken to the statement of financial performance.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.17 Investments (note 11) (continued)

(f) Satellite consortium investment (continued)

The main activity of the INTELSAT satellite consortium investment is the provision of satellite capacity to equity members and external customers. Our ownership interest in the INTELSAT satellite consortium investment at 30 June 2001 was 1.71% (2000: 1.71%).

(g) Listed securities and investments in other corporations

Listed securities and investments in other corporations are valued at cost less any amount provided for permanent reduction in their value.

For our disclosure, net fair values of investments are calculated on the following bases:

(i) For listed securities traded in an organised financial market we use the current quoted market bid price at balance date; and
(ii) For investments in unlisted securities not traded in an organised financial market, we record these at cost. Where the investment cost is greater than its recoverable amount the investment value is reduced to recoverable amount. Fair value is determined by reference to the net assets of the unlisted security.

1.18 Property, plant and equipment (note 12)

(a) Acquisition and disposal

Items of property, plant and equipment are recorded at cost and depreciated as described in note 1.18(c) below. The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- borrowing costs up to the date the asset is installed ready for use.

Our weighted average capitalisation interest rate for borrowing costs for fiscal 2001 was 7.9% (2000: 8.4%; 1999: 8.93%). Interest revenue is not deducted in the calculation of borrowing costs included in the cost of constructed assets when those borrowings are not for a specific asset.

Joint venture operations - undersea cables

In fiscal 2000 we participated in a number of undersea cable joint venture operations with other telecommunication companies. Our ownership in these undersea cables varied from less than 1% to 93.6% depending on the particular cable. Our interest in these cables was recorded at cost and was included as part of our "Communication assets". The cables were depreciated as described in note 1.18(c) below.

During fiscal 2001, our interests in these consortium operations were sold to Reach, and as a result are no longer included as part of our "Communication assets":

	Telstra Group	
	As at 30 June	
	2001	2000
	$m	$m
Telstra's interest in undersea cable communication assets		
Cost	-	861
Accumulated depreciation	-	(452)
Net book value	-	409

(b) Revaluation

We obtain valuations of all our land and buildings at least once every three years, or more frequently if necessary, to accord with the note disclosure requirements in AASB 1040. From 1 July 2000, we no longer revalue our property, plant and equipment. Refer to note 1.8 for details of this change in accounting policy from 1 July 2000. In accordance with the requirements of new accounting standard AASB 1041 "Revaluation of non-current assets", any notional increase in book value as a result of the triennial valuation will be disclosed in a note to the accounts but not booked.

We reduce the value of our property, plant and equipment to its recoverable amount where our carrying amount is greater than recoverable amount.

The profit or loss on disposal of assets written down to recoverable amount is calculated as the difference between the carrying amount of the asset at the time of disposal, and the revenue received on disposal. This is included in the statement of financial performance in the year of disposal.

The effect of capital gains tax has not been taken into account in calculating the revalued amounts of property, plant and equipment.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.18 Property, plant and equipment (continued)

(c) Depreciation and amortisation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated or amortised on a straight line basis over their estimated service lives to us. We start depreciating or amortising the assets when they are installed and ready for use. The service lives of our significant items of property, plant and equipment are listed below:

Property, plant and equipment	Telstra Group As at 30 June 2001 Service life (years)	2000 Service life (years)
Buildings - general purpose	**55**	55
- fitout	**10-21**	10 - 21
Communication assets		
Buildings - network	**55**	55
- fitout	**15- 25**	15 - 25
Customer premises equipment	**3 - 8**	3 - 8
Transmission equipment	**7- 16**	10 - 16
Switching equipment	**3-10**	3 - 10
Cables	**9 - 25**	9 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**30**	25
Other communications plant	**4 - 18**	4 - 18
Other assets		
Leasehold plant and equipment	**9**	10
Other plant, equipment and motor vehicles	**3 - 12**	4 - 15

We apply a unit method of accounting to assets where it is practical and feasible and in line with commercial practice.

A group method of accounting is adopted for certain communication assets. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained.

The service lives and residual values (where applicable) of all assets are reviewed each year.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network (CAN). We charge the cost of repairs and maintenance, including the cost of replacing minor items which are not substantial improvements to operating expenses.

1.19 Leased plant and equipment (note 12)

(a) Where we are the lessee

We account for leases in accordance with Accounting Standard AASB 1008 "Leases". We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits. Where we acquire non-current assets by using a finance lease, the present value of future minimum lease payments are recorded as non-current assets at the beginning of the lease term. These are amortised on a straight line basis over the shorter of the lease term or the expected useful life of the assets to us. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred. Operating lease rental expense is disclosed in note 3(a).

Where we lease properties, costs of improvements to these properties are recorded as a non current asset and amortised over the lower of the useful life of the property or the term of the lease.

1.20 Intangible assets (note 13)

Intangible assets are assets that have value but do not have physical characteristics.

(a) Goodwill

When we pay an amount greater than the fair value of the identifiable net assets of an entity, this excess is recorded as goodwill. We calculate the amount of goodwill at the date of purchasing our ownership interest in the entity.

For the purchase of a controlled entity, the amount of goodwill is recorded in intangible assets. Goodwill is amortised on a straight line basis over the period of expected benefit. This period is subject to a maximum of 20 years from the date of gaining control. The carrying amount of goodwill is reviewed annually and adjusted to the extent that future benefits are not considered probable. The weighted average goodwill amortisation period for fiscal 2001 was 19 years (2000: 6 years).

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.20 Intangible assets (note 13) (continued)

(a) Goodwill (continued)

We continually assess whether changes have occurred that would require revision of the remaining estimated useful life of goodwill, or whether changes will render the goodwill not recoverable. If such circumstances arise, the recoverable amount of goodwill is determined based on estimates on the discounted value of expected future cash flows of the business. Market interest rates and discount rates are considered when calculating discounted cash flows.

We also calculate goodwill when we acquire joint venture entities and associated entities. However, for these entities the goodwill amount is included as part of the cost of the investment and not shown separately as intangible assets. The amortisation of this goodwill is shown as part of the share of net profit/(loss) of joint venture entities and associated entities net profits line in the statement of financial performance. Refer to note 1.17 for information regarding goodwill for joint venture entities and associated entities.

(b) Identifiable intangible assets

Identifiable intangible assets include patents, trademarks, brand names, customer bases, and licences (including network and business software and spectrum licences). Where the costs spent on such assets have a benefit or relationship to more than one accounting period, these costs are deferred and amortised on a straight line basis over the period of expected benefit, which averages 12 years for fiscal 2001 (2000: 13 years). The recoverable amounts of identifiable intangible assets are reviewed annually and the carrying amount is adjusted down where considered necessary.

1.21 Other assets (note 14)

(a) Research and development costs

Research and development costs are recorded as an expense as incurred.

(b) Deferred expenditure

Deferred expenditure for fiscal 2001 mainly includes upfront payments for basic access installation and connection fees for in place and new services, and loan flotation costs. In fiscal 2000, deferred expenditure predominantly included up front payments for international cable systems. These were sold to Reach Ltd in fiscal 2001.

Significant items of expenditure:
- are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity; and
- cannot be deferred if they only relate to revenue which has already been recorded.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. This period is a weighted average of 5 years for fiscal 2001 (2000: 10 years). Each year we also review expenditure deferred in previous periods to determine the amount (if any) that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is written off as an expense in the statement of financial performance.

(c) Software assets developed for internal use

We record direct costs associated with the development of network and business software for internal use as software assets. These amounts are recorded as software assets where project success is regarded as probable.

Costs included in software assets developed for internal use are:
- external direct costs of materials and services consumed;
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project; and
- borrowing costs incurred while developing the software.

Software assets developed for internal use are amortised on a straight line basis over their useful lives to us, generally 5 years (2000: 5 years). Amortisation starts once the software is ready for use.

1.22 Payables (note 15)

Accounts payable, including accruals, are recorded when we are required to make future payments as a result of a purchase of assets or services.

1.23 Borrowings (note 16)

Bills of exchange and promissory notes are recorded as borrowings when issued at the amount of the net proceeds received. They are carried at amortised cost until the liabilities are fully settled. Interest is recorded as an expense on a yield to maturity basis.

Bank loans are carried at cost.

Telecom/Telstra bonds are carried at cost or adjusted cost. Adjusted cost is the face value of debt adjusted for any unamortised premium or discount. Interest is calculated on a yield to maturity basis. Bonds repurchased are cancelled against the original liability and any gains or losses are recorded in the statement of financial performance as borrowing costs.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.23 Borrowings (note 16) (continued)

Other loans are carried at cost, or adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the statement of financial performance.

Other loans include Australian dollar loans and foreign currency loans. They also include the net (receivable)/payable on currency swaps entered into to hedge these borrowings. A description of the objectives and significant terms and conditions relating to cross currency swaps used to hedge the foreign currency loans is detailed in note 29.

1.24 Provisions (note 17)

(a) Employee entitlements

We accrue liabilities for employee entitlements to wages and salaries, annual leave and other current employee entitlements at actual amounts to be paid. These are calculated on the basis of current wage and salary rates and include related on costs.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to an extended leave of absence of three months (or more depending on the actual length of employment). This leave of absence is called long service leave and is included in other employee entitlements.

We accrue liabilities for other employee entitlements not expected to be paid or settled within twelve months of balance date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of ten years. For fiscal 2001, this rate was 4.0% (2000: 4.0%). We calculate present values using appropriate rates based on government guaranteed securities with similar due dates to our liabilities. The weighted average discount rate (before tax) used for fiscal 2001 was 6.04% (2000: 6.17%).

(b) Workers' compensation

The Telstra Entity and a controlled entity self insure their workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on government guaranteed securities with similar due dates (refer note 1.24(a) above). The majority of our controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

1.25 Superannuation (note 22)

Defined benefit funds

For funding purposes actuarial valuations are required to be performed at least every three years. In prior years if there has been a shortfall in the net market value of scheme assets when compared to members' vested entitlements, we have provided for the amount to the extent that a present obligation exists to rectify the financial position of the schemes.

Accumulation schemes

Our commitment to accumulation type benefits is limited to making the contributions specified in the trust deed.

All superannuation schemes

Contributions to employee superannuation schemes are recorded as an expense in the statement of financial performance as the contributions become payable.

1.26 Derivative financial instruments (note 29)

Gains and losses on derivatives are accounted for on the same basis as the underlying physical transactions. Therefore, hedge gains and losses are recorded in the statement of financial performance when the gains or losses arising from the related physical exposures are recorded in the statement of financial performance.

The foreign exchange gains and losses on the principal value of the cross currency swaps are recorded in the statement of financial performance using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

We account for our interest rate swaps and cross currency swaps that hedge an underlying physical exposure using the accrual method of accounting.

Interest receivable and payable under the terms of the interest rate swaps and cross currency swaps are accrued over the period to which the payments or receipts relate. The interest receivable and payable under the swaps is recorded as part of our borrowing costs. Changes to the underlying market value of the remaining interest rate swap and cross currency swap payments and receipts are not recorded in the financial statements.

Notes to the Financial Statements (continued)

1. Summary of accounting policies (continued)

1.26 Derivative financial instruments (note 29) (continued)

Gains and losses on futures contracts are deferred and amortised over the life of the underlying hedged asset or liability.

Forward foreign exchange contracts are accounted for as outlined in note 1.3(a). Gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions are deferred and recognised when the anticipated future transaction occurs.

Net fair values of interest rate swaps, cross currency swaps and forward exchange contracts are calculated at prices based on amounts quoted on Reuters to close out existing contracts (both favourable and unfavourable). Net fair values of interest rate futures are determined at a price equal to the mid point between the last bid and the last offer price quoted on the Sydney Futures Exchange at 30 June.

Notes to the Financial Statements (continued)

	Note	Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2001	2000	1999	**2001**	2000
		$m	$m	$m	**$m**	$m
2. Revenue						
Our revenue from ordinary operating activities (including both usual and unusual items) is made up of revenue from the following activities:						
Sales revenue						
Delivery of services (1.11(a))	3(c)	**14,693**	15,096	14,530	**14,300**	15,037
Sale of goods (1.11(b))		**416**	371	370	**244**	360
Rent of network facilities (1.11(c))		**2,355**	1,876	1,537	**2,374**	1,818
Construction contracts (1.11(d))	3(c)	**272**	879	56	**7**	738
Directory services (1.11(e))		**943**	1,121	1,078	**776**	763
		18,679	19,343	17,571	**17,701**	18,716
Other revenue						
Dividend revenue (1.11(f))						
- controlled entities	27	**-**	-	-	**23**	63
- associated entities	27	**-**	-	-	**-**	4
- other entities		**16**	12	13	**16**	12
		16	12	13	**39**	79
Interest revenue (1.11(g))						
- controlled entities	27	**-**	-	-	**97**	34
- associated entities	27	**2**	2	1	**2**	2
- other entities		**101**	60	48	**95**	52
		103	62	49	**194**	88
Revenue from the sale of non current assets (1.11(h))						
- property, plant and equipment		**288**	243	246	**287**	240
- investments in controlled entities		**120**	248	-	**4**	26
- investments in joint venture entities		**5**	-	-	**-**	170
- investments in associated entities		**-**	25	-	**-**	-
- investments in listed entities and other corporations	3(c)	**603**	177	15	**-**	179
- patents, trademarks and licences		**14**	-	-	**14**	-
- businesses		**2,273**	149	69	**2,682**	288
		3,303	842	330	**2,987**	903
Other sources of revenue						
Rent from property and motor vehicles (1.11(c))		**39**	61	54	**39**	61
Writeback of Telstra Superannuation Scheme additional contribution liability	3(c)	**725**	-	-	**725**	-
Other revenue	3(c)	**221**	261	203	**153**	288
		985	322	257	**917**	349
		4,407	1,238	649	**4,137**	1,419
Total revenue from ordinary activities		**23,086**	20,581	18,220	**21,838**	20,135

Notes to the Financial Statements (continued)

	Note	Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2001	2000	1999	2001	2000
		$m	$m	$m	$m	$m
3. Profit from ordinary activities						
(a) Our profit before income tax expense (including both usual and unusual items) has been calculated after charging/(crediting) the following items:						
Direct cost of sales						
Included in our direct cost of sales and relating to sale of goods is:						
Cost of goods sold		555	475	468	325	461
Labour						
Included in our labour expenses is:						
Ownership based remuneration schemes		5	3	-	5	3
Depreciation and amortisation						
Depreciation of:						
- general purpose buildings		41	43	42	41	43
- communication assets		2,189	2,067	1,990	2,062	1,956
- other plant, equipment and motor vehicles		156	233	258	140	219
		2,386	2,343	2,290	2,243	2,218
Amortisation of:						
- assets under finance lease		8	12	21	5	11
- patents, trademarks and licences		55	42	35	43	41
- brand names		5	-	-	-	-
- customer bases		34	-	-	-	-
- goodwill		43	20	13	-	-
- leasehold improvements		31	29	27	31	28
- deferred expenditure		12	7	7	4	7
- software assets		297	193	109	292	192
		485	303	212	375	279
		2,871	2,646	2,502	2,618	2,497
Other operating expenses						
Net book value of assets we have sold:						
- property, plant and equipment		281	217	259	277	222
- investments in controlled entities		116	151	-	21	2
- investments in joint venture entities		3	-	-	-	170
- investments in listed securities and other corporations	3(c)	337	44	13	-	39
- patents, trademarks and licences		6	-	-	3	-
- businesses		1,421	91	36	552	201
Total net book value of assets sold		2,164	503	308	853	634
Rental expense on operating leases		496	403	264	403	381
Reduction in value of property, plant and equipment		-	-	2	-	-
Reduction in value of capitalised software		31	-	-	31	-
Bad debts written off - trade debtors		159	191	182	142	181
Movement in provisions - increase/(decrease):						
- doubtful debts - trade debtors		(9)	-	69	(11)	(16)
- reduction in value of inventories (finished goods)		(21)	(6)	1	(21)	(5)
- reduction in value of investments		1,065	39	(1)	2,176	287
- other provisions		-	(19)	-	-	-
Net foreign currency conversion losses/(gains)		(25)	5	6	(18)	3
Auditors' fees	3(b)	4	4	6	3	3
Other operating expenses		2,847	2,915	2,670	2,983	3,039
		6,711	4,035	3,507	6,541	4,507

Notes to the Financial Statements (continued)

		Telstra Group			Telstra Entity	
		Year ended 30 June			Year ended 30 June	
		2001	2000	1999	**2001**	2000
		$m	$m	$m	**$m**	$m
3. Profit from ordinary activities (continued)						
(a) Our operating profit before income tax (including both usual and unusual items) has been calculated after charging/(crediting) the following items (continued):						
Borrowing costs						
- controlled entities	27	**-**	-	-	**66**	27
- joint venture and associated entities	27	**-**	-	1	**-**	-
- other entities		**875**	754	660	**857**	723
- finance charges relating to finance leases		**2**	1	9	**-**	-
		877	755	670	**923**	750
- borrowing costs included in the cost of constructed assets		**(108)**	(125)	(92)	**(108)**	(125)
		769	630	578	**815**	625
Other disclosures						
Research and development expenses (before crediting any grants)		**29**	29	34	**28**	29
Movement in provisions - increase/(decrease):						
- employee entitlements		**29**	62	62	**25**	59
- workers' compensation		**(21)**	(8)	(1)	**(21)**	(8)
Net (profit)/loss we have made on the sale of:						
- property, plant and equipment		**(7)**	(26)	13	**(10)**	(18)
- investments in controlled entities		**(4)**	(97)	-	**17**	(24)
- investments in joint venture entities		**(2)**	-	-	**-**	-
- investments in associated entities		**-**	(25)	-	**-**	-
- investments in listed entities and other corporations	3(c)	**(266)**	(133)	(2)	**-**	(140)
- patents, trademarks and licences		**(8)**	-	-	**(11)**	-
- businesses		**(852)**	(58)	(33)	**(2,130)**	(87)
(b) Auditors' fees						
The Australian statutory auditor of the Telstra Entity has charged the following amounts for:						
Auditing and reviewing the financial reports (i)		**3.257**	3.208	4.325	**3.347**	2.703
Other services (i)		**0.101**	0.268	0.733	**-**	0.268
Auditors other than the Australian statutory auditor have charged the following amounts for:						
Auditing and reviewing the financial reports		**1.041**	0.915	0.616	**-**	-
Total auditors' fees		**4**	4	6	**3**	3

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

(b) Auditors' fees (continued)

(i) Our Australian statutory auditor is the Australian National Audit Office (ANAO). The audit and other services provided by the ANAO have been subcontracted to Ernst & Young (EY) from fiscal 2000. PricewaterhouseCoopers (PwC) was subcontracted by the ANAO to complete the audit of our 30 June 1999 financial statements.

In addition to auditing and assurance activities, other services have been provided by both EY and PwC in their own right as follows:

- EY during fiscal 2001 - $4.820 million;
- EY during fiscal 2000 - $12.936 million (a); and
- PwC during fiscal 1999 - $18.762 million.

(a) Of this amount, $1.724 million related to contracts awarded prior to EY's appointment as ANAO sub-contractor.

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

(c) Unusual items

The following items form part of the ordinary operations of our business but are considered unusual due to their nature and amount.

Profit before income tax expense has been calculated after charging/(crediting) unusual revenue and expense items from our ordinary activities as follows:

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Unusual revenue items:					
Sales revenue - unusual					
- revenue recognition accounting policy change (i)	**779**	-	-	**589**	-
- revenue from JORN contract (v)	**-**	(734)	-	**-**	(734)
	779	(734)	-	**589**	(734)
Other revenue - unusual					
- sale of global wholesale business and controlled entities to Reach Ltd (ii)	**(2,372)**	-	-	**(2,256)**	-
- writeback of Telstra Superannuation Scheme additional contribution liability (iii)	**(725)**	-	-	**(725)**	-
- sale of our investment in Computershare Limited (iv)	**(546)**	-	-	**-**	-
	(3,643)	-	-	**(2,981)**	-
Total unusual revenue items	**(2,864)**	(734)	-	**(2,392)**	(734)
Unusual expense items:					
Labour - unusual					
- redundancy and restructuring provision (vi)	**-**	572	-	**-**	572
	-	572	-	**-**	572
Direct cost of sales - unusual					
- revenue recognition accounting policy change (i)	**(560)**	-	-	**(560)**	-
- expenses in performing obligations under JORN contract (v)	**-**	734	-	**-**	734
	(560)	734	-	**(560)**	734
Other expenses - unusual					
- book value and deferred profit on the sale of our global wholesale business and controlled entities to Reach Ltd (ii)	**1,520**	-	-	**552**	-
- book value of sale of our investment in Computershare Limited (iv)	**301**	-	-	**-**	-
- writeoff of acquisition costs (ii)	**999**	-	-	**999**	-
	2,820	-	-	**1,551**	-
Total unusual expense items	**2,260**	1,306	-	**991**	1,306
Net unusual items	**(604)**	572	-	**(1,401)**	572
Income tax expense/(benefit)	**209**	(206)	-	**237**	(206)
Net unusual items after income tax expense	**(395)**	366	-	**(1,164)**	366

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

(c) Unusual items (continued)

(i) Revenue recognition

Refer to note 1.8 (b).

(ii) Telstra's Asian Ventures

As described earlier in these financial statements, on 7 February 2001 we completed our strategic alliance with PCCW. Under these arrangements, the following unusual items have been recognised in the statement of financial performance:

Reach Ltd

	Year ended 30 June 2001 $m
Unusual revenue items (a).	2,372

(a) Sale of global wholesale business and controlled entities to Reach Ltd

This item represents the fair value of the total consideration received for the divisions and controlled entities of Telstra contributed to Reach Ltd.

	Year ended 30 June 2001 $m
Unusual expense items (b).	1,520

(b) Book value of the sale of our global wholesale business and controlled entities to Reach Ltd.

This item represents the book value of the divisions and controlled entities of Telstra that were contributed to Reach (including associated costs) together with the effect of the deferral of the unrealised profit (after tax), and is calculated as follows:

	Year ended 30 June 2001 $m
Book value of businesses and controlled entities contributed to Reach and associated costs .	668
Deferral of unrealised profit before tax	852
Total	1,520

Profit is considered to be unrealised to the extent that we retain an ownership interest in Reach. The amount deferred is brought to account in the statement of financial performance (through the share of net losses of associates and joint venture entities) on a straight line basis over a period of 20 years.

RWC

	Year ended 30 June 2001 $m
Unusual expense items (a)	999

(a) Write-off of acquisition costs

This item represents the value of acquisition costs written-off as a result of our acquisition of 60% of Joint Venture (Bermuda) No. 2 Limited. This item forms part of the reduction in value of the investments in note 3(a).

Net unusual items - Telstra's Asian Ventures

The net once-off unusual items recognised as a result of Telstra's Asian ventures is $147 million loss before tax.

(iii) On 29 August 2000 the trustee of the Telstra Superannuation Scheme (TSS) and the Commonwealth (who guaranteed our payments) released us from our obligation to contribute $121 million per annum to the TSS to 30 June 2011. As part of the terms of the release, we have agreed to provide such future employer contributions to the TSS as may be required to maintain the vested benefits index (VBI - the ratio of fund assets to members vested benefits) in the range of 100-110%.

The removal of our obligation reduced the assets of the TSS and resulted in the VBI of the defined benefit divisions reducing from approximately 167% at 30 June 2000 to approximately 147% as at 30 June 2001.

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 us, will maintain the solvency level of the TSS at a satisfactory level.

We anticipate that the surplus in the TSS will continue and no employer contributions will be required in the current year or in fiscal 2002 and 2003 assuming the continued sound performance of the TSS.

Notes to the Financial Statements (continued)

3. Profit from ordinary activities (continued)

(c) Unusual items (continued)

(iii) continued

The net present value of our commitment to the TSS was shown as a liability on our statement of financial position as at 30 June 2000. This liability has been written back to the statement of financial performance in the year ended 30 June 2001 and has increased our result as follows:

	Year ended 30 June 2001 $m
Writeback of TSS additional contribution liability	725
Tax effect at 34%	(247)
	478

Our interest expense associated with the TSS liability in the current period was $nil (2000: $89 million). Interest expense arose from the difference between the actual amount of payments we were required to make and the recorded amount of these discounted commitments. No interest expense was incurred in the year ended 30 June 2001 due to the release of our obligations to the TSS.

(iv) During the year we sold our investment in Computershare Limited (Computershare) in two tranches. On 13 July 2000, our controlled entity, Telstra CB.com Limited, sold 53.3 million ordinary shares in Computershare at $7.25 per share, representing 10% of the issued capital. Revenue received from this sale was approximately $386 million.

On 26 June 2001, Telstra CB.com.Limited sold the remaining balance of 26.6 million shares at $6 per share resulting in revenue of $160 million.

The profit on the sale of this investment was $245 million before tax, as shown in the following table:

	Year ended 30 June 2001 $m
Revenue from sale of Computershare	546
Book value of investment in Computershare sold.	(301)
	245
Tax effect at 34%	(83)
	162

In fiscal 2000, we recorded the following abnormal items. Due to a change in Australian accounting standards, abnormal items are no longer applicable. Any item previously classified in the prior year as an abnormal has been restated in accordance with the format of the current year financial statements.

(v) 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 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 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. For comparative purposes they have been recognised as an unusual item in the statement of financial performance. There is no amount charged for income tax expense.

(vi) The redundancy and restructuring unusual item of $572 million before tax in fiscal 2000 consisted of two components:

- $86 million relating to amounts paid to 1,374 staff made redundant from 1 March 2000 to 30 June 2000; and
- A provision of $486 million raised in the financial statements relating to 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.

Notes to the Financial Statements (continued)

4. Income tax expense

	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Notional income tax expense on profit agrees to actual income tax expense recorded as follows:					
Profit before income tax expense	**6,297**	5,349	5,320	**6,751**	5,368
Australian statutory rate of taxation	**34%**	36%	36%	**34%**	36%
Notional income tax expense on profit calculated at 34% (2000: 36%, 1999: 36%)	**2,141**	1,926	1,915	**2,295**	1,932
Which is adjusted by the tax effect of:					
Lower rates of tax on overseas income	**(23)**	(18)	(9)	**-**	-
Research and development concessions	**(12)**	(8)	(29)	**(9)**	(4)
Share of associates' and joint venture entities' net losses/(profits)	**49**	3	1	**-**	-
Profit on sale of property, plant and equipment	**(355)**	(14)	(12)	**(790)**	(14)
Non deductible depreciation and amortisation	**16**	11	(19)	**-**	(2)
Reduction in the value of investments	**362**	14	-	**740**	102
Rebateable dividends (non taxed dividends)	**-**	(16)	(21)	**(8)**	(24)
Assessable foreign source income not included in accounting profit	**29**	-	-	**-**	-
Under/(Over) provision of tax in prior years	**6**	(30)	(9)	**(5)**	(28)
Other adjustments	**79**	(20)	15	**21**	(42)
Income tax expense on profit	**2,292**	1,848	1,832	**2,244**	1,920
Effect of decrease in tax rates on deferred tax balances (i)	**(56)**	(172)	-	**(64)**	(195)
Income tax expense	**2,236**	1,676	1,832	**2,180**	1,725
Our income tax expense contains the following items:					
Current taxation provision	**1,475**	1,169	967	**1,438**	1,482
Movement in future income tax benefit	**(3)**	255	421	**-**	-
Movement in deferred income tax liability	**758**	282	453	**747**	271
Under/(Over) provision of tax in prior years	**6**	(30)	(9)	**(5)**	(28)
	2,236	1,676	1,832	**2,180**	1,725
Future income tax benefits as at 30 June that we have not recorded in the statement of financial position for:					
Income tax losses (ii)	**1**	1	47	**-**	-
Capital losses	**-**	-	37	**-**	-
	1	1	84	**-**	-

(i) During fiscal 2000 the Commonwealth lowered the income tax rates applicable to companies from 36% to 30% in two stages. From 1 July 2000 the income tax rates were lowered from 36% to 34%. From 1 July 2001 the income tax rate has been lowered from 34% to 30%. As a result we have restated our deferred tax balance to the rates applicable when the timing differences are expected to reverse. This has had the effect of lowering our deferred tax balances by $56 million (2000: $172 million) for the group and $64 million (2000: $195 million) for the Telstra Entity.

Notes to the Financial Statements (continued)

4. Income tax expense (continued)

(ii) Our benefit for tax losses may be used in future years if the following criteria are met:

(a) our controlled entities have sufficient future assessable income to enable the tax losses to be offset against the assessable income or if the tax losses can be transferred to one of our other eligible controlled entities;

(b) our controlled entities continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and

(c) there are no future changes in tax legislation that will adversely affect us in using the tax losses benefit.

Our future income tax benefit (recorded on the statement of financial position) contains the following tax losses carried forward:

	Telstra Group		
	As at 30 June		
	2001	2000	1999
	$m	$m	$m
Future income tax benefit balance	**114**	111	366
Amount of future income tax benefit related to tax losses carried forward	**2**	4	157

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Income tax payable				
Current				
Income tax payable (iii)	**657**	527	**622**	506
Non current				
Income tax payable (iii)	**91**	184	**91**	184

(iii) Under the Pay-as-you-go transitional rules, we opted to pay part of the final instalment of income tax for fiscal 2000 over 10 equal quarterly instalments to 30 June 2003. As a result we have classified $91 million, representing 4 of these instalments as non current.

Notes to the Financial Statements (continued)

5. Segment information

We report our segment information on the basis of business segments as our risks and returns are affected predominantly by differences in the products and services we provide through those segments.

Business segments

We announced a new business structure in the second half of the financial year ended 30 June 2000 that was effective for reporting purposes from 1 July 2000. In March 2001 we also announced the formation of Telstra International to consolidate our international interests. The comparative amounts for fiscal 2000 and 1999 have been changed to reflect the structure in place for fiscal 2001. Our business units under this structure are described below:

- ***Telstra Retail's*** primary activities are sales and billing. It is responsible for around 5.8 million Australian customers. This covers residential, business and government customers who receive our services, other than wholesale services (which are provided by Infrastructure Services & Wholesale), mobile services (which are provided by Telstra OnAir), and those customers included in Telstra Country Wide. The business unit:
  - manages our information, connection and payphone services as well as our directories business; and
  - 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.
- ***Telstra Country Wide*** is responsible for:
  - addressing the telecommunication needs of around 3 million consumer and business customers that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory; and
  - the specific needs of customers which are not as readily addressed as for customers in metropolitan areas.
- ***Telstra OnAir*** is responsible for:
  - our mobile and wireless networks and associated systems within Australia; and
  - all mobile retail sales and after sales support, customer service, product development and pricing.
- ***Telstra International*** manages our interests in:
  - the Asia-Pacific region, including our Asian ventures and operations in Vietnam, India, Singapore, New Zealand, Japan and Sri Lanka; and
  - our North American and European retail operations.
- ***Infrastructure Services & Wholesale's*** responsibilities include:
  - planning, design, construction and operation of our domestic fixed communication networks and associated systems to deliver technology solutions, our products, services and customer support;
  - customer service installation and repairs; and
  - provision of domestic wholesale products and services to other carriers and carriage service providers.
- ***Network Design and Construction Limited***:
  - competes for some of our annual network expenditure against other suppliers, and also performs construction activities for others, including other telecommunications companies.
- ***Corporate Centre*** is responsible for:
  - finance & administration, legal & regulatory, human resources, and corporate relations.

Telstra Country Wide and Telstra Retail have been combined as a single reportable business segment for reconciliation and disclosure purposes as they are considered substantially similar. Network Design and Construction and Corporate Centre are not reportable segments and have been aggregated in the "Other" segment.

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 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.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	Telstra Retail (a)(b) $m	Telstra OnAir (c)(d) $m	Telstra Interna-tional (e) $m	Infrastruc-ture Services & Wholesale $m	Other (f) $m	Elimina-tions $m	Total of all segments $m
Year ended 30 June 2001							
Segment revenue							
Sales revenue from external customers	11,558	3,145	1,265	2,437	264	10	18,679
Other revenue from external customers	2	13	33	174	1,089	(24)	1,287
Inter-segment revenue	321	195	288	5,895	2,511	(9,210)	-
Total segment revenue	11,881	3,353	1,586	8,506	3,864	(9,224)	19,966
Revenue from sales of investments, dividends and interest	551	-	2,465	-	104	-	3,120
Total revenue from external customers	12,432	3,353	4,051	8,506	3,968	(9,224)	23,086
Segment result	3,553	771	(933)	1,528	408	678	6,005
Share of joint venture entities net (losses)	(35)	-	(93)	-	-	-	(128)
Share of associated entities net (losses)	(52)	-	(3)	-	-	-	(55)
Net book value of investments sold	(297)	-	(1,573)	(4)	-	(2)	(1,876)
Revenue from sales of investments and dividends	551	-	2,465	-	1	-	3,017
Profit before interest and income tax expense	3,720	771	(137)	1,524	409	676	6,963
Segment result has been calculated after charging/(crediting) the following:							
Depreciation and amortisation	149	344	190	1,962	230	(4)	2,871
Non cash expenses excluding depreciation and amortisation	(138)	(99)	2,559	144	154	1	2,621
Property, plant and equipment and other non-current assets acquired	311	728	3,215	3,122	275	(47)	7,604
As at 30 June 2001							
Segment assets*	26,422	3,066	2,629	21,823	(11,993)	(4,474)	37,473
Segment assets include the following:							
Investment in joint venture entities	53	-	1,139	-	-	-	1,192
Investment in associated entities	53	-	14	-	-	-	67
Segment liabilities*	2,763	221	597	1,751	23,567	(5,148)	23,751

(a) Unusual revenue of $546 million from the sale of Computershare Limited (refer note 3(c)) is included in Telstra Retail revenue. This increased profit by $245 million.

(b) Telstra Retail segment revenue was reduced by $745 million relating to the unusual SAB101 cumulative adjustment (refer note 3(c)). This unusual item decreased the segment result by $205 million.

(c) Telstra OnAir segment revenue was reduced by $34 million relating to the unusual SAB101 cumulative adjustment (refer note 3(c)). This unusual item decreased the segment result by $14 million.

(d) In fiscal 2000 we changed our accounting policy associated with the treatment of mobile handset subsidies (refer note 1.8). This increased the segment result in fiscal 2001 by $79 million.

(e) Telstra International total revenue includes an unusual item of $2,372 million from the sale of our global wholesale business to Reach. Profit includes unusual expenses relating to the book value of our global wholesale business and controlled entities sold of $1,520 million and the RWC write off of acquisition costs of $999 million (refer note 3(c)).

(f) Unusual revenue of $725 million from the writeback of the Telstra Superannuation Scheme additional contribution liability (refer note 3(c)) is included in other segment revenue. This increased the other segment result by $725 million.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	Telstra Retail $m	Telstra OnAir (a) $m	Telstra Interna-tional $m	Infrastruc-ture Services & Wholesale $m	Other (b) (c) $m	Elimina-tions $m	Total of all segments $m
Year ended 30 June 2000							
Segment revenue							
Sales revenue from external customers	12,451	3,002	1,183	1,799	878	30	19,343
Other revenue from external customers	120	10	11	39	383	2	565
Inter-segment revenue	350	188	300	6,158	2,702	(9,698)	-
Total segment revenue	12,921	3,200	1,494	7,996	3,963	(9,666)	19,908
Revenue from sales of investments, dividends and interest	73	-	519	7	213	(139)	673
Total revenue from external customers	12,994	3,200	2,013	8,003	4,176	(9,805)	20,581
Segment result	4,084	761	120	900	(270)	55	5,650
Share of joint venture entities net (losses)	(39)	-	(12)	-	-	-	(51)
Share of associated entities net (losses)	-	-	(3)	-	-	(4)	(7)
Net book value of investments sold	(20)	-	(259)	(6)	(138)	137	(286)
Revenue from sales of investments and dividends	73	-	519	7	151	(139)	611
Profit before interest and income tax expense	4,098	761	365	901	(257)	49	5,917
Segment result has been calculated after charging/(crediting) the following:							
Depreciation and amortisation	145	354	91	1,795	261	-	2,646
Non cash expenses excluding depreciation and amortisation	42	(174)	283	24	444	(255)	364
Property, plant and equipment and other non-current assets acquired	236	818	154	3,507	608	(20)	5,303
As at 30 June 2000							
Segment assets*	19,882	2,257	2,288	21,744	(14,665)	(1,167)	30,339
Segment assets include the following:							
Investment in joint venture entities	42	-	242	-	-	-	284
Investment in associated entities	152	-	14	-	-	-	166
Segment liabilities*	1,780	199	489	1,910	15,735	(1,376)	18,737

(a) In fiscal 2000 we changed our accounting policy associated with the treatment of mobile handset subsidies (refer note 1.8). This increased the segment result for Telstra OnAir in fiscal 2000 by $174 million.

(b) Other segment revenue includes a $734 million unusual item relating to the JORN contact (refer note 3(c)). This unusual item has a $nil impact on segment result in fiscal 2000 due to related expenses of $734 million in performing obligations under the JORN contract.

(c) Unusual expense of $572 million related to redundancy and restructuring provision (refer note 3(c)) decreased the other segment result in fiscal 2000.

Notes to the Financial Statements (continued)

5. Segment information (continued)

Telstra Group

	Telstra Retail $m	Telstra OnAir $m	Telstra International $m	Infrastructure Services & Wholesale $m	Other $m	Eliminations $m	Total of all segments $m
Year ended 30 June 1999							
Segment revenue							
Sales revenue from external customers	12,308	2,656	1,176	1,390	7	34	17,571
Other revenue from external customers	113	2	12	32	344	-	503
Inter-segment revenue	343	180	277	5,903	1,502	(8,205)	-
Total segment revenue	12,764	2,838	1,465	7,325	1,853	(8,171)	18,074
Revenue from sales of investments, dividends and interest	86	-	44	1	34	(19)	146
Total revenue from external customers	12,850	2,838	1,509	7,326	1,887	(8,190)	18,220
Segment result	4,021	477	158	685	429	72	5,842
Share of joint venture entities net (losses)	(39)	-	-	-	-	-	(39)
Share of associated entities net (losses)	(6)	-	-	-	-	4	(2)
Net book value of investments sold	(36)	-	(29)	(2)	(1)	19	(49)
Revenue from sales of investments and dividends	86	-	44	1	(15)	(19)	97
Profit before interest and income tax expense	4,026	477	173	684	413	76	5,849
Segment result has been calculated after charging/(crediting) the following:							
Depreciation and amortisation	145	408	78	1,644	227	-	2,502
Non cash expenses excluding depreciation and amortisation	41	-	18	21	323	(82)	321
Property, plant and equipment and other non-current assets acquired	151	698	56	2,995	491	(5)	4,386
As at 30 June 1999							
Segment assets*	15,751	1,483	1,933	20,953	(12,052)	(386)	27,682
Segment assets include the following:							
Investment in joint venture entities	48	-	1	-	-	-	49
Investment in associated entities	16	-	-	-	-	4	20
Segment liabilities*	1,763	185	466	2,049	13,612	(687)	17,388

Notes to the Financial Statements (continued)

5. Segment information (continued)

	Note	Telstra Group		
		Year ended/As at 30 June		
		2001	2000	1999
		$m	$m	$m
Reconciliation of total of all segments to our profit before income tax expense and net profit				
Profit before interest and income tax expense				
Total of all segments		**6,963**	5,917	5,849
Add interest revenue		**103**	62	49
Less borrowing costs		**(769)**	(630)	(578)
Profit before income tax expense		**6,297**	5,349	5,320
Income tax expense		**2,236**	1,676	1,832
Net profit		**4,061**	3,673	3,488

* Segment assets and segment liabilities are those assets and liabilities which form part the operating activities of a segment and can be allocated directly to that segment. The segment assets of the "Other" segment include the cashflow funding requirements of the four disclosed operating business segments.

	Note	2001 $m	2000 $m	1999 $m
Information about our products and services				
Sales revenue from				
Basic access		**2,361**	2,005	1,855
Local calls		**2,143**	2,646	2,727
Fixed to fixed		**1,267**	1,406	1,485
Fixed to mobile		**1,287**	1,220	1,290
International telephone services		**786**	972	1,103
Mobile telecommunication services		**2,940**	2,667	2,321
Mobile handsets		**215**	326	312
Data, text and internet services		**3,143**	2,841	2,483
Directory services		**1,148**	1,122	1,077
Customer premises equipment		**287**	336	368
Intercarrier services		**1,168**	828	617
Inbound calling products		**434**	433	400
Solutions management		**306**	235	183
Other sales and services		**1,973**	1,572	1,350
Sales revenue - unusual	2,3(c)	**(779)**	734	-
	2	**18,679**	19,343	17,571
Information about our geographic operations				
Sales revenue from				
Customers in Australia		**17,414**	18,160	16,395
Customers in non Australian countries		**1,265**	1,183	1,176
	2	**18,679**	19,343	17,571
Carrying amount of segment assets				
Customers in Australia		**34,844**	28,051	25,749
Customers in non Australian countries		**2,629**	2,288	1,933
		37,473	30,339	27,682
Property, plant and equipment and intangible assets acquired				
Located in Australia		**4,389**	5,149	4,330
Located in non Australian countries		**3,215**	154	56
		7,604	5,303	4,386

Notes to the Financial Statements (continued)

6. Earnings per share

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	¢	¢	¢
Basic earnings per share (cents) (a)(c)	**31.5**	28.6	27.1
Diluted earnings per share is the same as basic earnings per share.			
		Number (millions)	
Weighted average number of issued ordinary shares used in the calculation of basic earnings per share (b)	**12,867**	12,867	12,867

(a) Change in accounting policy

The change in accounting policy for the introduction of SAB 101 during fiscal 2001 is described in note 1.8. This change had the effect of decreasing earnings per share calculations by 1.1 cents to 31.5 cents.

In fiscal 2000, we had a change in accounting policy relating to mobile phone subsidies which is also described in note 1.8. This had the effect of increasing the earnings per share calculations by 0.9 of a cent to 28.6 cents.

(b) The number of issued and paid up ordinary shares is 12,866,600,200.

(c) Earnings used in calculation of earnings per share:

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	$m	$m	$m
Earnings	**4,058**	3,677	3,486

Notes to the Financial Statements (continued)

	Note	Telstra Group Year ended 30 June 2001 $m	2000 $m	1999 $m	Telstra Entity Year ended 30 June 2001 $m	2000 $m
7. Dividends						
Ordinary shares						
Interim dividend paid		**1,029**	1,029	901	**1,029**	1,029
Final dividend						
- ordinary dividend provided for or paid		**1,416**	1,287	1,287	**1,416**	1,287
- special dividend paid		**-**	-	2,059	**-**	-
Total final dividend provided for or paid	17	**1,416**	1,287	3,346	**1,416**	1,287
		2,445	2,316	4,247	**2,445**	2,316

Dividends per share (cents)	2001 ¢	2000 ¢	1999 ¢
Interim dividend	**8.0**	8.0	7.0
Final dividend			
- ordinary dividend	**11.0**	10.0	10.0
- special dividend	**-**	-	16.0
Total final dividend	**11.0**	10.0	26.0
Total	**19.0**	18.0	33.0

Our dividends provided for or paid are fully franked, in aggregate and per share, to the same amount in the relevant tables above, apart from:

	Telstra Group ¢ per share	$m
30 June 2000		
Interim dividend		
Franked	3.9	506
Unfranked	4.1	523
Total interim dividend	8.0	1,029
30 June 1999		
Special dividend		
Unfranked	16.0	2,059
Total special dividend	16.0	2,059

We have paid dividends as listed in the table below:

	Telstra Group Year ended 30 June 2001 $m	2000 $m	1999 $m
Dividends paid			
Interim dividend	**1,029**	1,029	901
Previous year final ordinary dividend paid in the current year	**1,287**	1,287	901
Previous year final special dividend paid in the current year	**-**	2,059	-
Total dividends	**2,316**	4,375	1,802

The final dividend for fiscal 2001 is due to be paid on 26 October 2001.

Notes to the Financial Statements (continued)

7. Dividends (continued)

Our dividends have been franked as listed in the table below:

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	%	%	%
C class franking credit percentages			
Interim dividend (i)	**100**	49.17	100
Final ordinary dividend (i)	**100**	100	(ii) 100
Final special dividend	**-**	-	(ii) -

(i) The tax rate at which the fiscal 2001 final ordinary dividend will be franked is 30% (2000: 34%; 1999: 36%). The tax rate at which other franked dividends were franked was 34% (2000: 36%; 1999: 36%).

(ii) If the fiscal 1999 final ordinary and final special dividends are combined, this produces a C class franking percentage of 38.46%.

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	Telstra Group			Telstra Entity	
	Year ended 30 June			Year ended 30 June	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
The combined amount of exempting and franking credits available to us for the next fiscal year are:					
Combined exempting and franking account balance as at 30 June	**645**	74	223	**466**	-
Franking credits that will arise from the payment of income tax payable as at 30 June	**1,620**	1,439	896	**1,664**	1,412
Franking debits that will arise when we pay our final dividend provided for as at 30 June (iii)	**(1,416)**	(1,287)	(1,287)	**(1,416)**	(1,287)
Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year	**(153)**	(14)	(16)	**-**	-
	696	212	(184)	**714**	125

(iii) Franking credits that will arise from the payment of income tax in fiscal 2002 are expressed at the 30% tax rate. Franking credits for the fiscal 2001 disclosure including those that arose during fiscal 2001 from the payment of income tax are also expressed at the 30% tax rate (refer note 4 for further information). Franking credits for fiscal 2000 are expressed at the 34% tax rate (1999: 36%).

As at 30 June 2001 the Telstra Entity had a surplus in its C class franking account of $466 million (2000: deficit of $141 million; 1999: deficit of $158 million) and a surplus of $0.2 million (2000: $141 million; 1999: $158 million) in its C class exempting credit account. The Commonwealth Treasurer exercised his discretion in fiscal 2001 to convert $141 million (2000: $158 million) C class exempting credits to C class franking credits.

Additional franking credits will arise when the Telstra Entity and its Australian controlled entities pay tax instalments during fiscal 2002 relating to the fiscal 2002 income tax year.

Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

8. Cash

Cash at bank and on hand	**201**	193	**102**	87
Bank deposits, bills of exchange and promissory notes (a)	**876**	558	**693**	557
	1,077	751	**795**	644

(a) Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and promissory notes is approximately equal to net fair value due to their short term to maturity.

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m

9. Receivables

Current					
Trade debtors (a)		**2,799**	2,467	**1,893**	1,779
Provision for doubtful debts		**(192)**	(227)	**(137)**	(198)
		2,607	2,240	**1,756**	1,581
Accrued revenue		**1,055**	1,010	**1,002**	929
Bank deposits, bills of exchange and promissory notes (b)		**409**	193	**409**	191
Share loans to employees (c)	19,27	**37**	69	**37**	69
Amounts owed by controlled entities (other than trade debtors)	27	**-**	-	**6,665**	1,113
Loans to joint venture entities and associated entities		**34**	34	**34**	34
Other receivables		**165**	41	**8**	35
		4,307	3,587	**9,911**	3,952
Non current					
Bank deposits and bills of exchange (b)		**8**	15	**6**	11
Share loans to employees (c)	19,27	**233**	228	**233**	228
Amounts owed by controlled entities (other than trade debtors)	27	**-**	-	**227**	229
Convertible note issued by PCCW (d)		**1,496**	-	**1,496**	-
Other receivables (e)		**66**	15	**41**	15
		1,803	258	**2,003**	483

(a) Our policy requires trade debtors to pay us within 14 days. We have no significant exposure to any individual customer, geographical location or industry category. All credit and recovery risk associated with trade debtors has been provided for in the financial statements. The carrying amount of trade debtors is approximately equal to net fair value.

(b) Bank deposits, bills of exchange and promissory notes as at 30 June 2001 include $5 million current (2000: $14 million) and $6 million non current (2000: $12 million) Japanese yen deposits. These relate to our Japanese finance lease liabilities and are held to satisfy our requirements under the leases. The carrying amount of bank deposits, bills of exchange and promissory notes with an original maturity date over three months and less than one year and the non current amounts are approximately equal to net fair value.

Notes to the Financial Statements (continued)

9. Receivables (continued)

(c) Share loans to employees represent amounts receivable from employees under all employee share plans. Refer to note 19 for details regarding the share plans. The carrying amount of share loans to employees is approximately equal to net fair value. The loan balance that relates to TESOP99 is fully recoverable over the period of the employee share scheme.

(d) On 7 February 2001, Pacific Century CyberWorks (PCCW) issued a convertible note to us for US$750 million (A$1,366 million). The term of the convertible note is 6 years with an interest coupon of 5% for the first four years and 7% for the remaining two years. We may request redemption of up to US$375 million after four years. The conversion price for the convertible note is HK$6.886 per PCCW ordinary share. We have been granted security, including relevant safeguards, over half of PCCW's 50% shareholding in Reach. Included in the balance at 30 June 2001 is the original cost of the note, together with accrued interest and the impact of foreign currency conversion.

(e) Included in Other receivables is an amount of $41 million (2000: $14 million) receivable from Telstra Growthshare (the senior executive equity participation scheme). Refer to note 19 for further information on Telstra Growthshare.

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m
10. Inventories					
Current					
Raw materials and stores recorded at cost		**49**	10	**18**	10
Construction contracts (a) (1.16)		**62**	69	**-**	-
Finished goods recorded at cost		**156**	171	**129**	107
Finished goods recorded at net realisable value		**53**	45	**53**	45
Total finished goods		**209**	216	**182**	152
		320	295	**200**	162
Non current					
Finished goods recorded at cost		**3**	-	**3**	-
Finished goods recorded at net realisable value		**5**	15	**5**	15
		8	15	**8**	15
(a) Construction contract disclosures are shown in the table below.					
Gross amount of construction work in progress		**280**	121	**-**	-
Profits recognised to date		**4**	9	**-**	-
		284	130	**-**	-
Progress billings and advances received (i)		**(222)**	(61)	**-**	-
		62	69	**-**	-
Advances received (included in accounts payable)		**7**	-	**7**	-
(i) Includes progress billings billed but not received at balance date (included in trade debtors)		**-**	37	**-**	-

Notes to the Financial Statements (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m

11. Investments

Investments - accounted for using the equity method

	Note	2001 $m	2000 $m	2001 $m	2000 $m
Investment in joint venture entities (a) (b) (1.17(b)) (1.17(c))	24	**1,192**	284	**3**	3
Investment in associated entities (a) (b) (c) (1.17(b)) (1.17(e))	24	**67**	166	**30**	67
		1,259	450	**33**	70

Investments - other non current

	Note	2001 $m	2000 $m	2001 $m	2000 $m
Listed securities					
Investment in listed corporations (at cost)		**86**	323	**38**	11
Provision for reduction in value		**(26)**	-	**(12)**	-
Total listed securities excluding investment in associated entity (d) (1.17(g))	11 (i)	**60**	323	**26**	11
Unlisted securities and other investments					
Investment in controlled entities (at cost) (1.17(a))	23	**-**	-	**7,708**	3,551
Provision for reduction in value (1.17(a))		**-**	-	**(4,553)**	(2,415)
		-	-	**3,155**	1,136
Investment in other corporations (at cost) (a)		**60**	64	**19**	2
Provision for reduction in value (a)		**(37)**	(3)	**(16)**	(2)
		23	61	**3**	-
Satellite consortium investment (a) (1.17(f))					
INTELSAT		**60**	51	**60**	51
		143	435	**3,244**	1,198

(a) The net fair value of these investments is approximately equal to their carrying amounts.

(b) The carrying value of our investments in the Telstra Entity are at cost less any provision for reduction in value.

(c) Our associated entity, Solution 6 Holdings Limited is a listed entity. Its equity accounted value at 30 June 2001 was $34 million (2000: $103 million) and is recorded as part of the total investment in associated entities. Its net fair value at 30 June 2001 was $34 million (market price excluding transaction disposal costs) (2000: $103 million).

(d) The net fair value of our listed securities excluding our listed associate, Solution 6 Holdings Limited, as at 30 June 2001 was $476 million (2000: $1,213 million) excluding transaction disposal costs.

Notes to the Financial Statements (continued)

11. Investments (continued)

Listed securities and investments in other corporations are shown as follows:

Name of investment	Principal activities	Ownership interest As at 30 June 2001 %	Ownership interest As at 30 June 2000 %	Telstra Group's recorded amount of investment (*) As at 30 June 2001 $m	Telstra Group's recorded amount of investment (*) As at 30 June 2000 $m	Telstra Entity's recorded amount of investment (*) As at 30 June 2001 $m	Telstra Entity's recorded amount of investment (*) As at 30 June 2000 $m
(i) Listed securities							
Computershare Limited (a) .	Operation of computer bureau, share registries and provision of related software	-	15.01	-	292	-	-
SMS Management and Technology Limited (formerly Sausage Software Limited)	Software development, internet development and eCommerce solutions	**4.87**	4.94	**6**	20	**-**	-
Infonet Services Corporation	International communications and computing services	**5.3**	5.3	**11**	11	**11**	11
Commander Communications Ltd	Voice and data transmission services	**16.62**	-	**18**	-	**16**	-
New Skies Satellites, N.V. (b)	Provision of satellite capacity	**1.39**	-	**21**	-	**-**	-
Other listed investments . . .		**-**	-	**4**	-	**-**	-
				60	323	**27**	11
(ii) Investments in other corporations							
New Skies Satellites, N.V. (b)	Provision of satellite capacity	**-**	1.81	**-**	21	**-**	-
Extant Inc..	Data transport and clearing house	**-**	17.12	**-**	35	**-**	-
corProcure Pty Ltd	Horizontal open market exchange services	**16.74**	-	**6**	-	**-**	-
CPI Card Group	Manufacture and sale of financial magnetic stripe cards.	**10.0**	-	**9**	-	**-**	-
Other investments.				**8**	5	**-**	-
				23	61	**-**	-

(*) Amounts shown net of provision for reduction in value.

(a) During fiscal 2001, we sold our shareholding in Computershare Limited in two separate sale transactions (refer to note 3(c) for further details of this transaction).

(b) New Skies Satellites, N.V. listed on the New York stock exchange on 4 October 2000, and as a result has been reclassified as "Listed Securities".

Notes to the Financial Statements (continued)

12. Property, plant and equipment

Telstra Group	(a) Land & site imp'mnt $m	(b) Building (incl l'hold imp'mnt) $m	(c) CAs (incl. l'hold imp'mnt) $m	(d) CAs under finance lease $m	(e) Other plant, equip & MV $m	(f) Equip under finance lease $m	Total $m
Carrying amount at cost (1.8 (a))							
Balance at 30 June 2000	185	1,241	32,313	954	2,316	62	37,071
- additions	1	92	2,956	-	277	3	3,329
- disposals	(26)	(31)	(1,786)	(6)	(840)	-	(2,689)
- acquisitions of businesses	-	30	398	-	62	-	490
- recoverable amount writedowns	-	-	-	-	(2)	-	(2)
- recoverable amount reversals	-	-	-	-	-	-	-
- net foreign currency exchange differences on	-	-	-	-	-	-	-
translation of financial statements of self-	-	-	-	-	-	-	-
sustaining operations	-	3	39	-	7	-	49
- other	-	4	229	(42)	(3)	-	188
Balance at 30 June 2001	160	1,339	34,149	906	1,817	65	38,436
Accumulated depreciation/amortisation							
Balance at 30 June 2000	-	(351)	(12,881)	(117)	(1,381)	(25)	(14,755)
- disposals	-	14	851	-	371	-	1,236
- acquisitions of businesses	-	(1)	5	-	(15)	-	(11)
- recoverable amount writedowns	-	-	-	-	1	-	1
- recoverable amount reversals	-	-	-	-	-	-	-
- depreciation expense	-	(72)	(2,100)	(89)	(156)	(8)	(2,425)
- net foreign currency exchange differences on	-	-	-	-	-	-	-
translation of financial statements of self-	-	-	-	-	-	-	-
sustaining operations	-	-	(3)	-	(1)	-	(4)
- other	-	2	245	42	41	(5)	325
Balance at 30 June 2001	-	(408)	(13,883)	(164)	(1,140)	(38)	(15,633)
Net book value							
As at 30 June 2001	160	931	20,266	742	677	27	22,803

General purpose land and buildings
(a) Land and site improvements
(b) Buildings (including leasehold improvements)

Communication assets
(c) Communication assets (including leasehold improvements)
(d) Communication assets under finance lease

Other plant and equipment
(e) Other plant, equipment and motor vehicles
(f) Equipment under finance lease

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

Telstra Group	(a) Land & Site Imp'mnt $m	(b) Building (incl l'hold imp'mnt) $m	(c) CAs (incl. l'hold imp'mnt) $m	(d) CAs under finance lease $m	(e) Other plant, equip & MV $m	(f) Equip under finance lease $m	Total $m
Carrying amount at cost (1.8 (a))							
Balance at 30 June 1999	211	1,194	30,114	572	2,487	56	34,634
- additions	10	88	3,255	398	315	24	4,090
- disposals	(24)	(19)	(1,141)	-	(475)	(32)	(1,691)
- acquisitions of businesses	-	-	-	-	6	14	20
- recoverable amount writedowns	(12)	(23)	(1)	-	-	-	(36)
- recoverable amount reversals	-	-	-	-	-	-	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations	-	-	1	-	1	-	2
- other	-	1	85	(16)	(18)	-	52
Balance at 30 June 2000	185	1,241	32,313	954	2,316	62	37,071
Accumulated depreciation/amortisation							
Balance at 30 June 1999	-	(291)	(11,993)	(96)	(1,333)	(40)	(13,753)
- disposals	-	7	1,059	-	286	31	1,383
- acquisitions of businesses	-	-	-	-	-	-	-
- recoverable amount writedowns	-	10	1	-	-	-	11
- recoverable amount reversals	-	-	-	-	-	-	-
- depreciation expense	-	(72)	(2,031)	(36)	(233)	(12)	(2,384)
- net foreign currency exchange differences on	-	-	-	-	-	-	-
translation of financial statements of self-	-	-	-	-	-	-	-
sustaining operations	-	-	-	-	-	-	-
- other	-	(5)	83	15	(101)	(4)	(12)
Balance at 30 June 2000	-	(351)	(12,881)	(117)	(1,381)	(25)	(14,755)
Net book value							
As at 30 June 2000	185	890	19,432	837	935	37	22,316

General purpose land and buildings
(a) Land and site improvements
(b) Buildings (including leasehold improvements)

Communication assets
(c) Communication assets (including leasehold improvements)
(d) Communication assets under finance lease

Other plant and equipment
(e) Other plant, equipment and motor vehicles
(f) Equipment under finance lease

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

Telstra Entity	(a) Land & Site Imp'mnt $m	(b) Building (incl l'hold imp'mnt) $m	(c) CAs (incl. l'hold imp'mnt) $m	(d) CAs under finance lease $m	(e) Other plant, equip & MV $m	(f) Equip under finance lease $m	Total $m
Carrying amount at cost (1.8 (a))							
Balance at 30 June 2000	185	1,224	31,598	954	2,056	24	36,041
- additions	1	70	2,916	-	209	-	3,196
- disposals	(26)	(30)	(1,472)	(6)	(759)	-	(2,293)
- acquisitions of businesses	-	-	-	-	-	-	-
- recoverable amount writedowns	-	-	-	-	1	-	1
- recoverable amount reversals	-	-	-	-	-	-	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations	-	-	-	-	-	-	-
- other	-	3	217	(43)	(3)	-	174
Balance at 30 June 2001	160	1,267	33,259	905	1,504	24	37,119
Accumulated depreciation/amortisation							
Balance at 30 June 2000	-	(341)	(12,512)	(117)	(1,221)	(19)	(14,210)
- disposals	-	15	839	-	348	-	1,202
- acquisitions of businesses	-	-	-	-	-	-	-
- recoverable amount writedowns	-	-	-	-	-	-	-
- recoverable amount reversals	-	-	-	-	-	-	-
- depreciation expense	-	(72)	(1,973)	(89)	(140)	(5)	(2,279)
- net foreign currency exchange differences on	-	-	-	-	-	-	-
translation of financial statements of self-	-	-	-	-	-	-	-
sustaining operations	-	-	-	-	-	-	-
- other	-	2	(48)	42	39	-	35
Balance at 30 June 2001	-	(396)	(13,694)	(164)	(974)	(24)	(15,252)
Net book value							
As at 30 June 2001	160	871	19,565	741	530	-	21,867

General purpose land and buildings
(a) Land and site improvements
(b) Buildings (including leasehold improvements)

Communication assets
(c) Communication assets (including leasehold improvements)
(d) Communication assets under finance lease

Other plant and equipment
(e) Other plant, equipment and motor vehicles
(f) Equipment under finance lease

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

Telstra Entity	(a) Land & Site Imp'mnt $m	(b) Building (incl l'hold imp'mnt) $m	(c) CAs (incl. l'hold imp'mnt) $m	(d) CAs under finance lease $m	(e) Other plant, equip & MV $m	(f) Equip under finance lease $m	Total $m
Carrying amount at cost (1.8 (a))							
Balance at 30 June 1999	211	1,175	29,403	572	2,411	55	33,827
- additions	10	85	3,196	398	126	-	3,815
- disposals	(24)	(17)	(1,117)	-	(467)	(31)	(1,656)
- acquisitions of businesses	-	-	-	-	-	-	-
- recoverable amount writedowns	(12)	(23)	1	-	-	-	(34)
- recoverable amount reversals	-	-	-	-	-	-	-
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations	-	-	-	-	-	-	-
- other	-	4	115	(16)	(14)	-	89
Balance at 30 June 2000	185	1,224	31,598	954	2,056	24	36,041
Accumulated depreciation/amortisation							
Balance at 30 June 1999	-	(283)	(11,715)	(96)	(1,285)	(39)	(13,418)
- disposals	-	6	1,059	-	286	31	1,382
- acquisitions of businesses	-	-	-	-	-	-	-
- recoverable amount writedowns	-	10	1	-	-	-	11
- recoverable amount reversals	-	-	-	-	-	-	-
- depreciation expense	-	(70)	(1,921)	(36)	(219)	(11)	(2,257)
- net foreign currency exchange differences on translation of financial statements of self-sustaining operations	-	-	-	-	-	-	-
- other	-	(4)	64	15	(3)	-	72
Balance at 30 June 2000	-	(341)	(12,512)	(117)	(1,221)	(19)	(14,210)
Net book value							
As at 30 June 2000	185	883	19,086	837	835	5	21,831

General purpose land and buildings
(a) Land and site improvements
(b) Buildings (including leasehold improvements)

Communication assets
(c) Communication assets (including leasehold improvements)
(d) Communication assets under finance lease

Other plant and equipment
(e) Other plant, equipment and motor vehicles
(f) Equipment under finance lease

Notes to the Financial Statements (continued)

12. Property, plant and equipment (continued)

Communication assets

Communication assets include certain network land and buildings which are essential to the operation of communication assets.

Current value of all land and buildings

The current value of land and buildings at 30 June 2001 is as follows:

- $3,321 million for the Telstra Group (fiscal 2000: $3,300 million); and
- $3,313 million for the Telstra Entity (fiscal 2000: $3,292 million)

These current values are not at independent valuation. The following bases are used in determining the current value of property, plant and equipment:

Property, plant and equipment category	Valuation basis
General purpose land and buildings	Market value
Communication assets and other plant and equipment	
Network land	Market value
Network buildings	Depreciated replacement cost

Details of our capital expenditure and finance lease commitments are shown in note 20 to these financial statements.

Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

13. Intangible assets

Goodwill (1.20(a))	**1,623**	147	**-**	-
Accumulated amortisation	**(75)**	(32)	**-**	-
	1,548	115	**-**	-
Patents, trademarks and licences (1.20(b))	**970**	562	**554**	555
Accumulated amortisation	**(198)**	(141)	**(181)**	(140)
	772	421	**373**	415
Brandnames (1.20(b))	**228**	-	**-**	-
Accumulated amortisation	**(5)**	-	**-**	-
	223	-	**-**	-
Customer bases (1.20 (b))	**504**	-	**-**	-
Accumulated amortisation	**(35)**	-	**-**	-
	469	-	**-**	-
	3,012	536	**373**	415

As at 30 June 2001 the net goodwill balance was from investments made in the following controlled entities:

	Telstra Group	
	As at 30 June	
	2001	2000
	$m	$m
Regional Wireless Company	**1,431**	-
Pacific Access Pty Ltd	**43**	46
Atlas Travel Technologies Pty Ltd	**-**	1
Advantra Pty Ltd	**45**	53
InsNet Pty Ltd	**14**	15
Other	**15**	-
Net goodwill	**1,548**	115

Notes to the Financial Statements (continued)

14. Other assets

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Current				
Net deferred mobile phone handset subsidies (1.8)	**198**	144	**198**	144
Deferred expenditure (1.21(b))	**212**	8	**209**	8
Prepayments	**139**	104	**117**	94
	549	256	**524**	246
Non current				
Deferred expenditure (1.21(b))	**409**	97	**368**	81
Accumulated amortisation	**(11)**	(56)	**(10)**	(55)
	398	41	**358**	26
Software assets developed for internal use (1.21(c))	**2,310**	1,652	**2,146**	1,623
Accumulated amortisation	**(685)**	(394)	**(675)**	(389)
	1,625	1,258	**1,471**	1,234
Net deferred mobile phone handset subsidies (1.8)	**55**	30	**56**	30
	2,078	1,329	**1,885**	1,290

Notes to the Financial Statements (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m

15. Payables

Current					
Trade creditors (a)		**737**	771	**533**	614
Accrued expenses		**1,396**	1,095	**946**	781
Accrued capital expenditure		**210**	210	**285**	369
Accrued interest		**234**	187	**234**	187
Other creditors (a)		**246**	144	**147**	121
Amounts owed to controlled entities (other than trade creditors)		**-**	-	**3**	187
Amounts owed to the Telstra Superannuation Scheme	3(c),22	**-**	121	**-**	121
		2,823	2,528	**2,148**	2,380
Non current					
Other creditors		**7**	20	**3**	18
Amounts owed to the Telstra Superannuation Scheme	3(c),22	**-**	604	**-**	604
		7	624	**3**	622

(a) We generally pay trade creditors and other creditors within 30 days of the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

Notes to the Financial Statements (continued)

	Note	Telstra Group As at 30 June 2001 $m	Telstra Group As at 30 June 2000 $m	Telstra Entity As at 30 June 2001 $m	Telstra Entity As at 30 June 2000 $m
16. Borrowings					
Current					
Short term debt					
Bank overdrafts (a)		**10**	7	**-**	-
Loan from joint venture entity (b)		**-**	3	**-**	3
Bills of exchange and promissory notes (c)		**2,542**	2,724	**2,510**	2,724
		2,552	2,734	**2,510**	2,727
Long term debt - current portion					
Bank loans (d)		**3**	2	**-**	-
Loans from controlled entities		**-**	-	**4,879**	643
Telecom/Telstra bonds (e)		**39**	558	**39**	558
Finance leases (g)		**10**	22	**5**	14
		52	582	**4,923**	1,215
		2,604	3,316	**7,433**	3,942
Non current					
Long term debt					
Bank loans (d)		**2,096**	13	**2,082**	-
Loans from controlled entities		**-**	-	**-**	7
Telecom/Telstra bonds (e)		**2,193**	2,219	**2,193**	2,219
Other loans (f)		**7,067**	4,236	**7,060**	4,232
Finance leases (g)	20	**30**	37	**10**	12
		11,386	6,505	**11,345**	6,470
Total debt payable					
Short term debt					
Bank overdrafts (a)		**10**	7	**-**	-
Loan from joint venture entity (b)		**-**	3	**-**	3
Bills of exchange and promissory notes (c)		**2,542**	2,724	**2,510**	2,724
		2,552	2,734	**2,510**	2,727
Long term debt (including current portion)					
Bank loans (d)		**2,099**	15	**2,082**	-
Loans from controlled entities		**-**	-	**4,879**	650
Telecom/Telstra bonds (e)		**2,232**	2,777	**2,232**	2,777
Other loans (f)		**7,067**	4,236	**7,060**	4,232
Finance leases (g)	20	**40**	59	**15**	26
		11,438	7,087	**16,268**	7,685
		13,990	9,821	**18,778**	10,412

Our borrowings are unsecured, except for:
- finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us;
- a bank overdraft of $10 million (2000: $7 million); and
- a bank loan of $6 million (2000: $8 million) held by a non-Australian controlled entity. Refer to notes (a) and (d) below.

Notes to the Financial Statements (continued)

16. Borrowings (continued)

Our long term debt is repayable over the next five years ending 30 June and after as follows:

	Telstra Group						
	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	after 2006 $m	Total $m
Long term debt payable	57	1,622	660	2,210	2,226	4,708	11,483
Unamortised discount							(45)
							11,438

(a) Bank overdrafts

As at 30 June 2001, our bank overdrafts of $10 million (2000: $7 million) relating to non-Australian controlled entities are secured against certain fixed and floating assets of those controlled entities. Interest on bank overdrafts is charged at the bank's current benchmark rate. The effective interest rate was 13.73% for fiscal 2001 (2000: 16.1%). The bank overdrafts are payable on demand and are subject to review by the banks.

(b) Loan from joint venture entity

As at 30 June 2001, we owed a joint venture entity $nil (2000: $3 million) for an amount deposited with the Telstra Entity. The amount is repayable on demand and has an interest rate of nil% (2000: 5.95%).

(c) Bills of exchange and promissory notes

We have issued bills of exchange and promissory notes of $2,542 million (2000: $2,724 million) to financial institutions with an original maturity of less than 180 days.

Included in bills of exchange are $32 million (2000: $nil) issued by a controlled entity. These bills are secured by registered equitable mortgages over the controlled entity's assets, including uncalled capital.

At 30 June 2001, $2,233 million (2000: $2,724 million) of these bills of exchange and promissory notes mature in less than three months. The weighted average effective interest rate applicable to these bills of exchange and promissory notes at 30 June 2001 was 4.62% (2000: 6.3%).

Notes to the Financial Statements (continued)

16. Borrowings (continued)

(d) Bank loans

Our non-Australian controlled entities have the following bank loans:

	A$ amount		**Interest rates**	
	As at 30 June		**Year ended 30 June**	
	2001	2000	**2001**	2000
	A$m	A$m	**%**	%
Indian rupees bank loans (i)	**7**	8	**14.9**	16.1%
Sri Lankan rupees bank loans	**10**	7	**18.0**	15.3%
Total bank loans including current portion	**17**	15		

(i) $6 million (2000: A$8 million) of this loan held by a non-Australian controlled entity is secured against certain fixed and floating assets of that controlled entity.

Our bank loans are repayable over the next five years ending 30 June and after as follows:

	Telstra Group						
	2002	**2003**	**2004**	**2005**	**2006**	**after 2006**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Bank loans	**3**	**904**	**3**	**6**	**1,181**	**2**	**2,099**

Notes to the Financial Statements (continued)

16. Borrowings (continued)

(e) Telecom/Telstra bonds

During fiscal 2001, $544 million of Telstra bonds matured. Telecom/ Telstra bonds have been issued to both retail and wholesale investors and have effective interest rates ranging from 3.0% to 12.7% (2000: 4.2% to 14.3%). They mature up until the year 2020 (2000: 2020). Our Telecom/Telstra bonds are repayable over the next five years ending 30 June and after as follows:

	Telstra Group					
Coupon interest rate	**up to 6.0%**	**up to 8.0%**	**up to 10.0%**	**up to 12.0%**	**up to 16.0%**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Due in the year ending June 30						
2002	**4**	**2**	**2**	**31**	**-**	**39**
2003	**-**	**-**	**65**	**515**	**-**	**580**
2004	**156**	**44**	**7**	**-**	**-**	**207**
2005	**1**	**250**	**3**	**18**	**-**	**272**
2006	**-**	**-**	**11**	**504**	**-**	**515**
After 2006	**35**	**510**	**28**	**44**	**32**	**649**
	196	**806**	**116**	**1,112**	**32**	**2,262**
Unamortised discount						**(30)**
						2,232

(f) Other loans

Details of our other loans are presented in the table below:

Telstra Group - Other loans details	A$ amount		Interest rates		Maturity dates	
	As at 30 June		Year ended 30 June		As at 30 June	
	2001	2000	**2001**	2000	**2001**	2000
	A$m	A$m	**%**	%		
Australian dollar loans	**6**	-	**-**	-	**between Dec 2003 and Dec 2005**	-
US dollar loans	**1,466**	1,160	**5.25% to 7.06%**	6.5% to 7.1%	**between July 2003 and April 2008**	between July 2003 and Nov 2005
Euro eurobond loan	**4,133**	1,583	**6.03% to 6.49%**	6.0%	**between June 2005 and June 2011**	June 2005
Deutschemark eurobond loan	**845**	807	**5.24%**	5.2%	**April 2008**	April 2008
French franc loan	**377**	361	**6.15%**	6.1%	**December 2006**	December 2006
Swiss franc eurobond loan	**328**	307	**3.50%**	3.5%	**June 2005**	June 2005
Japanese yen loans	**285**	158	**0.3250% to 5.57%**	5.1% to 5.6%	**between Oct 2002 and May 2008**	between Oct 2002 and May 2003
Singapore dollar loans	**108**	-	**3.8%**	-	**March 2008**	-
Controlled entity loan from its minority shareholder	**-**	4	**-**	7.33%	**-**	before 30 June 2002
Net (receivable)/payable on currency swaps entered to hedge these borrowings	**(481)**	(144)	**-**	-	**-**	-
Total other loans including current portion	**7,067**	4,236				

Notes to the Financial Statements (continued)

16. Borrowings (continued)

(f) Other loans (continued)

Our other loans are repayable over the next five years ending 30 June and after as follows:

	Telstra Group						
	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	after 2006 $m	Total $m
Other loans	-	122	442	1,927	530	4,057	7,078
Unamortised discount							(11)
							7,067

(g) Finance leases

Our Japanese yen finance leases have interest rates ranging from 1.5% to 2.5% (2000: 1.5% to 3.2%). They are repayable by July 2002 (2000: July 2002). Two controlled entities have finance leases with repayments by June 2005. Details of minimum lease payments due under finance leases are presented as follows:

	Telstra Group						
	2002 $m	2003 $m	2004 $m	2005 $m	2006 $m	after 2006 $m	Total $m
Finance leases	15	16	8	5	-	-	44
Future finance charges							(4)
							40

Notes to the Financial Statements (continued)

16. Borrowings (continued)

Net fair values

We determine net fair values of fixed rate loans and bonds issued using current risk adjusted market rates. The carrying amounts of bank overdrafts, bills of exchange and promissory notes, bank loans and finance lease liabilities, are approximately equal to net fair value.

The net fair values of other borrowings where the carrying amounts (including accrued interest) are significantly different to their net fair values are shown below:

	Telstra Group Carrying amount (i) As at 30 June		Telstra Group Net fair value As at 30 June	
	2001 $m	2000 $m	**2001 $m**	2000 $m
Telecom/Telstra bonds	**2,280**	2,833	**2,472**	3,099
Other loans (ii)	**7,630**	4,448	**7,672**	4,431

The difference between the carrying amounts and net fair values relates mainly to interest rate movements.

(i) The carrying amount includes accrued interest.

(ii) The carrying amount and net fair value of other loans excludes cross currency swaps which are disclosed in note 29.

	Telstra Group As at 30 June		Telstra Entity As at 30 June	
	2001 $m	2000 $m	**2001 $m**	2000 $m
Our financing arrangements				
We have access to the following lines of credit:				
Credit standby arrangements				
Unsecured committed cash standby facilities which are subject to annual review	**847**	924	**847**	917
Amount of credit unused	**847**	924	**847**	917
An unsecured bill acceptance facility reviewed annually for extension	**27,747**	-	**27,747**	-
Amount of credit unused	**18,470**	-	**18,470**	-
Secured bank overdraft and term loan facilities	**2**	14	**-**	-
Amount of credit unused	**2**	-	**-**	-
Loan facilities				
Unsecured bank term loan facilities	**4,592**	2,011	**4,432**	2,000
Amount of credit unused	**2,412**	2,003	**2,350**	2,000

We have commercial paper facilities in place with financial institutions under which we may issue up to $17,756 million (2000: $5,344 million). As at 30 June 2001, we had drawn down $2,530 million (2000: $2,719 million) of these commercial paper facilities. These facilities are not committed and we have no guaranteed access to the funds. None of the facilities are underwritten.

Notes to the Financial Statements (continued)

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m

17. Provisions

Current					
Dividends payable	7	**1,415**	1,287	**1,415**	1,287
Employee entitlements (a)		**429**	784	**362**	723
Workers' compensation (1.24(b))		**43**	46	**41**	45
Other provisions		**180**	198	**84**	117
		2,067	2,315	**1,902**	**2,172**
Non current					
Employee entitlements (a)		**584**	684	**516**	613
Workers' compensation (1.24(b))		**241**	259	**232**	257
Other provisions		**134**	219	**21**	43
		959	1,162	**769**	913

(a) Employee entitlements consist of amounts for annual leave, long service leave and redundancy payments to employees (refer to note 1.24(a)).

Total employee entitlements		**1,013**	1,468	**878**	1,336

The carrying amounts of all provisions are approximately equal to their net fair value.

	Telstra Group & Telstra Entity			
	As at 30 June			
	2001	**2001**	2000	1999
	$m	**US$m**	$m	$m

18. Contributed equity

Issued and paid up capital

12,866,600,200 fully paid ordinary shares (a)	**6,433**	**3,281**	6,433	6,433

(a) Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends as declared, and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.

Notes to the Financial Statements (continued)

19. Employee share plans

(a) TESOP99 and TESOP97

As part of the Commonwealth sale of its shareholding in fiscal 2000 and fiscal 1998 we offered our eligible employees as defined by the employee share plans the opportunity to buy Telstra shares. The shares were ordinary shares of the Telstra Entity at the time of the offer.

These share plans were:
- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

All eligible employees of the Telstra Entity and companies that Telstra owned greater than 50% equity were able to participate in the plans. Certain employees who were part time, casual, fixed term, on leave without pay or living outside Australia and contractors were not eligible to participate.

Generally, employees were offered interest free loans to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees. Telstra ESOP Trustee Pty Ltd is the trustee for TESOP99 and TESOP97 and holds the shares on behalf of participants. This company is 100% owned by us.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan, although early repayment can be made. The loan shares, extra shares and in the case of TESOP99, the loyalty shares, are generally subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceases (as well as full loan repayment for loan shares and TESOP97 extra shares). Approximately 80% of the dividends on the loan shares and TESOP97 extra shares held for the employees under the plans are used to repay their loans.

If a participating employee leaves the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, the employee may be required to repay their loan within two months of leaving. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required above, the shares can be sold and the proceeds of sale used to repay the loan. Also, for TESOP99, the Government guaranteed allocation of up to 5,000 shares for employees using their own funds to purchase shares in the public offer. These shares are directly held by the employees.

Further details on each of the plans are highlighted in the table below in section (c).

Telstra incurs expenses on behalf of both the TESOP 97 and TESOP 99. These expenses are in relation to administration costs of the trusts.

(b) Telstra Growthshare Trust

Telstra Growthshare started in fiscal 2000. Under the trust, Telstra operates three different share plans:

- Growthshare
- Directshare; and
- Ownshare

The trustee for the Trust is Telstra Growthshare Pty Ltd. This company is 100% owned by us. Allocations are in the form of options, restricted shares, direct shares and own shares under these plans. Refer to the tables in section (c) below for more information.

(i) Telstra Growthshare

Telstra Growthshare started in fiscal 2000. Its purpose is to align key executives' rewards with shareholders' interests, and reward performance improvement supporting business plans and corporate strategies.

The board determines who is invited to participate in Growthshare. Allocations are in the form of options and restricted shares. An option or restricted share represents a right to acquire a share in Telstra. Generally, options and restricted shares may only be exercised to acquire Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options, the exercise price is made.

Performance hurdle for options and restricted shares

The performance hurdle for options and restricted shares allocated under Growthshare is that the average Telstra Accumulation Index must exceed the average All Industrials Accumulation Index for thirty consecutive days within the performance period. Generally, in the event of leaving Telstra, the options and restricted shares lapse.

Options

An executive is not entitled to Telstra shares before the options allocated under Growthshare are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the expiry date; otherwise they

Notes to the Financial Statements (continued)

19.Employee share plans (continued)

(b) Telstra Growthshare Trust (continued)

Options (continued)

will lapse. Once the options are exercised, Telstra shares will be transferred to the executive. Telstra provides loans to the trustee to enable it to purchase shares on market to underpin the options. When exercised, executive pays for the shares at the exercise price and the loan is repaid to us. We receive interest on the loans to the trust.

Restricted Shares

The executive is not entitled to Telstra shares before the restricted shares allocated under Growthshare vest. If the performance hurdle is satisfied in the performance period, restricted shares may be accepted at any time before the expiry date; otherwise they will lapse. Once the restricted shares have vested, they become restricted trust shares, which will generally be held by the trustee for the executive for a certain period. Once converted into restricted trust shares, the executive has an interest in Telstra shares and is entitled to dividends, other distributions, and voting rights.
Restricted trust shares are held by the Trustee until the earlier of:
- the period determined in accordance with the trust deed (refer to table);
- the executive finishes employment with Telstra; or
- a date nominated by the board.

The restricted trust shares may be transferred to the executive at a cost of $1 in total for all shares. These shares are recorded as an expense to us when we provide funding to the trust to purchase them.

(ii) Telstra Directshare

Non-executive directors may be provided part of their fees in Telstra shares. Directors will receive 20% of their remuneration by way of directshares. Shares are acquired by the trustee from time to time and allocated to the participating directors on a 6 monthly basis, on dates determined by the trustee in its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:
- for five years from the date of allocation of the shares;
- until the participating director is no longer a director of or is employed by a company in the Telstra Group; or
- until the board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place.

We have provided loans to the trustee to enable it to meet its obligations under the trust deed. During fiscal 2001, this has included the requirement to allocate shares through the directshare equity plan. For further details, refer to the discussion on options.

(iii) Telstra ownshares

Certain eligible employees may be provided part of their remuneration in Telstra shares. Those employees indicate a preference to acquire Telstra shares as part of their manager incentive plan benefit. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:
- for three years or five years depending on the election made by the participant at the time of allocation;
- until the participant ceases to be employed by the Telstra Group; or
- until the board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place.

On a similar basis to the funding of directshares, we have provided loans to the trustee to fund the allocation of shares through the ownshare equity plan. Refer to the discussion on options for further details.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information

The table below provides information about our TESOP99 and TESOP97 share plans:

	TESOP 99	TESOP 97
Date used to determine number of eligible employees	27 August 1999	20 September 1997
Date the plan started	16 October 1999	15 November 1997
Number of employees eligible to participate	53,900	64,309
Price paid by employee - first instalment	(16 October 1999) $4.50	(15 November 1997) $1.95
Price paid by employee - second instalment	(2 November 2000) $2.90	(17 November 1998) $1.35
Total price paid by employee and market price on date of issue	$7.40	$3.30
Number of shares each eligible employee was able to buy with interest free loan (loan shares)	400	2,000
Number of extra shares received by each eligible employee	one extra share for every four guaranteed allocation shares purchased up to a limit of 200	one extra share for every four loan shares or non-loan shares purchased up to a limit of 500
The date participating employees have full ownership of the loan shares and extra shares (i)	16 October 2002	15 November 2000
Number of employees who purchased loan shares	42,439	55,748
Total number of loan shares initially purchased	16,939,000	109,979,100
Total number of extra shares initially acquired relating to loan shares	(ii)	27,494,775
Number of employees who used their own funds to buy shares in TESOP and received extra shares	21,424	2,282
Number of shares initially purchased under TESOP with own funds	(iii)	3,776,732
Number of extra shares initially acquired by employees from using their own funds	(ii) 3,903,314	944,183
Total market value of shares at issue date (including extra shares)	$93,790,413 (first instalment) $58,832,889 (second instalment)	$277,279,841 (first instalment) $181,936,265 (second instalment)
Total initial loan made to employees	$76,225,500 (first instalment) $48,556,440 (second instalment)	$221,823,872 (first instalment) $144,401,940 (second instalment)
Loan discount paid on behalf of employees ($1 per loan)	$42,439	$55,748
Number of Commonwealth loyalty shares available to each eligible employee at no additional cost (shares need to be held for 12 months to qualify)	one for every 10 shares purchased in the Commonwealth component limited to 80	one for every 10 shares purchased in the public offer limited to 200
Number of employees who received Commonwealth loyalty shares	(iv)17,138	21,761
Number of loyalty shares issued	(iv) 1,243,305	3,162,222
Market value of Commonwealth loyalty shares issued	(iv) $7,696,058 ($6.19 per share)	$20,363,290 ($6.46 per share)

(i) In the case of all loan shares, and extra shares acquired under TESOP97, the loan must be repaid in full before shares may be transferred to the employee.

(ii) For TESOP99 the extra shares were acquired under the Commonwealth component as a result of employees acquiring guaranteed allocation shares in the public offer using their own funds.

(iii) Does not include guaranteed allocation shares acquired by employees from the Commonwealth under the Commonwealth component.

(iv) TESOP99 loyalty shares were issued to eligible employees still holding their Commonwealth component shares on 2 November 2000 and did not prepay the final instalment.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information (continued)

We provide the following information about Telstra Growthshare:

September 1999 offer of options and restricted shares:

	Growthshare 2000 options (v)	Growthshare 2000 restricted shares (v)
Number of executives who were allocated options and restricted shares	45	45
Effective commencement date of options and restricted shares	13 September 1999	13 September 1999
Performance hurdle period - i.e. over what time period executives have to satisfy performance hurdle to be eligible for shares	period between 13 September 2002 and 13 September 2004	period between 13 September 2002 and 13 September 2004
Number of options and restricted shares issued	3,370,000	573,500
Exercise price	$8.02 per option	$1 in total per holding as long as performance hurdle is met
Market value of shares on commencement date	$8.02	$8.02
Exercise date (once performance hurdle is met)	any time before 13 September 2009	any time before 13 September 2004

September 2000 offer of options and restricted shares:

	Growthshare 2001 options (v)	Growthshare 2001 restricted shares (v)
Number of executives who were allocated options and restricted shares	113	112
Effective commencement date of options and restricted shares	8 September 2000	8 September 2000
Performance hurdle period - i.e. over what time period executives have to satisfy performance hurdle to be eligible for shares	period between 8 September 2003 and 8 September 2005	period between 8 September 2003 and 8 September 2005
Number of options and restricted shares issued	4,684,200	961,900
Exercise price	$6.28 per option	$1 in total per holding as long as performance hurdle is met
Market value of shares on commencement date	$6.28	$6.28
Exercise date (once performance hurdle is met)	any time before 8 September 2010	any time before 8 September 2005

March 2001 offer of options and restricted shares:

	Growthshare 2001 options (v)	Growthshare 2001 restricted shares (v)
Number of executives who were allocated options and restricted shares	2	2
Effective commencement date of options and restricted shares	16 March 2001	16 March 2001
Performance hurdle period - i.e. over what time period executives have to satisfy performance hurdle to be eligible for shares	period between 16 March 2004 and 16 March 2006	period between 16 March 2004 and 16 March 2006
Number of options and restricted shares issued	168,710	43,871
Exercise price	$6.55 per option	$1 in total per holding as long as performance hurdle is met
Market value of shares on commencement date	$6.55	$6.55
Exercise date (once performance hurdle is met)	any time before 16 March 2011	any time before 16 March 2006

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information (continued)

(v) 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. Under Telstra's USGAAP disclosures (refer note 30) the binomial pricing model was used to determine the fair value for options for the purpose of inclusion in the potential compensation expenses. The value of the allocations is as follows:

Offers	Growthshare options	Growthshare restricted shares
September 1999	$1.38	$5.64
September 2000	$0.89	$2.05
March 2001	$0.80	$2.15

September 2000 allocation of directshares and ownshares:

	DirectShare Equity Plan	OwnShare Equity Plan
Number of eligible non-executive directors	11	4,405
Number of participants in the plan	11	306
Allocation date of shares	15 September 2000	15 September 2000
Number of shares allocated	13,426	373,557
Market value of shares on allocation date	$6.21	$6.21
Total market value of shares on allocation date	$83,375	$2,319,789

March 2001 allocation of directshares (vi):

	DirectShare Equity Plan
Number of eligible non-executive directors	10
Number of participants in the plan	10
Allocation date of shares	19 March 2000
Number of shares allocated	14,771
Market value of shares on allocation date	$6.55
Total market value of shares on allocation date	$96,750

(vi) There were no allocations under the ownshare equity plan in March 2001.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information (continued)

Shareholdings by non-executive directors as at 30 June 2001 as allocated under the directshare equity plan. These shareholdings have been included in the total shareholding disclosures made in note 27 as at 30 June 2001.

	15 September 2000 allocation No. of shares	19 March 2001 allocation No. of shares	Total shares held
Robert Mansfield	3,221	3,665	6,886
John Ralph	1,611	1,833	3,444
Elizabeth Nosworthy	1,208	1,375	2,583
N Ross Adler	1,007	1,146	2,153
Malcolm Irving	1,007	1,146	2,153
John Stocker	1,007	1,146	2,153
Anthony Clark	873	993	1,866
Donald McGauchie	873	993	1,866
Christopher Roberts	873	-	873
Stephen Vizard	873	-	873
John Fletcher (a)	-	1,237	1,237
Catherine Livingstone (a)	-	1,237	1,237
Sam Chisholm (a)	-	-	-
	12,553	14,771	27,324

(a) These directors were appointed during fiscal 2001.

Cecilia Moar retired as a director on 17 November 2000. She acquired 873 shares in the 15 September allocation. She has since exited the scheme and the shares have been transferred. Christopher Roberts and Stephen Vizard have also retired as directors on 17 November 2000, however their shareholdings are still held in trust as at 30 June 2001.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information (continued)

We provide the following information about all of our share plans:

	All employee share plans As at 30 June 2001	All employee share plans As at 30 June 2000
		instalment receipts $3.80
Market price of Telstra shares and instalment receipts	**shares $5.38**	shares $6.78
Employee shares loan balance (total including current and non current excluding Growthshare option loans - note 9)	**$270 million**	$297 million
Loan to Telstra Growthshare (other receivables non current - note 9)	**$41 million**	$14 million
TESOP99		
Remaining employees with loan shares	**39,247**	42,131
Remaining number of loan shares	**15,666,400**	16,816,400
Remaining number of extra shares	**3,190,823**	3,663,764
TESOP97		
Remaining employees with loan shares	**30,024**	39,888
Remaining employees with non loan shares	**-**	1,003
Remaining number of loan shares	**59,378,500**	78,838,100
Remaining number of extra shares	**14,844,625**	19,709,525
Growthshare 2000		
Number of executives with Growthshare 2000 options (i)	**30**	37
Number of executives with Growthshare 2000 restricted shares (i)	**30**	37
Number of Growthshare 2000 options outstanding (i)	**2,256,000**	2,708,000
Number of Growthshare 2000 restricted shares outstanding (i)	**388,500**	463,500
Growthshare 2001 (inclusive of both September and March allocations)		
Number of executives with Growthshare 2001 options (iii)	**109**	(ii)
Number of executives with Growthshare 2001 restricted shares (iii)	**108**	(ii)
Number of Growthshare 2001 options outstanding (iii)	**4,562,210**	(ii)
Number of Growthshare 2001 restricted shares outstanding (iii)	**945,617**	(ii)
DirectShares		
Number of non-executive directors with directshares (iv)	**12**	(ii)
Number of directshares outstanding (iv)	**27,324**	(ii)
OwnShares		
Number of employees with ownshares (iv)	**294**	(ii)
Number of ownshares outstanding (iv)	**349,553**	(ii)

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(c) Share plan information (continued)

(i) 452,000 options (2000: 662,000 options) and 75,000 restricted shares (2000: 110,000 restricted shares) lapsed in relation to 7 executives (2000: 8 executives) who left our employment in fiscal 2001.

(ii) Shares were not issued under these plans at 30 June 2000.

(iii) 290,700 options and 60,100 restricted shares lapsed in relation to 6 executives who left our employment in fiscal 2001.

(iv) 12 employees have exited the ownshare equity plan during fiscal 2001 and 24,004 shares have been transferred to participants. 1 non-executive director has exited the directshare equity plan and 873 shares have been transferred from the trust.

(d) Keycorp Limited employee share plans

Our controlled entity, Keycorp Limited (Keycorp) operates an employee share ownership plan and employee share option incentive plan independent of the Telstra entity plans, TESOP99, TESOP97 and Telstra Growthshare.

Employee share ownership plan

At the annual general meeting of the Keycorp Group on 4 November 1992 the shareholders approved the establishment of an employee share ownership and profit participation plan known as the Keycorp Share Ownership Plan. The plan was amended by shareholder approval on 24 October 1995 and 31 May 2000. The plan operates through an independent special purpose unlisted public company which is not part of the Keycorp or Telstra Groups.

All employees of Keycorp can subscribe for shares in the plan company. Keycorp shares are acquired by the plan company at the prevailing share price in the open market and held by the plan company for the benefit of, and in the name of, the participating employees.

As at 30 June 2001, 294 employees, including executive directors, are eligible to participate in the plan through remuneration sacrifice or profit share allocations from the Keycorp Group. Keycorp expenses their contribution to the plan company in the year the profit share obligation is incurred. Shares purchased by the plan company during the reporting period totalled 5,335. At 30 June 2001, the plan company held 24,024 shares in Keycorp Limited for the benefit of 6 employees and directors. Of this holding, 5,940 shares relate to profit share allocation.

Employee share option incentive plan

The shareholders approved the introduction of a share option incentive plan for employees at the annual general meeting of the Keycorp Group on 22 October 1996. Currently 294 employees, including executive directors, are eligible to participate in the plan.

200,000 options were issued to employees and executive directors of Keycorp during the six month period since our acquisition. As at 30 June 2001, employees and executive directors held 897,800 options, which represented 1.16% of the number of Keycorp shares on issue.

144,000 options lapsed during the six month period to 30 June 2001. During this same period, nil options were exercised at the exercise price of $2.68; nil options were exercised at the exercise price of $3.00; and nil options were exercised at the exercise price of $0.90.

As at 30 June 2001:

- 33,500 options are due to expire on 17 December 2001 and are able to be exercised
- 51,300 options are due to expire on 26 February 2003 and are able to be exercised
- 5,000 options are due to expire on 15 October 2003 and are able to be exercised
- 40,000 options are due to expire on 21 September 2004 and are able to be exercised
- 618,000 options cannot be exercised earlier than 1 September 2002 and are due to expire on 15 July 2005
- 150,000 options cannot be exercised earlier than 15 January 2003 and are due to expire on 15 January 2006

The market price of Keycorp ordinary shares closed at $2.31 on 29 June 2001.

The price payable by eligible employees for options is determined as the weighted average market price for Keycorp shares traded on the Australian stock exchange for the five days preceding the date of the offer of options.

The aggregate number of options and equities issued under the terms of the employee share option incentive plan and the employee share ownership plan over a 5 year rolling period cannot exceed 15% of the number of Keycorp Limited shares on issue. As at 30 June 2001 the aggregate level was 1.2%.

Notes to the Financial Statements (continued)

19. Employee share plans (continued)

(d) Keycorp Limited employee share plans (continued)

Directors shareholding

Interests in the shares of Keycorp held by directors of this company and their director-related entities, as at 30 June 2001 was 668,124 shares.

During the period no shares were issued to directors in accordance with the terms of the employee share ownership plan; 149,898 shares held by former directors were transferred out of the plan company. No shares were disposed of by the directors during the period.

65,200 share options were held by directors at 30 June 2001. During the period no share options were issued to directors; no share options lapsed or were exercised.

Notes to the Financial Statements (continued)

20. Expenditure commitments

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
(a) Capital expenditure commitments				
Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:				
Within 1 year	**303**	662	**569**	944
Within 1-2 years	**226**	159	**219**	161
Within 2-3 years	**203**	143	**203**	143
Within 3-4 years	**199**	131	**199**	131
Within 4-5 years	**170**	131	**170**	131
After 5 years	**140**	265	**140**	265
	1,241	1,491	**1,500**	1,775

The capital expenditure commitments above include contracts for building and enhancing networks and software enhancements.

Included in the amounts above are capital commitments relating to information technology services (i):				
Within 1 year	**188**	122	**181**	122
Within 1-2 years	**158**	118	**158**	118
Within 2-3 years	**152**	118	**152**	118
Within 3-4 years	**147**	120	**147**	120
Within 4-5 years	**132**	121	**132**	121
After 5 years	**102**	254	**102**	254
	879	853	**872**	853

(i) These capital commitments relate to amounts to be spent on software assets developed for internal use under a 10 year contract with IBM Global Services Australia Limited (IBMGSA) (Refer Note 20(d)(ii) for other commitments relating to IBMGSA).

(b) Operating lease commitments				
Future lease payments for non-cancellable operating leases not recorded in the financial statements:				
Within 1 year	**295**	313	**263**	309
Within 1-2 years	**218**	256	**181**	253
Within 2-3 years	**128**	224	**121**	220
Within 3-4 years	**63**	102	**61**	102
Within 4-5 years	**40**	57	**37**	57
After 5 years	**96**	232	**94**	232
	840	1,184	**757**	1,173

In addition, we have commitments under cancellable operating leases of $285 million for fiscal 2002 (2000: $235 million for fiscal 2001). The Telstra Entity has commitments under cancellable operating leases of $216 million for fiscal 2002 (2000: $200 million for fiscal 2001).

Notes to the Financial Statements (continued)

20. Expenditure commitments (continued)

Description of our operating leases

We have operating leases for the following major services:
- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers and mechanical aids; and
- rental of personal computers, laptops and printers that are used in non communications plant activities.

The average lease term is:
- seven and a half years for land and buildings;
- four years for motor vehicles and related equipment; and
- three years for personal computers and related equipment.

Contingent rental payments only exist for motor vehicles and are not significant compared to total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

We do not have any purchase options in our operating leases.

Operating leases related to our personal computers and associated equipment had average interest rates of 5.8% for fiscal 2001 (6.66% for fiscal 2000).

		Telstra Group		Telstra Entity	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m
(c) Finance lease commitments					
Within 1 year		**15**	25	**7**	15
Within 1-2 years		**16**	16	**8**	6
Within 2-3 years		**8**	14	**1**	6
Within 3-4 years		**5**	5	**-**	-
Within 4-5 years		**-**	5	**-**	-
Total minimum lease payments		**44**	65	**16**	27
Future finance charges on finance leases		**(4)**	(6)	**(1)**	(1)
Present value of net future minimum lease payments		**40**	59	**15**	26
Recorded as current borrowings	16	**10**	22	**5**	14
Recorded as non current borrowings	16	**30**	37	**10**	12
Total finance lease liabilities	16	**40**	59	**15**	26

Included in finance lease commitments of the Telstra Entity are finance leases with Reach Ltd of $11.7 million (2000: $16 million with a controlled entity). The current amount of these finance leases is $5.3 million (2000: $4 million). The non current amount is $6.4 million (2000: $12 million).

Description of our finance leases

We have finance leases for the following major services:
- communications exchange equipment leases in Japanese yen;
- communications exchange equipment made in US dollars; and
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:
- until July 2002, for communications exchange equipment made in Japanese yen;
- 16 years for communications exchange equipment made in US dollars; and
- two and a half years for computer mainframe and associated equipment.

Communications exchange equipment leases in Japanese yen have purchase options at 10% of the lease value.

We entered into US finance leases for communications exchange equipment in fiscal 2000 and fiscal 1999. Under the terms of the leases Telstra has prepaid all lease rentals due under the leases. We have guaranteed that the lease payments will be paid as scheduled over the lease term to the ultimate lessor. We received guarantee fees of $39 million in fiscal 2000 and $37 million for fiscal 1999. These fees are recorded in revenue received in advance and are being released to the profit and loss over the term of the leases being 16 years.

Notes to the Financial Statements (continued)

20. Expenditure commitments (continued)

Interest rates for our finance leases are:

- Japanese yen communication assets between 1.48% and 2.45%;
- US dollar communication assets between 4.25% and 5.06%; and
- computer mainframe and associated equipment between 8.2% and 9.4%.

The Japanese yen leases for communications assets contain general restrictions on creating negative liens over or sale of the communication assets under lease.

	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
(d) Other commitments				
Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:				
Within 1 year	**833**	964	**685**	849
Within 1-2 years	**650**	778	**535**	702
Within 2-3 years	**556**	731	**447**	658
Within 3-4 years	**473**	640	**373**	564
Within 4-5 years	**428**	507	**328**	421
After 5 years	**784**	1,094	**305**	599
	3,724	4,714	**2,673**	3,793
The other expenditure commitments above include contracts for printing, engineering and operational support services, software maintenance, agency fees and building maintenance. The above commitments also include commitments relating to our investment in joint venture entities (refer note 24) and commitments relating to information technology services as follows:				
FOXTEL minimum subscriber guarantee commitments (i):				
Within 1 year	**102**	91	**-**	-
Within 1-2 years	**100**	89	**-**	-
Within 2-3 years	**100**	87	**-**	-
Within 3-4 years	**100**	86	**-**	-
Within 4-5 years	**100**	86	**-**	-
After 5 years	**480**	496	**-**	-
	982	935	**-**	-
Commitments relating to information technology services (ii)				
Within 1 year	**370**	284	**370**	284
Within 1-2 years	**360**	289	**360**	289
Within 2-3 years	**344**	273	**344**	273
Within 3-4 years	**335**	261	**335**	261
Within 4-5 years	**317**	251	**317**	251
After 5 years	**298**	502	**298**	502
	2,024	1,860	**2,024**	1,860

Notes to the Financial Statements (continued)

20. Expenditure commitments (continued)

(i) Joint venture entity commitments of approximately A$1,964 million (US$997 million) (2000: A$1,870 million, US$1,120 million) mainly refer to our 50% share of minimum subscriber guarantees for pay television programming agreements. These agreements are for periods of between 1 and 19 years (2000: 1 and 20 years) and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation/ reduction formulas contained in the agreements. Refer to note 21 'FOXTEL minimum subscriber guarantees', for further information.

(ii) Commitments for information technology (IT) services result from a contract with IBMGSA. Under this contract, IBMGSA will provide IT services to the Telstra Entity and selected Australian controlled entities for a period of 10 years from 30 June 1998. The Telstra Entity is committed to a total amount of $2,896 million (2000: $2,713 million) over the period, of which $872 million (2000: $853 million) relates to a capital commitment (refer note 20(a)).

Notes to the Financial Statements (continued)

21. Contingent liabilities

The details and maximum amounts (where reasonable estimates can be made) are set out below for contingent liabilities of:

Telstra Entity

Common law claims

Certain common law claims by employees and third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. Management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows.

Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of $343 million (2000: $342 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $217 million (2000: $158 million).
- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $2 million (2000: $2 million) and a requirement that the entity remains our controlled entity.
- Guarantee of the performance of joint venture entities under contractual agreements to a maximum amount of $567 million (2000: $356 million).
- Guarantee of the performance of a third party for lease payments to be made by the third party, on our behalf, over the 16 year terms of the finance leases. The lease payments over the remaining period of the lease amount to $1,221 million ($US 628 million) (2000: $1,036 million ($US 620 million)).
- During fiscal 1998, we resolved to provide our associated entity, IBMGSA, with our pro rata 26% share of shareholder guarantees on a several basis up to $210 million through to the end of the calendar year 2000. These guarantees may be made with IBMGSA bankers, or directly to IBMGSA customers. For fiscal 2000, these guarantees had been reduced to our new pro rata shareholding of 22.6% in IBMGSA. We issued a shareholder guarantee of $68 million on behalf of IBMGSA during fiscal 2000. As at 30 June 2001 $142 million of the $210 million facility remains unused.
- Indemnities to Telstra Growthshare Pty Ltd for all liabilities, costs and expenses incurred by the Trustee in the execution of the powers vested in it.

Controlled entities

Indemnities provided by our controlled entities

At 30 June 2001, our controlled entities had outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of our controlled entities' contingent liabilities in respect of these indemnities was $9 million (2000: $9 million).

The P.T. Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement (JVA) was renegotiated during the financial year ending 30 June 2000. The revised JVA reduced the amount of base equity to be contributed by shareholders from $US340 million to US$208 million (which has now been contributed).

However, Telstra Global Limited (TGL), under the JVA, may be severally liable for calls against standby equity that would be made by MGTI if certain conditions are met. Should this equity be called, TGL will be liable to contribute additional equity of $33 million (US$17 million) (2000: $28 million; US$17 million). If the other shareholders in MGTI default on contributing their share of a standby equity call, TGL may be liable to contribute an additional $133 million (US$68 million) (2000: $114 million; US$68 million) as standby equity.

TGL has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a $945 million (US$480 million) (2000: $802 million; US$480 million) Loan Agreement dated 23 September 1996 between MGTI and various lenders. As a result of new agreements with lenders reached in September 1999 the facility is now limited to the debt drawn and outstanding. The outstanding debt under this facility is currently $214 million (US$109 million) (2000: $258 million (US$154 million). Repayments are being made on schedule. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by TGL).

In February 2001 changes in Indonesian banking regulations required MGTI to cash in currency hedges associated with the loan facility. These hedges yielded a gain of $75 million ($US38 million), which was applied against the principal of the loan.

Notes to the Financial Statements (continued)

21. Contingent liabilities (continued)

Other

FOXTEL minimum subscriber guarantees

The Telstra Entity and its partners, News Corporation and Publishing and Broadcasting Limited, and Telstra Media and its partner, Sky Cable, have entered into agreements relating to pay television programming with various parties. These involve commitments for minimum subscriber fees. Due to joint and several liability under the agreements, if News Corporation, Publishing and Broadcasting Limited or Sky Cable fail to meet any of their obligations in respect of the minimum subscriber payments, the Telstra Entity and Telstra Media would be contingently liable to the extent of those failures. Refer note 20(d)(i) for details of minimum subscriber payment commitments.

ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 23(1). Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 23(1) for further information.

Notes to the Financial Statements (continued)

22. Superannuation commitments

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for accumulation schemes or at rates determined by the actuaries for defined benefit schemes.

Commonwealth Superannuation Scheme (CSS) and Telstra Superannuation Scheme (TSS)

Before 1 July 1990, eligible employees of the Telstra Entity were members of the Commonwealth Superannuation Scheme (CSS). The CSS is an employer sponsored defined benefit scheme for Commonwealth Public Sector employees. Under the CSS, we are responsible for funding all employer financed benefits that arise from 1 July 1975 for employees who are CSS members. For the CSS, employer contributions by us and other employers that participate in the CSS are paid to the Commonwealth Consolidated Revenue Fund. Employee contributions to the CSS are separated and separately managed.

On 1 July 1990, the Telstra Superannuation Scheme (TSS) was established. The TSS has both defined benefit and accumulation divisions. A majority of our CSS members transferred to the TSS when it was first established. As CSS members transferred, the liability for benefits for their past service was transferred to the TSS.

The benefits received by members of each defined benefit scheme take into account factors such as the employee's length of service, final average salary, employer and employee contributions.

As at 30 June 2000, S J Schubert FIAA completed actuarial investigations of the CSS and K O'Sullivan FIAA completed actuarial investigations of the two defined benefit divisions of the TSS.

Based on the previous actuarial investigation completed as at 30 June 1997, we had stopped employer contributions to the defined benefit divisions of the TSS other than the additional contributions under the arrangement which is further described below. The actuarial investigation of the TSS as at 30 June 2000 reported that a surplus existed. As a result, it was recommended that we continue on a contribution holiday until 30 June 2004, by which time the next actuarial investigation as at 30 June 2003 will be complete. This contribution holiday includes the accumulation divisions of the TSS.

In June 1999, the Minister for Finance and Administration signed a document which allowed the CSS surplus at the time ($1,428 million) to be transferred to the TSS over a 40 year period. Any CSS surplus amounts transferred from the CSS to the TSS are taxed at the rate of 15%. The CSS actuarial investigation as at 30 June 2000 was conducted during fiscal 2001. The report is yet to be reviewed by the Department of Finance and Administration. Based on the results of the 30 June 2000 CSS actuarial investigation, our actuary has recommended that the schedule to transfer the residual notional fund be reviewed to take into account the revised surplus position.

The CSS investigation by the actuary also recommended that we continue not to contribute employer contributions to the CSS. We will review our contribution rate for both the TSS and CSS at the next actuarial reviews, both of which are due to be completed with an effective date no later than 30 June 2003.

Prior to 29 August 2000, we had an ongoing arrangement to pay an additional $121 million each year to the TSS over 16 years ending 30 June 2011. This contribution commitment was independent of the contribution holiday advised by our actuary.

On 29 August 2000, the trustee of the TSS and the Commonwealth (who guaranteed our payments) released us from our obligation to provide additional contributions. As part of the terms of the release, we have agreed to provide such future employer payments to the TSS as may be required to maintain the vested benefits index (VBI - the ratio of fund assets to members' vested benefits) in the range of 100-110%.

The removal of our obligation reduced the assets of the TSS and contributed to the VBI of the defined benefit divisions reducing from approximately 167% at 30 June 2000 to approximately 145% as at 30 June 2001.

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 us, will maintain the solvency level of the TSS at a satisfactory level (refer to note 3 for the financial effect of the removal of this obligation).

Other superannuation schemes

Apart from the TSS and CSS, we also contribute to other employee superannuation schemes on both an accumulation or defined benefit basis. Our controlled entities, Hong Kong CSL Ltd and Pacific Access Pty Ltd, participate in other schemes which include defined benefit divisions.

Notes to the Financial Statements (continued)

22. Superannuation commitments (continued)

Other superannuation schemes (continued)

Hong Kong CSL Limited participate in a superannuation scheme with both defined benefit and accumulation divisions. This scheme is established under trust and is administered by an independent trustee. At 30 June 2001, the scheme is in the name of PCCW-HKT Limited, which is Hong Kong CSL Limited's previous immediate parent. As a result, Telstra is not the principle sponsor of this scheme.

Financial Position

The financial position of the defined benefit divisions of the TSS, our notional fund in the CSS, and the Pacific Access Superannuation scheme (PA Scheme) is shown as follows:

	Scheme assets		**Accrued benefits**		**Net surplus (a)**		**Vested benefits**	
	As at 30 June		**As at 30 June**		**As at 30 June**		**As at 30 June**	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
TSS (1)	5,375	6,795	3,050	3,387	2,325	3,408	3,715	4,093
CSS (2)	9,621	8,319	6,701	7,090	2,920	1,229	6,233	6,049
PA Scheme (3)	39	43	38	39	1	4	37	38
Total	15,035	15,157	9,789	10,516	5,246	4,641	9,985	10,180

(a) Net surplus is the excess of Scheme assets over Accrued benefits.

(1) Amounts for the defined benefit divisions of the TSS have been taken from the financial report of the scheme as at 30 June 2001. The scheme assets are stated at net market values.

(2) The CSS amounts show our share of the benefit liability in respect to future and past service of our employees and former employees who are members of the CSS. The CSS amounts as at 30 June 2001 are at the last actuarial valuation dated 30 June 2000. This report is yet to be reviewed by the Department of Finance and Administration and is subject to change. CSS amounts as at 30 June 2000 are at the actuarial valuation performed at 30 June 1997 which was the latest available at that time. The net surplus of $2,920 million (2000: $1,229 million), less superannuation contributions tax at the rate of 15%, will be used to cover future service accruals for existing members of the CSS and for transfer to the TSS as documented in this note.

(3) The PA Scheme provides both defined benefits and accumulation benefits. Amounts for this scheme have been measured as at 30 June 2001. At 1 July 2001, the PA Scheme will be transferred to the TSS.

Employer contributions

Employer contributions made to:
- the defined benefits divisions of the TSS for fiscal 2001 were $Nil (2000: $Nil; 1999: $Nil);
- the CSS have been $Nil for the past three years ended 30 June 2001;
- the defined benefit divisions of the Hong Kong CSL Limited scheme since the date of acquisition were $3 million; and
- the accumulation divisions of the TSS, and contributions to the defined benefits and accumulation divisions of the PA Scheme for fiscal 2001 totalled $6 million (2000: $6 million; 1999: $16 million).

TSS additional contributions during fiscal 2001 were $Nil (2000: $121 million; 1999: $121 million). Contributions in fiscal 2000 included $89 million (1999: $93 million) recorded in borrowing cost expenses, with $32 million (1999: $28 million) reducing the amount payable.

Notes to the Financial Statements (continued)

23. Investments in controlled entities

Below is a list of our investments in controlled entities.

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (a) As at 30 June 2001 $m	2000 $m	% of equity held by immediate parent As at 30 June 2001 %	2000 %
Parent entity					
Telstra Corporation Limited (1)	Australia				
Controlled entities					
Telecommunications Equipment Finance Pty Ltd (5) *	Australia	**-**	-	**-**	-
Telstra Finance Limited (1) (4) (15)	Australia	**-**	-	**100.0**	100.0
Telstra Corporate Services Pty Ltd (10)*	Australia	**6**	-	**100.0**	-
Transport Communications Australia Pty Ltd *	Australia	**4**	4	**100.0**	100.0
Telstra ESOP Trustee Pty Ltd (4) (8) *	Australia	**-**	-	**100.0**	100.0
Telstra Growthshare Pty Ltd (4) (8) *	Australia	**-**	-	**100.0**	100.0
Advanced Network Management Pty Ltd (3)	Australia	**-**	1	**-**	100.0
Telstra R&D Management Pty Ltd (1)	Australia	**1**	1	**100.0**	100.0
On Australia Pty Ltd (1)	Australia	**11**	11	**100.0**	100.0
Telstra Media Pty Ltd (1)	Australia	**311**	273	**100.0**	100.0
Telstra Multimedia Pty Ltd (1)	Australia	**1,720**	1,720	**100.0**	100.0
Telstra International Limited (1) (15)	Australia	**84**	84	**100.0**	100.0
Telstra OnAir Holdings Pty Ltd (10) *	Australia	**302**	-	**100.0**	-
• Telstra OnAir Infrastructure Holdings Pty Ltd (10) *	Australia	**-**	-	**100.0**	-
• Telstra 3G Spectrum Holdings Pty Ltd (10) *	Australia	**-**	-	**100.0**	-
Telstra Holdings Pty Ltd (1)	Australia	**4,015**	650	**100.0**	100.0
• Telstra Global Networks Limited (9) (13)	Bermuda	**-**	-	**-**	100.0
• Australian Network Company Pty Ltd (9) (10) (13)	Australia	**-**	-	**-**	-
• Telstra Holdings (Bermuda) No 2 Limited (9) (10) (12)	Bermuda	**-**	-	**100.0**	-
• Joint Venture (Bermuda) No. 2 Limited (9) (12)	Bermuda	**-**	-	**60.0**	-
• Bestclass Holdings Ltd (9) (12)	British Virgin Islands	**-**	-	**100.0**	-
• Hong Kong CSL Limited (formerly Cable and Wireless HKT CSL Limited) (9) (12)	Hong Kong	**-**	-	**100.0**	-
• Integrated Business Systems Limited (9) (12)	Hong Kong	**-**	-	**100.0**	-
• One2Free Personalcom Limited (9) (12)	Hong Kong	**-**	-	**100.0**	-
• CSL Limited (9) (12)	Hong Kong	**-**	-	**100.0**	-
• Telstra Holdings (Bermuda) No 1 Limited (9) (10)	Bermuda	**-**	-	**100.0**	-
• Telstra Retail (HK) Limited (9) (10)	Hong Kong	**-**	-	**100.0**	-
• Telstra IDC Holdings Limited (9) (10)	Bermuda	**-**	-	**-**	-
• Telstra Global Wholesale NZ Limited (9) (10) (13)	NewZealand	**-**	-	**-**	-
• Telstra Japan Retail K.K. (9) (10)	Japan	**-**	-	**100.0**	-
• Telstra (Malaysia Holdings) Sdn. Bhd. (9) (13)	Malaysia	**-**	-	**-**	100.0
• Telstra International (HK) Holdings Limited (9) (13)	Hong Kong	**-**	-	**-**	100.0
• Telstra Wholesale Inc. (9) (10)	United States	**-**	-	**100.0**	-
• Mobitel (pvt) Limited (9)	Sri Lanka	**-**	-	**60.0**	60.0
• Telstra New Zealand Limited (9) (10)	New Zealand	**-**	-	**100.0**	-
• Telstra Limited (9)	New Zealand	**-**	-	**100.0**	100.0
• Telstra Global Limited (9)	United Kingdom	**-**	-	**100.0**	100.0

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Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Name of entity	Country of incorporation	Telstra Entity's recorded amount of investment (a)		% of equity held by immediate parent	
		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000
		$m	$m	**%**	%
Controlled entities (continued)					
• Telstra Korea Limited (9) (13)	Korea	**-**	-	**-**	100.0
• Telstra Europe Limited (9) (16)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra (UK) Limited (9) (13)	United Kingdom	**-**	-	**-**	100.0
• PT Telstra Nusantara (9)	Indonesia	**-**	-	**100.0**	100.0
• Telstra Germany GmbH (9) (13)	Germany	**-**	-	**-**	100.0
• Telstra France SA (9) (13)	France	**-**	-	**-**	100.0
• Telstra Inc. (9)	United States	**-**	-	**100.0**	100.0
• North Point Telecommunications Inc. (9)	United States	**-**	-	**100.0**	100.0
• Telstra eConnect LLC (3) (9)	United States	**-**	-	**100.0**	100.0
• Telstra Wholesale Trading Inc. (9) (10) (13)	United States	**-**	-	**100.0**	-
• Telstra Vishesh Communications Ltd (6) (7) (9)	India	**-**	-	**47.1**	47.1
• Telstra South Asia Holdings Limited (9)	Mauritius	**-**	-	**100.0**	100.0
• Telstra India Private Limited (9)	India	**-**	-	**100.0**	100.0
• Telstra Singapore Pte Ltd (9) (13)	Singapore	**-**	-	**-**	100.0
• Telstra Japan K.K (9) (13)	Japan	**-**	-	**-**	100.0
Telstra Communications Limited (1)	Australia	**29**	29	**100.0**	100.0
• Telecom Australia (Saudi) Company Ltd (3) (6) (7) (9)	Saudi Arabia	**-**	-	**50.0**	50.0
Telstra Rewards Pty Ltd (4) *	Australia	**-**	-	**100.0**	100.0
• Telstra Visa Card Trust	Australia	**-**	-	**100.0**	100.0
• Qantas Telstra Card Trust	Australia	**-**	-	**100.0**	100.0
• Telstra Visa Business Card Trust	Australia	**-**	-	**100.0**	100.0
Atlas Travel Technologies Pty Ltd (14)	Australia	**-**	21	**-**	67.74
• Atlas Travel Technologies Inc. (9) (14)	United States	**-**	-	**-**	100.0
• Moneydirect International Limited (9) (14)	United Kingdom	**-**	-	**-**	100.0
• Moneydirect Pty Ltd (14) *	Australia	**-**	-	**-**	100.0
• Moneydirect Limited (9) (14)	New Zealand	**-**	-	**-**	100.0
Telstra Media Holdings Pty Ltd (1)	Australia	**29**	29	**100.0**	100.0
• Advantra Pty Ltd (1)	Australia	**-**	-	**100.0**	100.0
• Telstra Datacasting Pty Limited (10) *	Australia	**-**	-	**100.0**	-
Telstra CB Holdings Limited (1)	Australia	**898**	433	**100.0**	100.0
• Telstra CB.net Limited (1)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.Com Limited (1)	Australia	**-**	-	**100.0**	100.0
• Telstra CB.fs Limited (1)	Australia	**-**	-	**100.0**	100.0
• Keycorp Limited (2) (11) (17)	Australia	**-**	-	**50.75**	-
• Technical Parts & Services Pty Limited (2) (11)	Australia	**-**	-	**100.0**	-
• Keycorp Solutions Limited (11)	Australia	**-**	-	**100.0**	-
• Electronic Financial Technologies Pty Limited (11) *	Australia	**-**	-	**100.0**	-
• Sparad (No. 31) Pty Limited (11) *	Australia	**-**	-	**100.0**	-
• Keytec (No. 2) Pty Limited (2) (11)	Australia	**-**	-	**100.0**	-
• Budbade Pty Limited (2) (11)	Australia	**-**	-	**100.0**	-
• Keytec Pty Limited (2) (11)	Australia	**-**	-	**100.0**	-

(continued over page)

Notes to the Financial Statements (continued)

Name of entity	Country of incorporation		Telstra Entity's recorded amount of investment (a)		% of equity held by immediate parent	
			As at 30 June		As at 30 June	
			2001	2000	**2001**	2000
			$m	$m	**%**	%
Controlled entities (continued)						
• Keycorp USA Limited (7) (9) (11)	United States		**-**	-	**100.0**	-
• Tillsmith Systems, INC. (7) (9) (11)	United States		**-**	-	**100.0**	-
• Keycorp Investments Pty Limited (2) (11)	Australia		**-**	-	**100.0**	-
• E-Point Pty Limited (2) (11)	Australia		**-**	-	**100.0**	-
• Keycorp Technologies Pty Limited (2) (11)	Australia		**-**	-	**100.0**	-
• Nobil I.T. Australia Pty Limited (2) (11)	Australia		**-**	-	**100.0**	-
• Keycorp (Asia) Pty Limited (9) (11)	Hong Kong		**-**	-	**100.0**	-
• Nobil Information Technology Corporation Inc (9) (11)	Canada		**-**	-	**100.0**	-
• Nobil IT Canada Corporation (9) (11)	Canada		**-**	-	**100.0**	-
• Tillsmith Systems Inc. (9) (11)	Canada		**-**	-	**100.0**	-
• Keycorp (NZ) Limited (9) (11)	New Zealand		**-**	-	**100.0**	-
• Keycorp (NZ) Finance Limited (9) (11)	New Zealand		**-**	-	**100.0**	-
• IDL (NZ) Limited (9) (11)	New Zealand		**-**	-	**100.0**	-
• Nobil IT (NZ) Limited (9) (11)	New Zealand		**-**	-	**100.0**	-
• Keycorp Systems Limited (7) (9) (11)	United Kingdom		**-**	-	**100.0**	-
• KYC Pty Limited (7) (11) *	Australia		**-**	-	**73.0**	-
• Camtech R&D Pty Ltd (11) *	Australia		**-**	-	**100.0**	-
• Camtech Asia IT&T Sdn Bhd (7) (9) (11)	Malaysia		**-**	-	**95.0**	-
• InsNet Pty Ltd (1)	Australia		**-**	-	**100.0**	100.0
• Australasian Insurance Systems Pty Ltd (1)	Australia		**-**	-	**100.0**	100.0
• TRC Computer Systems Pty Ltd (1)	Australia		**-**	-	**100.0**	100.0
• DBA Limited (1)	Australia		**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd (1)	Australia		**-**	-	**81.3**	81.3
• DBA Computer Systems Pty Ltd (1)	Australia		**-**	-	**100.0**	100.0
• Brokerlink Pty Ltd (1)	Australia		**-**	-	**18.7**	18.7
• Unilink Group Pty Ltd (1)	Australia		**-**	-	**100.0**	100.0
Pacific Access Pty Ltd (1) (15)	Australia		**121**	121	**100.0**	100.0
• Telstra Retail Pty Ltd (16) *	Australia		**-**	-	**100.0**	100.0
• Telstra Retail Services Pty Ltd (16) *	Australia		**-**	-	**100.0**	100.0
• Pacific Access Enterprises Pty Ltd *	Australia		**-**	-	**100.0**	100.0
• WorldCorp Holdings (S) Pte Ltd (9)	Singapore		**-**	-	**100.0**	100.0
• WorldCorp Publishing Pte Ltd (9)	Singapore		**-**	-	**100.0**	100.0
Network Design and Construction Limited (1)	Australia		**177**	174	**100.0**	100.0
• NDC Global Holdings Pty Ltd *	Australia		**-**	-	**100.0**	100.0
• NDC New Zealand Limited (9) (10)	New Zealand		**-**	-	**100.0**	-
• NDC Telecommunications India Private Ltd (9) (10)	India		**-**	-	**100.0**	-
• PT NDC Indonesia (9) (10)	Indonesia		**-**	-	**95.0**	-
• NDC Global Philippines, Inc (9) (10)	Philippines		**-**	-	**100.0**	-
• NDC Global Services (Thailand) Limited (6) (9) (10)	Thailand		**-**	-	**49.0**	-
• NDC Global Services Pty Ltd *	Australia		**-**	-	**100.0**	100.0
Total investment in controlled entities (at cost)		note 11	**7,708**	3,551		
Provision for reduction in value		note 11	**(4,553)**	(2,415)		
		note 11	**3,155**	1,136		

(a) The amounts recorded are before any provision for reduction in value (refer note 11).

* These entities are small proprietary companies which are not required to prepare and lodge individual audited financial reports with the ASIC.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee

(1) The following companies have entered into a deed of cross guarantee dated 4 June 1996 (or have been added to this deed by an assumption deed):

- Telstra Corporation Limited;
- Telstra Holdings Pty Ltd;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra R&D Management Pty Ltd;
- Telstra Multimedia Pty Ltd;
- On Australia Pty Ltd;
- Telstra Media Holdings Pty Ltd;
- Network Design and Construction Limited;
- Pacific Access Pty Ltd;
- Telstra CB Holdings Limited;
- Telstra CB.net Limited;
- Telstra CB.Com Limited;
- Telstra CB.fs Limited;
- InsNet Pty Ltd;
- Australasian Insurance Systems Pty Ltd;
- TRC Computer Systems Pty Ltd;
- DBA Limited;
- Brokerlink Pty Ltd;
- DBA Computer Systems Pty Ltd;
- Unilink Group Pty Ltd;
- Telstra Media Pty Ltd; and
- Advantra Pty Ltd.

Telstra Finance Limited is trustee to the deed of cross guarantee.

There have been no changes to the parties to the deed of cross guarantee during fiscal 2001.

The deed of cross guarantee was formed under ASIC Class Order 98/1418, including amendments made to this class order. This class order was dated 13 August 1998 and has been amended by class orders 98/2017 and 00/0321. Under this class order and the deed of cross guarantee, the companies listed above, except for Telstra Finance Limited:
- form a closed group and extended closed group as defined in the class order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other named companies in the event of their winding up.

The consolidated assets and liabilities of the closed group and extended closed group at 30 June 2001 and 2000 is presented according to ASIC class order 98/1418 (as amended) as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee (continued)

Closed Group Statement of Financial Position	Closed Group As at 30 June 2001 $m	2000 $m
Current assets		
Cash	**1,336**	655
Receivables	**8,973**	3,710
Inventories	**281**	293
Other assets	**801**	253
Total current assets	**11,391**	4,911
Non current assets		
Receivables	**1,776**	109
Inventories	**8**	14
Investments - accounted for using the equity method	**189**	298
Investments	**1,705**	729
Property, plant and equipment	**22,256**	22,234
Future income tax benefit	**113**	106
Intangible assets	**477**	532
Other assets	**2,096**	1,313
Total non current assets	**28,620**	25,335
Total assets	**40,011**	30,246
Current liabilities		
Accounts payable	**2,267**	2,144
Borrowings	**5,854**	3,446
Income tax payable	**611**	527
Provisions	**2,065**	2,336
Revenue received in advance	**1,369**	730
Total current liabilities	**12,166**	9,183
Non current liabilities		
Accounts payable	**463**	729
Borrowings	**11,365**	6,606
Income tax payable	**91**	184
Deferred income tax	**1,490**	737
Provisions	**959**	1,162
Total non current liabilities	**14,368**	9,418
Total liabilities	**26,534**	18,601
Net assets	**13,477**	11,645
Shareholders' equity		
Contributed equity	**6,433**	6,433
Reserves	**26**	26
Retained profits	**7,018**	5,186
Shareholders' equity available to the closed group	**13,477**	11,645

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

ASIC deed of cross guarantee (continued)

(1) (continued) The consolidated net profit after income tax expense of the Closed Group and Extended Closed Group for the fiscal years ended 30 June 2001 and 2000 is presented according to ASIC class order 98/1418 (as amended) as follows:

This excludes Telstra Finance Limited. All significant transactions between members of the Closed Group have been eliminated.

Closed Group Statement of Financial Performance	Closed Group Year ended 30 June 2001 $m	2000 $m
Profit before income tax expense	**6,462**	5,420
Income tax expense	**2,185**	1,679
Profit after income tax expense available to the closed group	**4,277**	3,741
Retained profits at the beginning of the financial year available to the closed group	**5,186**	3,752
Effect on retained profits from additions of new entities to the closed group	**-**	9
Total available for distribution	**9,463**	7,502
Dividends provided for or paid	**2,445**	2,316
Retained profits at the end of the financial year available to the closed group	**7,018**	5,186

(2) On similar terms to the deed of cross guarantee formed by certain companies of the Telstra Group in (1), the following companies of the Keycorp Limited Group have also entered into a deed of cross guarantee on 30 December 1999:

- Keycorp Limited;
- Keycorp Investments Pty Ltd;
- Technical Parts & Services Limited;
- Keytec (No. 2) Pty Ltd;
- Budbade Pty Ltd;
- Keytec Pty Ltd;
- E-Point Pty Ltd ;
- Nobil I.T. Australia Pty Ltd; and
- Keycorp Technologies Pty Ltd.

Keycorp Limited is still required to prepare and lodge audited financial reports under the Corporations Act 2001 on a similar basis to Telstra Corporation Limited.

Liquidations and deregistrations

(3) As at 30 June 2001, the following companies were in voluntary liquidation:
- Telecom Australia (Saudi) Company Ltd; and
- Telstra eConnect LLC.

The following company was liquidated during fiscal 2001:
- Advanced Network Management Pty Ltd on 3 November 2000.

Rounded investments

(4) The cost of the Telstra Entity's investments in controlled entities, which is not shown when rounded to the nearest million dollars is as follows:

	As at 30 June 2001 $	2000 $
Telstra Rewards Pty Ltd	**2**	2
Telstra Finance Limited	**5**	5
Telstra ESOP Trustee Pty Ltd	**2**	2
Telstra Growthshare Pty Ltd	**1**	1

Controlled entities with no equity ownership

(5) We do not have an equity investment in Telecommunications Equipment Finance Pty Ltd. As we have effective control over this entity through economic dependency we have consolidated it into the group financial report. This company does not have any significant assets or liabilities.

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

Controlled entities where we own less than 50% equity

(6) We own 47.1% of the issued capital of Telstra Vishesh Communications Limited, 50% of the issued capital of Telecom Australia (Saudi) Co. Ltd., and 49% of the issued capital of NDC Global Services (Thailand) Limited. We can exercise control over the boards of directors of these entities in perpetuity, and therefore these entities have been consolidated into our financial report.

Controlled entities with different balance dates

(7) The following companies have different balance dates to our balance date of 30 June for fiscal 2001:
- Telstra Vishesh Communications Ltd - 31 March;
- Telecom Australia (Saudi) Co. Limited - 31 December;
- Keycorp USA Limited - 31 December;
- Tillsmith Systems, INC. - 31 December;
- Keycorp Systems Limited - 31 December;
- KYC Pty Limited - 31 December; and
- Camtech Asia IT&T Sdn Bhd - 31 December.

Financial reports prepared as at 30 June are used for consolidation purposes.

Trusts which are not consolidated

(8) We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We do not control or significantly influence the trusts as beneficial ownership and control remains with the employees who participate in the share plans administered by the trustee on their behalf.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for the Telstra Growthshare Trust. We do not control or significantly influence the trust as beneficial ownership and control remains with the executives who participate in the share plans administered by the trustee on their behalf.

For the reasons mentioned above we have not consolidated these trusts.

Controlled entities not individually audited by the Australian National Audit Office

(9) Companies not audited by the Australian National Audit Office, our Australian statutory auditor.

New incorporations and investments

(10) We have invested in or incorporated the following entities during fiscal 2001:
- Telstra Corporate Services Pty Ltd - 16 August 2000;
- Telstra OnAir Holdings Pty Ltd - 11 September 2000;
- Telstra OnAir Infrastructure Holdings Pty Ltd - 23 January 2001;
- Telstra 3G Spectrum Holdings Pty Ltd - 23 January 2001;
- Australian Network Company Pty Ltd - 24 November 2000;
- Telstra Holdings (Bermuda) No 1 Limited - 18 September 2000;
- Telstra Holdings (Bermuda) No 2 Limited - 26 September 2000;
- Telstra Retail (HK) Limited - 8 February 2001;
- Telstra IDC Holdings Limited - 17 January 2001;
- Telstra Global Wholesale NZ Limited - 13 December 2000;
- Telstra Japan Retail K.K. - 20 December 2000;
- Telstra Wholesale Inc. - 14 September 2000;
- Telstra New Zealand Limited - 6 July 2000;
- Telstra Wholesale Trading Inc. - 11 October 2000;
- Telstra Datacasting Pty Limited -16 February 2001;
- NDC New Zealand Limited - 7 July 2000;
- NDC Telecommunications India Private Ltd - 19 February 2001;
- PT NDC Indonesia - 21 March 2001;
- NDC Global Philippines, Inc - 19 July 2001; and
- NDC Global Services (Thailand) Limited - 11 November 2000.

The amounts initially invested were not significant.

(11) On 12 December 2000, we acquired a 50.94% controlling interest in Keycorp Limited and its controlled entities as listed below:

- Technical Parts & Services Pty Ltd;
- Keycorp Solutions Limited;
- Electronic Financial Technologies Pty Ltd;
- Sparad (No. 31) Pty Ltd;
- Keytec (No. 2) Pty Ltd;
- Budbade Pty Ltd;
- Keytec Pty Ltd;
- Keycorp USA Limited;
- Tillsmith Systems Inc. (United States);
- Keycorp Investments Pty Ltd;
- E-Point Pty Ltd;
- Keycorp Technologies Pty Ltd;
- Nobil I.T. Australia Pty Ltd;
- Keycorp (Asia) Pty Ltd;
- Nobil Information Technology Corporation Inc;
- Nobil IT Canada Corporation;
- Tillsmith Systems Inc. (Canada);
- Keycorp (NZ) Limited;
- Keycorp (NZ) Finance Limited;
- IDL (NZ) Limited;
- Nobil IT (NZ) Limited;

Notes to the Financial Statements (continued)

23. Investments in controlled entities (continued)

(11) (continued)

- Keycorp Systems Limited; and
- KYC Pty Ltd.

Refer to the statement of cash flows for further details on this transaction.

After this acquisition, Keycorp Limited have incorporated or invested in the following companies:

- Camtech R&D Pty Ltd - 15 January 2001; and
- Camtech Asia IT&T Sdn Bhd - 15 January 2001.

(12) As described earlier in these financial statements, on 7 February 2001, we completed our strategic alliance with Pacific Century CyberWorks Limited (PCCW). Under these arrangements, we acquired a 60% controlling interest in Joint Venture (Bermuda) No 2 Limited, and its controlled entities as follows:

- Bestclass Holdings Ltd;
- Hong Kong CSL Limited (formerly Cable and Wireless HKT CSL Limited);
- Integrated Business Systems Limited;
- One2Free Personalcom Limited; and
- CSL Limited.

Telstra Holdings (Bermuda) No 2 Limited the intermediate parent entity of Joint Venture (Bermuda) No 2 Limited was incorporated on 26 September 2000.

The effective date of our acquisition of Joint Venture (Bermuda) No2 Limited and the controlled entities listed was 1 February 2001.

Sale of controlled entities

(13) As stated earlier in these financial statements, on 7 February 2001, Reach was formed through the contribution of certain businesses and controlled entities of the Telstra Group together with certain PCCW assets. The resultant joint venture entity commenced operations with effect from 1 February 2001. Entities previously controlled by us that were disposed of included:

- Telstra Global Networks Limited;
- Telstra Global Wholesale NZ Limited;
- Telstra Singapore Pte Ltd;
- Telstra Japan K.K.;
- Telstra (Malaysia Holdings) Sdn. Bhd.;
- Telstra International (HK) Holdings Limited;
- Telstra (UK) Limited;
- Telstra Germany GmbH;
- Telstra France SA;
- Australian Network Company Pty Ltd;
- Telstra Korea Limited; and
- Telstra Wholesale Trading Inc.*.

* This entity is still legally owned by Telstra, however the economic benefits are attributed to Reach.

(14) On 30 October 2000, we sold our 67.74% shareholding in Atlas Travel Technologies Inc. and its controlled entities, Atlas Travel Technologies Inc., Moneydirect International Limited, Moneydirect Pty Ltd, and Mondeydirect Limited for $10 million.

Dividends received by the Telstra Entity

(15) Dividends were received by the Telstra Entity during fiscal 2001 from the following entities:

- Pacific Access Pty Ltd $Nil (2000: $41 million);
- Telstra International Limited $Nil (2000: $2 million);
- Network Design and Construction Limited $23.3 million (2000: $Nil);
- Advanced Network Management Pty Ltd $0.2 million (2000: $Nil); and
- Telstra Finance Limited $Nil (2000: $0.3 million).

Change of company names

(16) The following entities changed names during fiscal 2001:

- Telstra CB.UK Limited changed its name to Telstra Europe Limited on 18 October 2000;
- Goeureka.com.au Pty Ltd changed its name to Telstra Retail Pty Ltd on 25 June 2001; and
- Search Direct Pty Ltd changed its name to Telstra Retail Services Pty Ltd on 25 June 2001.

Controlled entities listed on the Australian Stock Exchange

(17) As at 30 June 2001, the following company was listed and its shares quoted on the Australian Stock Exchange:

- Keycorp Limited

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities

Our investments in joint venture entities are listed below:

Name of joint venture entity	Principal activities	Ownership interest		Telstra Group's recorded amount of investment (*)		Telstra Entity's recorded amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000	**2001**	2000
		%	%	**$m**	$m	**$m**	$m
(i) Joint venture entities							
FOXTEL Partnerships (#)	Pay television	**50.0**	50.0	**47**	39	**-**	-
Customer Services Pty Ltd (1)	Customer service	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Ltd (1)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (1) (3)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Reach Ltd (incorporated in Bermuda) (b) (5)	International connectivity services to wholesale customers	**50.0**	-	**854**	-	**-**	-
DataOne Corporation Pte Ltd (incorporated in Singapore) (b) (6)	Internet hosting company	**20.0**	-	**2**	-	**-**	-
Dynegy Connect LP (incorporated in USA) (b) (7)	Intellectual property and software	**20.0**	-	**95**	-	**-**	-
Stellar Call Centres Pty Ltd	Call centre services and solutions	**50.0**	50.0	**5**	3	**3**	3
Telstra Saturn Limited (incorporated in New Zealand) (b)	Telecommunications carrier and service provider	**50.0**	50.0	**79**	103	**-**	-
Xantic B.V. (formerly Station 12 B.V.) (incorporated in The Netherlands) (b) (13)	Global satellite communications	**35.0**	35.0	**110**	137	**-**	-
Investment 2000 Pty Ltd (1) (12) .	Olympic business investment opportunities	**25.0**	25.0	**-**	-	**-**	-
Telecom Services Kiribati Limited (incorporated in Kiribati) (a) (2) (14)	Telecommunications services	**-**	49.0	**-**	2	**-**	-
IDC Limited (incorporated in Bermuda) (b) (10)	Dormant	**50.0**	-	**-**	-	**-**	-
Telstra Hewlett-Packard (R&D) Pty Ltd (c) (1) (12)	Computer services	**-**	50.0	**-**	-	**-**	-
			note 11	**1,192**	284	**3**	3

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership combined.
(a) Balance date is 31 March.
(b) Balance date is 31 December.
(c) Balance date is 31 October.

Unless noted above, all investments have a balance date of 30 June. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting.

(*) The Telstra Group carrying amounts are equity accounted. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.17(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Our investments in associated entities are listed below:

Name of associated entity	Principal activities	Ownership interest		Telstra Group's recorded amount of investment (*)		Telstra Entity's recorded amount of investment (*)	
		As at 30 June		As at 30 June		As at 30 June	
		2001	2000	**2001**	2000	**2001**	2000
		%	%	**$m**	$m	**$m**	$m
(ii) Associated entities							
IBM Global Services Australia Limited (a) (b) (1)	Information technology services	**22.6**	22.6	**2**	-	**-**	-
Australia-Japan Cable Holdings Limited (incorporated in Bermuda) (a)	Network cable provider	**39.9**	39.9	**11**	11	**-**	-
Solution 6 Holdings Limited (15) .	Business software system provider	**19.1**	23.9	**34**	103	**10**	10
ECard Pty Ltd	Smart card transaction processing	**41.0**	41.0	**16**	31	**20**	31
PT Mitra Global Telekomunikasi Indonesia (incorporated in Indonesia) (a) (1)	Telecommunications services	**20.3**	20.3	**3**	3	**-**	-
Telstra Super Pty Ltd (1) (4)	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
myinternet.com.au Pty Ltd (8)	Educational portal	**20.9**	-	**1**	-	**-**	-
Keytec Nominees Pty Ltd (1) (11)	Trustee company	**40.0**	-	**-**	-	**-**	-
PlesTel Pty Ltd (1) (9)	Trustee company	**-**	30.0	**-**	-	**-**	-
PlesTel Operating Trust (2) (9) . .	Communication systems provider	**-**	30.0	**-**	18	**-**	26
			note 11	**67**	166	**30**	67

(a) Balance date is 31 December.

(b) The equity accounted amount was re-instated in the current year due to profits made. In the prior year, equity accounting was suspended and the investment recorded at zero due to accumulated losses.

Unless noted above, all investments have a balance date of 30 June. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting.

(*) The Telstra Group carrying amounts are equity accounted. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.17(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Share of joint venture and associated entities net losses/(profits)

	Year ended 30 June	
	2001	2000
	$m	$m
Our net loss/(profit) from joint venture entities and associates has been contributed by the following entities:		
Joint venture entities		
- FOXTEL Partnerships	**38**	39
- Stellar Call Centres Pty Ltd	**(2)**	-
- Telstra Saturn Limited	**85**	15
- Xantic B.V. (formerly Station 12 B.V.) (13)	**36**	(2)
- Telecom Services Kiribati Limited (14)	**(1)**	(1)
- Harmony Telecommunications Pty Ltd (6)	**4**	-
- Dynegy Connect LP (7)	**16**	-
- Reach Ltd (5)	**(48)**	-
	128	51
Associated entities		
- IBM Global Services Australia Limited	**(2)**	3
- Australia-Japan Cable Holdings Limited	**2**	2
- Solution 6 Holdings Limited (15)	**53**	4
- ECard Pty Ltd	**5**	-
- PlesTel Operating Trust (9)	**(11)**	(2)
- myinternet.com.au Pty Ltd (8)	**8**	-
	55	7
	183	58

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Joint venture entities and associated entities notes

Rounded investments

(1) The carrying amount of our investment in joint venture entities and associated entities which is not shown when rounded to the nearest million dollars:

	Carrying amount of investment			
	Telstra Group		Telstra Entity	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$	$	**$**	$
(i) Joint venture entities				
Customer Services Pty Ltd	*	*	-	-
FOXTEL Management Pty Ltd	**1**	1	-	-
FOXTEL Cable Television Pty Ltd	*	*	-	-
Investment 2000 Pty Ltd (12)	-	*	**12**	12
Telstra Hewlett-Packard (R&D) Pty Ltd (12)	-	1	-	1
(ii) Associated entities				
PT Mitra Global Telekomunikasi Indonesia	**	**	-	-
Telstra Super Pty Ltd	-	*	**2**	2
PlesTel Pty Ltd (9)	-	30	-	30
IBM Global Services Australia Limited	#	*	-	-
Keytec Nominees Pty Ltd (11)	**40**	-	-	-

* Equity accounted amount of investment is suspended and the investment is recorded at zero due to losses made by the entities or as a result of reducing the equity accounted amount to zero.

** Equity accounted amount of investment is suspended due to uncertainties which currently exist in the Indonesian economy.

Investment greater than $1 million as at 30 June 2001.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Joint venture entities and associated entities notes (continued)

Dividends received from joint venture and associated entities

(2) We received or were presently entitled to receive dividends and distributions from the following entities during fiscal 2001:
- Telecom Services Kiribati Limited $0.558 million (2000: $0.468 million);
- PlesTel Operating Trust $0.282 million (2000: $4 million).

Associated entities where we own more than 50% equity

(3) We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a joint venture entity, as the outside equity shareholders have participating rights that prevent us from dominating the decision making of the board of directors. Effective voting power is restricted to 50%.

(4) We own 100% of the equity of Telstra Super Pty Ltd, the Trustee for the Telstra Superannuation Scheme. We do not consolidate Telstra Super Pty Ltd, as we do not control the board of directors. The board has equal representation with employee representatives.

New incorporations and investments

(5) On 7 February 2001, we completed our strategic alliance with PCCW. Under the agreements, a new entity Reach Ltd (Reach) was created with effect from 1 February 2001 through the combination of our international wholesale businesses and certain wholesale assets together with certain PCCW assets. Reach operates as a provider of voice, data and internet connectivity services in the Asia-Pacific region. We have equity accounted our interest in this joint venture entity. The sale of our assets (valued at $2,372 million) to the joint venture entity resulted in the recognition of a profit before tax on the transaction in the current year of $1,704 million (in the entity). In accordance with our established accounting policies, Australian Accounting Standards and Urgent Issues Group Consensus Views, 50% of this profit has been deferred and will be amortised over the average useful life of the assets sold. The total amount deferred (including tax effect) was $875 million which will be amortised over a period of 20 years. The profit on sale in the group is $852 million. In the current year, a further $18 million was released to profit being 5 months recognition of the deferred profit.

(6) We purchased a 50% investment in Harmony Telecommunications Pte Ltd (Harmony) on 14 August 2000 for $5 million. The principal activity of Harmony is telecommunications carrier and service provider. On 1 April 2001 Telstra sold its 50% interest in Harmony to DataOne Corporation Pte Ltd (DataOne) for $2 million. This amount was exchanged for a 20% interest in DataOne. Our investment in DataOne has been classified as a joint venture entity as we have joint control over decision making. We recognised $4 million share of losses in the current year from our investment in Harmony.

(7) We purchased our 50% investment in Dynegy Connect LP (Dynegy) on 3 October 2000 for $86 million. Dynegy Connect LP was incorporated in the USA and follows a merger of Extant Inc. into a wholly owned subsidiary of Dynegy Inc. creating a new limited liability partnership - Dynegy Connect LP. Proceeds from the share sale of Telstra's holding in Extant Inc. contributed to the funding of the investment. As we have joint decision making with the other shareholder of Dynegy, we have recorded the investment as a joint venture entity.

(8) We purchased a 13.7% investment in myinternet.com.au Pty Ltd on 10 August 2000 for $6 million. As we have significant influence over the operating and financial policies of the entity, we have recorded the investment as an associated entity. During the year we acquired additional equity of $3 million increasing our investment from 13.7% to 20.9%.

(9) The PlesTel Operating Trust and its trustee company PlesTel Pty Ltd were restructured on 31 August 2000 as part of an initial public offering (IPO). The new listed entity is called Commander Communications Limited (Commander) of which we have retained a 16.6% interest post IPO. We no longer have significant influence over Commander and as a result, it is no longer treated as an associate.

(10) We purchased our 50% interest in IDC Limited on 17 January 2001. The company is dormant with no funds contributed. The purpose of the company was to own and operate internet data centres throughout the Asia-Pacific region. These operations are now being undertaken by Reach and it is intended that the company will be de-registered during 2002.

(11) Keytec Nominees Pty Ltd (Keytec) is an investment of the Keycorp Limited Group (Keycorp). We acquired our 40% interest in Keytec when we acquired our investment in Keycorp on 12 December 2000.

Liquidation and de-registration of companies

(12) De-registration of Telstra Hewlett-Packard (R&D) Pty Ltd commenced 28 June 2001. The de-registration procedures have been completed in substance as at 30 June 2001.

Investment 2000 Pty Ltd is currently in liquidation (liquidator appointed 31 May 2001).

Change of company names

(13) Station 12 B.V. changed its name to Xantic B.V. on 1 May 2001.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Joint venture entities and associated entities notes (continued)

Sale of investments

(14) We sold our investment in Telecom Services Kiribati Limited on 31 May 2001 for $3 million.

Associated entities where we own less than 20% of issued shares

(15) Our investment in Solution 6 Holdings Limited (Solution 6) has decreased from 23.9% at June 2000 to 19.1% as at 30 June 2001 due to a dilution in our shareholding. We are the largest single shareholder and have entitlement to appoint directors to the Board of Solution 6. On this basis we have the capacity to affect substantially the financial and operating policies of the entity and continue to record the investment as an associated entity.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Joint venture and equity accounting information

The movements in the consolidated equity accounted amount of our joint venture and associated entity investments are summarised as follows:

		Joint venture entities		Associated entities	
		Telstra Group		Telstra Group	
		Year ended/As at 30 June		Year ended/As at 30 June	
		2001	2000	**2001**	2000
	Note	**$m**	$m	**$m**	$m
Carrying amount of investments at beginning of year		**284**	49	**166**	20
Additional investments made during the year to 30 June		**1,924**	402	**11**	179
Sale of investments during the year to 30 June		**(3)**	-	**(30)**	-
		2,205	451	**147**	199
Share of (losses)/profits before income tax expense		**(11)**	(51)	**(29)**	(1)
Share of income tax expense on profits		**(25)**	-	**(3)**	-
Share of (losses)/profits after income tax expense		**(36)**	(51)	**(32)**	(1)
Amortisation of unrealised inter-entity profits after income tax		**39**	2	**12**	(2)
Write-off of goodwill		**(71)**	-	**(31)**	-
Amortisation of notional goodwill		**(60)**	(2)	**(4)**	(4)
Share of net (losses)		**(128)**	(51)	**(55)**	(7)
Adjusted for initial unrealised inter-entity profits after income tax		**(875)**	(85)	**-**	(6)
Dividends and distributions received		**(1)**	-	**-**	(4)
Share of general reserve		**3**	-	**-**	-
Share of foreign currency conversion reserve		**(34)**	(9)	**1**	-
Carrying amount of investment before reduction to recoverable amount		**1,170**	306	**93**	182
Reduction in value of investment to recoverable amount		**22**	(22)	**(26)**	(16)
Carrying amount of investments at end of year	11	**1,192**	284	**67**	166
Our share of contingent liabilities of joint venture entities and associated entities - we are not directly liable for these		**1**	1	**-**	-
Our share of capital commitments contracted for, by our joint venture entities and associated entities - we are not directly liable for these		**253**	44	**99**	281
Our share of other expenditure commitments contracted for (other than the supply of inventories), by our joint venture entities and associated entities - we are not directly liable for these		**684**	73	**92**	85
Summarised presentation of our share of all of our associates' assets, liabilities and net profit after income tax expense (including equity accounted investments that have been suspended) (a):					
Net (losses)/profits after income tax expense				**(51)**	(17)
Assets				**571**	393
Liabilities				**486**	231

(a) These disclosures only apply to associated entities. Refer below for the disclosures that apply to joint venture entities.

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Joint venture and equity accounting information (continued)

Other disclosures for joint venture entities

Summarised presentation of our share of all joint venture entities' assets, liabilities and profit and loss items (including equity accounted investments where equity accounting has been suspended):

	Joint venture entities	
	Telstra Group	
	Year ended/As at 30 June	
	2001	2000
	$m	$m
Current assets	**662**	124
Non current assets	**3,719**	437
Total assets	**4,381**	561
Current liabilities	**779**	123
Non current liabilities.	**1,557**	126
Total liabilities	**2,336**	249
Net assets	**2,045**	312
Total revenues	**1,556**	595
Total expenses	**1,565**	647
Losses before income tax expense	**(9)**	(52)
Income tax (expense) on profits	**(25)**	-
Losses after income tax expense	**(34)**	(52)

Notes to the Financial Statements (continued)

24. Investments in joint venture entities and associated entities (continued)

Included in the consolidated financial report of the Telstra Group are:

	Joint venture entities Telstra Group As at 30 June		Associated entities Telstra Group As at 30 June	
	2001 $m	2000 $m	**2001 $m**	2000 $m
Amount of our recorded retained (losses) balance relating to equity accounting our joint venture entities and associated entities (i)	**(1,451)**	(469)	**(132)**	(51)
Amount of our recorded foreign currency conversion reserve (debit) balance relating to equity accounting our joint venture entities and associated entities.	**(43)**	(9)	**(45)**	(47)
Amount of our recorded general reserve credit balance relating to equity accounting our joint venture entities and associated entities.	**3**	-	**1**	1

(i) The following items are included in this amount:

- share of net (losses)/profits;
- initial unrealised inter-entity profit after tax adjustment;
- notional goodwill amortisation;
- deferred profit brought to account;
- dividends and distributions received; and
- reduction in value of investments to recoverable amount.

Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

25. Directors' remuneration - salaries and other benefits

	Telstra Group 2001 $m	Telstra Group 2000 $m	Telstra Entity 2001 $m	Telstra Entity 2000 $m
Total income and benefits of all directors of the Telstra Entity (a)			**3.668**	2.516
Total income and benefits of all directors of the Telstra Entity and all of the directors of our controlled entities (a)	**3.870**	3.124		

The income brackets of Telstra Entity directors are displayed below together with the number of Telstra Entity directors with income in those brackets:

	Number	Number
$10,000 - $19,999	**-**	1
$40,000 - $49,999	**2**	-
$60,000 - $69,999	**-**	9
$70,000 - $79,999	**4**	1
$80,000 - $89,999	**2**	-
$90,000 - $99,999	**1**	1
$100,000 - $109,999	**1**	-
$110,000 - $119,999	**-**	1
$120,000 - $129,999	**1**	-
$190,000 - $199,999	**1**	-
$250,000 - $259,999	**1**	-
$1,650,000 - $1,659,999	**-**	1
$2,340,000 - $2,349,999	**1**	-

(a) Directors' remuneration also includes employer contributions made to superannuation funds.

Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m

26. Executives' remuneration - salaries and other benefits

An executive officer is a person who is a member of our senior management team and is involved in our strategic direction and operational management. This includes the chief executive officer (CEO), those who report direct to the CEO and the next level of executives who have a direct reporting relationship to the CEO's direct reports.

	Telstra Group 2001 $m	Telstra Group 2000 $m	Telstra Entity 2001 $m	Telstra Entity 2000 $m
Total income and benefits of all Australian based executive officers of the Telstra Entity where their income is $100,000 or more (a) (b) (c)			**39.385**	45.791
Total income and benefits of all Australian based executive officers of the Telstra Entity and our controlled entities where their income is $100,000 or more (a) (b) (c)	**44.626**	52.631		

The income brackets of all Australian based executives whose income is $100,000 or more are displayed below, together with the number of executives with income in those brackets:

	Telstra Group 2001 Number	Telstra Group 2000 Number	Telstra Entity 2001 Number	Telstra Entity 2000 Number
$100,000 - $109,999	**-**	1	**-**	-
$110,000 - $119,999	**1**	-	**1**	-
$120,000 - $129,999	**2**	1	**2**	-
$130,000 - $139,999	**2**	-	**1**	-
$140,000 - $149,999	**1**	-	**1**	-
$150,000 - $159,999	**1**	-	**-**	-
$160,000 - $169,999	**1**	2	**-**	-
$170,000 - $179,999	**4**	6	**3**	3
$180,000 - $189,999 (c)	**4**	4	**3**	2
$190,000 - $199,999	**2**	4	**1**	-
$200,000 - $209,999	**4**	2	**4**	2
$210,000 - $219,999	**1**	6	**1**	4
$220,000 - $229,999	**1**	3	**1**	-
$230,000 - $239,999	**10**	5	**6**	3
$240,000 - $249,999 (c)	**4**	5	**3**	5
$250,000 - $259,999	**4**	5	**3**	5
$260,000 - $269,999	**9**	6	**5**	5
$270,000 - $279,999	**1**	1	**1**	1
$280,000 - $289,999	**-**	2	**-**	2
$290,000 - $299,999 (c)	**3**	-	**3**	-
$300,000 - $309,999	**5**	1	**4**	1
$310,000 - $319,999	**3**	4	**3**	4
$320,000 - $329,999	**1**	2	**1**	2
$330,000 - $339,999 (c)	**4**	2	**4**	2
$340,000 - $349,999	**1**	1	**1**	-
$350,000 - $359,999	**2**	2	**2**	2
$360,000 - $369,999	**1**	-	**1**	-
$370,000 - $379,999	**1**	3	**1**	3
$380,000 - $389,999	**1**	-	**1**	-
$390,000 - $399,999	**1**	-	**1**	-
$400,000 - $409,999	**1**	1	**1**	-

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Notes to the Financial Statements (continued)

	Telstra Group		Telstra Entity	
	Year ended 30 June		Year ended 30 June	
	2001	2000	**2001**	2000

26. Executives' remuneration - salaries and other benefits (continued)

	Number	Number	**Number**	Number
$410,000 - $419,999	**-**	1	**-**	1
$420,000 - $429,999	**-**	1	**-**	-
$430,000 - $439,999	**-**	4	**-**	4
$440,000 - $449,999	**-**	4	**-**	4
$450,000 - $459,999	**1**	2	**1**	2
$460,000 - $469,999	**4**	1	**4**	1
$470,000 - $479,999	**2**	1	**2**	1
$480,000 - $489,999	**1**	2	**1**	2
$490,000 - $499,999	**-**	1	**-**	1
$500,000 - $509,999	**2**	1	**2**	1
$510,000 - $519,999	**-**	1	**-**	1
$520,000 - $529,999 (c)	**2**	1	**2**	1
$540,000 - $549,999	**1**	-	**1**	-
$550,000 - $559,999	**1**	-	**1**	-
$560,000 - $569,999	**-**	2	**-**	2
$590,000 - $599,999	**-**	1	**-**	1
$600,000 - $609,999	**1**	1	**-**	1
$610,000 - $619,999	**1**	-	**1**	-
$620,000 - $629,999	**-**	1	**-**	1
$630,000 - $639,999	**2**	1	**2**	1
$650,000 - $659,999 (c)	**2**	-	**2**	-
$670,000 - $679,999	**1**	-	**1**	-
$690,000 - $699,999	**-**	2	**-**	2
$710,000 - $719,999	**-**	1	**-**	-
$790,000 - $799,999 (c)	**1**	-	**1**	-
$800,000 - $809,999	**1**	-	**1**	-
$830,000 - $839,999	**-**	1	**-**	1
$840,000 - $849,999	**1**	-	**-**	-
$860,000 - $869,999	**-**	1	**-**	-
$870,000 - $879,999	**1**	-	**1**	-
$890,000 - $899,999	**-**	1	**-**	1
$920,000 - $929,999 (c)	**1**	2	**1**	2
$1,030,000 - $1,039,999	**-**	1	**-**	1
$1,060,000 - $1,069,999	**1**	-	**1**	-
$1,120,000 - $1,129,999	**-**	1	**-**	1
$1,160,000 - $1,169,999 (c)	**2**	1	**2**	1
$1,170,000 - $1,179,999	**-**	1	**-**	1
$1,190,000 - $1,199,999	**-**	1	**-**	1
$1,210,000 - $1,219,999	**1**	-	**1**	-
$1,260,000 - $1,269,999	**-**	1	**-**	1
$1,380,000 - $1,389,999	**1**	-	**1**	-
$1,470,000 - $1,479,999 (c)	**1**	-	**1**	-
$1,520,000 - $1,529,999	**-**	1	**-**	1
$1,650,000 - $1,659,999	**-**	1	**-**	1
$1,870,000 - $1,879,999	**-**	1	**-**	1
$2,030,000 - $2,039,999	**-**	1	**-**	1
$2,150,000 - $2,159,999	**-**	1	**-**	1
$2,340,000 - $2,349,999	**1**	-	**1**	-

Notes to the Financial Statements (continued)

26. Executives' remuneration - salaries and other benefits (continued)

(a) Income and benefits of executives includes:
- fixed remuneration which is made up of salary, company superannuation contributions and benefits including fringe benefits tax;
- management incentives;
- notional interest charges for interest free employee share loans described in note 19;
- retirement/redundancy/termination payments totalling $5.127 million (2000: $11.411 million) for the Telstra Group; and
- retirement/redundancy/termination payments totalling $4.739 million (2000: $10.637 million) for the Telstra Entity.

(b) Income for our executives includes amounts from two incentive plans. The Manager Incentive Plan (MIP) is an annual plan open to all of our executives. The amount of remuneration at risk (target incentive) varies between 14% and 27% (2000: 13% and 25%) of the total remuneration package depending on the executive's role. The plan is based on performance against set targets for Corporate, Business Unit and individual measures. The measures include financial, customer service and individual measures that support our key business objectives. Before any MIP is payable, a target must be reached, according to the predefined measures. The plan also provides that payments are capped at a specified level.

Selected senior executives who contributed significantly to our future long term profitability and success also participate in a Long Term Incentive Plan (LTI). This cash-based long term incentive was phased out during 2001. For fiscal 2001, the LTI payment comprises 13% to 28% (2000: 12% to 21%) of the total remuneration package depending on the executive's level. Any payment made under this plan depends on the achievement of return on investment targets over a three year period. The plan, which began in 1994, also included an annual payment based on the dividend declared in respect of earnings.

This year Telstra has changed its treatment of both incentive plans to show figures for actual performance for Telstra and the individual attributed to fiscal 2001 rather than target performance for Telstra and the individual. Fiscal 2001 is the last year of the cash based Long Term Incentive which has been replaced by Telstra Growthshare.

In fiscal 2000, Telstra Growthshare commenced and has now replaced the previous cash based LTI. Selected senior executives who contribute significantly to our future long term profitability participate in Telstra Growthshare. Executives in Growthshare can receive an allocation of options, restricted shares or both. The options and restricted shares can only be exercised to normal ordinary shares between certain time periods and if performance hurdles have been achieved. Refer to note 19 for more details on Telstra Growthshare. 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. Under Telstra's USGAAP disclosures (refer note 30) the option pricing model used to determine the fair value for options for the purpose of inclusion in the potential compensation expenses adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method. The value for the September 1999 allocation is $1.38 per option. The value for the September 2000 allocation is $0.89 per option and $0.80 per option for the March 2001 allocation. A fair value for the restricted shares has been deemed as the average share price over the five days preceding and including the date of allocation.

(c) Includes payments relating to commencement or completion of employment with us.

Notes to the Financial Statements (continued)

27. Related entity transactions

Ultimate controlling entity

The Commonwealth is the ultimate parent and controlling entity of the Telstra Group. Telstra Corporation Limited is the parent entity in the group comprising the Telstra Entity and its controlled entities.

We supply telecommunications services to, and acquire other services from, the Commonwealth, its Departments of State, trading and other agencies. These transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There are no exclusive rights to supply any of these services. Services provided to any one governmental department or agency or the combination of all of these services in total, do not represent a significant component of our operating revenues. For these reasons, the financial reports do not disclose transactions relating to the purchase and sale of goods and services from or to the Commonwealth, its Departments of State, trading and other agencies.

Directors of the Telstra Entity

The names of each person who held office as a director of the Telstra Entity for the whole of fiscal 2001 were:

Zygmunt E Switkowski	John T Ralph	John W Stocker
Elizabeth A Nosworthy	N Ross Adler	Anthony J Clark
Donald G McGauchie	Malcolm G Irving	Robert C Mansfield

- John Fletcher was appointed as director on 17 November 2000.
- Catherine Livingstone was appointed as director on 17 November 2000.
- Sam Chisholm was appointed as director on 17 November 2000.
- Christopher I Roberts retired as director on 17 November 2000.
- Cecilia A Moar retired as director on 17 November 2000.
- Stephen W Vizard retired as director on 17 November 2000.

Details of directors' remuneration, superannuation and retirement payments are listed in note 25.

Loans to directors of the Telstra Entity

No non-executive director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during fiscal 2001, 2000 or 1999.

In fiscal 1998 Z E Switkowski (before being appointed chief executive officer and managing director) was provided with a loan from the Telstra Entity as part of his participation in the Telstra Employee Share Ownership Plan (TESOP97). The loan was provided interest free and on the same conditions as all other eligible employees who participated in TESOP97. During fiscal 2000 Z E Switkowski also participated in the Telstra Share Ownership Plan II (TESOP99). Further details of the share plans are contained in note 19.

The total loan provided during fiscal 2001 was $1,160, being the second instalment for the shares acquired under TESOP99 (2000: $1,799; 1999: $5,400). The total amounts repaid during the fiscal 2001 were $407 (2000: $560; 1999: $6,739). At 30 June 2001, the outstanding balance of the loan to Z E Switkowski was $8,169 (2000: $7,416).

Other transactions with directors of the Telstra Entity and their director related entities

Each of the directors of the Telstra Entity have telecommunications services transactions with the Telstra Group which are not significant and are both trivial and domestic in nature. Director related entities also have telecommunications services which are on normal commercial terms and conditions.

Loan to Telstra Growthshare

During fiscal 2000 Telstra created Telstra Growthshare (a senior executive equity participation plan). In fiscal 2001, we advanced $32 million (2000: $17 million) to Telstra Growthshare to enable it to purchase shares in the Telstra Entity. Of the $32 million loan $5 million (2000: $3 million) was to acquire restricted shares. This amount has been written off to the profit and loss as it is not repayable to Telstra. The balance of $41 million (2000: $14 million) was used to acquire Telstra Entity shares over which certain senior executives are granted options and/or ownshares, and certain non-executive directors are granted directshares (refer note 19 for further information).

Loans to employees

We have two employee shares schemes, being TESOP97 and TESOP99. During fiscal 2000 $76.183 million was advanced to participating employees to enable the purchase of Telstra shares. Loans under TESOP97 and TESOP99 are provided interest free. During fiscal 2001 $75,357 million of the loans under TESOP97 and TESOP99 were repaid. At 30 June 2001 the outstanding loan balance for both schemes was $269.823 million (2000: $296.623 million). Refer to note 19 for further information.

Notes to the Financial Statements (continued)

27. Related entity transactions (continued)

Directors of the Telstra Entity interests in shares of the Telstra Entity

As at 30 June 2001 and 2000, the directors, family members and their related entities had interests in the share capital of the Telstra Entity as follows:

Telstra Entity - shares (a)

	As at 30 June 2001			As at 30 June 2000		
	Direct	**Indirect**	**Total**	Direct	Indirect	Total
R C Mansfield . . .	**26,886**	**82,400**	**109,286**	9,000	82,400	91,400
J T Ralph	**4,444**	**72,900**	**77,344**	1,000	73,500	74,500
Z E Switkowski (b)	**29,700**	**98,410**	**128,110**	29,620	83,410	113,030
N R Adler	**51,753**	**50,400**	**102,153**	49,600	57,560	107,160
S Chisholm	**-**	**-**	**-**	-	-	-
A J Clark	**11,866**	**69,500**	**81,366**	10,000	69,500	79,500
J Fletcher	**1,237**	**32,000**	**33,237**	-	-	-
M G Irving	**26,153**	**54,400**	**80,553**	24,000	40,400	64,400
C Livingstone . . .	**11,637**	**17,150**	**28,787**	-	-	-
D G McGauchie . .	**1,866**	**18,700**	**20,566**	-	18,700	18,700
C A Moar (c)	**-**	**-**	**-**	-	4,080	4,080
E A Nosworthy . .	**9,583**	**29,200**	**38,783**	7,000	29,200	36,200
C I Roberts (c) . . .	**-**	**-**	**-**	16,000	80,360	96,360
J W Stocker	**2,953**	**54,325**	**57,278**	800	54,325	55,125
S W Vizard (c) . . .	**-**	**-**	**-**	-	39,200	39,200

(a) As at 30 June 2000, 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. The final instalment was paid on 2 November 2000. After final payment the instalment receipts were converted to ordinary shares.

(b) There have been no shares issued under TESOP 97 and TESOP 99. Shares have been allocated under the directshare equity plan. A schedule of the shareholdings is included in note 19. Fiscal 2000 includes 400 shares acquired with an interest free loan and 200 free extra shares under the terms of TESOP99. Fiscal 2000 and 1999 includes 2,000 shares acquired with an interest free loan plus 500 free extra shares under the terms of TESOP97.

(c) Retired during fiscal 2001.

Telstra Entity - options and restricted shares issued under Telstra Growthshare

	As at 30 June 2001		As at 30 June 2000	
	Options	**Restricted shares**	Options	Restricted shares
Z E Switkowski . (d)	**764,000**	**146,000**	300,000	50,000

(d) Refer to note 19 for details of Telstra Growthshare terms and conditions.

Directors of controlled entities

Each of our controlled entity directors and their director related entities have telecommunications services transactions with us, which are on normal commercial terms and conditions and are trivial and domestic in nature.

Loans to directors of controlled entities

Certain employees of the Telstra Group who were eligible to participate in TESOP99 and TESOP97 (refer note 19) were also directors of controlled entities. The directors of the controlled entities were provided with an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in TESOP99 and TESOP97. During fiscal 2001, certain employees became directors of controlled entities in the Telstra Group. These directors brought with them existing loans of $97,880.

The amount of new loans advanced during fiscal 2001 for the final instalment due for the purchase of shares in TESOP99 was $53,360 (2000: $138,523; 1999: $105,300, these related to loans advanced for the first instalment). Loan repayments of $27,730 (2000: $99,602; 1999: $29,513) were made including 2 directors who left the Telstra Group during the year and repaid their TESOP97 loans in full. For TESOP99 shares, directors that have left continue to be the beneficial owner of the shares. The balance of the loans outstanding at 30 June 2001 was $341,388 (2000: $360,640; 1999: $222,355). All directors listed below were either provided with or made loan repayments during fiscal 2001 and 2000:

B Abell	S Eastwood	K Phillips
B Akhurst	G Fidler	P I Pickering
R Baxter	P Frueh	B Pineau
G B Beros	B Grisdale	D Pitt
H Bradlow	P Hastings	M Robertson
K Bradshaw	J Hibbard	J Rolland
J Burke	H Kelly	L Saly
C Cameron	W Lawler	G Shepherd
D Campbell	S Lee	D Simpson
R Cartwright	A Mason	D Smith
D G Chalmers	J T McGuire	J V Stanhope
S Cole	M Montalto	P Wallis
T Crossley	G Moriarty	M Walsh
C B Davis	N Moser	J Weber
G Day	T O'Malley	P Williamson
A Dix	G Patterson	G Willis
W Donaldson	T Pearson	L Wood
P Dutton	N Peckham	

Notes to the Financial Statements (continued)

27. Related entity transactions (continued)

Loans to directors of controlled entities (continued)

The two directors who repaid their TESOP97 loan in full during the year were B Abell and R Cartwright.

Telstra shares owned by the Telstra Superannuation Scheme

The Telstra Superannuation Scheme owns shares in Telstra Corporation Limited. As at 30 June 2001 the TSS owned 11,305,747 (2000: 8,253,167) shares with a cost of $75 million (2000: $49 million) and a market value of $61 million (2000: $56 million). In fiscal 2000 the TSS also owned instalments receipts in the Telstra Entity of 5,183,485 with a cost of $27 million and market value of $20 million at the end of fiscal 2000. During fiscal 2001, instalment receipts were converted into shares. All purchases and sales of Telstra shares by the TSS are determined by the trustee and/or its investment managers on behalf of the members of the TSS.

Notes to the Financial Statements (continued)

27. Related entity transactions (continued)

Wholly owned group and other related entity disclosures

Amounts receivable from and payable to entities in the wholly owned group and other related entities:

	Telstra Group			Telstra Entity	
	As at 30 June			As at 30 June	
	2001	2000	1999	**2001**	2000
	$m	$m	$m	**$m**	$m
Total amounts receivable (including trade debtors) at 30 June from:					
Current					
Wholly owned controlled entities (i)	**-**	-	-	**6,665**	1,112
Other controlled entities	**-**	-	-	**-**	1
Joint venture and associated entities	**88**	80	21	**72**	66
Non current					
Wholly owned controlled entities	**-**	-	-	**227**	223
Other controlled entities	**-**	-	-	**-**	6
Total amounts payable (including accounts payable) at 30 June to:					
Current					
Wholly owned controlled entities (i)	**-**	-	-	**4,879**	984
Joint venture and associated entities	**119**	83	56	**83**	79
Non current					
Wholly owned controlled entities	**-**	-	-	**-**	18

(i) Since fiscal 2000 Telstra commenced charging interest on all amounts receivable and payable to controlled entities. Therefore during fiscal 2000 and 2001 there were no interest free transactions undertaken between the Telstra Entity and its controlled entities.

During fiscal 1999, the Telstra Entity participated in interest free transactions with its controlled entities as follows:

As at balance date for fiscal 1999:
- the total amounts receivable from controlled entities amounted to $676 million for 1999;
- the total amounts payable to controlled entities amounted to $234 million for 1999; and
- the interest free amounts payable to the wholly owned controlled entities amounted to $217 million for 1999 as payment for the transfer of tax losses.

Notes to the Financial Statements (continued)

27. Related entity transactions (continued)

Wholly owned group and other related entity disclosures (continued)

In fiscal 2001, a number of purchase and sale transactions occurred between the Telstra Entity and its wholly owned controlled entities and other related entities.

- During fiscal 2001, communication assets were sold by the Telstra Entity to a controlled entity in the wholly owned group at cost of $42 million (2000: $32 million; 1999: $9 million).

- The Telstra Entity sold services, purchased goods and communications assets, paid fees and received dividends from, and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.

- Network Design and Construction Limited (NDC) constructs communication assets on our behalf. During fiscal 2001 we purchased communication assets from NDC totalling $913 million (2000: $1,157 million; 1999: $Nil).

Included in the revenue received in advance amount at 30 June 2001 is $284 million (2000: $286 million; 1999: $281 million) received from a controlled entity for the use of our Yellow Pages ® trademark. These amounts are not recorded as revenue until the directories are published according to our accounting policy described in note 1.11(e).

Included in software assets for fiscal 2001 is $172 million (2000: $218 million; 1999: $212 million) paid to IBMGSA.

Included in deferred expenditure for the year ended 30 June 2001 is $16 million (2000: $14 million; 1999: $Nil) paid to Australia-Japan Cable as a payment for future cable capacity purchases.

Notes to the Financial Statements (continued)

27. Related entity transactions (continued)

Wholly owned group and other related entity disclosures (continued)

During fiscal 2001, 2000 and 1999 the Telstra Entity had the following transactions between members of the wholly owned group and other related entities:

	Note	Telstra Group Year ended 30 June 2001 $m	Telstra Group 2000 $m	Telstra Group 1999 $m	Telstra Entity Year ended 30 June 2001 $m	Telstra Entity 2000 $m
Our transactions with entities in the wholly owned group and other related entities						
Operating profit before income tax expense for the year includes the following transactions:						
Interest revenue from:						
Wholly owned controlled entities	2	**-**	-	-	**97**	34
Joint venture and associated entities	2	**2**	2	1	**2**	2
Borrowing costs:						
Wholly owned controlled entities	3(a)	**-**	-	-	**66**	27
Joint venture and associated entities	3(a)	**-**	-	1	**-**	-
Dividend revenue from:						
Wholly owned controlled entities	2	**-**	-	-	**23**	63
Joint venture and associated entities	2	**-**	5	-	**-**	4
Sale of goods and services to:						
Joint venture and associated entities		**152**	155	128	**91**	95
Purchase of goods and services from:						
Joint venture and associated entities		**616**	416	453	**613**	409

Notes to the Financial Statements (continued)

28.Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 30 June 2001 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.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures

Derivative financial instruments

Objectives and significant terms and conditions

We use derivative financial instruments to manage financial risks associated with changes in interest rates and foreign currency exchange rates. Instruments that we use to do this include:
- forward foreign currency contracts;
- cross-currency swaps;
- interest rate swaps; and
- interest rate futures contracts.

We do not speculatively trade in these instruments. All derivative transactions are entered into to hedge the risks relating to underlying physical transactions.

As we use the derivative transactions to hedge underlying physical transactions relating to:
- interest rate risk;
- currency risk; or
- other market risk;

the potential for loss or gain is minimal. Gains or losses on the physical transactions are offset by the gains and losses on the related derivative instrument to reduce the risk we are exposed to.

In this note, **interest rate risk** refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. **Foreign currency risk** refers to the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

Interest rate risk

Our borrowings are generally for maturities of up to ten years and we manage our debt in accordance with set targeted interest rate profiles and debt portfolio maturity profile. We use interest rate swaps, cross currency swaps and futures to achieve these defined levels.

Interest rate risk is calculated on our net debt portfolio that equals financial liabilities less matching short term financial assets whose value is sensitive to interest rates.

Our net debt portfolio includes both physical borrowings such as bonds and commercial paper and associated derivative instruments such as interest rate swaps and cross currency swaps.

Liquidity risk and credit risk

Liquidity risk includes the risk that, as a result of our future liquidity requirements:
- we will be forced to sell financial assets or derivative instruments at a value which is less than what they are worth; or
- we may be unable to exit the derivative instruments at all; or
- we will not have sufficient funds to settle a transaction on the due date.

To help reduce these risks we:

- generally use derivative instruments that are tradeable in highly liquid markets;
- have readily accessible standby facilities and other funding arrangements in place; and
- have a liquidity policy which requires a minimum liquidity level to be maintained.

Credit risk includes the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. To help reduce this risk we make sure that we do not have any significant exposure to individual entities we undertake derivatives with. We also have a conservative policy in establishing credit limits for the entities we deal with.

Foreign currency risk

Our foreign currency exchange risk is due to:

- firm or anticipated transactions for receipts and payments for international telecommunications traffic settled in foreign currencies;
- purchase commitments in foreign currencies;
- investments denominated in foreign currencies; and
- a portion of our borrowings denominated in foreign currencies

We firstly remove the foreign exchange risk on our borrowings by effectively converting them to A$ borrowings at drawdown by applying cross currency swaps.

The remaining foreign exchange rate risks are managed through use of forward foreign currency derivatives.

This foreign exchange risk is calculated on a net foreign exchange basis for individual currencies. This underlying foreign exchange risk is combined (offset) with the associated foreign exchange derivatives used to hedge these risks generating our net foreign exchange risk.

A key purpose of foreign currency hedging activities is to minimise the volatility of our cash flows due to changes in foreign currency exchange rates.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Foreign currency risk (continued)

We enter into, and hedge transactions in the following significant foreign currencies:

- United States dollars;
- British pounds sterling;
- German deutschemarks;
- Euro;
- Japanese yen; and
- French francs.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

The settlement dates, net Australian dollar amounts receivable/ (payable) and contractual forward exchange rates of our significant outstanding contracts are listed in Table A below. These include forward foreign currency exchange contracts relating to short term borrowings at 30 June.

Table A	Telstra Group	
	As at 30 June	
	2001	2000
	$m	$m
United States dollars		
- less than three months, at rates averaging United States dollars $0.5140(2000: US$0.5978)	**1,543**	1,240
- 3 to 12 months, at rates averaging United States dollars $0.5064 (2000: US$0.6200)	**429**	48
- 12 to 18 months, at rates averaging United States dollars $0.4994 (2000: US$0.6042)	**33**	13
- over 18 months, at rates averaging United States dollars $0.6145 (2000: US$0.6044)	**(3)**	45
	2,002	1,346
British pounds sterling		
- less than three months, at rates averaging British pounds sterling 0.3805 (2000: British Pounds Sterling 0.3970)	**(2)**	3
- 3 to 12 months, at rates averaging British pounds sterling 0.3655 (2000: British Pounds Sterling 0.3957)	**7**	11
	5	14
German deutschemarks		
- less than three months, at rates averaging German deutschemarks 1.1749 (2000: German deutschemarks 1.2177)	**(6)**	14
- 3 to 12 months, at rates averaging German deutschemarks nil (2000: German deutschemarks 1.2174)	**-**	40
	(6)	54
Euro		
- less than three months, at rates averaging Euro 0.5913 (2000: Euro 0.6128)	**8**	1
- 3 to 12 months, at rates averaging Euro 0.5900 (2000: Euro 0.6060)	**30**	4
- 12 to 18 months, at rates averaging Euro nil (2000: Euro 0.5783)	**-**	1
-over 18 months, at rates averaging Euro nil (2000: Euro 0.5731)	**-**	-
	38	6
Japanese yen		
- less than three months, at rates averaging Japanese yen 64.3951 (2000: Japanese yen 65.4556)	**(7)**	2
- 3 to 12 months, at rates averaging Japanese yen nil (2000: Japanese yen 62.9426)	**-**	10
	(7)	12
French francs		
- less than three months, at rates averaging French francs 3.9877 (2000: French francs 3.9022)	**(3)**	1
- 3 to 12 months, at rates averaging French francs nil (2000: French francs 4.0930)	**-**	5
	(3)	6

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

We have a net foreign currency exchange exposure on equipment, material and currency conversion exposures, excluding borrowings, as presented in Table B below.

Table B	Telstra Group			
	Exposure before hedging		Exposure after hedging	
	As at 30 June		As at 30 June	
	2001	2000	**2001**	2000
	$m	$m	**$m**	$m
Net anticipated future transactions (amounts payable)	**776**	115	**388**	58
Net transaction exposure (on amounts payable recorded in the statement of financial position)	**178**	399	**81**	193
Translation exposure (offshore investments) on amounts receivable	**(1,506)**	(819)	**(1,440)**	(763)
	(552)	(305)	**(971)**	(512)
The maturity dates of the anticipated future transactions are as follows:				
Within 1 year	**776**	115		
	776	115		

Our hedging policy provides effective hedging for all our foreign currency exchange exposures. As at 30 June 2001 and 2000, the net deferred gain on hedges of anticipated foreign currency commitments is not significant to our financial report.

Net fair value - forward foreign currency contracts

There is no significant difference between the carrying amount and net fair value as at 30 June 2001. The carrying amount for forward foreign currency contracts at 30 June 2001 is a $18 million gain (2000: $1 million loss).

Cross currency swaps and interest rate swaps

We borrow funds in foreign currencies. It is our policy to hedge all currency exposure on these borrowings with foreign currency derivative instruments such as cross currency swaps and forward currency exchange contracts. The terms and conditions of the swaps are similar to the terms and conditions of the underlying hedged borrowings in note 16.

We enter into interest rate swaps to adjust interest rate exposures on our debt portfolio to match the ratio of fixed interest debt to variable interest debt, as required by our debt management policy. Under this policy our debt is managed on a portfolio basis. The due dates of interest rate swaps match the due dates of the underlying debt within the requirements of our debt management policy. Net interest receipts and payments are recognised as an adjustment to borrowing costs.

At 30 June 2001 and 2000, the Australian dollar interest rates varied as shown in Table C below.

Net fair value - interest rate and cross currency swaps

Derivative instruments are only used for the purpose of managing financial exposures that are present in underlying business transactions. Therefore net market values should not be assessed on their own. Their overall impact should take into account the underlying exposures being hedged.

Table C	Telstra Group	
Cross currency swaps		
Fixed	**- 2001: 7.86%**	(2000: 7.86%)
Variable	**- 2001: from 4.95% to 6.47%**	(2000: from 6.15% to 7.13%)
Interest rate swaps		
Fixed	**- 2001: from 5.25% to 10.65%**	(2000: from 4.78% to 10.64%)
Variable	**- 2001: from 4.66% to 5.80%**	(2000: from 4.78% to 7.11%)

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Interest rate swaps

The notional principal amounts of interest rate swaps represent the face values of swap contracts entered into by us and that are outstanding at balance date. The notional principal amounts do not represent amounts exchanged or to be exchanged by the parties to the contract. They are not a true reflection of the credit risk and are therefore not recorded in the statement of financial position.

The maturity dates, net notional principal amounts, net fair value and carrying amounts of our outstanding interest rate swaps at balance date are shown in Table D below.

The gross notional principal amounts of interest rate swaps was $11,170 million for fiscal 2001 (2000: $6,192 million). The gross notional principal amounts of interest rate swaps is significantly larger than the net notional principal amounts shown. This is due to the gross positions being modified over time as volumes and positions have changed.

This approach is undertaken to manage our fixed to variable ratio on net debt, where net debt is defined as financial liabilities less financial assets.

Cross currency swaps

The remaining maturity dates, net principal amounts, net fair values and carrying amounts of our outstanding cross currency swaps at balance date are shown in Table E below.

Interest rate swaps and cross currency swaps - fair value

For cross currency and interest rate swaps where the carrying amount is in excess of net fair value at balance date, no reduction to net fair value is made since these derivatives act as hedges of underlying physical transactions.

PCCW convertible note - fair value

The PCCW convertible note is an investment in a US$750 million debt security with a carrying value of $1,496 million, excluding $11 million interest accrual, and a fair value of $1,402 million. The fair value has been estimated using a complex financial model developed by an independent third party based on discounted cash flows and the rights to redeem the debt held by both parties. The full carrying value of this receivable is expected to be recovered, therefore it has not been written down to its estimated fair value. The terms and maturity dates upon which the assumptions used have been based are disclosed in note 9(d).

Table D

	Telstra Group					
	Net notional principal amount (a)		**Net fair value**		**Carrying amount (b)**	
	As at 30 June					
	2001 $m	2000 $m	**2001 $m**	2000 $m	**2001 $m**	2000 $m
Interest rate swaps with floating interest rates						
- Less than one year (payable)	**(270)**	(261)	**(4)**	(3)	**(2)**	(1)
- One to five years receivable/(payable)	**(173)**	623	**(24)**	5	**(16)**	(2)
- Greater than five years receivable/(payable)	**39**	(1,600)	**(103)**	(42)	**(20)**	(4)
	(404)	(1,238)	**(131)**	(40)	**(38)**	(7)

(a) At 30 June 2001 and 30 June 2000 we had a net interest rate swap position of pay fixed. This means that we receive interest on the interest rate swap at variable rates and pay interest on the interest rate swaps at fixed rates. As a result our exposure to movements in interest rates is reduced.
(b) The carrying amount represents the accrued interest payable on interest rate swaps which is included in current accounts payable.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Table E

	Telstra Group					
	Net notional principal amount		Net fair value		Carrying amount (a)	
	As at 30 June					
	2001 $m	2000 $m	**2001 $m**	2000 $m	**2001 $m**	2000 $m
Cross currency swaps						
- One to five years	**3,015**	2,486	**565**	51	**537**	62
- Greater than five years	**4,049**	1,749	**51**	62	**-**	120
	7,064	4,235	**616**	113	**537**	182

(a) The carrying amount represents principal which is recorded in borrowings and accrued interest which is recorded in current receivables.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Interest rate risk

Our exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2001 are shown in Table F below. The information as at 30 June 2000 is shown in Table G.

Table F

	Telstra Group As at 30 June 2001							
	Weighted average effective interest rate	Interest rate Floating	Fixed due dates 1 yr. or less	Fixed due dates 2 to 5 yrs.	Fixed due dates over 5 yrs.	Non interest bearing	Total (c)	
	%	$m	$m	$m	$m	$m	$m	Note
Assets								
Cash . . . . (a)	5.04	876	-	-	-	201	1,077	8
Trade debtors and accrued revenue . .	-	-	-	-	-	3,662	3,662	9
Bank deposits, bills of exchange and promissory notes . . . . (a)	4.90	-	409	8	-	-	417	9
Share loan to employees . . . . . . (a)	-	-	-	-	-	270	270	9
Other receivables . . . . (a)	5.77	34	-	-	-	231	265	9
PCCW convertible note . . . . (a)	5.00	-	-	-	1,496	-	1,496	9
Investments . . . . (b)	-	-	-	-	-	143	143	11
Total financial assets as at 30 June 2001		910	409	8	1,496	4,507	7,330	
Liabilities								
Trade creditors and accrued expenditure	-	-	-	-	-	2,577	2,577	15
Other creditors	-	-	-	-	-	253	253	15
Amounts owed to the Telstra Superannuation Scheme.	-	-	-	-	-	-	-	15
Bank overdraft . . . . (a)	13.73	10	-	-	-	-	10	16
Loan from joint venture entity . . . (a)	-	-	-	-	-	-	-	16
Bills of exchange and promissory notes . . . . (a)	4.62	2,542	-	-	-	-	2,542	16
Bank loans . . . . (a)	4.92	-	904	1,194	1	-	2,099	16
Telecom/Telstra bonds . . . . (a)	9.56	-	39	1,566	627	-	2,232	16
Other loans . . . . (a)	6.54	-	-	3,517	4,036	6	7,559	16
Cross currency swaps . . . . (a)	-	6,624	-	(3,080)	(4,036)	-	(492)	16
Finance lease liabilities. . . . . (a)	6.50	-	10	30		-	40	16
Interest rate swaps . . . . (a)	-	(404)	270	173	(39)	-	-	-
Total financial liabilities as at 30 June 2001		8,772	1,223	3,400	589	2,836	16,820	
Net financial assets/(liabilities) as at 30 June 2001		(7,862)	(814)	(3,392)	907	1,671	(9,490)	

(a) The effective yield (effective interest rate) on our net debt at 30 June 2001 is 7.2%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per statement of financial position.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Interest rate risk (continued)

Table G

	Telstra Group							
	As at 30 June 2000							
	Weighted average effective interest rate	Interest rate				Non interest bearing	Total (c)	
		Floating	Fixed due dates					
			1 yr. or less	2 to 5 yrs.	over 5 yrs.			
	%	$m	$m	$m	$m	$m	$m	note
Assets								
Cash . . . . (a)	6.22	558	-	-	-	193	751	8
Trade debtors and accrued revenue	-	-	-	-	-	3,250	3,250	9
Bank deposits, bills of exchange and promissory notes . . . . (a)	6.14	-	193	15	-	-	208	9
Share loan to employees . . . . (a)	-	-	-	-	-	297	297	9
Other receivables . . . . (a)	-	-	-	-	-	56	56	9
Investments . . . . (b)	-	-	-	-	-	435	435	11
Total financial assets as at 30 June 2000		558	193	15	-	4,231	4,997	
Liabilities								
Trade creditors and accrued expenditure .	-	-	-	-	-	2,076	2,076	15
Other creditors	-	-	-	-	-	455	455	15
Amounts owed to the Telstra Superannuation Scheme.	11.80	-	121	189	415	-	725	15
Bank overdraft . . . . (a)	16.10	7	-	-	-	-	7	16
Loan from joint venture entity . . . . . . (a)	5.95	-	3	-	-	-	3	16
Bills of exchange and promissory notes . . . . (a)	6.34	2,724	-	-	-	-	2,724	16
Bank loans . . . . (a)	15.73	15	-	-	-	-	15	16
Telecom/Telstra bonds . . . . (a)	8.91	-	558	1,082	1,137	-	2,777	16
Other loans . . . . (a)	7.29	-	-	2,559	1,828	-	4,387	16
Cross currency swaps . . . . (a)	-	3,796	-	(2,109)	(1,838)	-	(151)	16
Finance lease liabilities. . . . . (a)	5.39	-	22	37	-	-	59	16
Interest rate swaps . . . . (a)	-	(1,238)	261	(623)	1,600	-	-	-
Total financial liabilities as at 30 June 2000		5,304	965	1,135	3,142	2,531	13,077	
Net financial assets/(liabilities) as at 30 June 2000		(4,746)	(772)	(1,120)	(3,142)	1,700	(8,080)	

(a) The effective yield (effective interest rate) on our net debt at 30 June 2000 was 8.2%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per statement of financial position.

Notes to the Financial Statements (continued)

29. Additional financial instruments disclosures (continued)

Credit risk

We receive collateral (mainly in the form of secured financial assets) on all money market deposits except those deposited with licensed banks.

The recorded amounts of financial assets included in the consolidated statement of financial position represent our maximum amount of loss due to credit risk for these assets. Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recorded in the financial statements on a net basis.

Our credit risk exposure values shown in Table H below include all transactions where the net fair value is favourable. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. The amounts disclosed in Table H are different from those shown in the net fair value amounts in Tables D and E as these show the net fair value after netting favourable against unfavourable transactions. Table H only shows the favourable transactions.

Table H	**Telstra Group**	
	Net fair value	
	As at 30 June	
	2001	2000
	$m	$m
Interest rate swaps	**64**	48
Cross currency swaps	**627**	198
Forward foreign currency contracts . . .	**38**	4
	729	250

Credit risk - concentrations

We have exposure to credit risk to an individual contracting entity through our debt investment in the PCCW convertible note.

We do not have any other significant exposure to any other individual contracting entity. The major concentrations of credit risk that arise from our financial instrument transactions (including the PCCW convertible note, money market, forward foreign currency contracts, cross currency and interest rate swaps) that we manage by country of financial institution are shown in Table I below.

Table I	**Telstra Group**			
	Credit risk concentrations			
	As at 30 June			
	2001		2000	
	%	**$m**	%	$m
Australia	**16**	**1,983**	29	1,329
United States. . .	**47**	**5,809**	38	1,773
Japan	**-**	**-**	-	12
Europe	**37**	**4,542**	30	1,404
Hong Kong	**-**	**-**	3	117
Other.	**-**	**68**	-	17
	100	**12,402**	100	4,652

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures

Reconciliations to financial reports prepared using USGAAP

Our consolidated financial report is prepared in accordance with accounting principles generally accepted in Australia (AGAAP).

AGAAP has significant differences from the accounting principles generally accepted in the United States (USGAAP). The significant differences between AGAAP and USGAAP are presented throughout note 30.

		Telstra Group			
		Year ended 30 June			
		2001	**2001**	2000	1999
	Note	**$m**	**US$m**	$m	$m
Reconciliation of net income to USGAAP					
AGAAP Net income reported in statement of financial performance		**4,058**	**2,073**	3,677	3,486
Adjustments required to agree with USGAAP					
Property, plant and equipment	30(a)	**(192)**	**(98)**	(226)	(245)
Retirement benefit (gain)/expense	30(d)	**(110)**	**(57)**	368	325
Amortisation of software assets	30(e)	**(25)**	**(13)**	(81)	(134)
Income tax benefit/(expense)	30(f)	**307**	**157**	109	(16)
Employee compensation expense	30(l)	**(9)**	**(5)**	(66)	-
Mobile phone subsidies	30(m)	**144**	**73**	(174)	-
Redundancy and restructuring provision - fiscal 2000 reversal	30(n)	**(392)**	**(200)**	486	-
Derivative financial instruments and hedging activities	30(o)	**(101)**	**(52)**	-	-
PCCW convertible note	30(o)	**(198)**	**(101)**	-	-
Sale of Global Wholesale Business to Reach Limited	30(p)	**(882)**	**(450)**	-	-
Equity accounting adjustment for Reach Limited	30(q)	**17**	**9**	-	-
Consolidation adjustment for Regional Wireless Company (RWC)	30(r)	**959**	**488**	-	-
Net income per USGAAP		**3,576**	**1,824**	4,093	3,416
Statement of financial performance measured and classified per USGAAP					
Operating revenue (i)		**19,456**	**9,923**	19,343	17,571
Operating expenses:					
Labour		**2,899**	**1,478**	3,012	2,945
Direct cost of sales		**3,320**	**1,693**	3,767	2,768
Depreciation and amortisation		**3,149**	**1,606**	2,953	2,880
Other operating expenses		**3,854**	**1,966**	3,996	3,428
Total operating expenses		**13,222**	**6,743**	13,728	12,021
Operating income		**6,234**	**3,180**	5,615	5,550
Net interest expense (ii)		**(705)**	**(360)**	(568)	(529)
Dividend income		**16**	**8**	12	13
Share of net losses of associates and joint venture entities		**(143)**	**(73)**	(58)	(41)
Other income (iii)		**370**	**189**	656	273
Net income before income tax expense and minority interests		**5,772**	**2,944**	5,657	5,266
Income tax expense (vii)	30(f)	**2,044**	**1,042**	1,568	1,848
Net income before minority interests and cumulative effect adjustments		**3,728**	**1,902**	4,089	3,418
Minority interests		**10**	**5**	4	(2)
Net income before cumulative effect adjustments		**3,738**	**1,907**	4,093	3,416
Cumulative effect of changes in accounting principles, net of tax	30(o), 30(s)	**(162)**	**(83)**	-	-
Net income per USGAAP		**3,576**	**1,824**	4,093	3,416

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

	Note	Telstra Group Year ended 30 June 2001 $m	2001 US$m	2000 $m	1999 $m
Reconciliation of certain net income components to USGAAP					
Presenting information according to USGAAP involves reclassifying the presentation adopted for AGAAP.					
The reconciliation of operating revenue, net interest expense and other income from AGAAP to USGAAP is provided below:					
Revenue from ordinary activities per AGAAP	2	**23,086**	**11,775**	20,581	18,220
Less:					
Dividend income	2	**16**	**8**	12	13
Interest income	2	**103**	**53**	62	49
Revenue from the sale of non current assets	2	**3,303**	**1,684**	842	330
Reclassifications due to cumulative effect of change in accounting principle	1.8(b)	**(777)**	**(396)**	-	-
Writeback of superannuation additional contribution liability	3(c),30(d)	**725**	**370**	-	-
Other revenue		**260**	**133**	322	257
(i) Operating revenue per USGAAP		**19,456**	**9,923**	19,343	17,571
Net interest expense per AGAAP					
Net interest expense (borrowing costs)	3(a)	**(769)**	**(393)**	(630)	(578)
Interest revenue	2	**103**	**53**	62	49
Derivative financial instruments and hedging activities		**(15)**	**(8)**	-	-
PCCW convertible note interest revenue reversal		**(24)**	**(12)**	-	-
(ii) Net interest expense per USGAAP		**(705)**	**(360)**	(568)	(529)
Other revenue per AGAAP		**260**	**133**	322	257
AGAAP Net profit/(loss) on sale of:					
- property, plant and equipment	3(a)	**7**	**4**	26	(13)
- investments in controlled entities	3(a)	**4**	**2**	97	-
- investments in joint venture entities	3(a)	**2**	**1**	-	(1)
- investments in associated entities	3(a)	**-**	**-**	25	-
- investments in listed entities and other corporations	3(a)	**266**	**136**	133	2
- patents, trademarks and licences	3(a)	**8**	**4**	-	-
- business	3(a)	**852**	**435**	58	33
USGAAP reversal of gain on sale of Global Wholesale Business		**(859)**	**(439)**	-	-
USGAAP net profit on sale of non current assets		**38**	**19**	-	1
Derivative financial instruments and hedging activities		**(59)**	**(30)**	-	-
PCCW convertible note		**(174)**	**(89)**	-	-
Net foreign currency conversion gains/(losses)	3(a)	**25**	**13**	(5)	(6)
(iii) Other income per USGAAP		**370**	**189**	656	273

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		Year ended 30 June			
	Note	2001 $m	2001 US$m	2000 $m	1999 $m
USGAAP Earnings per share					
Net income per USGAAP		**3,576**	**1,824**	4,093	3,416
		¢	**US ¢**	¢	¢
Basic earnings per share before cumulative effect of change in accounting principles		**29.3**	**14.9**	32.1	26.8
Cumulative effect of change in accounting principles (net of tax):					
Revenue recognition	30(s)	**(1.1)**	**(0.6)**	-	-
Derivative financial instruments and hedging activities	30(o)	**(0.1)**	**(0.1)**	-	-
Basic earnings per share per USGAAP (cents)		**28.1**	**14.2**	32.1	26.8
Dilutive earnings per share before cumulative effect of change in accounting principles		**29.1**	**14.8**	32.0	26.7
Cumulative effect of change in accounting principles (net of tax):					
Revenue recognition	30(s)	**(1.1)**	**(0.6)**	-	-
Derivative financial instruments and hedging activities	30(o)	**(0.1)**	**(0.1)**	-	-
Diluted earnings per share per USGAAP (cents)		**27.9**	**14.1**	32.0	26.7

	Number (in millions)			
Weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations (iv)	**12,764**	**12,764**	12,747	12,741
Weighted average number of employee share options excercised during the year (v)	**65**	**65**	49	46
Weighted average number of potential ordinary shares and common share equivalents used for diluted earnings per share calculations	**12,829**	**12,829**	12,796	12,787

(iv) Reconciliation of weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations

	Note	Number (in millions)			
Number of shares used for AGAAP earnings per share calculations	18	**12,867**	**12,867**	12,867	12,867
Adjusted for weighted average TESOP 97 and 99 options outstanding during the year		**(103)**	**(103)**	(120)	(126)
Number of shares used for USGAAP basic earnings per share calculations		**12,764**	**12,764**	12,747	12,741

(v) For fiscal 2001, only the TESOP 97 options are dilutive to dilutive earnings per share per USGAAP. The average market price of Telstra shares is below the exercise price of the TESOP 99 options and therefore the options are not dilutive. The exercise price for TESOP 97 and TESOP 99 options is the remaining loan balance payable by the employee to Telstra. For fiscal 2000 and 1999, the TESOP 97 and TESOP 99 options are dilutive to dilutive earnings per share per USGAAP.

For USGAAP, the earnings per share calculations for fiscal 2001, 2000 and 1999 are affected by the issue of TESOP 97 and TESOP 99 options referred to in note 30(l) below.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		As at 30 June			
	Note	2001 $m	2001 US$m	2000 $m	1999 $m
Reconciliation of shareholders' equity to USGAAP					
AGAAP shareholders' equity per statement of financial position		**13,722**	**6,998**	11,602	10,294
Cumulative adjustments required to agree with USGAAP					
Property, plant and equipment	30(a)	**623**	**318**	815	1,017
Listed investments	30(b)	**417**	**213**	890	32
Dividend payable	7,17,30(c)	**1,415**	**722**	1,287	3,346
Retirement benefits	30(d)	**3,615**	**1,843**	3,725	3,388
Software assets	30(e)	**-**	**-**	25	106
Income tax	30(f)	**(1,337)**	**(682)**	(1,824)	(1,667)
Minority interests	30(g)	**(483)**	**(246)**	(7)	(38)
Employee share loans	19(c),30(l)	**(270)**	**(138)**	(297)	(279)
Mobile phone subsidies	30(m)	**(30)**	**(15)**	(174)	-
Redundancy and restructuring provision - fiscal 2000	30(n)	**94**	**48**	486	-
Derivative financial instruments and hedging activities	30(o)	**(133)**	**(68)**	-	-
PCCW convertible note	30(o)	**(104)**	**(53)**	-	-
Sale of Global Wholesale Business to Reach Limited	30(p)	**(882)**	**(451)**	-	-
Equity accounting adjustment for Reach Limited	30(q)	**17**	**9**	-	-
Consolidation adjustment for Regional Wireless Company	30(r)	**1,131**	**577**	-	-
Shareholders' equity per USGAAP		**17,795**	**9,075**	16,528	16,199
Statement of financial position measured and classified per USGAAP					
Current assets					
Cash	8	**1,077**	**549**	751	979
Accounts receivable, net		**4,259**	**2,172**	3,518	3,189
Inventories	10	**320**	**163**	295	204
Deferred tax asset	30(f)	**171**	**86**	49	285
Other assets		**519**	**265**	112	125
Total current assets		**6,346**	**3,235**	4,725	4,782
Non current assets					
Receivables		**588**	**300**	30	70
Inventories	10	**8**	**4**	15	16
Investments - accounted for using the equity method		**424**	**216**	450	69
Investments - other non current		**1,963**	**1,001**	1,325	229
Property, plant and equipment		**41,197**	**21,010**	40,917	38,457
Accumulated depreciation		**(17,758)**	**(9,057)**	(17,786)	(16,560)
Intangible assets, net		**4,100**	**2,091**	536	452
Prepaid pension assets	30(d)	**3,615**	**1,844**	3,000	2,632
Other assets		**2,078**	**1,060**	1,324	961
Total non current assets		**36,215**	**18,469**	29,811	26,326
Total assets		**42,561**	**21,704**	34,536	31,108

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

		Telstra Group			
		As at 30 June			
		2001	2001	2000	1999
	Note	$m	US$m	$m	$m
Statement of financial position measured and classified per USGAAP (continued)					
Current liabilities					
Payables		**2,823**	**1,440**	2,407	2,386
Borrowings - short term debt	16	**2,552**	**1,301**	2,734	2,160
Borrowings - long term debt due within one year	16	**52**	**27**	582	105
Income tax payable	4	**657**	**335**	527	515
Provisions		**558**	**285**	694	866
Revenue received in advance		**1,128**	**575**	735	654
Total current liabilities		**7,770**	**3,963**	7,679	6,686
Non current liabilities					
Payables		**110**	**56**	20	25
Borrowings - long term debt		**11,943**	**6,091**	6,505	4,946
Income tax payable	4	**91**	**46**	184	-
Deferred tax liability	30(f)	**2,967**	**1,512**	2,499	2,041
Provisions		**959**	**489**	1,010	1,089
Revenue received in advance		**456**	**233**	104	84
Total non current liabilities		**16,526**	**8,427**	10,322	8,185
Total liabilities		**24,296**	**12,390**	18,001	14,871
Minority interests		**470**	**239**	7	38
Shareholders' equity					
Contributed equity	18	**6,433**	**3,281**	6,433	6,433
Share loan to employees	19(c),30(l)	**(270)**	**(138)**	(297)	(279)
Additional paid in capital from employee share plans	30(l)	**292**	**149**	283	217
Total share capital		**6,455**	**3,292**	6,419	6,371
Accumulated other comprehensive income (reserves) (vi)		**532**	**271**	572	(23)
Retained earnings		**10,808**	**5,512**	9,537	9,851
Total shareholders' equity		**17,795**	**9,075**	16,528	16,199
Total liabilities and shareholders' equity		**42,561**	**21,704**	34,536	31,108

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Reconciliations to financial reports prepared using USGAAP (continued)

(vi) Accumulated other comprehensive income (reserves)

Accumulated other comprehensive income, net of related taxes, for USGAAP consists of the following components:

	Telstra Group		
	As at 30 June		
	2001	2000	1999
	$m	$m	$m
General reserve	**4**	1	1
Foreign currency conversion reserve	**188**	(41)	(44)
(tax effect)	**(15)**	-	-
	173	(41)	(44)
Derivative financial instruments	**(31)**	-	-
(tax effect)	**9**	-	-
	(22)	-	-
Unrealised gain on available-for-sale securities	**511**	890	32
(tax effect)	**(134)**	(278)	(12)
	377	612	20
Accumulated other comprehensive income (net of tax)	**532**	572	(23)

Other comprehensive income disclosure

Other comprehensive income is calculated by totalling movements in shareholders' equity that are not related to contributions from owners or payments to owners.

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	$m	$m	$m
General reserve	**3**	-	-
Foreign currency conversion reserve (after tax)	**214**	3	(8)
Derivative financial instruments (after tax)	**(22)**	-	-
Unrealised gain on available-for-sale securities (after tax)	**31**	592	17
Realised gain on sale of available-for-sale securities (after tax) transferred to net income (30 June 2000 value)	**(266)**	-	-
USGAAP other comprehensive income	**(40)**	595	9

Total comprehensive income disclosure

Total comprehensive income is calculated by adding net income and other comprehensive income.

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	$m	$m	$m
Net income per USGAAP	**3,576**	4,093	3,416
USGAAP other comprehensive income	**(40)**	595	9
USGAAP Total comprehensive income	**3,536**	4,688	3,425

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP

30(a) Property, plant and equipment

Revaluations

Prior to 1 July 2000, AGAAP allowed property, plant and equipment to be revalued upwards. Increases in revalued amounts were recorded in an asset revaluation reserve, unless they reversed a previous revaluation decrease charged to the statement of financial performance. Impairments (decreases) to asset values were recorded in the statement of financial performance, unless they reversed a previous increase still recorded in the asset revaluation reserve.

Revaluations of property, plant and equipment are not allowed under USGAAP, except for permanent impairments. Including the broadband network described below, adjustments to reduce revalued property, plant and equipment to historical cost for revaluations and impairments not allowed under USGAAP included in the reconciliation of shareholders' equity to USGAAP were $371 million for fiscal 2001 (2000: $371 million; 1999: $361 million). Net USGAAP adjustments to net income for fiscal 2001 were $2 million benefit (2000: $37 million expense; 1999: $53 million expense).

Under USGAAP, a permanent impairment loss can only be recorded when the future undiscounted cash flows relating to a group of assets are less than the recorded amount of the assets. Impairment losses are recorded under AGAAP when discounted future cash flows are less than the recorded amount of the asset. Under AGAAP we recorded a $31 million impairment loss during fiscal 2001 (2000: $Nil ; 1999: $Nil). This related to Infrastructure Services & Wholesale projects that were cancelled and the related capitalised internal software that was written off. Additional impairment losses for USGAAP were $Nil for fiscal 2001 (2000: $Nil; 1999: $2 million).

USGAAP Impairment loss reversal - broadband network: As future undiscounted cash flows of our broadband network were greater than the recorded amount of the asset, a $342 million impairment loss was adjusted for in the reconciliations of net income and shareholders' equity to USGAAP for fiscal 1997 and additional depreciation of $62 million was recorded in the reconciliation of net income to USGAAP in fiscal 2001 (2000: $62 million; 1999: $62 million).

Profits/(losses) on sale of non current assets

Under AGAAP, proceeds on sale of non current assets are recorded as revenue from ordinary activities - other revenue, and the net book value of assets sold is recorded as other operating expenses, with the net impact representing the profit or loss on sale of non current assets. For USGAAP, the sale of non current assets is not considered to be an operating activity and as a result the net profit or loss is reclassified as other income below operating income.

AGAAP reported profits or losses on the sale of revalued assets are based on revenue received less revalued net book value. For USGAAP, profits or losses are based on revenue received less historical net book value. Adjustments are made to the reconciliation of net income to USGAAP to record this difference in the profit or loss on sale.

Depreciation expense

Depreciation expense for AGAAP and USGAAP has been calculated using the straight line method of depreciation. Under AGAAP, depreciation expense is based on the recorded amount of the asset and is therefore higher for assets that have been revalued upwards. Depreciation expense has been adjusted to reflect depreciation based on original cost in the reconciliations of net income and shareholders' equity to USGAAP.

Indirect overheads included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996 we recorded overhead costs directly associated with the construction of our communication assets as part of the cost of those assets. We expensed all indirect overhead costs as incurred. From 1 July 1996, indirect overhead costs associated with operations and management personnel directly involved in the construction of our communication assets have been recorded as part of the cost of those assets. This policy is now the same as USGAAP.

To reflect the policy before 1 July 1996, for fiscal 2001 constructed assets with a written down value of $782 million (2000:$925 million, 1999: $1,081 million) has been included in the reconciliation of shareholders' equity to USGAAP. For fiscal 2001, depreciation and disposals of $142 million (2000: $157 million; 1999: $155 million) have been included in the reconciliation of net income to USGAAP.

Borrowing costs included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996, we expensed all borrowing costs when incurred. From 1 July 1996, borrowing costs relating to the construction of property, plant and equipment for internal use are recorded as part of the cost of the asset. This policy is the same as USGAAP.

To reflect the policy before 1 July 1996,for fiscal 2001 capitalised interest with a written down value of $213 million (2000:$264 million, 1999: $296 million) has been included in the reconciliation of shareholders' equity to USGAAP. For fiscal 2001, depreciation and disposals of $51 million (2000: $32 million; 1999: $37 million) on the amount above has been included in the reconciliation of net income to USGAAP.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(b) Investments

Investments in joint venture entities and associated entities

From 1 July 1997, we adopted the equity method of accounting for investments in joint venture entities and associated entities (refer note 1.17(b)). Under AGAAP, equity accounting is suspended where the cumulative share of losses and reserve movements have reduced the participating equity investment to zero. Under USGAAP, equity accounted losses are required to be recognised in net income to the extent that we have other non participating investments in the equity accounted entity (i.e. preference shares or loans). The effect of equity accounted losses is not significant for the two years ending 30 June 2000, therefore no adjustment has been made in the USGAAP reconciliation. For fiscal 2001, our investment in Reach Limited was initially recorded at a cost of negative $30 million (refer note 30(p)). This negative investment was increased to zero by crediting the goodwill of Regional Wireless Company, a related entity in the Asian venture.

Equity securities (excluding Satellite consortium investment, joint venture entities and associated entities)

Under AGAAP, temporary changes in the fair values of debt and equity securities are not required to be recorded in the financial statements. AGAAP does require permanent impairments in the value of debt and equity securities to be recorded in the statement of financial performance.

Under USGAAP, Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities," we are required to account for debt and equity securities based on our intention to hold or sell the securities. Securities classified as held-to-maturity are stated at cost unless there is a decline in fair value that is considered permanent. This reduction is recorded in the statement of financial performance. Securities classified as available-for-sale are recorded at fair value with changes in fair value, other than a permanent reduction, recorded in a separate component of shareholders' equity until realised. Realised gains and losses are then recorded in the statement of financial performance.

The disclosures required by SFAS 115 are as follows:

	Telstra Group	
	As at 30 June	
	2001	2000
	$m	$m
Held-to-maturity securities		
Marketable securities maturing in less than one year:		
Foreign currency deposits (a)	**5**	13
Marketable securities maturing in more than one year:		
Foreign currency deposits (a)	**6**	15
	11	28

(a) Foreign currency deposits are directly related to our finance lease liabilities and can only be used for settlement of these finance leases.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(b) Investments (continued)

Available-for-sale securities

The following is a summary of our available-for-sale debt and equity securities:

	Note	Principal $m	Accrued interest $m	Amortised cost $m	Fair value $m	Unrealised gain $m
		Telstra Group As at 30 June 2001				
Marketable securities included in cash:						
Bank deposits		89	-	89	89	-
Bank bills and promissory notes		604	3	607	607	-
		693	3	696	696	-
Marketable securities due within one year:						
Bank bills and promissory notes		404	-	404	404	-
Equity securities:						
Listed investments	11	60	-	-	477	417
Income tax expense						(125)
						292
Debt securities:						
PCCW convertible note	30(o)	1,299	-	-	1,393	94
Income tax expense						(9)
						85
Total unrealised gain on available-for-sale securities						377

	Note	Principal $m	Accrued interest $m	Amortised cost $m	Fair value $m	Unrealised gain $m
		Telstra Group As at 30 June 2000				
Marketable securities included in cash:						
Bank bills and promissory notes		557	4	561	561	-
Marketable securities due within one year:						
Bank bills and promissory notes		181	1	182	182	-
Equity securities:						
Listed investments	11	323	-	-	1,213	890
Income tax expense						(278)
Total unrealised gain on available-for-sale securities						612

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(c) Dividend payable recognition

Under AGAAP, dividends declared after balance date and before approval of the financial reports are currently recognised as a liability in those financial statements. Under USGAAP, provisions for dividends are only recognised as liabilities if the dividends are formally declared before balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to USGAAP.

Dividends paid under USGAAP are presented as follows:

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	$m	$m	$m
Dividends paid:			
Interim dividend	**1,029**	1,029	901
Previous year final ordinary dividend paid in the current year.	**1,287**	1,287	901
Previous year final special dividend paid in the current year (i)	**-**	2,059	-
Total dividends.	**2,316**	4,375	1,802

The dividends per share for USGAAP (including the employee options (refer note 30(l) below) as issued shares) in Australian dollars that would be disclosed for the last three years are:

	Telstra Group		
	Year ended 30 June		
	2001	2000	1999
	¢	¢	¢
Dividends paid per share:			
Total dividends paid per share per USGAAP	**18.0**	34.0 (i)	14.0
	Number (in millions)		
Number of shares used for USGAAP dividends paid per share	**12,867**	12,867	12,867

(i) The fiscal 2000 USGAAP dividend included a special dividend of 16.0 cents per share.

30(d) Retirement benefits

Pension costs (superannuation expense) for our defined benefit plans are based on contributions payable to the plans for the year, at rates determined by the actuary of the defined benefit plans. Refer to note 22 for details of our superannuation plans.

For our defined benefit schemes, where there has been a shortfall in prior years of the net market value of the scheme assets when compared to members' vested entitlements, we have provided for the present value of any shortfall, to the extent that the shortfall represents a present obligation. Where scheme assets are greater than members' vested entitlements, the difference is recorded as a prepaid pension asset.

For USGAAP, pension costs for defined benefit superannuation plans are accounted for under Statement of Financial Accounting Standards No. 87 (SFAS 87) "Employers' Accounting for Pensions" and are calculated by an actuary using the projected unit credit method. This method includes current service cost, interest cost, return on plan assets and amortisation of transition assets. Aggregated unrecorded gains and losses of the plans exceeding 10% of the greater of the aggregated projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

We adopted SFAS 87 on 1 July 1992, as it was not feasible to adopt SFAS 87 from its effective date of 1 July 1989. The transition asset recorded under SFAS 87 is being amortised from 1 July 1992 over 11 years.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(d) Retirement benefits (continued)

We adopted Statement of Financial Accounting Standards No.132 "Employers' Disclosures about Pensions and Other Post Retirement Benefits" from 1 July 1998. This standard does not change the measurement or recognition of pension costs or other post retirement benefits.

The effect of the adjustments required by SFAS 87 to retirement benefit expense/(gain) has been disclosed in the reconciliations of net income and shareholders' equity to USGAAP. If we had reported our net periodic pension cost and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions under USGAAP, the disclosures required would have been as follows:

		Telstra Group			
		Year ended 30 June			
	Note	**2001 $m**	**2001 US$m**	2000 $m	1999 $m
Net periodic pension cost					
The components of net periodic pension cost for our defined benefit superannuation plans are as follows:					
Service cost on benefits earned		**380**	**194**	437	420
Interest cost on projected benefit obligation		**779**	**397**	713	683
Expected return on assets		**(1,281)**	**(653)**	(1,210)	(1,118)
Expenses and taxation		**70**	**36**	61	55
Member contributions for defined benefits		**(113)**	**(58)**	(149)	(142)
Amortisation of transition asset		**(87)**	**(44)**	(88)	(91)
Curtailment gain		**-**	**-**	-	(102)
Settlement gain		**(349)**	**(178)**	(124)	(4)
Net periodic pension benefit per USGAAP		**(601)**	**(306)**	(360)	(299)
Reverse amount expensed for AGAAP (labour expense)		**(14)**	**(7)**	(8)	(26)
Net periodic pension benefit USGAAP adjustment		**(615)**	**(313)**	(368)	(325)
Writeback of superannuation additional liability (iii)	3(c)	**725**	**370**	-	-
Total USGAAP adjustment - retirement benefit expense/(gain)		**110**	**57**	(368)	(325)
We used the following major assumptions to account for our defined benefit superannuation plans for the years ended 30 June:					
Discount rate		**6.00%**	**6.00%**	6.50%	6.00%
Rate of increase on compensation levels		**3.50%**	**3.50%**	4.00%	4.00%
Expected long-term rate of return on assets		**8.50%**	**8.50%**	8.50%	8.50%
Reconciliation of change in benefit obligation					
Projected benefit obligation at beginning of year		**12,031**	**6,136**	11,469	12,049
Service cost		**380**	**194**	437	420
Interest cost		**779**	**397**	713	683
Member contributions		**87**	**44**	50	-
Benefit payments		**(1,196)**	**(610)**	(811)	(2,063)
Curtailments (i)		**-**	**-**	(36)	(16)
Inclusion of accumulation liabilities (ii)		**-**	**-**	-	1,025
Actuarial (gain)/loss		**(775)**	**(395)**	209	(629)
Projected benefit obligation at end of year		**11,306**	**5,766**	12,031	11,469

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(d) Retirement benefits (continued)

	Telstra Group			
	Year ended 30 June			
	2001	**2001**	2000	1999
	$m	**US$m**	$m	$m
Reconciliation of change in fair value of plan assets				
Fair value of plan assets at beginning of year	**15,589**	**7,950**	14,512	14,032
Actual return on plan assets	**1,125**	**574**	1,743	1,641
Employer contributions	**14**	**7**	8	25
Member contributions for defined benefits	**113**	**58**	148	142
Transfers/member contributions for accumulation benefits	**87**	**44**	50	-
Benefit payments	**(1,196)**	**(610)**	(811)	(2,063)
Plan expenses	**(14)**	**(7)**	(16)	(11)
Contribution tax	**(56)**	**(29)**	(45)	(44)
Inclusion of accumulation assets (ii)	**-**	**-**	-	1,025
Deferred tax liability on notional fund surplus	**-**	**-**	-	(235)
Fair value of plan assets at end of year (iii)	**15,662**	**7,987**	15,589	14,512
Reconciliation of funded status of plan				
Projected benefit obligation	**(11,306)**	**(5,766)**	(12,031)	(11,469)
Plan assets at fair value	**15,662**	**7,987**	15,589	14,512
Funded status	**4,356**	**2,221**	3,558	3,043
Unrecognised net transition asset (iv)	**(255)**	**(130)**	(348)	(440)
Unrecognised net actuarial loss/(gain) (iv)	**(486)**	**(248)**	(210)	29
Prepaid pension asset	**3,615**	**1,843**	3,000	2,632

(i) In fiscal 2001, no curtailment losses were recorded as an unrecognised gain existed at the time of curtailment (2000: $Nil; 1999: $86 million).

(ii) The accumulation assets and liabilities have been included in fiscal 1999 as employer contributions are to be funded from the existing surplus in the TSS (refer note 22).

(iii) In previous financial years, there was a difference between the fair market value of scheme assets for AGAAP and USGAAP due to additional contributions payable by us to the TSS. This liability is no longer payable by us, and an unusual revenue item has been recognised in fiscal 2001 for AGAAP (refer note 3(c)). This has been adjusted for in the USGAAP reconciliation. For the purposes of SFAS 87, there is no AGAAP/USGAAP difference for the scheme assets as at 30 June 2001 (2000: $725 million difference; 1999: $757 million difference).

(iv) Settlements recorded in net periodic pension cost/(gain) have effected the unrecognised net transition asset and the unrecognised net actuarial (gain)/loss as follows:
(a) unrecognised transition asset; 2001: $6 million loss; 2000: $4 million loss; 1999: $22 million loss.
(b) unrecognised net actuarial gain; 2001: $346 million; 2000: $120 million; fiscal 1999: $18 million.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(e) Software assets developed for internal use

Under AGAAP, before 1 July 1996, we did not record costs associated with software developed for internal use as software assets. From 1 July 1996, we recorded costs (including interest) associated with software developed for internal use as software assets. This policy is the same as USGAAP. These costs include direct labour (both internal and external) and other directly associated costs.

To reflect this policy before 1 July 1996 in the reconciliations of net income and shareholders' equity to USGAAP we originally recorded $1,370 million as software assets and accumulated amortisation of $732 million. Amortisation and disposals of $25 million on the amount above has been included in the reconciliation of net income for fiscal 2001 (2000: $81 million; 1999: $134 million).

From 1 July 2001 there will be no further AGAAP/USGAAP adjustments for software assets developed for internal use as the original $1,370 million software assets and accumulated amortisation of $732 million have been amortised and disposed of in full.

30(f) Income tax

Under AGAAP, timing differences are recorded in the statement of financial position as deferred tax assets and liabilities using the liability method of tax effect accounting. Future income tax benefits relating to tax losses and timing differences are not recorded as an asset unless the benefit is virtually certain of being realised.

Under USGAAP, deferred tax assets and liabilities are created for all temporary differences between the accounting and tax bases of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset, will not be realised. We increase or decrease our deferred tax balances for the income tax effect of accounting differences included in our reconciliations of net income and shareholders' equity to USGAAP.

AGAAP requires the effect of a change in the income tax rate to be included in the calculation of deferred tax balances when the change has been announced by the Treasurer of the Commonwealth. USGAAP requires the tax rate change to be recognised in the year that the Australian Parliament has approved the legislation and it has received royal assent from the Governor General of Australia (Head of State).

For AGAAP, we classify all deferred tax balances as non current. For USGAAP, the classification between current and non current is based on the statement of financial position classification of the underlying net current and non current asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the statement of financial position measured and classified per USGAAP.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(f) Income tax (continued)

	Telstra Group			
	As at 30 June			
	2001	2001	2000	1999
	$m	US$m	$m	$m
Future income tax benefit (deferred tax assets)				
Property, plant and equipment	**46**	**23**	-	-
Foreign exchange translation, hedge and other finance costs	**48**	**24**	10	1
Employee entitlements	**275**	**140**	128	487
Revenue received in advance	**10**	**5**	30	-
Inventory valuation	**6**	**3**	11	21
Provisions	**29**	**15**	356	310
Tax losses	**5**	**3**	5	241
Other	**145**	**74**	38	33
Total deferred tax assets under USGAAP	**564**	**287**	578	1,093
Valuation allowance	**-**	**-**	(1)	(84)
Deferred tax assets under USGAAP after valuation allowance	**564**	**287**	577	1,009
Deferred income tax (deferred tax liabilities)				
Property, plant and equipment	**2,033**	**1,036**	1,738	1,474
Foreign exchange translation, hedge and other finance costs	**19**	**10**	15	11
Prepaid pension cost	**1,085**	**553**	900	948
Software assets	**-**	**-**	84	221
Prepayments	**8**	**4**	11	27
Marketable securities	**102**	**52**	278	12
Other	**113**	**58**	1	72
Total deferred tax liabilities under USGAAP	**3,360**	**1,713**	3,027	2,765
Net deferred tax liability under USGAAP	**(2,796)**	**(1,426)**	(2,450)	(1,756)
Represented by:				
AGAAP future income tax benefit - non current	**114**	**58**	111	366
AGAAP deferred income tax - non current	**(1,573)**	**(802)**	(737)	(455)
USGAAP/AGAAP income tax differences	**(1,337)**	**(682)**	(1,824)	(1,667)
Net deferred tax liability under USGAAP	**(2,796)**	**(1,426)**	(2,450)	(1,756)
Reported as follows for the USGAAP statement of financial position:				
Current deferred tax asset (future income tax benefit)	**183**	**93**	215	467
Current deferred tax liability (deferred income tax)	**(12)**	**(6)**	(166)	(182)
Net current deferred tax asset (future income tax benefit)	**171**	**87**	49	285
Non current deferred tax asset (future income tax benefit)	**381**	**194**	362	542
Non current deferred tax liability (deferred income tax)	**(3,348)**	**(1,707)**	(2,861)	(2,583)
Net non current deferred tax liability (deferred income tax)	**(2,967)**	**(1,513)**	(2,499)	(2,041)
	(2,796)	**(1,426)**	(2,450)	(1,756)
The components of income tax expense for USGAAP are:				
Current tax expense	**1,498**	**764**	1,544	1,205
Deferred tax expense	**540**	**275**	15	651
Under/(over) provision in prior year	**6**	**3**	9	(8)
(vii) Income tax expense for USGAAP	**2,044**	**1,042**	1,568	1,848

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(g) Minority interests (defined as outside equity interests per AGAAP)

Under USGAAP, minority interests are not included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to USGAAP.

30(h) Enterprise bargaining agreements

In December 2000 Telstra had four separate Enterprise Agreements (EA's) certified by the Australian Industrial Relations Commission to replace the 1998/2000 Agreement. These Agreements cover award employees in Telstra Retail, IS&W, Telstra OnAir and the Corporate areas and replace outdated and inflexible workplace operational procedures and introduce new salary and employment conditions. As at 30 June 2001, approximately 53% of full time staff are covered by these agreements. The four new EA's are due to expire in December 2002. In addition, a further 1% of full time staff are covered by the 1998 Telstra Retail Shop Agreement.

30(i) Employee entitlements

Our employee entitlement provisions include a liability for long service leave. Refer to note 1.24(a) for a definition of long service leave. The assumptions used to calculate this liability for AGAAP are consistent with those used under SFAS 87 for USGAAP.

30(j) Earnings per share

For AGGAP, the number of issued and paid up ordinary shares held by the Telstra Entity is 12,866,600,200. For USGAAP, this number is adjusted for TESOP 97 and TESOP 99 deemed options outstanding each year for USGAAP. Refer to note 30(l) for details of the outstanding options.

30(k) Direct cost of sales

For AGAAP, dealer commissions and bonuses are included in direct cost of sales as they are directly related to our sales revenue.

For USGAAP, dealer commissions and bonuses should be classified as other operating expenses. In the net income reconciliation to USGAAP, dealer commissions and bonuses of $386 million for fiscal 2001 (2000: $296 million; 1999: $234 million) have been reclassified.

30(l) Employee share plans and compensation expenses

Our employee share plans are described in note 19. AGAAP does not require employee compensation expenses to be recorded in the statement of financial performance for our employee share plans. Under USGAAP, we have adopted Statement of Financial Accounting Standards No.123 (SFAS 123) "Accounting for Stock Based Compensation," which utilises the fair value method. USGAAP requires that shares issued under TESOP 97 and TESOP 99 in conjunction with non-recourse loans be accounted for as options. Under this method, compensation expense is calculated based on the fair value of options on the date of grant and recognised over the associated service period, which is usually the vesting period.

The compensation expense is included in the reconciliation of net income and recorded in shareholders' equity as additional paid in capital for USGAAP. The outstanding balance of the loans for TESOP 97 and 99 provided to the employees is deducted from shareholders' equity rather than classified as an asset. Details of options granted under each scheme are as follows:

TESOP 97

Fiscal 1998 options granted in conjunction with the one-third privatisation - 137,473,875. 502,000 options were exercised to 30 June 1998 resulting in 136,971,875 options outstanding at 30 June 1998.
Fiscal 1999 options exercised - 23,822,375 - resulting in 113,149,500 options outstanding at 30 June 1999.
Fiscal 2000 options exercised 14,601,875 - resulting in 98,547,625 options outstanding at 30 June 2000.
Fiscal 2001 options exercised 24,324,500 - resulting in 74,223,125 options outstanding at 30 June 2001.

TESOP 99

Fiscal 2000 options granted 16,939,000, options exercised 122,600 - resulting in 16,816,400 options outstanding at 30 June 2000.
Fiscal 2001 options exercised 1,150,000 - resulting in 15,666,400 options outstanding at 30 June 2001.

TESOP 99 loyalty shares

In fiscal 2001 we recognised compensation expense of $8 million for shares issued to employees by the Commonwealth (refer note 19).

TESOP General

Options allocated to employees under the TESOP schemes all vest immediately upon grant and will expire at the earlier of repayment of the loan balance or the termination of employment. For fiscal 2000 and 1999, these options were dilutive for earnings per share calculations. For fiscal 2001, only the TESOP 97 options are dilutive as the exercise price of the TESOP99 options is above the average Telstra share price for the year. Employee compensation expense has been recognised on inception of the TESOP 97 scheme (fiscal 1998) and TESOP 99 scheme (fiscal 2000). Dividends on both TESOP schemes are not recorded as further compensation expense as their forecasted value was included in the initial option valuations.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(l) Employee share plans and compensation expense (continued)

Telstra Growthshare 2000

Fiscal 2000. Telstra Growthshare commenced in fiscal 2000. Options granted 3,370,000, options lapsed 662,000 - resulting in 2,708,000 options outstanding at 30 June 2000. In addition, restricted share options of 573,500 were granted with 110,000 lapsing - resulting in 463,500 restricted share options outstanding at 30 June 2000.

Fiscal 2001. Options lapsed 452,000 - resulting in 2,256,000 options outstanding at 30 June 2001. Fiscal 2001 restricted share options lapsed 75,000 - resulting in 388,500 restricted share options outstanding as at 30 June 2001.

Telstra Growthshare 2001

Fiscal 2001. Options granted 4,852,910, options lapsed 290,700 - resulting in 4,562,210 options outstanding at 30 June 2001. In addition restricted share options of 1,005,771 were granted with 60,100 lapsing - resulting in 945,670 restricted share options outstanding at 30 June 2001.

Telstra Growthshare General

The Growthshare options issued under all schemes vest when the performance hurdles have been reached and the executive pays the exercise price per share. The Growthshare restricted share options allocated to employees under all schemes vest when the performance hurdles have been reached.

For USGAAP compensation expense is measured in the year that the options are granted less any compensation expense paid under AGAAP based on calculated "option values" for Growthshare options and Growthshare restricted share options. No allowance is made for expected resignations and cancellations.

These options and restricted share options are not dilutive for earnings per share calculations.

Valuation methodology and assumptions

TESOP 97

The binomial option valuation model was used to estimate the fair value of the options (being $1.58) at the date of grant, utilising the following weighted average assumptions:
- risk-free interest rate of 5.8%;
- dividends yield of 0% as dividends are reinvested to reduce the price of the option;
- expected stock market price volatility factor of 30%; and
- a weighted average expected life of options of 7 years.

At 30 June 2001, the weighted average expected life of the options was 4 years. The weighted average price of the option at 30 June 2001, 30 June 2000 and 30 June 1999 was $1.58.

TESOP 99

The binomial option valuation model was used to estimate the fair value of the options (being $3.53) at the date of grant utilising the following weighted average assumptions:
- risk free interest rate 6.99%;
- dividend yield of 0% as dividends are reinvested to reduce the price of the option;
- expected stock volatility of 30%; and
- an expected life of 7 years.

At 30 June 2001, the weighted average expected life of the options was 6 years. The weighted average price of the option at 30 June 2001 and 30 June 2000 was $3.53.

Telstra Growthshare - granted options and restricted shares

In fiscal 2001, options and restricted share options were granted in both September 2000 and March 2001. The majority were issued in September 2000.

An approach consistent with the binomial valuation model was used to estimate the fair value of the Growthshare options at the date of grant of $0.89 (September) and $0.80 (March) and the Growthshare restricted shares at the date of grant of $2.05 (September) and $2.15 (March). The following weighted average assumptions were used :

	Growthshare options and restricted shares
Risk free rate (September/March)	6.2% and 4.64%
Dividend yield	2.5%
Expected stock volatility. . . .	26%
Expected life	5 years
Probability that performance hurdle is met (September/March)	64% and 63%

For the fiscal 2000 options and restricted share options, the weighted average price of the option at 30 June 2001 and 30 June 2000 was $1.38. For the restricted shares the weighted average price was $5.64 at 30 June 2001 and 30 June 2000.

Taxation of employee compensation expense

There is no income tax effect on the additional compensation expense for USGAAP as it is a permanent difference (non taxable) for TESOP 97, TESOP 99 and Growthshare schemes.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(m) Mobile phone subsidies

Under AGAAP, from 1 July 1999, we changed our accounting policy relating to subsidies provided to our customers when they purchase mobile phones. From this date, we deferred the subsidy provided to customers who enter into mobile phone contracts with a length of two years or greater. This policy was considered to be inconsistent with industry practice in the United States in fiscal 2000. Due to changes in industry practice in the United States, this policy is now consistent with USGAAP. The amounts recognised in USGAAP in fiscal 2000 has been reversed as it is recognised as an expense in AGAAP over the next two financial years.

30(n) Redundancy and restructuring provisions

In fiscal 2000, under AGAAP, we recorded a provision for redundancy and restructuring of $486 million before tax (refer note 3(c)). The amount charged for income tax expense was $175 million with a net amount after tax of $311 million. We satisfied the AGAAP requirements for recording this provision. However, under USGAAP, we did not meet the stricter requirements imposed on us to be able to record the provision. In fiscal 2001, we are only able to charge to net income the expense of these redundancies when paid. Therefore, we reversed the AGAAP provision in the reconciliation of shareholders' equity to USGAAP in both fiscal 2000 and 2001 and recognised the movement in this provision in fiscal 2001 as an expense in the reconciliation to net income of $392 million.

Redundancy and restructuring disclosures for fiscal 1997 program

The disclosures required by USGAAP for the redundancy and restructuring provision recorded by us are as follows:

Fiscal 1997 redundancy and restructuring program

In fiscal 1997, we approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. In June 1998, we also approved a three year plan, to 30 June 2001, which included an additional reduction of approximately 2,000 employees by redundancy. We effected the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions have occurred primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

Amounts for the fiscal 1997 redundancy and restructuring program are presented as follows:

	Telstra Group		
	As at 30 June		
	2001	2000	1999
	$m	$m	$m
Severance and award payments	**1,043**	1,043	1,043
Career transition and other employee benefit costs (a)	**277**	277	277
Total estimated cost of the redundancy program	**1,320**	1,320	1,320
Costs credited to the profit and loss as no longer required	**-**	-	9

(a) Career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties for the outplacement program.

	Telstra Group		
	As at 30 June		
	2001	2000	1999
	Number	Number	Number
Accepted offers for redundancy or involuntary redundancies	**8**	1,388	5,754
Expected redundancies	**88**	1,839	4,796

For fiscal 2001, 8 staff were made redundant and their redundancy payments of $1 million was offset against the redundancy and restructuring provisions in fiscal 2001 against the expected number of 88 and payments of $4 million. The increase in staff made redundant in fiscal 1999 from the expectation was due to a reassessment of the initiatives used to reduce staffing levels resulting in more redundancies.

We have made the following payments which have been charged against the provision for redundancy and restructuring:

	Telstra Group		
	As at 30 June		
	2001	2000	1999
	$m	$m	$m
Severance payments	**1**	88	272
Career transition and other employee costs	**-**	18	59

The fiscal 1997 redundancy and restructuring provision has been substantially utilised as at 30 June 2001. Insignificant amounts remain, due to contractual obligations Telstra has with third parties in relation to outsourcing agreements, with employees with regard to superannuation arrangements and surplus leased space. The impact of these redundancies on SFAS 87 calculation is included in note 30(d) Retirement benefits.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(o) Derivative financial instruments and hedging activities

Our risk management policies and objectives of entering into derivative financial instruments have been disclosed in note 29, "Additional financial instrument disclosures."

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS 133 requires companies to recognise all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (ie, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge (ie, hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognised in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (ie, hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in current earnings during the period of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is that reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognised in current earnings during the period of change.

Effective 1 July 2000, we adopted SFAS 133 in the reconciliations to financial reports prepared using USGAAP. On adoption we recognised, as a cumulative effect of change in accounting principle, a charge of $27 million, net of tax, in the statement of financial performance measured and classified per USGAAP and a charge of $47 million, net of tax, in other comprehensive income. The basis for accounting for the adjustments made on adoption, in either the statement of financial performance or other comprehensive income, is dependent upon the hedging relationships that existed for the particular derivative instrument prior to adoption.

We enter into forward foreign exchange contracts to hedge certain firm commitments denominated in foreign currencies relating to our capital expenditure programs. Under AGAAP, realised gains and losses on termination of these hedges are recognised in the cost basis of the equipment acquired.

We are not able to identify specific forward foreign exchange contracts with specific capital expenditure contracts to meet the designation criteria in SFAS 133. As a result, changes in fair value of the forward foreign exchange contracts are required to be recognised in earnings for USGAAP purposes. We have recorded a gain of $4 million in other income per USGAAP for the forward foreign exchange contracts outstanding at 30 June 2001. We recorded an additional adjustment of $14 million, net of tax, as an expense in other income per USGAAP to reverse net realised gains capitalised in property, plant and equipment under AGAAP.

We enter into interest rate swaps to hedge our exposure to interest rate risk relating to our outstanding short-term commercial paper. Our exposure is hedged on a net basis and we are not able to calculate the effectiveness of the interest rate swaps entered into in offsetting the exposure to changes in the hedged items (short-term commercial paper) fair value attributable to the hedged risk in accordance with the requirements of SFAS 133. As a result, changes in the fair value of these interest rate swaps are required to be recognised in earnings for USGAAP purposes. We have recorded a loss of $77 million, net of tax, as an expense in other income per USGAAP for changes in fair value of interest rate swap contracts outstanding at 30 June 2001.

We enter into cross currency interest rate swaps to hedge our exposure to the risk of overall changes in fair value relating to interest rate and foreign currency risk of our foreign currency borrowings. During the year ended 30 June 2001, the ineffective portion of our hedging instruments (inclusive of the time value of money) was insignificant.

During the year ended 30 June 2001, we reclassified $15 million of losses, net of tax, from accumulated other comprehensive income to other income. At 30 June 2001, we estimate that during the next twelve months we will recognise losses recorded in accumulated other comprehensive income in earnings of approximately $15 million related to the repayment of borrowings that have been hedged by interest rate and cross currency swaps in cash flow hedging relationships prior to adoption.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(o) Derivative financial instruments and hedging activities (continued)

PCCW Convertible Note

As a part of our strategic alliance with PCCW, we purchased a US$750 million convertible note issued by PCCW in February 2001. The terms and maturity dates of the note are disclosed in note 9(d) Receivables. This convertible note is convertible at our option into PCCW common stock at a conversion price of HK$6.886 per share.

Under AGAAP, the initial value of the convertible note is recorded at face value in other non-current receivables. The convertible note will continue to be carried at the face value, adjusted for accrued interest and any provision for permanent diminution considered necessary. Any foreign exchange gains and losses on translation of the convertible note are recorded in the statement of financial performance in operating expenses.

Under SFAS 133, the conversion option is classified as an embedded derivative as its underlying risk, relating to changes in the value of PCCW common stock, is not clearly and closely related to changes in the underlying risk of the convertible note, namely changes in interest rates. The note portion of the instrument is classified as an available-for-sale security (refer note 30(b)) with changes in fair value being recorded in other comprehensive income. The fair value of the option is recognised as an asset in our statement of financial position and we recorded a loss for fiscal 2001 of $63 million in the reconciliation of net income to USGAAP as a result of the change in fair value of the option.

30(p) Sale of Global Wholesale Business to Reach Limited

From 1 February 2001, as a part of the strategic alliance with PCCW, a joint venture entity, Reach Limited, was formed through the combination of our international wholesale business and certain other wholesale assets together with certain PCCW assets. Under AGAAP, the investment in the joint venture entity is recognised at its cost of acquisition, being the fair value of the assets transferred net of cash received and including acquisition costs. The gain on sale of the global wholesale business, measured as the difference between the cost of the investment and the book values of the assets transferred, is deferred to the extent of any ownership interest retained in the joint venture entity.

For US GAAP purposes, the investment in joint venture entities is recorded at the net book value of the assets and liabilities transferred, reduced by the amount of any cash received by the investor. Where the resultant investment carrying value would be a negative amount, the excess credit is recognised as an adjustment to the amount of goodwill on other components of the interdependent transactions - in this case a reduction of $30 million on the RWC goodwill (refer note 30(r)).

The effect of these differences is to reduce net income and shareholders' equity under USGAAP by $882 million as at 30 June 2001.

30(q) Equity accounting adjustment for Reach Limited

USGAAP adjustments made on the sale of the global wholesale business to Reach in 30 (p) above, will result in ongoing differences in the reconciliations of net income and shareholders' equity to USGAAP.

For AGAAP, half the profit after tax has been deferred and accounted for in the investment carrying value. The deferred gain will be recognised in the statement of financial performance on a straight line basis over a period of 20 years. For fiscal 2001, this adjustment was $18 million and has been reversed for USGAAP.

For USGAAP equity accounting, there is also a calculation of notional negative goodwill at inception that needs to be amortised over the life of the investment. This notional goodwill is determined by comparing the investment carrying value to 50% of the net assets/(liabilities) of the Reach joint venture. This amount is not separately booked on the statement of financial position, however it is included in the investment carrying amount. Each fiscal year a portion of this negative goodwill will be amortised and recognised in net income. In fiscal 2001, the amortisation was $14 million.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(r) Consolidation adjustment for Regional Wireless Company (RWC)

There are several adjustments that need to be made for the consolidation of RWC for USGAAP.

For AGAAP, gains/losses on a hedge of the purchase of RWC are included in the cost of the acquisition, thereby effecting the determination of goodwill. For US GAAP, gains/losses on hedges of a purchase business combination are recognised in net income. Accordingly, hedging losses of $30 million that were included in the cost of acquisition of RWC for AGAAP, have been recognised in the net income under US GAAP.

For AGAAP, purchase price allocations in an acquisition accounted for as a business combination are not tax effected. The tax effect of bases differences arising from purchase price allocations (fair value adjustments) will be recognised in earnings as those basis differences reverse. For US GAAP, such bases differences are treated as temporary differences and tax-effected as part of the acquisition accounting.

For AGAAP, acquisition costs of $999 million were written off at acquisition. USGAAP generally does not allow such write offs, unless they can be supported by an analysis of the undiscounted cashflows of the entity. As a result of an analysis of undiscounted cashflows relating to RWC, a goodwill write off is not supportable under USGAAP. Accordingly, this reversal, as well as goodwill amortisation of $23 million, has been reflected in the reconciliations of net income and shareholders' equity.

Goodwill under AGAAP is translated at its historical foreign currency conversion rate. Under USGAAP, using the current rate method, goodwill is translated at the spot rate at year end. Amortisation of goodwill is translated using the weighted average rate. Adjustments have been made to restate amortisation at the weighted average exchange rate and to adjust the ending goodwill balance for fluctuations in the Hong Kong dollar, being RWC's functional currency.

30(s) Revenue recognition accounting policy change - cumulative adjustment

On 3 December 1999, the United States Securities Exchange Commission (SEC) released "Staff Accounting Bulletin (SAB) No. 101 - Revenue Recognition" (SAB 101) which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC.

Refer to note 1.8(b) for information relating to the effect of the change in accounting principle. It is our policy to prepare our financial statements to satisfy both AGAAP and USGAAP and, in cases where there is no conflict between the two, we ensure that we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements. For SAB 101, this was the case and we adjusted AGAAP to align with USGAAP.

There were no differences in net income between AGAAP and USGAAP other than a reclassification of the cumulative effect on adoption of SAB 101 from sales revenue and direct cost of sales to the cumulative effect of change in accounting principle, net of tax.

The effect on prior years restated net income after tax was not significant.

Notes to the Financial Statements (continued)

30. United States generally accepted accounting principles disclosures (continued)

Notes to the reconciliations to financial reports prepared using USGAAP (continued)

30(t) Recently issued United States accounting standards

Business combinations, goodwill and other intangible assets

On 29 June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS 141) "Business Combinations" and Statement of Financial Accounting Standards No. 142 (SFAS 142) "Goodwill and Other Intangible Assets", effective for fiscal years beginning after 15 December 2001.

SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations, except for qualifying business combinations that were initiated prior to 1 July 2001, and changes the criteria to recognise intangible assets apart from goodwill. SFAS 141 is effective for any business combinations' accounted for by the purchase method that is completed after 30 June 2001.

Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortised but are tested annually, or more frequently if impairment indicators arise, for impairment. Separable intangible assets that have finite lives will continue to be amortised over their useful lives with no imposed time limit.

For goodwill and intangible assets acquired prior to 1 July 2001, amortisation will continue to be recognized for the reconciliation to USGAAP until we are required to adopt SFAS 142 on 1 July 2002.

We are not required to amortise goodwill and indefinite lived intangible assets acquired after 30 June 2001, and the impairment provisions of SFAS 142 only apply to these assets upon adoption of SFAS 142 on 1 July 2002.

Goodwill will be required to be tested for impairment at a "reporting unit" level using a two-step approach. Initially an "implied" fair value of goodwill is calculated by comparing the fair value of the reporting unit to its carrying value and then goodwill impairment is recorded if the reporting unit's goodwill carrying value exceeds the implied fair value of goodwill. More frequent testing will need to be undertaken between the annual tests if an event occurs or circumstances change that more-likely-than-not reduce the fair value of a reporting unit below its carrying value. An indefinite lived intangible asset is required to be tested for impairment between the annual tests if an event occurs or circumstances change indicating the asset might be impaired.

We have not yet determined the potential impact of adopting SFAS 141 and SFAS 142 on our reconciliations of net income and shareholders' equity to USGAAP.

Accounting for asset retirement obligations

On 16 August 2001, the FASB issued FASB Statement No. 143, "Accounting for Asset Retirement Obligations"(SFAS 143), which was approved by the Board at the end of July 2001. SFAS 143 addresses the diversity in practice for recognising asset retirement obligations (AROs).

SFAS 143 requires that obligations associated with the retirement of a tangible long-lived asset are to be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognising a liability for an ARO, an entity must capitalise the cost by recognising an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalised cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

SFAS 143 is effective for financial statements for fiscal years beginning after 15 June 2002. Upon adoption of the final statement, an entity will use a cumulative-effect approach to recognize transition amounts for existing ARO liabilities, asset retirement costs, and accumulated depreciation. All transition amounts are to be measured using current (as of the date of adoption of the final Statement) information, current assumptions, and current interest rates.

We have not yet determined the potential impact of SFAS 143 on our reconciliations of net income and shareholders' equity to USGAAP.

Directors' Declaration

This directors' declaration is required by the Corporations Act 2001 of Australia.

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes, set out on pages 166 to 302 of Telstra Corporation Limited and the Telstra Group:

(i) comply with the Accounting Standards, Corporations Regulations and Urgent Issues Group Consensus Views;

(ii) give a true and fair view of the financial position as at 30 June 2001 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2001; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.

(b) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 23(1) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 23(1).

The directors have elected to adopt the following accounting standards early for the year ended 30 June 2001 in accordance with subsection 334 (5) of the Corporations Act 2001:
- AASB 1005: "Segment Reporting";
- AASB 1027: "Earnings per Share";
- AASB 1041: "Revaluation of Non-Current Assets"; and
- AASB 1029: "Interim Financial Reporting".

For and on behalf of the board

Robert C Mansfield
Director

Ziggy Switkowski
Chief Executive Officer and Managing Director

Date: 29 August 2001
Melbourne, Australia

Independent Audit Report to the Members of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2001 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Scope

I have audited the financial report of Telstra Corporation Limited (the Telstra Entity) for the financial year ended 30 June 2001, as set out on pages 166 to 303 including the Directors' Declaration. The financial report includes the financial statements of the Telstra Entity, and the consolidated financial statements of the Telstra Entity and the entities it controlled at year's end or from time to time during the financial year (the Telstra Group). The Telstra Entity directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Telstra Entity.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, and in accordance with auditing standards generally accepted in the United States of America, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001 in Australia, so as to present a view which is consistent with my understanding of the Telstra Entity's and the Telstra Group's financial position and performance as represented by the results of their operations and their cash flows.

I have also audited the explanation and quantification of the major differences between accounting principles generally accepted in Australia compared to accounting principles generally accepted in the United States of America, which is presented in note 30 to the financial report. I have audited note 30 in order to form an opinion whether, in all material respects, it presents fairly, the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States.

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

Audit opinion

In my opinion, the financial report of the Telstra Entity is in accordance with:

(a) the Corporations Act 2001 including:

   (i) giving a true and fair view of the Telstra Entity's and the Telstra Group's financial position as at 30 June 2001 and of their performance for the year ended on that date; and

   (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

Further, in my opinion, note 30 to the financial report presents fairly the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America.

Ian McPhee
Acting Auditor-General

Date: 29 August 2001
Melbourne, Australia

Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2001 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

We have audited the accompanying consolidated balance sheets of Telstra Corporation Limited and its subsidiaries as of 30 June 2001 and 2000, and the related consolidated statements of profit and loss and retained profits, changes in shareholders' equity and cash flows for each of the two years in the period ended 30 June 2001, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telstra Corporation Limited and its subsidiaries at 30 June 2001 and 2000, and the consolidated results of their operations and cash flows for each of the two years in the period ended 30 June 2001, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for the periods ended 30 June 2001 and 2000, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 2001 to the extent summarised in note 30 to the consolidated financial statements.

As discussed in note 1 to the consolidated financial statements, in 2001 Telstra Corporation Limited and its subsidiaries changed it's accounting for service activation and certain installation fee revenues.

Ernst & Young

Ernst & Young

Date: 29 August 2001
Melbourne, Australia

Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2001 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

In our opinion, the consolidated statements of profit and loss, of changes in shareholders' equity and of cash flows for the year ended 30 June, 1999 (appearing on pages 166 through 303 of the Telstra Corporation Limited 2001 Annual Report to Shareholders which has been incorporated by reference in this Form 20-F) present fairly, in all material respects, the results of operations and cash flows of Telstra Corporation Limited and its subsidiaries for the year ended 30 June, 1999, in conformity with generally accepted accounting principles accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for the year ended 30 June 1999, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 1999 to the extent summarised in Note 30 to the consolidated financial statements.

These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in Australia and the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Telstra Corporation Limited for any period subsequent to 30 June, 1999.

Pricewaterhouse Coopers

PricewaterhouseCoopers

Melbourne, Australia
26 August 1999

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Safety, Rehabilitation and Compensation Act 1998 (Cwth)

This report is provided in accordance with section 107U of the Australian Safety, Rehabilitation and Compensation Act 1988 (Cwth) (SRC Act). As a self insurer, Telstra is licensed under the SRC Act to contract out the administration of its workers' compensation claims to the private sector.

The Telstra return to work and claims management systems place emphasis on early intervention, speedy claims processing and ongoing monitoring of each incident that has resulted in injury. Central to the effective operation of these systems are managers and staff members who work together to create and maintain a safe workplace. The efficiency of these systems has resulted in cost savings.

Occupational Health and Safety (Commonwealth Employment) Act 1991 (Cwth)

This report is provided in accordance with section 74 of the Australian Occupational Health and Safety (Commonwealth Employment) Act 1991 (Cwth) (OHS Act).

Together with other licensed authorities under the Safety, Rehabilitation and Compensation Act 1988 (SRC Act), we have initiated proposals for the rationalisation and simplification of excessive and ineffective regulation of our activities under the OHS Act and the SRC Act. It is our policy to promote a healthy workplace and to create and maintain a safe working environment. We have developed and implemented our own Telstra care health and safety management system to assist us in ensuring a safe working environment is available for our employees and contractors. A rigorous audit and inspection programme supports our Telstra care system.

This programme focuses on leadership in safety, together with measurable accountabilities, through all levels of management. The programme is strategically designed to reinforce the value we place on our people and their safety. Since its inception in 1997, the Telstra Health and Safety Management System has continued to contribute to Telstra becoming a safer place to work.

For the period, Telstra's lost-time injuries reduced by 40% compared with the previous year, and the lost-time injury frequency rate reduced from 9 to 7.4 (excludes NDC Ltd).

For the 2001 fiscal year, in accordance with section 74 of the OHS Act, the following notices of accidents and dangerous occurrences were recorded:

Incidents

Fatality	Serious personal injury	Prescribed incapacity	Dangerous occurrence
1	40	27	202

Notices and directions

Type	Number
Provisional improvement notices (section 29)	1
Directions not to disturb workplace (section 45)	0
Prohibition notices issued by investigators (section 46)	0
Improvement notices issued (section 47)	0

Environment Protection and Biodiversity Conservation Act 1999 (Cwth)

This report is provided in accordance with section 516A of the Australian Environment Protection and Biodiversity Conservation Act 1999.

Purpose

Section 516A(b) of the Environment Protection and Biodiversity Conservation Act 1999 (the EPBC Act) requires us to:

- report on how our actions and the administration of legislation by us has accorded with the principles of ecologically-sustainable development (ESD);
- document the effect of our actions on the environment;
- identify any measures we are taking to minimise the impact of our actions on the environment; and
- identify mechanisms for reviewing and increasing the effectiveness of those measures.

Overview of our activities and their impacts on the environment

While benefits to the environment through telecommunications can be achieved, the development and maintenance of telecommunication services does have environmental impacts. In particular, constructing and maintaining telecommunications infrastructure and our day-to-day office activities associated with the provision of telecommunications services consume resources, particularly energy, create waste streams, and the use of land may impact on the environment.

ESD and minimising the impact on the environment

Our activities promote ESD in a number of ways; in particular, the provision of telecommunications services has the potential to reduce the impact that activities of both us and our customers have on the environment. The provision of telecommunications services reduces the impact of activities in the following ways:

- minimising reliance on transport (and its associated environmental impacts) for “real-time” audio and visual communications;
- providing increased opportunity for communities to interact better;
- replacing paper-based and resource-intensive ways of transferring information; and
- improving the dissemination of information and ideas locally and globally.

We are committed to using and developing telecommunications to improve resource efficiency and minimise the environmental impact of its activities. Specific action taken by us to reduce the impact of our own activities includes:

- we are continually reviewing its internal paper-based processes and progressively developing on-line alternatives for staff use, with the aim of establishing a more sustainable, e-enabled Telstra. For instance, on-line alternatives have been instigated for our staff newspaper, training, pay slips, and most administration;
- teleconferencing and video conferencing is being used extensively throughout the company for all forms of meetings, covering weekly team debriefs through to senior executive and board meetings.

Environment Protection and Biodiversity Conservation Act 1999 (Cwth)

Other measures to reduce the impact of our activities on the environment include:

- **Managing our consumption of energy across the company**

  In December 2000, we submitted a letter of intent to join the Australian Greenhouse Challenge, and are scheduled to become a signatory to the Greenhouse Challenge later in 2001. We have established an energy management team to integrate energy efficiencies into existing telecommunications plans, and monitor the consumption of electricity and resultant greenhouse gas emissions across the company's operations. We are also in the final stages of preparing our greenhouse gas reduction plan, which will cover electricity and fleet fuel management initiatives.

- **Managing waste streams to minimise volumes of waste going to landfill and enable waste minimisation practices to be developed and implemented**

  Steps to manage waste streams include:

  - integrated recycling facilities for paper waste and other recyclables are now located at all our major offices;
  - participating in the national mobile phone battery recycling scheme organised in conjunction with the Australian Mobile Telecommunications Association, enabling customers to return discarded mobile phone batteries to all retail outlets, avoiding disposal to landfill; and
  - the Book Muncher® directory recycling initiative managed by Pacific Access is achieving a recycling rate of 50% of directories distributed.

- **Developing and promoting product stewardship initiatives to provide greater opportunity to minimise the impact on the environment in the consumption of products and materials**

  At present, the request for tender documents and contracts to supply us with products and services require compliance with our Environment Policy and consideration of other environmental issues. Improvements are being made to the procurement process to increase the focus of suppliers on product stewardship issues by providing our procurement staff with environmental assessment tools to appropriately assess the environmental aspects of products, including energy efficiency, waste and packaging;

  Telstra has also become a signatory to the National Packaging Covenant, and is in the process of finalising its Packaging Action Plan aimed at reducing the environmental impact associated with the packaging of Telstra's consumer retail products.

- **Minimising environmental impacts in the maintenance and development of telecommunications infrastructure**

  In addition to the EPBC Act, our development of telecommunications infrastructure is subject to the environmental planning approval requirements of the Telecommunications Act and State and Territory legislation. In both cases the approval process requires the identification and assessment of the nature and extent of likely environmental impacts and imposes controls to minimise the environmental impacts associated with the construction and maintenance of a network facility;

  With respect to the management of infrastructure, we have developed and implemented programmes to manage on site storage and handling of dangerous goods to minimise the potential to cause contamination. These programmes also identify and manage risks posed by contamination of land. Before we divest sites, they undergo environmental site assessments and remediation where required.

Environment Protection and Biodiversity Conservation Act 1999 (Cwth)

Review of measures to minimise environmental impacts

We have implemented the following mechanisms for reviewing and increasing the effectiveness of our measures to minimise our impact on the environment and improve our performance to accord with the principles of ESD:

- **Implementation of Telstra's environmental management system (TEMS)**

  Through the implementation of TEMS (introduced in 1998), we have established a framework to effectively manage key environmental aspects of our business consistently and efficiently with a commitment to continual improvement. TEMS is based on the Australian/New Zealand Standard on Environmental Management Systems (AS/NZS ISO 14001: 1996).

  Through TEMS, we have established processes to:

  - monitor incidents and track compliance;
  - assess and monitor the environmental impacts of our activities;
  - conduct audits covering high environmental risk aspects;
  - consult with government and the community; and
  - identify cost reduction opportunities.

- **Internal reporting and corporate governance**

  In accordance with TEMS, relevant business units report against environmental performance criteria biannually, with a consolidated company-wide environmental performance report submitted to our Audit Committee for executive oversight and endorsement of environment initiatives.

- **Public environment reporting**

  In March 2001, we released our first annual Public Environment Report, which outlined key environment programmes being undertaken by us and environment targets to be met. Ongoing reporting on our environment performance will emphasise the progressive targets to be met to continually improve our performance in environmental management towards a more sustainable approach to business.

s299(f) of the Corporations Act - Environment regulation performance in relation to particular and significant environmental legislation.

Our 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.

We have 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.

Freedom of Information Act 1982 (Cwth)

Freedom of Information Act 1982 (Cwth)

This statement is made in accordance with Section 8 of the Australian Freedom of Information Act. The Freedom of Information Act (Cwth) 1982 gives a right of access, subject to exemptions and exceptions, to information held in documentary form by the Telstra Entity.

We are exempt from the provisions of the Freedom of Information Act in relation to documents received or brought into existence in the course of, or for the purpose of, the carrying on of its commercial activities.

Functions

The particulars and functions of the Telstra Entity are set out in detail in this report. From time to time the Telstra Entity may make decisions regarding the supply of telecommunications services and matters incidental, ancillary or complementary to the supply of telecommunications services that may affect members of the public.

Organisation

An outline of our organisation is given under "Information on the Company - Organisational structure".

Consultative arrangements

Consultative arrangements exist between us, a number of user groups for specific products, as well as a wide range of groups including:

- our Consumer Consultative Council (residential customers);
- our Small Enterprise Consultative Council (small business customers);
- National Farmers Federation (rural and regional customers); and
- Australian Telecommunications Users Group (business and general).

Categories of documents

We produce and/or retain numerous documents, including documents that are available to the public free of charge.

Documents available to the public free of charge include the material terms and conditions of our standard form of agreement with customers insofar as it relates to a customer's commercial relationship with Telstra, product and service brochures and our Annual Report. These and certain other categories of documents are available from telstra.com®.

The categories of documents that we produce and/or retain relate to the provision of telephone lines to homes and businesses, the provision of local, long distance and international telephone calls, and provision of mobile, data, internet and on-line services. There are also documents relating to wholesale services provided to other carriers and carriage service providers.

These categories include:

- customer services and products;
- network planning, installation and performance;
- tenders and agreements;
- financial management;
- employee records; and
- administrative records.

Freedom of Information Act 1982 (Cwth)

Freedom of information requests

Initial enquiries concerning requests for access to documents or amendment of personal records under the Freedom of Information Act 1982, may be directed to:

Telstra's Freedom of Information Unit
Locked Bag 5691
Melbourne 8100

or:

Telstra Corporation Limited
242 Exhibition Street
Melbourne Vic 3000

Telephone enquiries should be directed to the Freedom of Information Manager on (03) 9632 3376.

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Glossary

2.5G: technology designed to expand the bandwidth and data handling capacity of existing mobile telephony systems such as GPRS

ACA: Australian Communications Authority

ACCC: Australian Competition and Consumer Commission

Access line: a fixed or wireless local access connection between a customer's premises and a carrier's local switch

ACIF: Australian Communications Industry Forum

ADSL *(Asymmetric Digital Subscriber Line)*: a compression technology that allows combinations of services including voice, data and one-way, full motion video to be delivered over existing copper feeder, distribution and subscriber lines

ARPANSA *(Australian Radiation Protection and Nuclear Safety Agency):* a Commonwealth Government agency responsible for protecting the health and safety of people, and the environment, from the harmful effects of radiation

ATM *(Asynchronous Transfer Mode)*: a high bandwidth, low delay technology for transmitting voice, data and video signals

Bandwidth: the capacity of a communication link

Broadband network: a network to support pay television and on-line services

CDMA *(Code Division Multiple Access)*: a mobile telephone system based on digital transmission

CSP *(carriage service provider)*: a person that supplies a telecommunications service to the public using Carrier network infrastructure

Carrier: a licensed owner of certain specified transmission infrastructure that is used to supply telecommunications carriage services to the public; any person holding a carrier licence

Churn (where expressed as a rate): the rate at which subscribers to a service disconnect from the service. Churn is usually expressed as total disconnects for a period divided by the average number of customers for that period

Churn (where expressed as an activity): the transfer of a customer's telecommunications' service from one supplier to another. In the case of a transfer involving a resale arrangement, no disconnection occurs and a churn relates to a change in the legal entity responsible for a telecommunications service or account

Communications Minister: the Commonwealth Minister for Communications, Information Technology and the Arts

Commonwealth: Commonwealth of Australia

CSG: Customer service guarantee

DDS: digital data service

DMO *(Data Mode of Operation)*: refers to our programme to consolidate multiple data and internet based networks into a single network so that we may meet the forecast customer driven growth in data and internet products at reduced cost

Glossary

Declared Services: a particular telecommunications service, or other service that facilitates the supply of services, that is subject to the regulated access regime. The ACCC has the responsibility for determining declared services, based on public inquiries or the recommendation of the TAF

e-commerce: e-commerce includes buying and selling electronically over a network

EME: electromagnetic energy

ESD: ecologically-sustainable development

ETSI: European Telecommunications Standards Institute. A body that sets European standards for telecommunications services

Frame relay: a packet switching technology for voice, data and video signals which uses packets of varying length, or frames. Frame relay can be used with any data protocol

Government: the Government of the Commonwealth of Australia

GSM *(Global System for Mobile Communications)*: a mobile telephone system based on digital transmission.

GPRS *(General Packet Radio Service)*: a service that will allow compatible mobile phones and mobile data devices to access internet and other data networks on a packet basis. The devices can remain connected to the net and send or receive data information, and e-mail at any time

HFC: hybrid-fibre coaxial

HSCSD: high speed circuit switched data

IN: intelligent network

INP: inbound number portability

IP: internet protocol

IP-VPN: internet protocol virtual private network

ISDN *(Integrated Services Digital Network)*: a digital service providing switched and dedicated integrated access to voice, data and video

ISP *(Internet Service Providers)*: an internet service provider provides the link between an end user and the internet, usually by means of a dial-up service. An ISP is also likely to provide help desk, web hosting and e-mail services to the end user. An ISP may connect to the internet via their own backbone or via services acquired from an internet access provider

Intranet: a private network which uses internet software and standards

LAN (***local area network):*** a short distance data communications network used to link computers and other equipment

Local Exchange: provides the point of connection for access lines to the telecommunications network and switches originating and terminating traffic to these access lines (customers)

NGCR: Next Generation Cost Reduction

Number portability: the ability of end users to keep their telephone number when they change their telephone service provider.

PABX *(Private Automated Branch Exchange)*: telephone equipment on a customer's premises seen as terminal equipment on the public network

Glossary

Preselection: the ability of a customer to choose a service provider. Preselection is on a "permanent" basis when the customer selects a provider for all calls placed without an override code

PSTN *(Public Switched Telephone Network)*: our national fixed network delivering basic and enhanced telephone service

***Reseller*:** non-carrier providers of telecommunications services

SDDSO: special digital data service obligation

SDN: switched data network

SIO: services in operation

SME: small and medium enterprises

SMS: short messaging service

STD®: subscriber trunk dialing (national long distance calling)

TCW: Telstra Country Wide™

***Telstra*:** Telstra Corporation Limited and its controlled entities as a whole

***Telstra Entity*:** Telstra Corporation Limited

***Telstra*®:** a registered trade mark of the Telstra Entity

***Telstra Act*:** the Telstra Corporation Act 1991 (Cwth)

TEMS: Telstra's Environmental Management System

TIO: Telecommunications Industry Ombudsman

TPA: Trade Practices Act

TSLRIC: total service long run incremental cost

ULL *(Unconditioned Local Loop)*: One or more twisted copper pairs between the exchange and the network boundary at a customer's premises

US GAAP: generally accepted accounting principles in the United States

USO *(Universal Service Obligation)*: obligation imposed on carriers to ensure that standard telecommunications services are reasonably available to all persons in the universal service area

WAN: wide area network

WAP: wireless application protocol

WDM: wave division multiplexing

Wireless Local Loops: low power, multi-directional radio systems to supply access to customers

xDSL: term used to describe various forms of digital subscriber line technologies that can provide very high speed service using existing copper lines

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Total Year Financial Summary

	2001	2000	1999	1998	1997
	A$m	A$m	A$m	A$m	A$m
Sales revenue - usual	**19,458**	18,609	17,571	16,703	15,430
Total revenue	**23,086**	20,581	18,220	17,288	15,983
EBITDA[(1)]	**9,834**	8,563	8,351	7,375	4,793
EBIT[(2)]	**6,963**	5,917	5,849	5,053	2,406
Profit before tax	**6,297**	5,349	5,320	4,468	2,073
Net profit after minorities	**4,058**	3,677	3,486	3,004	1,617
Dividend	**2,445**	2,316	4,247	1,802	4,146
Total assets	**37,473**	30,339	27,682	26,470	25,858
Gross debt	**13,990**	9,821	7,211	7,722	7,981
Net debt	**10,630**	8,531	5,769	6,458	7,036
Shareholders' equity	**13,722**	11,602	10,294	11,079	9,938
Operating cashflow	**6,599**	6,547	6,574	5,635	5,254
Cash used in investing	**(6,370)**	(4,896)	(4,064)	(3,609)	(4,171)
Cash used in financing	**94**	(1,881)	(2,484)	(1,808)	(1,572)
Net movement in cash	**323**	(230)	26	218	(489)
Capital expenditure & investments (including interest)	**7,712**	5,428	4,478	3,973	4,504
Financial Ratios		%	%	%	%
Return on average assets	**21.9**	21.2	22.7	20.1	10.1
Return on average equity[(3)]	**32.7**	33.7	29.9	28.7	12.7
Interest cover (times)	**9.0**	8.5	9.4	7.6	5.5
Gross debt to capitalisation[(3)(4)]	**50.5**	45.8	36.9	41.1	44.5
Net debt to capitalisation[(3)(5)]	**43.7**	42.4	31.8	36.8	41.5

(1) *Operating profit before interest received/receivable, interest expense (borrowing costs), depreciation and amortisation and income tax expense. EBITDA is used as a measure of financial performance by excluding certain variables that affect operating profits 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 or US GAAP. Other companies may calculate EBITDA in a different manner to us.*

(2) *EBITDA 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 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 2002

Half-year result announced	Wednesday 6 March 2002
Ex-dividend share trading starts	Monday 18 March 2002
Record date for interim dividend	Friday 22 March 2002
Interim dividend paid	Monday 29 April 2002
Annual result announced	Wednesday 28 August 2002
Ex-dividend share trading starts	Monday 16 September 2002
Record date for final dividend	Friday 20 September 2002
Final dividend paid	Monday 28 October 2002
Annual General Meeting	Friday 15 November 2002

Note: Timing of events can be subject to change

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