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- Annual Review 2000
- Annual Report 2000

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 Law 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 securities 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
- **2000** means **fiscal 2000** 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 - Business Description and Financial Statements

(1) *This document includes the disclosure requirements of the US Securities and Exchange Commission and will be lodged with the SEC as an Annual Report on Form 20-F. This column lists the item numbers required in Form 20-F and included in this report.*

The following items are omitted:
Part I, Item 12: Options to Purchase Securities from Registrant or Subsidiaries; omitted as it is not applicable.
Part I, Item 13: Interests of Management in Certain Transactions (refer Items 1 and 4).
Part II, Item 14: Description of Securities to be Registered; omitted as it is not applicable.
Part III, Item 15: Defaults upon Senior Securities; omitted as there have been no defaults.
Part III, Item 16: Changes in Securities and Changes in Security for Registered Securities omitted as there have been no changes. Use of Proceeds omitted as not applicable.

(2) *All schedules have been omitted as they are not required under the applicable instructions or the substance of the required information is shown in the financial statements. There are no exhibits.*

Exchange Rates

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 2000 of A$1.00 =US$0.5971. These translations are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

The table below shows 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:

Year ended 30 June	At period end	Average rate(1)	High	Low
1996	0.7856	0.7627	0.8026	0.7100
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

(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) and interim ADSs in the United States; and
- the US$ amounts received by holders of ADSs and interim ADSs on conversion by the depositary of cash dividends paid in A$ on the shares underlying the ADSs and interim ADSs.

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Overview

We are Australia's leading telecommunications and information services company with fiscal 2000 revenue of more than A$19 billion. 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;
- wholesale services to other carriers and carriage service providers;
- telephone 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);
- 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; and
- international submarine cables and access to international satellite infrastructure.

We are the largest mobile telecommunications provider in Australia, with GSM and CDMA digital networks, covering over 95% of the population and GSM international roaming to 75 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 rapidly 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, with nearly 650,000 internet subscribers at 30 June 2000 and our Australian Yellow Pages® web site is one of the most frequently visited sites 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.

However, margin pressures in the traditional areas of the businesses have occurred and are expected to continue during the time that new growth areas of the business, particularly in the "new economy", such as data and internet markets, mature. Major cost reductions will be necessary during this period of transition for us to achieve similar earnings growth as in recent years.

In March 2000 we announced that we have developed a major "next generation" cost reduction programme which, during the next two years with other initiatives, is expected to lead to an overall reduction of around

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10,000 staff including over 220 executive positions. The cost reduction initiatives involve nine major projects that are expected to give annual expense savings of around A$650 million. (Refer - Management's Discussion and Analysis of Financial Condition and Results of Operations).

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 six years. We are committed to continuing our review of areas of the business where we believe cost efficiencies can be achieved.

In August 2000, we jointly announced with Hong Kong's Pacific Century CyberWorks Limited (PCCW) that subject to definitive agreements and certain other conditions, we have reached agreement in principle on the key terms of the strategic Pan-Asian alliance announced in April 2000. With this alliance we intend to establish a mobiles/wireless company, an Asia/Pacific internet protocol backbone company offering regional and global reach and an internet data centres joint venture. (Refer "International Investments").

In addition to the alliance with PCCW, we continue to review opportunities, some of which could be substantial, that interest us both strategically and financially offshore and in Australia that will increase shareholder value over a reasonable period of time.

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 successfully compete, we have a four-part growth strategy. In addition, we continually review our entity and organisation structures to ensure we optimise the overall value to shareholders of the total business and its component parts.

Optimising returns from traditional telecommunications products and services in Australia

We are implementing programmes to use our assets more efficiently, enhance our extensive distribution capabilities and improve productivity in the delivery of our traditional telephony services. We are improving our marketing and sales activities, controlling our costs and improving our customer service by:

- reorganising our business units to serve our customer segments more effectively. We have:
  - amalgamated our sales, marketing and customer service activities for business, government and residential customers into one business unit to ensure we maximise our ability to offer targeted product and service packages to our many customer segments in a cost effective manner;
  - created a distinct infrastructure services and wholesale business with a focus on providing our own Australian operations and our domestic wholesale customers with world class technology, unit cost and service delivery; and
  - also created a new business unit dedicated to the needs of our regional and rural (country) customers.
- expanding the use of internet-based tools and technologies (e-enabling) throughout the company, especially in our core sales and after sales processes, to provide greater customer choice and convenience while increasing operational efficiency.

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We also intend to continue to offer a broad range of customer focused product packages that will increasingly be mixes of traditional products with newer products, such as high speed internet access and mobile and wireless telecommunications.

Focusing on key growth opportunities in mobile, data, broadband and the internet.

We believe that growth opportunities exist in mobile and wireless communications markets. We intend to continue to be the market leader in mobile telecommunications in Australia and to grow our revenues and earnings in this market by:

- expanding our GSM coverage, particularly highway and in-building coverage, and using additional spectrum to enhance capacity;
- introducing innovative products and services including a range of data and information services, such as general packet radio service (GPRS) for higher speed packet data, short messaging service (SMS) and wireless application protocol (WAP) for internet related applications on GSM; and
- extending our new CDMA network to provide additional digital coverage, particularly in rural and regional Australia, and to complement our GSM network in urban areas.

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 could be developed internally, or externally by investment in synergistic businesses.

As part of these initiatives:

- we are completing the data mode of operation (DMO) project that is intended to ensure that our networks and systems are appropriately conditioned for a world where data traffic far exceeds voice;
- we have commenced the rollout of our asymmetric digital subscriber line (ADSL) service that allows very fast internet service over ordinary phone lines;
- we are enhancing our ability to offer an expanded range of data, internet, e-commerce and content-based products and services through strategic partnerships, investments and acquisitions and development of our own products and platforms; and
- we intend to use our broadband capabilities to develop and market additional broadband applications. We are also promoting alternative access technologies to ensure that these services are affordable and widely available. Together, they will allow us to further penetrate the pay television and broadband internet market in Australia.

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.

Exploring growth opportunities in other areas of our business

As the telecommunications markets continue to expand and the number of providers of retail products and services increases, we intend to optimise our wholesale earnings by improving and expanding our product and service offerings both in Australia and internationally. We believe that growth opportunities exist in Australia and internationally for carriers that offer commercially attractive terms and conditions and value-added wholesale services, such as managed network services on a global network. We will shape our wholesale strategy to pursue these opportunities.

We also believe we can increase our revenues and earnings from outside Australia, especially throughout Asia, through:

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- our alliance with PCCW. This joint venture is intended to focus on wireless services in the pan-Asian region, an internet protocol backbone network for wholesale services and for linking our own points-of-presence, and internet data centres; and
- exploring other selected international investment, acquisition and alliance opportunities generally and, in particular, with enterprises engaged in mobile telecommunications, data, the internet or content- based businesses.

Transforming corporate culture and improving productivity

We are continuing to transform our corporate culture and improve productivity with the objective of achieving cost savings and serving our customers better. We must continue to change to meet evolving customer requirements, make major changes to work practices and improve management accountability and commercial discipline. We have invested substantial resources over the past several years to develop technologically advanced networks and systems which have enabled us to redeploy and reduce our workforce, and outsource where appropriate. We are also working to increase the data, internet and other information technology skills of our workforce for the transition to a data dominated electronic communications market through retraining and recruitment. We expect this to result in improved operating flexibility, efficiency and service reliability.

Competitive and regulatory environment

In recent years, the Australian Government has further liberalised the Australian telecommunications market and has introduced open competition. 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 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 three years and at 30 June 2000 there were approximately 45 licensed carriers and 1,000 internet service providers which includes 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. With more competitors entering the market, we are also focusing on opportunities to develop and expand our wholesale business with new and value-added product and service offerings. The open competitive environment has caused us to take on a more commercially oriented and customer focused approach.

We have moved into new products and services beyond our traditional telephony product set, implemented significant cost initiatives to improve our efficiency and have sought to improve our product development and time to market capabilities.

Since the introduction of competition, our share of the Australian telecommunications market revenues has been gradually declining. However, the effects of this decline on our revenue have been more than offset by strong 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 market overall. We expect that existing strong competition in the mobile telecommunications, national long distance, international telephone and data markets will increase. We are also likely to face increased competition in the basic access and local call markets where competition has previously been limited, partly as a result of the retail price restraints on us. We expect that new and existing competitors will continue to develop their own telecommunications infrastructure and services as well as new products based on access to our services and facilities.

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As this open market environment is still evolving, we are uncertain exactly how future competition and regulatory decisions will affect our business. The Australian Competition & Consumer Commission (ACCC) and the Australian Communications Authority (ACA) oversee the overall regulatory framework and over the last three years have increased their level of activity in telecommunications markets, including in some highly competitive markets. For example, the ACCC's decision regarding our PSTN undertaking and the introduction of an unconditioned local loop (ULL) service are key indicators of the nature and scope of the regulatory environment in the near future. See "Regulation".

Organisation

Our internal organisation structure continues to evolve to meet the needs of the market environment in which we operate. Since 1 July 2000, we have had four strategic business units for financial reporting purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Segment Reporting" for a discussion of the financial performance of our reportable segments during the last three fiscal years.

Our new structure, which took effect on 1 July 2000 for financial reporting purposes, is outlined below.

Strategic business units

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

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

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

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

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

- **Telstra Country Wide** operates specifically to address the telecommunications needs of around 3 million consumers and businesses that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory. Its aim is to accelerate improvements in service and sales performance outside major metropolitan areas. The sales, marketing, customer service, installation and repair requirements of rural and remote customers are addressed at the local level through 29 regionally located managers. While the customers for this business unit are also part of the customer base for Telstra Retail and Telstra OnAir, their specific needs that are not as readily addressed as for customers in the metropolitan areas, are the responsibility of this business unit.

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In early fiscal 1999, we announced plans to commercialise the operations of our construction division within a new wholly-owned controlled entity, Network Design and Construction Limited (NDC). We expect that we will sell NDC through either a trade sale or an initial public offering during fiscal 2001. NDC competes for some of our annual network expenditure against other suppliers, and also performs construction activities for others, including other telecommunications companies. The commercialisation and subsequent sale of NDC is aimed at lowering the cost of our asset construction.

Corporate centre functions

- **Finance & Administration** is responsible for strategic planning and investment opportunities and provides corporate policy and support functions, including finance, risk management and audit, shared services for processing functions, treasury, investor relations, corporate secretarial functions and other corporate services.
- **Legal & Regulatory** provides legal services and has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to industry regulators.
- **Employee Relations** manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programmes.
- **Corporate Affairs** manages corporate communications including media relations, external relations including government affairs and employee communications.
- **e-processes** is responsible for leadership, direction and standards for our transformation into an e-business through the application of internet tools and technologies.

Our organisation structure for 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: the Commercial & Consumer, Business & International, Products & Marketing, Network Technology & Multimedia and Carrier Services Groups.
- 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.

Marketing and customer service

We believe our future competitive advantage will come from providing customers with product and service packages that meet their total communication requirements. We have built some of the strongest brands in Australia. 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 telecommunication needs. These customer needs drive the development of tailored product and service packages.

We customise for each segment our:

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

We operate almost 100 shops nationwide that sell a range of consumer telecommunications products, including mobile telecommunication services.

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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 have approximately 8.4 million residential and small business customers. We segment our residential customers into four life-stage segments that allow us to match their telecommunications requirements to changes in life style and life-stage. We segment most of our small business customers into five business segments based on the location and type of business they operate. 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. A new sales channel organisation structure is currently being implemented which is aimed at providing more direct channels to our customers for both sales and service. These new channels handle specific groups of customers and transactions that require different types of customer service and sales emphasis. 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.

We are developing and deploying a new system to give our sales consultants on-line access to improved sales and customer information. This system allows rapid resolution of customer enquiries and assists sales consultants to sell appropriate products and packages to meet customer needs.

We have three co-branded credit card programmes, Telstra Visa card, Qantas Telstra Visa card and Telstra Visa BusinessOne to enhance customer loyalty and retention and promote our products and services.

Rural and remote customers

We have introduced an additional segment of customers to cater for those requiring sales and service in areas outside the metropolitan areas in Australia. These customers have their specific requirements addressed through 29 regional centres. Each area has a senior general manager with responsibility for all sales and service needs in that manager's region.

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, services and customer driven solutions, 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 telesales professionals, 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. 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.

International businesses

We offer multinational corporations and small and medium-sized businesses a single source of telecommunications services. We have international sales and technical professionals in Australia and

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overseas. We have installed facilities in the United Kingdom, United States, Japan, South Korea and Hong Kong and we propose to establish further facilities in the United States and other countries in Asia and Europe. As described above under "Overview", we have reached agreement in principle for an alliance with PCCW that will expand our presence in the Asia-Pacific region.

Mobile telecommunications customers

Telstra MobileNet® currently offers mobile services on both our GSM and CDMA digital networks. We provide only limited services on our analogue network as most of this network has closed and the remaining areas will cease operating in October 2000.

We use both internal and external sales channels. The same internal sales networks that target our medium and large business customers also sell MobileNet® services. Our mobile telephone products and services are sold to business and residential customers through more than 4,000 retail outlets nationwide. We also have a relationship with an independent contractor who provides billing, credit management and customer service to a small proportion of our MobileNet® customers. We pay the independent contractor a commission to provide these services on our behalf.

Directory services

We distribute White Pages™ directories and Yellow Pages® directories to virtually every household and business in Australia. Both directories are available in print and on-line media as well as over the telephone. Nearly 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.

We operate four internet sites, two for our Australian Yellow Pages® and White Pages™ directories which are among the most frequently visited Australian internet sites, the GOeureka™ search engine and a street atlas service called Whereis™.

Pay television

We own 50% of FOXTEL that provides pay television services, using our hybrid fibre co-axial broadband network, and more recently "direct-to-home" satellite, to customers in Australia. FOXTEL packages the programming and content, markets and sells the service and supports the customers. FOXTEL engages in a number of marketing initiatives intended to increase market penetration and reduce churn for pay television services. We operate the customer database and activation systems for the cable system and are responsible for connecting FOXTEL customers to our cable system and maintaining those connections. FOXTEL is responsible for the connection and maintenance of direct-to-home satellite customers.

On-line services subscribers

We market our on-line services, particularly Big Pond® internet services, through retail outlets and the internet. Big Pond® products are available through retail outlets, direct channels, bundled with computer and communication hardware and directly over the internet. Customer service for Big Pond® is provided by telephone based support staff in addition to e-mail based support.

Wholesale customers

We have established a dedicated group to service the needs of our wholesale customers under our wholesale brand – Telstra Wholesale. Our wholesale customers include licensed carriers, carriage service providers and internet service providers. Our approach to these customers, together with the products and services offered, is driven by the commercial importance of this growing market and the regulatory framework in

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Australia. In particular, we encourage carriage service providers to purchase a full range of our wholesale services.

We are working to enhance our wholesale services by introducing automated on-line interfaces to our systems and a tailored wholesale billing process. We have extended our product range to include resale of mobile services over our CDMA digital network, a range of wholesale data access and broadband transmission products and will continue to expand the wholesale range.

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Products and Services" 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					
	2000		1999		1998	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Basic access	**2,020**	**10**	1,855	10	1,770	10
Local calls	**2,650**	**13**	2,727	15	2,664	15
National long distance calls	**2,626**	**13**	2,775	15	2,594	15
International telephone services	**987**	**5**	1,103	6	1,380	8
Mobile goods and services	**2,859**	**15**	2,538	14	2,154	13
Data, text and internet services	**2,838**	**14**	2,483	14	2,197	13
Directory services	**1,122**	**6**	1,078	6	1,029	6
Customer premises equipment	**336**	**2**	368	2	538	3
Intercarrier services	**819**	**4**	617	3	582	3
Inbound calling products	**432**	**2**	400	2	337	2
Facilities management	**235**	**1**	183	1	120	1
Other sales and services	**1,685**	**9**	1,444	8	1,338	8
Sales revenue	**18,609**	**94**	17,571	96	16,703	97
Other revenue [(1)]	**1,231**	**6**	647	4	599	3
Operating revenue	**19,840**	**100**	18,218	100	17,302	100

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

Basic access

We provide basic access services to virtually all homes and most businesses in Australia. We currently charge residential customers a lower monthly access fee than we charge our business customers. 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 network to provide basic voice, facsimile and internet services. Our basic access service does not include enhanced products like ISDN access and FaxStream® services.

In February 2000, we introduced a new package called EasySaver®Plus. This allows customers to pay a higher monthly access fee in exchange for lower local call charges and capped long distance call charges.

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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 fees we charge our urban residential customers subsidises our costs of providing basic access service to our rural residential 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 and FaxStream® services. Growth in the number of in-home offices and increasing demand for integrated voice and data solutions has caused more 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.

During the last two 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 additional line growth.

In August 2000, we commenced our rollout of ADSL which offers a fast internet service over ordinary phone lines and allows access without tying up the phone line or needing an additional line. We intend to offer ADSL products in nearly 1,300 exchanges and reach about 90% of Australian homes and businesses by the end of fiscal 2002 with uniform Big Pond® ADSL pricing regardless of the customer's location in Australia. ADSL allows a 20 to 50 times faster internet access option that is not available on regular dial-up internet services through normal phone lines. ADSL will be available to our retail and wholesale customers.

The introduction of ADSL is in accordance with our broadband access strategy to offer high-speed internet services to all Australians by cable, standard phone lines or satellite.

Local calls

We currently provide local call services to most of the residential market and a substantial majority of businesses 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 discount from our standard retail price. These carriage service providers resell local call services and bill their customers directly.

Digitalising and upgrading our networks and systems has allowed us to offer a wide range of products and services that provide more features and functions to our customers. We focus on increasing local call connections by offering our customers services that increase the number of calls they make. These include messaging services, call waiting, call forwarding, calling number display and call return.

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National long distance calls

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

We generally 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.

We also offer a capped price to customers for fixed-to-fixed and fixed-to–mobile calls made between 7:00 pm and midnight every night of the week. Capped price calls have increased call minutes and significantly improved customers' perceptions about the price and value of our long distance service. In addition, we offer a variety of specials that apply during periods of low traffic so that we increase the use of our network.

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, 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® allows customers to purchase calls in 30 minute blocks of time using a 0018 dialling code. We also use a variety of other marketing programmes and pricing initiatives to encourage our customers to make more use of our services.

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 2000, 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	19	16
United States	15	23
New Zealand	15	22

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

A large part of our revenue and expenses in our international telephone business depends upon the rates that international carriers charge each other to terminate calls. It has been customary for international carriers to settle these charges through agreed accounting rates. Over recent years pressure from increased competition in the international telecommunications market has effectively lowered the overall level of accounting rates.

On an aggregate basis, our total payments to international carriers have exceeded our total receipts, reflecting the balance of our outbound and inbound traffic volumes. As international accounting rates have fallen, our costs of delivering international calls have declined.

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More recently, we have entered into "send or pay" contracts where fixed volumes of traffic are agreed between two carriers for a set price. Incremental rates are payable for additional traffic.

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 45% at 30 June 2000. We also provide our customers with a range of information services.

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

- voicemail;
- call waiting;
- call forwarding;
- mobile facsimile and data services;
- operator assisted paging;
- operator through connect;
- SMS;
- WAP services (on GSM only); and
- financial and sports information services.

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

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 more than 75 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. We also generally charge customers an activation fee although during fiscal 2000 there were periods when these fees were waived.

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;

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- the coverage and enhanced features of our GSM digital service;
- our strong distribution capabilities, particularly in retail stores; and
- the transfer of our analogue customers to our GSM digital service.

CDMA digital service

In fiscal 2000, we established a new mobile telecommunications network based on CDMA and by 30 June 2000 had achieved coverage of over 95% of the Australian population. CDMA uses 800MHz spectrum that was previously used for our analogue network. We believe that when the rollout of our CDMA network is complete it will:

- provide at least similar coverage to that previously provided by our analogue network;
- relieve potential congestion on our GSM digital mobile network in urban areas and provide quality services in regional and rural areas;
- provide similar features and services to our GSM service, including privacy and security for voice communications, enhanced messaging and data services; and
- enable us to provide broader geographic coverage at a lower cost than expanding our GSM digital network, particularly in rural regions.

We are also planning to introduce WAP services for CDMA in early fiscal 2001.

We launched our CDMA service in the first half of fiscal 2000 into areas previously covered by our analogue network that were required to close by 31 December 1999. The next phase of our CDMA rollout will be completed in the first half of fiscal 2001. This will cover the remaining areas presently serviced by our analogue network that will be closed in October 2000. We have CDMA agreements with other carriers, Cable & Wireless Optus, Hutchison, AAPT, Austar and Primus for resale and recognise the revenue we receive from these services as intercarrier services revenue.

Analogue service

We are progressively closing our analogue mobile network as required by law:

- all metropolitan and 130 non-metropolitan analogue sites closed by 31 December 1999;
- an additional 200 base stations in non-metropolitan areas closed on 30 June 2000; and
- the remaining non-metropolitan sites in Queensland, Northern Territory and Western Australia will close in October 2000.

In a very competitive market, we have successfully developed and marketed programmes to target offers to our analogue customers to switch to our digital GSM or CDMA service.

Data, text and internet access services

We provide a wide range of data, text and internet services to accommodate the needs of a diverse range of customers in terms of product requirements, service levels and geographical coverage.

Data networks

We provide the following data network services:

- ISDN access services;
- dedicated data services that our business customers use to form their own private networks and carriage service providers use to establish their own facility-based communications services;
- large bandwidth services for TV programme transmission;
- international leased and private data services offered through global or bi-lateral agreements with international partners including:

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- frame relay and packet switched services; and
- internet protocol services, such as internet protocol virtual private network solutions.

The services we provide vary in bandwidth and also in the degree of network management and network redundancy provided. The current telecommunications trends suggest that customers are progressively using more sophisticated and complex business applications. Additionally, different customers require different levels of network availability. In order to meet these service demands, we are encouraging customers to move from simple services, such as voice grade dedicated lines providing physical connection, to managed dedicated services and newer, packet-based services, such as frame relay.

As well as targeting new products and service levels, we continue to pursue more cost effective means of delivering services through rationalisation of platforms and migration to internet protocol based networks that use transmission capacity more effectively.

LAN/WAN services

We offer a wide variety of local and wide area network (LAN/WAN) services. These services address a number of market dynamics:

- the shift from dedicated to switched data services;
- the demand for higher speed services and packet-based data transmission;
- the shift towards internet protocol environments; and
- the increased networking of computers.

These services are based on advanced data switching technologies, including frame relay, asynchronous transfer mode (ATM) and related technologies. We also provide network management services to our customers.

Internet services

We offer a range of internet products and packages under our Big Pond® brands. Big Pond® Home and Big Pond® Business offer dial-up modem and ISDN internet services to residential and business users across Australia through over 100 different points-of-presence. Big Pond® Direct provides larger corporate, government and wholesale customers with high-quality dedicated internet access within Australia at different transmission rates. Internet speeds range from 56 kilobits per second up to 155 megabits per second. Big Pond® Advance provides broadband internet services to consumer and business customers via hybrid fibre-coax cable and satellite access technologies.

We have expanded our internet backbone network significantly to cater for anticipated growth in the Big Pond® customer base as well as the anticipated increased demand for internet traffic during and after the Sydney 2000 Olympics that commenced in mid- September 2000. As planned, we had our internet backbone network bandwidth between Australia and the rest of the world exceeding 1 gigabit per second in time for the Olympics.

We also build "extranets" for corporate and business customers that extend their intranets to other authorised users. Our DialConnect® service provides employees of major businesses and government customers with remote network access to their main computer systems. We build customised solutions for businesses and organisational groups. We also offer web hosting and streaming services.

One of our key internet access services is Big Pond® Home internet service. Since 1997, Big Pond® Home has grown considerably both in terms of subscriber numbers and revenue. We believe that the recent rapid growth of the internet represents an opportunity for us to deliver a range of services to on-line users.

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We offer Easymail™, an e-mail service that allows customers to send and receive e-mails globally for the price of a local call.

On-line services

We are providing more on-line services in response to the demands made by our customers, worldwide trends in this area and to maximise the benefits to us of providing these services.

We announced the availability of our on-line communication's hub, telstra.com (www.telstra.com) in March 2000. After registering on the site, a user may personalise the homepage to suit their particular needs and interests. By 30 June 2000 there were 100,000 registered users.

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 data base in White Pages™ and Yellow Pages®; and
- news, finance, weather, travel and entertainment updates.

Transaction services and e-commerce

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 are currently migrating to a new transaction platform that provides a more flexible service based on the use of ISDN access, at a reduced cost.

We offer an expanding range of electronic commerce services for both large and small businesses:

- for business-to–consumer applications, we offer a variety of packaged components for building an internet based store, managing orders and secure authorisation of on-line payments; and
- for business-to-business applications, we offer services that support internet based procurement and trading environments between business buyers and their suppliers, as well as interconnections with existing electronic data interchange based trading networks.

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.

Text services

Our text services consist mainly of facsimile products and services marketed under our FaxStream® brand name. We also offer enhanced FaxStream® services such as:

- holding, storing and forwarding facsimiles;
- forwarding facsimiles to alternative locations, such as fax to e-mail; and
- broadcast facilities.

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In addition, our FaxStream® Duet® service supplies customers with an additional number with a distinctive ring that is recognised by the facsimile machine or pc fax modem. This service is provided on a single access line. We charge the same line rental fee for our FaxStream® service as we do for our basic access service. We also charge our customers fees for using additional features we offer. The facsimile market in Australia has been characterised by an increasing number of small business and residential users. Even though alternative technologies, such as e-mail and the internet, have taken off rapidly the FaxStream® base of customers has continued to grow.

Directory services

We are the main provider of directory services in Australia through our wholly owned controlled entity Pacific Access Pty Ltd. In early fiscal 2000, we bought out the two minority shareholders who previously held a 25% interest.

The directory services we offer include printed White Pages™ directories and Yellow Pages® directories which are also available through the telephone and internet media. 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 or pay for an unlisted number. 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 Australian Yellow Pages® site (www.yellowpages.com.au);
- the White Pages™ site (www.whitepages.com.au);
- the recently enhanced and rebranded GOeureka™ site (www.goeureka.yellowpages.com.au); and
- the street atlas site Whereis™ (www.whereis.com.au).

Through our directories business we are positioning ourselves to become a leading internet transaction hub or portal for small and medium businesses. 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 applications, applications for small and medium businesses and electronic business solutions.

Customer premises equipment

Our customer premises equipment business consists of:

- sales of our branded telephones, answering machines, facsimile machines and other telecommunications products;
- telephone rental including rental under our universal service obligation (USO); and
- installation and maintenance of selected third party supplied PBX telephone systems.

We purchase from third party suppliers all of the equipment that we sell or rent.

In early fiscal 1999, we sold our small business systems business to a joint venture owned 30% by us and 70% by Plessey Asia Pacific Pty Ltd.

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 access to our network facilities such as ducts, towers and exchange space;

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- transmission services, including leased lines;
- data services;
- international services;
- mobile telecommunications services; and
- systems maintenance and billing services.

We provide CDMA, but not GSM telecommunication services, as a wholesale product.

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 for which inbound callers only pay 25 cents irrespective of the source of the call;
- 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 but with 25 cents per call charged to the inbound caller and lower number charges than Priority® One3 to the subscriber; and
- call centre products such as network-based services for business call centres that include interactive voice response and on-line customer selection menus.

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

Facilities management

We have developed facilities managed services for our business customers. Our Managed Solutions™ product refers to the services we provide through our management of all or part of a customer's information technology and / or telecommunications services and includes the following:

- managed voice services: -our network based enhanced voice and data switching products and virtual private network products or a PABX network and the provision of related professional services;
- managed data services: - our core data products including 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: -information technology 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.

Payphones

We are the leading provider of payphones in Australia. As at 30 June 2000, we operated approximately 36,300 public payphones. Other operators have approximately 42,000 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.

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Other sales and services

Our other sales and services mainly include domestic information and connection services, "190" payment services for voice and facsimile, commercial works, ship-to-shore services, mobile data and roaming, video and teleconferencing and audio and video services.

We provide information and connection services through 52 call centres in Australia. In fiscal 2000, we responded to over 476 million calls with the majority of these basic operator services being provided without charge to the customer. In the first half of fiscal 2000, we introduced charging 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, Australia's leading pay television provider with nearly 650,000 subscribers as at 30 June 2000. 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 and The News Corporation Limited has a 25% interest in FOXTEL. 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. PBL and News Corporation have made long-term programming commitments to FOXTEL.

FOXTEL has entered into various programme supply arrangements, including some with minimum subscriber commitments. At 30 June 2000, the amount of FOXTEL's commitment discounted to present value was A$1,870 million. To the extent that FOXTEL does not meet these commitments, the FOXTEL partners are jointly and severally liable for the 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 (TPA) to our broadband cable network for the delivery of analogue pay television services.

Following this decision by the Federal Court, we advised we would consider commercial negotiations with third parties seeking access to our broadband network. In the event that demand exceeds the availability of analogue channels, we intend to conduct an open auction among interested parties for any available capacity. Any negotiation or auction is subject to the availability of channel capacity and any application to appeal the recent decision of the Federal Court.

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 it may not provide a satellite service containing this programming in those areas.

International investments

A component of our strategy is to expand our business activities outside Australia, particularly in the areas of mobile telecommunications, data, the internet or content-based businesses through investment, acquisition or alliance opportunities generally.

On 24 August 2000, we jointly announced with PCCW, a Hong Kong based company, that subject to definitive agreements and certain other conditions including the obtaining of all necessary regulatory, PCCW's shareholder and third party approvals, we have reached agreement in principle on the key terms for our strategic Pan-Asian alliance announced on 13 April 2000. We have reached agreement in principle on the following aspects of the alliance:

- a merger of some of our businesses and assets with businesses and assets from PCCW to create a 50:50 joint venture operating a global Internet Protocol backbone business (IP Backbone Company). This IP Backbone Company will be a regional and global carrier of voice and data services. PCCW will inject debt of up to US$1.125 billion and we will contribute debt up to US$0.625 billion. This debt injection is subject to IP Backbone Company obtaining an investment grade credit rating;
- we will purchase a 40% stake in the mobiles business of PCCW for US$1.5 billion (Wireless Co). Wireless Co is intended to be the primary vehicle for the execution of our and PCCW's wireless strategy in Asia;
- we will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres throughout Asia. IDC Co will initially focus on core hosting services; and
- we intend to invest US$1.5 billion in a PCCW convertible note, which is repayable to us, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

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

This transaction will result in many of our existing offshore operations being transferred into the IP Backbone Company and our future international growth in wholesale and mobile telecommunications being driven primarily through these joint venture companies.

We also have a number of smaller offshore investments, which include:

- 17.1% equity interest in the data clearing house Extant Inc. Subsequent to 30 June 2000 there has been a corporate reorganisation of Extant Inc and we have agreed to sell our interest in Extant Inc. to Dynergy Inc. for a 20% interest in Dynergy Connect. Dynergy Connect will operate the Extant Inc. business;
- 35% equity interest in the satellite communications operator, Station 12 BV in the Netherlands;
- 50% of the New Zealand joint venture, Telstra Saturn Limited which has been established to provide a full service capability to retail and business customers in New Zealand; and
- 39.9% of 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 largely centralised

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management support our networks. We have centralised the operational management of 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. We have deployed a digital GSM mobile telecommunications network and a hybrid fibre co-axial cable broadband network. We are currently undertaking a project to reduce the level of faults in our customer access network. We also incur other expenditures to upgrade services available on the customer access network. We are currently deploying a new digital mobile network based on CDMA that will replace our analogue network. We also completed in fiscal 1999 a five-year programme to upgrade, rationalise and digitalise some of our fixed networks and improve many of our systems, including those relating to billing, sales and customer service. 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 2000, A$34 million in fiscal 1999 and A$43 million in fiscal 1998 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 invest in our networks and systems, particularly to cater for the increasing demand for data services such as internet services. Growth in data traffic in our domestic network is driven largely by the internet that continues to grow significantly. Data traffic has grown to such an extent that there is now little difference between the volume of data traffic compared with voice traffic. We are undertaking a key initiative called DMO in order to:

- position ourselves for significant new revenue streams from on-line sources;
- develop a cost competitive network capable of handling the growing volume of data traffic;
- modify our processes and systems to be more customer focused and cater for a wide range of data and voice product offerings;
- develop an operational model for our expected future product and service mix; and
- establish a procedure to update our skill base.

We have recently commenced, as part of this initiative, the build of our new generation telephony (NTG) service that is based on internet protocol. This service is designed to allow bundled voice and data services to be delivered over any broadband access, such as ADSL or cable. It is intended that this service will be supported by our additional initiatives, including the DMO core network, service infrastructure and broadband access.

As part of our DMO project, we are also evaluating whether it would be feasible for us to shift much of our fixed network voice traffic to internet protocol and ATM based technology over the next ten years. We are also assessing whether we can use these technologies in our internal operations to help us control costs and improve productivity.

Our customers are increasingly demanding greater control of their services and access to information, such as their own billing information. In order to meet these demands, we will need to make further investment in our systems.

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We are increasing our support of services that require high bandwidth by using technologies, such as our hybrid fibre co-axial cable broadband network and ADSL technology. In remote areas, we may achieve this by using satellite or other wireless technologies.

We have established the position of chief technology officer to ensure that there is alignment across all systems and network related activity and to develop and oversee our network and information technology 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 3.1 million kilometres of optical fibre and approximately 2,700 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 technology into our network between Melbourne and Sydney to increase capacity at reduced unit costs. We are planning to continue to implement new systems, particularly for inter-capital links.

The ownership structure of our international transmission infrastructure is intended to change when our alliance with PCCW is completed - (see "International investments"). Currently, our infrastructure includes both submarine cable and satellite transmission. We own substantial submarine cable capacity in the Asia-Pacific region and around the world. We also manage and partly own several cables landing on Australian shores.

We are an initial party to a new large capacity fibre optic cable called SEA-ME-WE3 that came into service in calendar 1999. This cable links Asian countries and Australia with the Middle East and Western Europe.

We are also an initial party to the China-U.S. cable consortium that links some Asian countries to the west coast of the United States. Part of this cable came into service in the latter half of fiscal 2000. We are also part owners of a Japan-U.S. cable venture that plans to link Japan to the west coast of the United States. We expect this cable to be in service in late calendar 2000.

During the last quarter of fiscal 2000, we signed contracts for additional cables and these are expected to be in service in the first half of fiscal 2002. These contracts are for:

- a new cable from Australia to Japan, in which we are the major shareholder; and
- a new cable under construction called APCN2 that will connect a number of Asian countries. We are an initial party in APCN2.

We are a small shareholder in the international satellite operator INTELSAT and own a 35% interest in Station 12 B.V. a global satellite joint venture entity established in April 2000 with KPN Royal Dutch Telecom. Station 12 B.V. has approximately a 6% interest in the satellite operator INMARSAT as well as earth station facilities that provide global coverage communications to the maritime, rural and remote areas and aeronautical markets. We use these and other satellite systems to supplement our international traffic capacity where undersea cable capacity is limited or non-existent and also to provide route diversity and circuit redundancy as well as specialist satellite based applications.

We continue to evaluate broadband satellite proposals with a view to securing the capability to deliver equitable broadband services to rural and remote Australia.

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Public switched telephone network

Our PSTN is fully digitalised and connects virtually all Australian homes. It concentrates traffic from more than 10,000 access sites to approximately 300 digital nodal switches across Australia. Our transmission infrastructure connects these digital switches and our two international gateway switches. It is intended that our international gateway switches will be transferred to IP Backbone Company - (See "International investments"). Additionally, our intelligent network 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 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.

A substantial proportion of our customer access network was constructed many years ago on a tapered basis and cable joints have been opened frequently to make alterations. A number of factors, including unusually adverse weather, have caused this network to experience relatively high fault rates by world standards. This has made it difficult for us to maintain high service levels and, in some cases, to meet our customer service charter commitments and legislated service standards.

During the last two years we have undertaken an access renewal project to reduce the level of faults in our customer access network. This capital expenditure has focused on improving the quality and reliability of our customer access network and reducing operating expenses. As a result of this work and after a review of various technologies that could be used in our customer access network, we commenced the rollout of ADSL in August 2000. Our ADSL product allows the transmission of data at very high rates, from 256 kilobits per second to 1.5 megabits per second from the network to the customer, and at lower rates in the reverse direction over our access network. Under ADSL there are three very fast options available to customers:

- an internet service that allows customers to use the internet without tying up the phone line or needing an additional line;
- flexible working options for home and branch office employees connecting to a corporate network; and
- a service available for internet service providers upgrading their customers to broadband internet.

We believe that the improvements in the quality of our customer access network will assist us in retaining our customers, increasing our operating efficiency and developing and deploying new products and technologies.

We are upgrading access for our customers in remote areas, typically served by radio- based access, through our remote Australia telecommunications enhancement programme. We undertook this programme to meet the demands of a growing number of customers for new services in rural and remote areas for improved access to high-speed data, facsimile services and the internet. Through this programme, we have been able to improve and broaden our services to approximately 20,000 customers in rural and remote areas of Australia.

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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 internet service providers 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 internet service providers, and have introduced alternative technologies to provide internet access without using our PSTN, such as through our broadband network and our other data networks.

Integrated services digital network

Our ISDN services are provided in two ways:

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

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

As at 30 June 2000, 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 intelligent network platforms that support a range of advanced services including:

- calling card (Telecard™);
- prepaid card (Phoneaway®);
- information services numbers;
- number portability;
- advanced network routing;
- screening functions; and
- inbound services such as Freecall™ 1800 and Priority® One3.

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 intelligent network platforms, one which provides the full range of enhanced features which support our MobileNet® products and a selected range of intelligent network services supported by our wholly owned entity in the United Kingdom and our New Zealand associate, Telstra Saturn Limited.

We currently use multiple platforms to support our intelligent network services. We are in the process of reducing the number of platforms we use and this will assist us to reduce our operating costs in the future. However, it is unlikely that these savings will be realised before fiscal 2002.

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Data networks

We operate a number of data networks, including:

- our switched data network;
- a national transaction switching network; and
- our digital data network.

Our switched data network provides:

- public packet switching data services suitable for a wide range of data applications;
- site-to-site and multi-site wide area network connectivity;
- frame relay from 64 kilobits per second up to 45 megabits per second; and
- ATM services supporting access rates from 64 kilobits per second to 155 megabits per second.

We also have a national transaction switching network 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 digital data services at speeds of up to 2 megabits per second. This network has extensive coverage across Australia.

Internet protocol networks

We deliver a diverse and broadly based range of internet products through a composite infrastructure of network platforms and computer servers. 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.

A range of transaction management information technology systems is deployed to deliver our e-commerce products. We also operate a financial switching network that provides transaction gateways into Australia's financial institutions to support our e-commerce business.

Big Pond® Home supports up to 56 kilobits per second modem access; Big Pond® Business and DialConnect® support up to 128 kilobits per second ISDN access. We are currently extending our access infrastructures to include a satellite option mainly for regional and remote internet users.

We also provide a dedicated internet access service under the brand of Big Pond® Direct. Big Pond® Direct has a number of fixed line access technology options up to 155 megabits per second and is used by other internet service providers and retail customers. In August 2000 we commenced the rollout of our ADSL service and we are evaluating the speed at which we deploy new broadband access technologies using ADSL.

We have a major connection point on the west coast of the United States and this traffic route dominates our international connections with over 90% of all our international internet traffic being carried between Australia and the U.S.

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Broadband network

Our hybrid fibre co-axial cable broadband network passes 2.5 million homes. Approximately 70% of the network is underground. The optic fibre configuration of the 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 broadband network to provide two-way transmission for interactive services and high-speed data transfer. Presently, the broadband network transmits pay television services and, in some areas, provides high speed internet access.

Mobile telecommunications networks

We own and operate a number of networks for the provision of mobile telephone services that cover more than 95% of the Australian population. We serve over 4.1 million customers with these networks.

Our GSM digital network mainly operates in the 900MHz spectrum band but is being expanded in capital city areas using the newly acquired 1800MHz spectrum. As at 30 June 2000, our GSM digital network had 20 mobile switching centres, 13 home location registers and 3,158 base stations plus 600 micro cells. We are continuing to expand the capacity of the GSM network as well as focusing on improving depth of coverage in major cities, particularly in-building coverage. We have incorporated many value added services into our GSM network including:

- 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; and
- international roaming to 75 countries.

In early fiscal 2001 we will launch a mobile packet data service on GSM using the GPRS. GPRS is intended to provide a higher speed packet accessed data capability on GSM mobile networks. This service will allow new mobile phones and data devices to access internet and other data networks on a packet basis. The devices can remain connected to the internet and send or receive data information and e-mail at any time. Initially the data speeds will be limited to around 20 kilobits per second and the main applications will be based around WAP. WAP is a system that works well on the small screens and slow data speeds of mobile devices.

Our second digital mobile telecommunications network based on CDMA technology operates in the 800MHz band that our analogue network has been using. The CDMA network provides coverage in areas that were served by the analogue network and in many additional areas giving it a footprint, which is already 50% larger than the original analogue network. At 30 June 2000, our CDMA network covered over 95% of the Australian population and comprised 8 switching centres and 1,827 base stations. It will expand to 2,100 base stations in fiscal 2001 at which time it will give cellular coverage to 500,000 more Australians than available under the former analogue network.

CDMA also has available a number of value added services that include voicemail and messaging. The CDMA network supports most of the same added services as GSM. It is planned to replicate the products fully once SMS sending and WAP are implemented on CDMA and suitable phones are available after July 2001. International roaming is more limited with CDMA. However, it will soon provide roaming with Japan and South Korea that are not served by the current extensive GSM roaming arrangements.

Our analogue network uses spectrum in the 800MHz band. At 30 June 2000 our analogue network had 12 switching centres and 295 base stations and decreasing as the analogue network closes. By law, we are

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required to close the analogue network and this is being undertaken progressively. The remaining analogue base stations which are in the north of Western Australia and Queensland and in the Northern Territory, will be closed in October 2000.

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.

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 information technology total cost of ownership.

To achieve this strategy, we are maintaining centralised control of strategy and architecture through the office of the chief technology officer and are:

- decentralising responsibility for our information technology 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 information technology operations infrastructure;
- implementing new management disciplines; and
- outsourcing most of our remaining information technology 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 reduce customer complaint levels substantially.

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.

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Through our DMO initiative we are commencing deployment of secure, integrated software to control the flow of tasks between applications and collect 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 speed to market by allowing business process and data translation to be configured and easily customised externally from our information technology applications. Our intention is to use more "off the shelf" package solutions and move away from building information technology 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. During the transition to these alternative facilities, there would be a delay in the billing of customers and the collection of related receipts.

Electromagnetic energy

Certain reports have suggested that electromagnetic energy emissions from mobile handsets may have adverse health consequences for users.

We comply with all relevant safety standards including those applicable to electromagnetic emissions. together with other participants in the communications industry we rely on the expert judgement of public health authorities for assessments of safety and health impacts of electromagnetic energy associated with mobile base stations.

Several leading expert and advisory bodies, including:

- the World Health Organisation;
- the International Commission on Non-Ionising Radiation; and recently
- the United Kingdom Parliament Stewart Inquiry,

have concluded that there is no evidence that mobile base stations are harmful to human health. They consider that the level of radio signals around a base station are typically many times less than the safety limits set by international standards.

In addition, the Australian Radiation Protection and Nuclear Safety Agency (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. Occasionally, studies are reported suggesting avenues for further research.

The Australian 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.

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 to implement the ARPANSA standard 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.

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Information technology alliances

We have a 22.6% equity interest in IBM Global Services Australia Limited (IBMGSA), also owned by IBM Australia (54.4%) and Lend Lease (23%). We have outsourced our data centre operations and most of our applications maintenance and enhancement activities to IBMGSA for a 10 year period from July 1997.

We have engaged IBMGSA to provide services during the contract period. We may terminate the agreement for services after 2001, subject to payment of potentially significant financial penalties. If we do so, IBM and Lend Lease may also require us to exit our investment.

During fiscal 2000 we acquired the remaining interests in the network services company, Advantra Pty Ltd. Prior to our acquisition of these interests, 30% was owned by IBM Australia and 20% by Lend Lease. At the same time, our interest in IBMGSA decreased from 26% to 22.6% and IBM Australia's interest increased from 51% to 54.4%.

Advantra supplies network facilities management, network systems integration services and network application services to major business and government customers in Australia. Advantra also supplies network services to IBMGSA's customers across Australia.

Employees

We are one of Australia's largest employers and we have almost 3000 work sites in Australia.

	As at 30 June				
	2000	1999	1998	1997	1996
Full-time employees	**50,761**	52,840	57,234	66,109	76,522

Our full-time employees include full-time staff, fixed term contracted staff and expatriate staff in overseas controlled entities. They 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. During the three-year period, full-time equivalents decreased, but at a slower rate than for full-time staff largely due to an increase in temporary employees for our year 2000 work and other contracted information technology projects. 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.

The modernisation of our network and the work we have done to upgrade our systems and processes has allowed us to reduce the number of our employees by approximately 25,700 since 30 June 1996. These reductions were offset in part by the addition of approximately:

- 1,500 employees when we acquired control of part of our directories business in fiscal 1997; and
- 700 employees when we consolidated Advantra in fiscal 2000.

We continue to review our management systems and work practices to improve the productivity of our employees and further transform our corporate culture to be more commercially oriented. As part of this initiative we have:

- re-designed our policies and processes to transition from public service practice to systems which prompt and reward commercial competitiveness; and
- simplified excessive workplace regulation to give our managers more discretion. We have achieved this by simplifying industrial awards that govern some of the terms and conditions of employment of our employees and rationalising industrial agreements with unions.

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In March 2000, we announced a major "next generation" cost reduction programme. It is anticipated that over the next two years this programme, together with other initiatives, will lead to an overall reduction of around 10,000 staff including 220 executive positions. These reductions will occur through a combination of natural attrition, outsourcing and redundancies during a time when re-skilling of the workforce will also occur. By the end of August 2000, our full-time staff numbers were just below 50,000.

We have announced our intention of selling our interest in the wholly owned entity NDC in fiscal 2001 through either a trade sale or an initial public offering. This is expected to result in an additional reduction of our group numbers by approximately 6,000 full-time staff.

Our two-year enterprise and customer field workforce agreements expire in December 2000 and we have commenced discussions with unions for replacement agreements. As we have realigned our organisation around business units with clear portfolios, our plan is to build on this by creating separate business unit enterprise agreements.

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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of our obligations to contribute to these schemes.

Competition

Overview

The Telstra brand is one of the most recognised brands in Australia. Our Making Life Easier™ approach underpins our marketing initiatives that are designed to enhance customer loyalty and increase customer retention.

We have designed our marketing and distribution channels to focus on improving service to existing customers and attracting new customers. We seek to provide high quality services that deliver value to our customers. In particular, we offer value-added products and services and competitive price and product packages tailored to particular customer segments.

Competition in Australia's telecommunications industry began in 1989 with the opening of the customer premises equipment and value-added services markets. In 1991, competitors started reselling our services, particularly national long distance and international telephone services.

The competitive environment changed significantly in 1992 when Cable & Wireless Optus entered the 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 Australian 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. We supply services to nearly 100 wholesale customers who compete in the retail telecommunications market.

From a position of being the sole provider of products and services in most Australian telecommunications markets, inevitably, competition has reduced our market share. However, competition has also contributed to overall market growth. We expect both these trends to continue.

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We are permitted to compete in all telecommunications markets throughout Australia. Our competitors are also permitted to compete in all these markets. 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 limited infrastructure competition in basic access and local call services. However, we expect that competition will increase significantly in these markets as competitors deploy their own infrastructure and continue their aggressive reselling of our local call services and reduce prices. We expect more carriage service providers to enter this market 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 at a discount to our standard retail pricing.

Our main facilities-based competitors are Cable & Wireless Optus (fixed and mobile), Vodafone (mobile) and AAPT Limited (fixed). Relatively new competitors include Powertel, One.Tel, 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 full impact of local number portability which was extended to all carriers in fiscal 2000, may further accelerate the development of facilities based competition in these markets.

As a result of a recent ACCC declaration, we were required to offer ULL services from August 2000 at prices that can be arbitrated by the ACCC. This may provide a range of additional advantages to our competitors. In addition, the ACA has proposed future spectrum auctions of various frequency bands including spectrum in the 3.4GHz band which can offer an alternative to fixed line delivery of telephony and data services. The Communications Minister may make rules that limit our ability or the ability of others to participate in these auctions.

In the access market, we encourage our customers to move to enhanced access services such as ISDN.

We also seek:

- to increase growth through the promotion of additional lines; and
- to deploy our own advanced dedicated connections to enhance our provision of voice and data services to large businesses.

National long distance and international telephone services

Competition has significantly eroded our market share in the national long distance and international telephone services markets.

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. In addition, call-back operators compete against us in the international telephone services market.

Our largest competitor in the Australian market is Cable & Wireless Optus, which operates its own network. Other competitors include:

- AAPT;
- Primus Telecommunications Pty Ltd;
- Hutchison/Orange;
- One.Tel;

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- MCI Worldcom;
- RSLCom; and
- 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; 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 switched default choice or ''preselection'', in respect of national long distance and international calls both of which further assist other carriage service providers to compete. The introduction of fixed-to-mobile preselection is likely to further increase competition in these markets. See "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 largely 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.

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 2000 was approximately 45%.

In the GSM digital services market, we currently compete with:

- Cable & Wireless Optus and Vodafone, which each operate digital networks; and
- a range of other competitors which resell either Cable & Wireless Optus or Vodafone services.

Competition in the mobile telecommunications market is mainly based on:

- handset subsidies;
- geographic coverage area;
- service quality;
- sales channel strength; and
- air-time charge differentiation.

To compete in this market, we rely on:

- the strength of our MobileNet® brand name;
- our ability to market our mobile services to our significant fixed telecommunications customer base; and
- our extensive internal and external distribution channels.

Because our analogue mobile telecommunications network has been substantially closed, we and other digital service competitors have sought to move analogue customers to digital services. To encourage

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movement to our digital services, we developed targeted programmes and offerings. Other digital service competitors also targeted these customers.

The availability of spectrum will determine, in part, the number of mobile telecommunications carriers. We acquired 800MHz and 1800MHz spectrum at public auctions in fiscal 1999 as did other existing carriers including new entrants like Hutchison and One.Tel. We currently provide CDMA service for resale and CDMA roaming to competitors with regional CDMA networks. The ACA has proposed future spectrum auctions of various frequency bands, including 800MHz and 2GHz, suitable for mobile telecommunications. The Communications Minister may make rules that limit our ability, or the ability of others, to participate in these auctions. We expect that the 2 GHz spectrum auctions, which have the capability to provide third generation mobile telephony services and features, will be held at end of calendar 2000 or in early 2001. Factors such as the terms and conditions of the auction process, the price paid for spectrum and the consumer take-up of the 3rd generation services and capabilities are critical risks to achieving our strategic targets.

We may also experience increased competition through the introduction of satellite mobile telephony carriage service providers.

Data and text services

Competition in data and text services markets is highly developed for some products, such as high capacity data transmission. We believe we are well positioned to remain competitive in this evolving market. We have a broad range of products and extensive telecommunication skills and are working to enhance our information technology skills. We have strong customer relationships and, in addition to marketing individual products, we promote tailored solutions.

This market is characterised by rapidly changing customer needs. This is driven by increasing demand for higher speed and more flexible data services. The pace of technological change and our competitors' abilities to adapt and use new technologies will likely be important to their success. The implementation of the regulatory regime, particularly the compulsory provision of originating and terminating access to competitors, is an important factor affecting competition in this market.

Our competitors seek to differentiate their services based on price, functionality and the ability to offer integrated products and services. Cable & Wireless Optus and AAPT are currently our main competitors. However, we expect additional competitors to enter the market, including major international telecommunications providers and global alliances. New entrants may also include public utilities, information technology companies and foreign wholesale service specialists.

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 1,000 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 One.Net. Other competitors exist in state or regional areas such as iiNet.

We are the largest internet service provider in Australia. At 30 June 2000, we had nearly 650,000 internet subscribers. We believe we will remain a strong competitor in the provision of internet and on-line services based on:

- our Big Pond® product range;
- the speed and geographic reach of our internet infrastructure;

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- 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.

In addition to internet access, we also compete with internet based application and content providers. This is a highly diverse market and includes competitors such as ninemsn, F2, 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

Wholesale services include any services sold to providers of telecommunications services who use them to provide their own products and services to end users. We seek to structure our wholesale product offerings and pricing to ensure compliance with regulatory requirements and maximising our use of this important channel to market.

The degree of competition in wholesale markets varies by product. There has been a significant expansion of product offerings in the wholesale market as large and diverse specialised international telecommunications competitors leverage off their existing asset base in the domestic market. The international carriage and call termination market is highly competitive and there are significant but varying levels of competition in other markets. Generally, competitors differentiate their wholesale services based on price, geographical network coverage, capacity and functions used to support retail services.

Cable & Wireless Optus and other competitors offer significant discounts on wholesale long-distance services and also resell our network services to their own wholesale customers.

The development of competition in wholesale services will depend in a large part on the number of competitors that deploy infrastructure. There are no regulatory limits on the number of entities that can install and maintain facilities required to provide wholesale services. The incentive for potential new entrants to deploy infrastructure, however, will depend in part on the pricing of wholesale services and the regulatory approach to that pricing. In addition, infrastructure costs are declining rapidly with new technology options.

Pay television

The pay television services market is competitive. FOXTEL is the leading pay television provider in Australia with nearly 650,000 subscribers, including satellite customers, as at 30 June 2000. FOXTEL is well positioned to compete on the basis of its brand, diverse programme offerings and exclusive 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 may

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not provide a satellite service containing this programming in areas serviced by Austar. In some regional areas, 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.

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. ACCC has not declared a digital service at this stage. See “Regulation - Access”.

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

On-line services

Our on-line, content and web hosting services are subject to a high level of competition from domestic and international competitors. Our competitors seek to differentiate themselves based on a variety of factors, including brand recognition and the entertainment, educational and commercial value of the content they provide.

Other

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 are required to establish and maintain an 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.

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Reviews are expected to be undertaken in fiscal 2001 on some specific telecommunications regulations and industry codes with the most significant being:

- the Productivity Commission's review of telecommunications competition regulation; and
- Department of Communications' review of retail price controls.

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 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 Trade Practices Act 1974 (Cth) (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.

The ACA is responsible for regulating the non-competition aspects of the telecommunications industry under the Telecommunications Act 1997 and the Telecommunications (Consumer Protection and Service Standards) Act 1999 including:

- carrier licensing;
- technical regulation;
- quality of service;
- the customer service guarantee (CSG);
- preselection, numbering and number portability;
- the USO;
- the digital data service 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.

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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 issues;
- 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.

The codes registered with the ACA at 30 June 2000 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; and
- commercial churn.

A code relating to calling number display has been registered since the end of fiscal 2000.

By 31 December 2000, we anticipate additional registered consumer codes will include:

- billing;
- complaints handling; and
- customer information about prices, terms and conditions.

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.

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- 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.

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 such generally described conduct 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 (as it had to be before July 1999).

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 eight competition 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 internet service providers for access to our internet backbone. Although we considered the ACCC's claim to be unfounded, we resolved this matter by amending our conduct to overcome the ACCC's concerns; and

- 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 has now been settled.

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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.

The ACCC may give a carrier or carriage service provider a written notice advising it of the action it should take or consider taking in order to ensure that it does not continue to engage in the kind of conduct dealt with in 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 opinion. 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 is developing new record-keeping rules. These are accounting rules that require the reporting of non-public cost and revenue information in relation to our services.

The detailed requirements of these record-keeping rules are yet to be finalised. However, it is likely that we will be required to report on the detailed costs and revenues of 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.

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.

2000 review

The Productivity Commission recently commenced a review of the industry specific competition regulation that is expected to continue until June 2001. The terms of reference include a review of Parts XIB and XIC of the TPA as well as issues such as preselection, number portability, facilities access and technical standards. The Government has not ruled out the introduction of additional regulation as a result of this review.

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Retail price restrictions

The Government has set retail price controls on some of our services and groups of services that apply from 1 July 1999 to 30 June 2001. 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-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 in 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.

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$0.25 for any other untimed local calls. The standard local call price is set at A$0.40 for calls from payphones and A$0.22 for other untimed local calls. Until 30 June 2001, 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

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- 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.

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 relating to:

- available capacity;
- protected contractual rights; and
- the reliability, creditworthiness and technical ability 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:

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- originating and terminating access for domestic PSTN, ISDN, GSM and analogue-based mobile telecommunications networks;
- transmission capacity on all routes (except Melbourne - Canberra - Sydney) 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 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 August 2000, the Federal Court ruled as invalid a former June 1997 declaration for analogue broadcasting access services.

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. 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 Services Australia, Flow Communications, Macquarie Corporate Telecommunications One.Tel, XYZed and C7.

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

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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.

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.

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.

The ACCC has published Access Pricing Principles setting out how the ACCC proposes to approach price issues when considering access undertakings and determining access disputes. Generally, 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,

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 on-going or forward-looking 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 avoidable costs (not TSLRIC) in any access dispute.

PSTN originating /terminating access

In July 1999, 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) an efficient firm will incur 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 2.37 cents per minute for fiscal 2000 and 2.01 cents per minute for fiscal 2001. Although the view expressed

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by the ACCC is not binding on us, it is indicative of the costs and methodologies the ACCC may apply in determining future prices for access to our PSTN and prices for other services using the PSTN such as ULL. Other factors that may affect future pricing of our PSTN access services include:

- the ACCC is currently arbitrating access disputes between us and other carriers and is expected to make a binding decision as to the pricing of these access services; and
- the ACCC or the Communications Minister may limit our ability to recover, through wholesale charges, USO costs not recovered from industry participants through the USO levy.

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.

Unconditioned local loop

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 draft codes governing the technical aspects of service provision and recently released them for industry comment. TAF are 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. We presented prices for the ULL to the ACCC and they released them to third party access seekers.

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. Most 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 will be a significant commercial risk to us in the future.

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.

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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.

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, would be arbitrated by the ACCC.

The ACCC has decided not to declare a digital service at this stage.

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.

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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.

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 on 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; or
- 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; and
- freephone (eg 1800 numbers) and local rate (eg 13) number portability is scheduled to be operational by 16 November 2000.

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Individual carriage service providers and the industry, are working to implement freephone and local rate services by the ACA's date. At the same time these are implemented, the ACA will change the way in which numbers are allocated to carriage service providers from the current block allocation to a centralised pool approach.

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 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 September 2001. Compliance with this requirement is likely to require significant capital expenditure and the resolution of numerous technical issues. If the ACCC's draft pricing principles are not changed, we might not be able to recover our costs of providing mobile number portability in full from other carriers or carriage service providers.

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.

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 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

Subject to limited exceptions, we were required by law to close our analogue mobile telecommunications network by 31 December 1999. The exceptions apply in some non-metropolitan areas, where we may continue to operate our present network until 31 December 2000. Neither we nor any other carrier may install or operate any other analogue mobile telecommunications network after that date. This additional period has allowed us to deploy our CDMA network to meet our licence condition of providing reasonably equivalent mobile service in those non-metropolitan areas where there might otherwise be no alternative

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and equivalent mobile service. Our rollout plans for CDMA are well advanced and we anticipate that our analogue network will close in October 2000.

Interception

Carriers are required by law to cooperate with law enforcement agencies. 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 interceptible. Moreover, carriers are required to bear the capital and ongoing costs of implementing interception capability in their networks. The Telecommunications Act 1997 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 obligations

We are currently the national universal service provider. This means that we must ensure that standard telephone services, payphones and any additional carriage services that might be prescribed by regulation are reasonably accessible to all people in Australia on an equitable basis. 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 “digital data service provider” which requires us to ensure that all people in Australia have reasonable access on an equitable basis to a 64 kilobits per second ISDN service or a broadly comparable satellite downlink service. Currently, 96% of the Australian population have access to ISDN services should they require this service. The remaining 4% of the population has access to the satellite downlink service. 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 and the digital data service provider, we are required to submit plans to the Communications Minister on how we will progressively fulfil our USO and the digital data service obligation. The Minister has approved our universal service plan and digital data service plans for ISDN and satellite.

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.

New USO arrangements have recently been imposed. The new USO arrangements that were passed by Parliament in June 2000 provide for the Government to conduct a tender in Extended Zones in remote Australia for the provision of untimed local calls. The winning tenderer will receive up to A$150 million for the provision of untimed local calls and, in addition, will become the universal service provider for those areas attracting a USO-related subsidy. We intend to participate in this tender.

The losses that result from supplying loss-making services and from facilitating the satellite subsidy in the course of fulfilling the USO and digital data service obligation are required to be shared among all carriers. The Telecommunications Act 1997 provided that a universal service provider’s net universal service cost as assessed by the ACA was to be shared amongst the universal service provider and other participating carriers on a basis proportional to the eligible revenue of each carrier.

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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 will be fully recognised and funded by industry participants. In accordance with the Telecommunications Laws Amendment (Universal Service Cap) Act 1999, the Minister has determined that the net USO 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. The other participating carriers were required to pay us A$51 million for fiscal 1999 based on the ACA assessment of eligible revenue for that year. The assessment for fiscal 2000 has not yet been made.

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

The 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 current arrangements wherein the universal service provider makes a cost claim to the ACA within 90 days of the end of the relevant financial year makes. 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 July 2000, further proposed USO amendments were introduced to Parliament. These provide for contestability in the supply of the USO, with multiple service providers (subsequent to authorisation by the ACA) able to compete for customers in defined geographic areas and to receive a per-customer subsidy. Importantly, 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 Minister will exercise this power and what eligible revenue threshold level (if any) he may determine. Where contestability is established in an area, it is proposed that one supplier will be designated the "carrier of last resort". In the first instance, and barring our exit from the areas on commercial or other grounds, we will be the carrier of last resort requiring 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. 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 on 30 June 2000. The new standard only applies to customers with five or less specified services and tightens some connection and restoration timeframes.

The standards apply to the standard telephone service and specified enhanced call handling features. They set connection times, fault repair times and 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

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- 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 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 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.

Broadcasting regulation

The Broadcasting Services Act 1992 was amended in 1998 to provide for the introduction of digital television from 2001. It also established reviews of various broadcasting issues including:

- by 1 January 2000:
  - convergence between broadcasting services and other services, such as, telecommunications services;
  - retransmission by pay television operators of digital free-to-air services (currently, FOXTEL and Optus Vision each retransmit, without regulation or payment, the analogue services of the free-to-air broadcasters);
  - whether or not national broadcasters should be able to multi-channel;
  - the circumstances in which free-to-air broadcasters may be able to offer enhanced services; and
- by 31 December 2005:
  - the current restriction on commercial free-to-air broadcasters providing pay television services; and
  - the current restriction on commercial free-to-air broadcasters providing multi-channel services.

These reviews could lead to legislative changes that could adversely affect our business or FOXTEL's business.

Legislation has been introduced into Parliament including:

- provisions affecting the ability and basis on which pay television operators may retransmit free-to-air television services;
- provisions restricting pay television operators from providing metropolitan prime-time programmes in regional areas;
- provisions permitting free-to-air broadcasters to offer digital programme enhancements; and

Item 1: Description of Business

- anti-hoarding rules which regulate the use of rights by the commercial and national television operators to televise major designated events.

Parliament has recently passed a bill governing the introduction of digital terrestrial television in Australia.

In 1998 legislation was amended to permit free-to-air television broadcasters to use 7MHz of loaned spectrum to supply digital television. Digital broadcasting, simulcast with analogue for at least eight years, must commence on 1 January 2001 in metropolitan licence areas and by 1 January 2004 in regional licence areas.

Item 2: Description of Property

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 5,500 freehold sites and occupy approximately 6,000 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 are more limited than those conferred by previous legislation. For this reason, in some circumstances we will require 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. The obtaining of 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 1997 to carry out construction activities, or where native title exists, compensation may be claimed against us.

Native title claims

As at 30 June 2000, we were a party to about 55 contested native title claims in the Federal Court of Australia and approximately 416 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. 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

Item 2: Description of Property

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 1997 will 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 have impinged on or restrict the exercise of those rights. No claims for compensation that are directly relevant to us have been brought to date.

Item 3: Legal Proceedings

We are involved in routine litigation. Governmental authorities and other parties frequently threaten us with legal proceedings. However, the following proceedings could adversely affect our overall business or financial position.

Cable & Wireless Optus claims that we have breached the misuse of market power and competition rule provisions of the Trade Practices Act (TPA).

On 10 September 1997, Cable & Wireless Optus (then Optus Communications Pty Ltd) and two of its subsidiaries (Optus Networks Pty Ltd and Optus Vision Pty Ltd) commenced proceedings in the Federal Court of Australia against:

- the Telstra Entity;
- Telstra Media Pty Ltd (Telstra Media); and
- Sky Cable Pty Ltd (Sky Cable), a subsidiary of the News Corporation Ltd (News Corporation).

The claims made against Telstra Media and Sky Cable have since been withdrawn. The claims made against us asserted that we had acted in breach of section 46 of the TPA (misuse of market power provision). The asserted misconduct included an alleged refusal by us to supply local number portability and local call access and resale services to Cable & Wireless Optus on reasonable terms and conditions. These two claims were withdrawn during fiscal 2000 as a result of a confidential settlement of the action. This settlement did not have a material adverse effect on our financial results or position.

Cable &Wireless Optus also asserted that we have breached section 46 of the TPA, by reason of the arrangements for the supply of pay TV carriage services from us to FOXTEL and the construction of our broadband network. This claim remains in existence. A mediation in December 1999 failed to resolve the claims although it is expected that settlement discussions will resume later this calendar year. Cable & Wireless Optus has stated publicly that it considers that its damages are in the order of A$900 million.

The trial has been fixed provisionally to commence in June 2001. A final litigation timetable is expected to be set in November 2000 following our review of witness statements served very recently by Cable & Wireless Optus. We believe that we have substantial defences to these claims, and will continue to defend the action vigorously. At this stage it is not possible, on the information available, to reliably estimate the effect of the

Item 3: Legal Proceedings

proceedings on us should Cable & Wireless Optus succeed in the litigation. However, such an outcome may have a material adverse effect on our financial results, operations and competitive position.

We are currently involved in litigation with a former wholesale customer - First Netcom Pty Ltd (First Netcom).

We claim that First Netcom has not paid us for telecommunications services we have provided to it. Our claim against First Netcom is for approximately A$15 million. First Netcom disputes that the amount claimed by us or any amount is owing by it.

First Netcom has cross-claimed and it seeks to offset its claim against amounts claimed by us. First Netcom has estimated its losses to be up to approximately A$37 million.

In relation to the amounts claimed by us, First Netcom has raised various disputes including that it did not receive all our bills, our bills were inaccurate and our billing and account management systems were defective in other ways.

First Netcom's cross-claim includes claims for damages and other relief by reason of alleged:

- breaches of contract and/or negligence in connection with the supply of services and the billing of those services;
- misrepresentations;
- breach of confidence;
- discrimination in contravention of the Telecommunications Act 1991;
- unconscionable conduct; and
- misuse of market power in contravention of section 46 of the TPA.

The Federal Court has yet to fix a date for the trial.

At this stage it is not possible, on the information available, to reliably measure the effect of the proceedings on us should First Netcom succeed in the litigation. However, we consider that such an outcome would not have a material adverse effect on our financial results, operations and competitive position.

Legal proceedings settled

The legal proceedings brought against us by the ACCC in the Federal Court of Australia for breach of the competition rule in section 151AK of the Trade Practices Act were settled during fiscal 2000 and 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 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.

Item 4: Control of Registrant

The shareholdings of each person known by us to be the owner of more than 10% of our voting securities, as at 11 August 2000, is shown in the following table. The table also shows as a group, the shareholdings and instalment receipt (IR) holdings of our directors and officers:

Title of class	Identity of person or group	Amount owned	% of class
Shares	The Commonwealth	6,447,712,752	50.1
Shares/IRs	Listed shareholders/IR holders	6,418,887,448	49.9
		12,866,600,200	100.0
Shares	Directors and officers as a group	824,125(1)	

1) *Refers to direct and indirect holdings.*

As at 11 August 2000, we are not aware of any shareholders, other than the Commonwealth, whose shares represent more than 10% of the issued and outstanding shares.

Distribution of shares as at 11 August 2000

The following table summarises the distribution of shares and IRs other than those held by the Commonwealth:

	Number of shareholders/ IR holders(1)		Shares/IRs(2)	
Size of holding	Number	%	Number	%
1 - 1,000	1,291,583	63.4	800,325,644	12.5
1,001 - 2,000	382,024	18.8	594,292,778	9.3
2,001 - 5,000	277,142	13.6	855,278,266	13.3
5,001 - 10,000	59,801	2.9	428,909,480	6.7
10,001- 100,000	25,728	1.3	501,274,340	7.8
100,001 and over	759	0.0	3,238,806,940	50.4
Total	2,037,037	100.0	6,418,887,448	100.0

(1) *Number of shareholders and IR holders holding less than a marketable parcel of shares or instalment receipts was 2,646.*

(2) *Not including those shares held by the Commonwealth.*

Item 4: Control of Registrant

Twenty largest shareholders as at 11 August 2000

The following table sets out the top 20 shareholders and IR holders other than the Commonwealth when multiple holdings are grouped together:

Shareholder/IR holders		Number of shares/IRs	% of issued shares/IRs[(1)]
1	Chase Manhattan Nominees Limited	543,094,906	8.5
2	National Nominees Limited	376,868,167	5.9
3	Westpac Custodian Nominees Limited	350,679,356	5.5
4	Telstra ESOP Trustee Pty Ltd	118,175,764	1.8
5	Commonwealth Custodial Services Limited	116,251,102	1.8
6	Queensland Investment Corporation	104,399,489	1.6
7	BT Custodial Services Pty Limited	102,856,247	1.6
8	ANZ Nominees Limited	93,627,165	1.5
9	AMP Nominees Pty Ltd	89,180,558	1.4
10	Citicorp Nominees Pty Limited	84,401,650	1.3
11	AMP Life Limited	80,266,395	1.3
12	Perpetual Nominees Limited	77,299,883	1.2
13	Permanent Trustee Australia Limited	64,802,850	1.0
14	MLC Limited	52,933,179	0.8
15	Perpetual Trustees Victoria	45,450,312	0.7
16	Perpetual Trustees Nominees Limited	44,466,879	0.7
17	NRMA Nominees Pty Limited	42,475,727	0.7
18	HSBC Custody Nominees (Aust)	39,689,492	0.6
19	Mercantile Mutual Life	37,835,468	0.6
20	The National Mutual Life	31,182,281	0.4
	Total	2,495,936,870	38.9

(1) *Not including those shares held by the Commonwealth.*

Substantial shareholders

As at 11 August 2000, 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 Law, 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.

The Commonwealth as shareholder

At the end of fiscal 2000, 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

Item 4: Control of Registrant

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. The current Government's policy is the eventual full privatisation of Telstra, subject to passage of enabling legislation. The main opposition party, the Australian Labor Party, has stated that it is opposed to further privatisation of Telstra.

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 Australian Labor Party has indicated that it is appropriate that the Commonwealth retain a power of direction over the company while it is the majority shareholder, and that such power is exercised in the public or national interest as appropriate, particularly in respect of USOs or CSG matters.

The Telstra Act deems the Commonwealth Auditor-General to have been appointed as our auditor for the purposes of the Australian Corporations Law. 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 Law 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.

The Commonwealth as regulator

We are currently regulated by the Commonwealth and its departments and independent agencies under a number of statutes including:

Item 4: Control of Registrant

- the Telstra Act;
- the Telecommunications (Consumer Protection and Service Standards) Act;
- 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$400 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.

Item 5: Nature of the Trading Market

We are listed, and those of our shares and instalment receipts (IRs) 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 and interim ADSs, each representing five IRs, evidenced by ADSs, 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 and instalment receipts 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 following the sale by the Commonwealth of 33.3% of our shares.

On 18 October 1999 following the further sale of 16.6% of our shares by the Commonwealth, instalment receipts were listed on the ASX and the NZSE and interim ADSs were listed on the NYSE.

The final payment for IRs and interim ADSs may be made in accordance with the prepayment facility of the offer but must be paid by 2 November 2000. Upon payment of the final instalment of A$3.05 for IRs and the US dollar equivalent of A$15.25, based on the then current foreign exchange rate at the time the final instalment is due, for the interim ADSs, the IRs and interim ADSs will be replaced by shares and ADSs.

Table A presents the high and low closing prices for IRs and interim ADSs from:

- 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 30 June 2000.

Table B shows the high and low closing prices for shares and ADSs for the last two years:

- 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.

There were 6,418,887,448 shares issued and available for trading on the market at 30 June 2000. This does not include those shares held by the Commonwealth. At that date 3,541,505 ADSs (equivalent to 17,707,525 shares) were held by 14 record holders and 1,018,780 interim ADSs (equivalent to 5,093,900 instalment receipts) were held by 2 record holders.

Item 5: Nature of the Trading Market

Table A - High and low closing price for IRs and interim ADSs

Period	A$ per IR		US$ per interim ADS	
	High	Low	High	Low
T1[(1)]				
1997				
17 November - 31 December	3.25	2.53	42 3/16	35 9/16
1998				
1 January - 31 March	3.98	3.09	54 3/8	40 1/8
1 April - 30 June	4.14	3.58	51 1/4	41 15/16
1 July -30 September	4.81	4.23	59	48 1/4
1 October - 26 October	4.81	4.35	58 3/16	54 1/2
T2[(2)]				
1999				
18 October - 31 December . .	5.98	4.51	19 1/16	14 1/16
2000				
1 January – 31 March	5.70	4.30	17 3/16	13 5/8
1 April –30 June	4.77	3.59	14 1/8	9 7/8

(1) *Each interim ADS represented 20 instalment receipts.*
(2) *Each interim ADS represented 5 instalment receipts.*

Table B - High and low closing price for shares and ADSs

Period	A$ per share		US$ per ADS[(1)]	
	High	Low	High	Low
1998				
1 July - 30 September	6.21	5.63	76 3/4	66
1 October - 31 December . . .	7.69	5.75	95	72 1/4
1999				
1 January - 31 March	9.15	7.56	117 3/4	94
1 April - 30 June	8.66	7.36	113 1/2	97 3/4
1 July – 30 September	8.95	7.78	29 11/16	25 19/32
1 October – 31 December . . .	9.16	7.34	28 13/16	24
2000				
1 January – 31 March	8.71	7.18	27 5/16	22 13/16
1 April – 30 June	7.77	6.55	23 1/2	18 3/8

(1) *Prior to 23 August 1999, each ADS represented 20 ordinary shares.*

The closing price for Telstra shares on the ASX on 20 September 2000 was A$6.05.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

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 or the authorities of the Federal Republic of Yugoslavia (Serbia and Montenegro) or their agencies 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.

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 and the trust deed contain provisions to enable us and the trustee (while instalment receipts remain on issue ("the IR period") 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.

The trustee has published procedures regulating foreign ownership of instalments receipts which parallel our rules and which will bind all instalment receipt holders. The trustee is obliged to comply with such guidelines under the trust deed and may only change them at the relevant Minister's direction.

On or after registration of a transfer or transmission application for a share or instalment receipt, when the acquirer first becomes a shareholder or instalment receipt holder, the acquirer must generally notify us or the trustee (during the IR period) whether it is either:

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

- a person with an interest in a share or an instalment receipt who is either a foreign person or an associate of a foreign person; or
- a person who holds a share or an instalment receipt in which a foreign person or an associate of a foreign person has an interest (in either case, a 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 or instalment receipts 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 or instalment receipts held by foreign holders will be treated as foreign unless the holder:

- notifies that some of its shares or instalment receipts are ones in which a foreign person or associate of a foreign person has an interest (foreign shares or instalment receipts) 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 or instalment receipts and one for shares or instalment receipts which are not foreign; or
  - agrees to provide bi-monthly notices indicating the breakdown of its holding into foreign and non-foreign shares or instalment receipts.

Where a person has notified the trustee that it is a foreign holder with respect to instalment receipts, the rules permit us to treat that person as a foreign holder with respect to shares. The trustee may also treat a foreign holder of shares as a foreign holder with respect to instalment receipts under its procedures.

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.

Under the trust deed, the trustee has similar powers with respect to registered holders of instalment receipts during the IR period. The rules and procedures permit us and the trustee to send notices jointly.

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. Under the trust deed, the trustee has power to direct the disposal of instalment receipts in the same circumstances in which we would otherwise direct the trustee to dispose of shares to remedy the situation. The rules permit us to direct the trustee to require divestment of instalment receipts in such circumstances. In exercising these divestment powers, we and the trustee are entitled to rely on foreign codings in the relevant register and upon the notifications and responses to notices referred to above. We and the trustee 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, our directors and the trustee are not liable to shareholders or instalment receipt holders for the manner of their exercise.

If we or the trustee believe that the individual limit has been breached, we or the trustee may require that any shareholder or instalment receipt holder whose shares or instalment receipts are believed to form part

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

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. The trustee has similar powers with respect to foreign instalment receipts under the procedures.

The recipient of a disposal notice is required to divest the shares or instalment receipts 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 or instalment receipts, 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 and the trust deed contain provisions empowering us to sell the relevant shares or instalment receipts on behalf of the holder on or after the relevant divestment date (and the holder will lose the ability to transfer the shares or the instalment receipts itself after that date).

In cases where the trustee sells instalment receipts, if the trustee has been notified that a foreign holder is not a resident of Australia for Australian taxation purposes or if no notification has been received but the foreign holder has a registered address outside Australia, the trustee may retain from the proceeds of sale and remit to the Australian Taxation Office (ATO) the tax due and payable by the instalment receipt holder on any gain arising from the disposal of instalment receipts.

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 or instalment receipts acquired from the international underwriters on closing of the international offerings in 1997 and 1999;
- foreign shares or instalment receipts 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 or instalment receipts registered on the New Zealand branch share or instalment receipt register or represented by ADRs or interim ADRs, though shares or instalment receipts may only be transferred onto the New Zealand branch share or instalment receipt 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 or instalment receipts registered on the New Zealand branch register.

All shares and instalment receipts deposited in the ADR or interim ADR facilities will be treated as foreign.

Holders of ADRs and interim ADRs are subject to the individual limit, and must notify the depositary, as applicable, if any of the ADRs or interim 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 or interim ADRs may be cancelled. The deposit agreement and the interim

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

deposit agreement contain provisions permitting the depositary and interim depositary to obtain, and supply to us and the trustee, 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, the trust deed and current rules and procedures that have been adopted by us and the trustee for the administration of the foreign ownership provisions in the Telstra Act. Copies of the constitution, the trust deed, 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.

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.

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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;
- 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.

Foreign Acquisitions and Takeovers Act

The Foreign Acquisitions and Takeovers Act of Australia (the Takeovers Act) applies to any acquisition of an interest in the shares of an Australian company with total assets of A$5 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

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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 11 August 2000, the number of Telstra shares recorded as foreign on the Telstra register was 9.1% of the total number of issued Telstra shares.

Item 7: 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. The Government recently 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 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 36% for fiscal 2000 and was reduced to 34% from July 2000 and will be 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.

Under income tax law, income tax paid on income derived when a company is wholly-owned by the Commonwealth, such as we were, will generate an “exempting credit” rather than a “franking credit”. Payments of Australian income tax by us attributable to periods after we ceased to be wholly-owned by the

Item 7: Taxation

Commonwealth will generate "franking credits" rather than "exempting credits." We have arrangements with the Commonwealth in relation to the use of exempting credits.

At present, it is expected that we will be able to fully frank declared ordinary dividends out of fiscal 2001 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. Generally, exempting credits will not carry tax credits for 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.

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 36% for corporations during fiscal 2000 (and was reduced to 34% from July 2000 and will be reduced to 30% from 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.

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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". 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.

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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.

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 36% for fiscal and was reduced to 34% from July 2000 and will be 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.

Under recent changes to the income tax law, income tax paid on income derived when a company is wholly owned by the Commonwealth, such as we were, will generate an "exempting credit" rather than a "franking credit". Payments of Australian income tax by us attributable to periods after we ceased to be wholly owned by the Commonwealth will generate "franking credits" rather than "exempting credits". We have arrangements with the Commonwealth in relation to the use of exempting credits.

At present, it is expected that we will be able to fully frank declared ordinary dividends out of fiscal 2001 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. Generally, exempting credits will not carry tax credits for 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 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

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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. 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.

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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 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

Item 7: Taxation

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.

Item 8: Selected Financial Data

We recommend that the following information be read in conjunction with our financial statements, 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.

	Year ended 30 June					
	2000	**2000**(1)	1999	1998	1997	1996
	(in millions, except percentage of revenue)					
	A$	**US$**	A$	A$	A$	A$
Profit and Loss Statement Data						
Amounts in accordance with Australian GAAP:						
Operating revenue(2)	**19,840**	**11,846**	18,218	17,302	15,983	15,239
Operating expense (excluding depreciation and amortisation, interest expense, and abnormals)(2)	**10,643**	**6,355**	9,818	9,878	9,301	9,113
Depreciation and amortisation	**2,646**	**1,580**	2,502	2,322	2,353	2,351
Operating profit before net interest expense, abnormals and income tax expense	**6,551**	**3,911**	5,898	5,102	4,329	3,775
Operating profit before abnormals and income tax expense	**5,921**	**3,535**	5,320	4,468	3,805	3,242
Operating profit before income tax expense	**5,349**	**3,193**	5,320	4,468	2,073	3,447
Operating profit after income tax expense	**3,673**	**2,193**	3,488	3,000	1,609	2,302
Operating profit attributable to shareholders	**3,677**	**2,195**	3,486	3,004	1,617	2,305
Earnings per share(3)						
Before abnormals	**0.31**	**0.19**	0.27	0.23	0.20	0.17
After abnormals	**0.29**	**0.17**	0.27	0.23	0.13	0.18
Earnings per ADS(3)						
Before abnormals	**1.57**	**0.94**	1.35	1.17	1.00	0.85
After abnormals	**1.43**	**0.85**	1.35	1.17	0.63	0.90
Dividends provided for or paid(4)	**2,316**	**1,383**	4,247	1,802	4,146	1,368
Dividends per share(3)	**0.18**	**0.11**	0.33	0.14	0.32	0.11
Dividends per ADS(3)	**0.90**	**0.54**	1.65	0.70	1.61	0.53
Dividends per ADS(5)	**US$1.07**		US$0.45	US$0.37	US$1.27	US$0.36
Amounts in accordance with US GAAP:	**A$**		A$	A$	A$	A$
Operating revenue	**18,609**	**11,111**	17,571	16,703	15,430	14,716
Operating profit attributable to shareholders	**4,093**	**2,445**	3,416	2,674	1,136	2,714
Earnings per share(3)	**0.32**	**0.19**	0.27	0.21	0.09	0.21
Earnings per ADS(3)	**1.59**	**0.95**	1.33	1.04	0.44	1.05
Balance Sheet Data (at year end)						
Amounts in accordance with Australian GAAP:						
Total assets	**30,339**	**18,114**	27,682	26,470	25,858	24,362
Current borrowings	**3,316**	**1,980**	2,265	2,935	1,560	793
Non-current borrowings	**6,505**	**3,884**	4,946	4,787	6,421	4,350
Shareholders' equity	**11,602**	**6,926**	10,294	11,079	9,938	12,668
Amounts in accordance with US GAAP:						
Total assets	**34,536**	**20,622**	31,108	29,868	28,965	27,459
Current borrowings	**3,316**	**1,980**	2,265	2,935	1,560	793
Non-current borrowings	**6,505**	**3,884**	4,946	4,787	6,421	4,350
Shareholders' equity	**16,528**	**9,870**	16,199	14,676	13,473	16,633

Statistical Data

	Year ended 30 June				
	2000	1999	1998	1997	1996
	A$	A$	A$	A$	A$
Operating Revenue includes:					
Sales revenue	**18,609**	17,571	16,703	15,430	14,716
Interest received/receivable	**62**	49	49	85	105
Proceeds from sale of assets/investments	**842**	330	266	202	199
Dividends received/receivable	**12**	13	20	38	33
Share of associated entities net profit after income tax expense	**(7)**	(2)	14	-	-
Miscellaneous revenue	**322**	257	250	228	186
	19,840	18,218	17,302	15,983	15,239
Operating expenses (excluding depreciation and amortisation, interest expense and abnormals) include:					
Book value of assets/investments sold	**503**	308	313	218	190

(1) *All amounts have been translated at the noon buying rate on 30 June 2000 of A$1.00 = US$.5971, unless otherwise stated.*

(2) *For a breakdown of operating revenue by product group and a breakdown of operating expenses by expense category, see Item 9.*

(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. Earnings per share for each year was the same as earnings per share fully diluted.*

(4) *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), and in the year ended 30 June 1998, we declared and paid dividends of A$1,422 million.*

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

Statistical Data

	Year ended 30 June		
	2000	1999	1998
Billable traffic data (in millions)			
Local calls (number of calls)	**11,346**	11,190	11,138
National long distance minutes[1]			
Fixed-to-fixed minutes	**9,478**	9,383	8,972
Fixed-to-mobile minutes	**3,035**	2,946	2,347
Total national long distance minutes	**12,513**	12,329	11,319
International outgoing minutes[2]	**893**	725	705
International incoming minutes	**1,033**	787	767
Mobile telephone minutes[3]	**4,464**	3,221	2,720
Network and operations data (at year end)			
Basic access lines in service (in millions)[4]			
Residential	**6.51**	6.93	6.77
Business	**2.36**	2.44	2.43
Total retail customers	**8.87**	9.37	9.20
Domestic wholesale	**1.17**	0.39	0.34
Total basic access lines in services	**10.04**	9.76	9.54
FaxStream® services access lines (in thousands)[5]	**426.8**	407.1	374.8
ISDN access lines (basic access line equivalents) (in thousands)[6]	**1,048.8**	722.3	488.4
Mobile telephone customers (in thousands)			
GSM	**3,766**	2,762	1,745
CDMA	**280**	-	-
Total Digital	**4,046**	2,762	1,745
Analogue	**80**	673	1,323
Total mobile customers	**4,126**	3,435	3,068
Big Pond® subscribers (thousands)	**650**	415	n/a
Other on-line customers (thousands)	**429**	103	n/a
Total on-line customers	**1,079**	518	
FOXTEL cable subscribers (thousands)	**457**	414	320
FOXTEL direct to home satellite subscribers	**180**	82	-
Total FOXTEL customers	**637**	496	320
Value added services (thousands)			
Easycall® call waiting customers	**5,610**	5,466	4,100
Fixed line messagebank customers	**1,162**	688	200
Calling number display customers	**503**	227	66
Employee Data			
Full-time employees[11]	**50,761**	52,840	57,234

(1) Includes national long distance minutes from our 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. Also includes 553 minutes in fiscal 2000, 390 million minutes in fiscal 1999 and 298 million minutes in fiscal 1998 related to calls made from our non-PSTN fixed networks (with the exception of calls from FaxStream® services) to Australian mobile telephones.

(2) International outgoing minutes for international settlement purposes also include minutes from mobile telephone services, ISDN and public payphones. Total international outgoing minutes for settlement purposes were 1,046 million in fiscal 2000, 836 million in fiscal 1999 and 833 million in fiscal 1998.

(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) Based on the total primary switch capacity of our PSTN exchanges.

(8) Analogue figures exclude customers who redirect their analogue mobile service to our digital service.

(9) Payphones we own and operate.

(10) Homes passed excludes businesses. We have interests in joint ventures with News Corporation and Publishing and Broadcasting Limited to market and deliver pay television services. These joint ventures began service in October 1995 and the approximate number of cable pay television customers were 457,000 at the end of fiscal 2000, 414,000 at the end of fiscal 1999 and 320,000 at the end of fiscal 1998.

(11) Full-time employees include full-time staff, fixed term contracted staff and expatriate staff in overseas controlled entities. 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 information technology 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.

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In this section, we have referred to our fiscal years ended 30 June 1998, 30 June 1999 and 30 June 2000 as fiscal 1998, fiscal 1999 and fiscal 2000, and we have referred to the three-year period ending 30 June 2000 as the three-year period.

Overview of key factors affecting our business and financial performance

Since open competition was introduced on 1 July 1997, we have successfully grown our revenues and operating profit in a challenging environment. During the three-year period, we have increased our revenues in the non-traditional markets such as mobiles telecommunications, data, text 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. We intend to grow our revenues by:

- developing and expanding our mobile telecommunications business and capturing opportunities in our wholesale business;
- continuing to develop and sell new products and services that have added features and provide more functionality to our customers and further improving the speed at which we bring new products to the market;
- pricing our products competitively, offering our customers a variety of product packages and pricing plans;
- expanding further into growing data, internet and content-based markets; and
- establishing domestic and international joint ventures which provide access to, and growth in, new and existing markets, and which facilitate risk sharing especially in new areas of business.

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. In fiscal 1999 we completed digitalising the local exchanges in our PSTN. This has enabled us to offer our customers an expanded range of products and services, develop and introduce new products and services faster and reduce our costs to operate our PSTN. We have also focused on our operating efficiency and transforming our corporate culture 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 and have resulted in a significant reduction in the number of our full-time employees.

We have planned for the reduction of an additional 10,000 in full-time employees over the next two years. We expect to achieve this through a number of initiatives, including the impact of our major "next generation" cost reduction programme which we announced in March 2000. We expect to achieve significant expense savings from these programmes that are concerned with:

- optimisation of:
  - call centres,; and
  - channels to market;
- improved IT effectiveness;
- rationalisation of our:
  - products and platforms
  - service support activities;
  - management layers;

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  - shared functions;
  - use of property; and
- finalisation of a strategic sourcing process.

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

In order to maintain our competitiveness, keep pace with rapidly changing technologies and enable us to handle increasing telecommunications traffic, we will need to continue to invest in our network infrastructure and systems.

Particular new initiatives include:

- **Data Mode of Operation** – As part of our DMO programme, we intend to allocate some of our capital expenditures to internet protocol and ATM technologies. We have recently announced the start of our NTG. With the increasing demand for providing voice over IP we are taking steps to provide a network capability to satisfy the corporate markets initially with the option to eventually replace the current PSTN if and when it makes business sense to do so. We expect that DMO will substantially enhance our data transmission capabilities and our wideband service offerings.
- **High speed data** – We have developed high speed data services using ADSL access technology which was launched in both the retail and wholesale market in August 2000. This service will complement our current Big Pond® cable and satellite retail products.
- **General packet radio switching for mobiles** – We have entered into contracts for the supply of GPRS equipment capable of providing a high speed data capability on mobile networks. This service will allow new mobile phones and data devices to access the internet and other data networks on a packet basis. The devices can remain connected to the internet and send or receive data or information at any time. We expect to provide limited coverage in fiscal 2001.

We have agreed in principle to an alliance with PCCW as outlined in "Description of Business - International investments". We expect the agreements for this alliance will be consummated in fiscal 2001 and therefore affect our financial results for fiscal 2001 and future years.

We expect our fiscal 2001 financial results will include a substantial profit on sale of our global wholesale assets to the IP Backbone Company. In accordance with our accounting policy for such transactions, 50% of the profit arising from a sale to an entity in which a 50% interest is retained will be recognised as a profit in the year of sale and the balance will be deferred and amortised over the expected period of benefit. In this instance, our present estimate of the period of benefit is 15 years. In accordance with Australian GAAP, we propose to recognise the revenue from the sale of our assets under "Other operating revenue" while the written down value of the assets sold are proposed to be included under "Other operating expenses".

Following the anticipated consummation of the PCCW alliance in fiscal 2001, we expect our financial results in fiscal 2001 and future years to be affected by the following principal factors:

- our revenue, expenses and cash flows from our global wholesale business will cease as we are selling this business to the IP Backbone Company;
- recognition of equity accounted profits and losses from our associates (IP Backbone Company, Wireless Co and IDC Co) net of the amortisation of our deferred profit on sale of IP Backbone Company; and
- increased interest costs for additional borrowings undertaken to fund our investments in a convertible note and Wireless Co. This is expected to be offset in part by some additional interest income earned from the convertible note.

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Based on current estimates of the operating performances of the joint ventures we expect that our fiscal 2002 earnings before interest and taxation may be diluted by approximately 6% and net profit after income tax may be diluted by approximately 11%. We expect, based on our current estimates, that these levels of dilution will gradually decline and become immaterial by fiscal 2005 or fiscal 2006, and then turn accretive thereafter.

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 on-going operational capital requirements in our networks and systems through our operating cash flows. However, we will fund our proposed alliance with PCCW by increasing our borrowings. 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.

In recent years, the Australian Government has adopted laws and regulations to introduce open competition into the Australian telecommunications markets. As at 30 June 2000, there were approximately 45 licensed carriers and 1,000 internet service providers 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 grown rapidly. 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

The 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 commenced a review that is expected to continue until June 2001, of the industry specific competition regulation. The terms of reference include a review of Parts XIB and XIC of the Trade Practices Act as well as issues such as preselection, number portability, facilities access and technical standards. The Government has not ruled out the introduction of additional regulation as a result of this review.

Over the last three years, the ACCC and ACA have increased their level of activity in telecommunications markets, including in some highly competitive markets. Recent legislation has also 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. Examples 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:

- ACCC's announced pricing principles associated with PSTN originating and terminating access;
- ACCC's declaration and pricing of transmission between major Australian cities;
- the ACCC's declaration of local call resale and access to our unconditioned local loop; and
- legislative capping of our ability to recover costs associated with our universal service obligation and the tendering trial for the universal service obligation.

We intend to manage our regulatory risks by optimising commercial and competitive outcomes within the regulatory framework. In particular, we are:

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- expanding the range of our wholesale product offerings and seeking to negotiate terms and conditions with our wholesale customers;
- developing customer focused retail product offerings and marketing strategies which take advantage of the opportunities presented by the open regulatory environment;
- working to improve governmental and public perception regarding the quality of our services and our participation in the competitive environment;
- more closely aligning the activities of our Legal and Regulatory Group with the planning and strategic direction of our strategic business units; and
- more aggressively challenging decisions made by the regulators.

Tax changes will have a significant effect on our operations and financial performance

The Government recently 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 and others are either before Parliament or still under consideration by the Government. Depending upon the legislation finally passed, there is a risk that changes to Australian business taxation may adversely affect our financial position and results of operation. In addition with effect from 1 July 2000, the Government introduced a 10% goods and services tax (GST) and simultaneously eliminated the wholesale sales tax. This new tax may negatively affect earnings because, for example regulatory caps on local calls and local calls have been determined as:

- 22 cents on a standard untimed call;
- 25 cents for other local calls other than from payphones; and
- 40 cents for local calls from payphones.

The determination prohibits us offsetting the cost of local call capping through price changes in other products and precludes inclusion of the effective revenue reduction as a credit towards existing price control obligations. Refer "Description of Business - Regulation".

Changes in accounting policies

In fiscal 1998, we adopted the equity method of accounting for investments in associated entities in our consolidated accounts as detailed in note 24 to the financial statements. The effect for both Australian and US GAAP purposes has not been material and is shown in note 30 to the financial statements.

In fiscal 1999, we adopted the Australian accounting standard AASB 1006 Interests in Joint Ventures, which had no effect on our results as we were already accounting for joint ventures in the manner required.

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. This change in accounting policy has meant that A$174 million has been deferred as at 30 June 2000 and will be written off to profit and loss as a direct cost of sales in future years.

Results of operations

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

During the three-year period, we maintained our overall operating profit from telephony products such as basic access, local calls and national long distance calls, despite competition reducing our market share and

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lowering our margins. These 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 mobiles, data, text and the internet businesses. However, margins in the mobiles business contracted during the three-year period. This was primarily because competition 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 rollout of the new CDMA network and the accelerated depreciation associated with our analogue network due to its progressive 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.

Our ongoing obligation to provide universal service to all Australians continues to affect adversely our profitability, 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 “Description of Business - Regulation” for a discussion of the extent that the regulators have limited our recovery of the costs of providing these services.

Table 1 shows our operating 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					
	2000		1999		1998	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Basic access	**2,020**	**10**	1,855	10	1,770	10
Local calls	**2,650**	**13**	2,727	15	2,664	15
National long distance calls	**2,626**	**13**	2,775	15	2,594	15
International telephone services	**987**	**5**	1,103	6	1,380	8
Mobile goods and services	**2,859**	**15**	2,538	14	2,154	13
Data, text and internet services	**2,838**	**14**	2,483	14	2,197	13
Directory services	**1,122**	**6**	1,078	6	1,029	6
Customer premises equipment	**336**	**2**	368	2	538	3
Intercarrier services	**819**	**4**	617	3	582	3
Inbound calling products	**432**	**2**	400	2	337	2
Facilities management	**235**	**1**	183	1	120	1
Other sales and services	**1,685**	**9**	1,444	8	1,338	8
Sales revenue	**18,609**	**94**	17,571	96	16,703	97
Other revenue [(1)]	**1,231**	**6**	647	4	599	3
Operating revenue	**19,840**	**100**	18,218	100	17,302	100

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

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Operating revenue

In the following discussion, we analyse revenue for each of our significant products and services. Our operating revenue grew at an average rate of 7.1% each year from fiscal 1998 to fiscal 2000. The principal areas of strong operating revenue growth were:

- mobile goods and services (15.2% each year on average);
- fixed-to-mobile calls which are included in national long distance calls;
- data, text and internet services (13.7% each year on average); and
- other sales and services (12.3% each year on average), particularly revenue from controlled entities and international roaming.

As competition increases, we expect the overall market to continue to expand but we also expect to continue to lose market share.

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.

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 access 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, text and internet services category.

In addition, we categorise all our operating revenue from calls arising from our ISDN and FaxStream® services under data text 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$0.25 per call price cap, except for calls from payphones which are capped at A$0.40 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. We expect this trend to continue.

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Amendments to the price control regulations in fiscal 2000 provided us with greater pricing flexibility to rebalance our access and calling charges. 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 "Description of Business - Regulation".

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. Our basic access revenue in prior years has generally increased with housing growth, improving general economic conditions and increasing demand for telephone services and additional lines.

In March 2000, when access rebalancing occurred, we changed the way in which we package our products by increasing our basic access fees while reducing other call charges to be more in line with our underlying cost structure. Basic access revenue is also affected by competition and by customers moving to our other higher value access services, such as ISDN. Our basic access for residential customers changed from A$11.65 per month to A$13.85 per month and for business customers from A$20.00 per month to A$25.00 per month.

Table 2 shows information about our basic access performance.

Table 2 - Basic access data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Basic access revenue					
Retail	**1,853**	1,755	1,675	**5.6**	4.8
Domestic wholesale	**167**	100	95	**67.0**	5.3
	A$2,020	A$1,855	A$1,770	**8.9**	4.8
Basic access lines in service (at year end)(1)					
Residential	**6.51**	6.93	6.77	**(6.1)**	2.4
Business	**2.36**	2.44	2.43	**(3.3)**	0.4
Total retail	**8.87**	9.37	9.20	**(5.3)**	1.8
Domestic wholesale	**1.17**	0.39	0.34	**200.0**	14.7
Total access lines in service	**10.04**	9.76	9.54	**2.9**	2.3

Note: statistical data represents management's best estimates.

1) *Excludes basic access lines for our internal use.*

Our operating revenue from basic access services continued to grow moderately in both the retail and domestic wholesale markets over the three-year period. In fiscal 2000, the rate of growth in operating revenue was much higher than in fiscal 1999 compared with fiscal 1998 and revenue growth also exceeded the rate of growth of access lines in service during the year. In fiscal 2000, our overall numbers of basic access lines in service increased moderately. This was achieved despite a decrease in the basic access lines in the retail residential market.

Our operating revenue from basic access in fiscal 2000 was affected by:

- access re-balancing which occurred in March 2000 whereby our basic access fees increased as an offset generally to lower local call charges and some capped long distance calls; and

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- the shift in the mix of our customer base caused by the decline in the number of our retail residential customers as a result of active marketing by our competitors and a corresponding increase in our wholesale customer base.

In addition, the growth of our operating revenue from basic access services during fiscal 2000 and fiscal 1999 compared with fiscal 1998 was caused by the increased penetration of pricing packages that allow customers to pay lower local call prices, but higher access fees.

During the three-year period, some of our customers switched to other access services that we provide, particularly our ISDN and FaxStream® services, which reduced the growth in the number of our basic access lines. Information about other access services such as ISDN and Faxstream® is included under the category "Data, text and internet services". In addition, during the three-year period, the growth in the number of access lines was adversely affected by increasing competition, particularly in fiscal 2000 and fiscal 1999 compared with fiscal 1998.

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 growth in basic access lines in service. Our operating revenue from local calls has been positively affected by our efforts to increase the number of completed calls by offering our customers such value added services as voicemail, call waiting, call forwarding, call conferencing and our call return feature.

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

- other carriers having 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 connections.

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 these other product categories as our customers move from our basic access service to our enhanced access services, such as ISDN, FaxStream® and our ADSL service where rollout commenced in August 2000.

Table 3 shows information about our local call business.

Table 3 - Local call data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Local call revenue.					
Retail	**2,270**	2,446	2,403	**(7.2)**	1.8
Domestic wholesale.	**223**	158	160	**41.1**	(1.3)
Sub-total	**2,493**	2,604	2,563	**(4.3)**	1.6
Value added services provided to retail customers.	**157**	123	101	**27.6**	21.8
Total local call revenue	**A$2,650**	A$2,727	A$2,664	**(2.8)**	2.4
Number of local calls.	**11,346**	11,190	11,138	**1.4**	0.5

Note: statistical data represents management's best estimates

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Our operating revenue from local calls declined in fiscal 2000 after a small growth in the prior year. This occurred despite an increase in the number of local calls made over our network that was caused in part by increased resale activity.

Primary reasons for the reduced local call revenue in fiscal 2000 include:

- the loss of our market share in the local call market as our competitors move 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;
- as part of our access calls rebalancing introduced in March 2000, we decreased the local call prices and capped some long distance call prices to our customers as offsets to higher basic access fees. (Refer "Description of Business – Regulation"):
- the following pricing initiatives have been widely accepted:
    - the introduction in March 2000 of our Neighbourhood Call® which provides lower local call rates to our residential and business customers when they call another telephone number in the same exchange service area; and
    - the reduction in rates in February 2000 for Easy Saver® Plus which allows our residential customers to be charged lower local call rates when a higher access fee is paid. Our business and government customers use products that provide local calls of short duration at a lower timed rate.

While our loss of market share for local calls has been addressed in part by providing wholesale customers with our products, this has not been sufficient to offset the overall reduction of revenue from local calls.

However, our operating revenue from billable value added services, such as calling number display and call return, increased substantially in fiscal 1999 and again in fiscal 2000. At the end of fiscal 2000, there were over 5.6 million customers using Easycall® call waiting services and 503,000 customers using calling number display services.

Our operating revenue from local calls during the three–year period has also been positively affected by local charges associated with inbound calling products such as Priority® One 3 and Priority® 1300 call centres where the calling party is charged for the call.

The increase in number of calls during the three-year period reflected:

- growth in the number of basic access lines in service;
- increased use of voicemail, call waiting, call forwarding, call return and call conferencing, which stimulate call completion; and
- increased internet usage.

National long distance calls

Our operating revenue from national long distance calls consists of:

- revenue from national long distance 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

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value of our service. More than half 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 volume of minutes of calls. However, we expect that competitive activity will continue to affect our national long distance calls revenue and that our market share will further contract. Competitive pressures are likely to continue to increase as technical barriers are reduced and the market is further opened to competition. As part of our access rebalancing in March 2000, the charges for some national long distance calls were capped. This and lower local call charges were offsets to the higher basic access charges that we applied.

We categorise operating revenue from all calls made from our fixed networks to Australian mobile telephones (fixed-to-mobile calls) under national long distance calls. Prior to fiscal 2000, our operating revenue from fixed-to-mobile national long distance calls increased each year reflecting the increased use of mobile telephones in Australia. This growth in the fixed-to-mobile revenue has been the primary reason in recent years for the growth in the overall national long distance revenue. However, from 1 October 1999, customers who preselected another carriage service provider for fixed-to-fixed national long distance calls automatically had their fixed-to-mobile calls carried by the same carriage service provider. Accordingly, our market share of fixed-to-mobile minutes has declined during fiscal 2000 compared with our growth in prior years and is more in line with our level of market share of fixed-to-fixed national long distance minutes.

We expect the overall fixed-to-mobile market to grow as mobile telephones in service increase and the number and duration of completed calls continues to grow. However we expect that any future decline in our market share for fixed-to-mobile calls will be more gradual than during fiscal 2000 when the fixed-to-mobile preselection occurred.

Table 4 shows information about our national long distance calls.

Table 4 - National long distance call data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Fixed –to-fixed revenue					
Retail	**1,390**	1,462	1,477	**(4.9)**	(1.0)
Domestic wholesale	**16**	24	31	**(33.3)**	(22.6)
Total fixed–to –fixed revenue	**A$1,406**	A$1,486	A$1,508	**(5.4)**	(1.5)
Fixed –to-mobile revenue					
Retail	**1,176**	1,190	997	**(1.2)**	19.4
Domestic wholesale	**44**	99	89	**(55.6)**	11.2
Total fixed-to-mobile revenue	**A$1,220**	A$1,289	A$1,086	**(5.4)**	18.7
Total national long distance revenue	**A$2,626**	A$2,775	A$2,594	**(5.4)**	7.0
Fixed-to-fixed minutes	**9,478**	9,383	8,972	**1.0**	4.6
Fixed-to-mobile minutes	**3,035**	2,946	2,347	**3.0**	25.5
Total national long distance minutes	**12,513**	12,329	11,319	**1.5**	8.9

Note: statistical data represents management's best estimates.

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Our operating revenue from national long distance decreased in both the fixed-to-fixed and fixed-to-mobile categories during fiscal 2000 despite increased minutes of use for both services. This decrease occurred in both the retail and wholesale markets.

Fixed-to-fixed revenue

The fixed-to–fixed market continued to be highly competitive. In fiscal 2000 our operating revenue from fixed-to-fixed calls declined at a higher rate than the marginal decline in fiscal 1999 compared with fiscal 1998. Even though in fiscal 2000, fixed-to-fixed minutes increased albeit at a lower rate than in fiscal 1999 compared with fiscal 1998, this was not sufficient to offset the lower prices charged for these calls. In fiscal 2000, growth in minutes was assisted by special promotions including the permanent seven days per week A$3 rate for fixed-to-fixed calls made between 7pm and midnight introduced as a special in August 1999 and made permanent in November 1999.

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.

Our operating revenue from fixed-to-fixed national long distance calls declined in fiscal 1999 compared with fiscal 1998, but the drop was marginal despite competitive pressures on pricing and increased product substitution. The slower rate of decline was primarily the result of marketing initiatives in fiscal 1999. These initiatives included:

- our “STD Easy A$3” tariff, which provided customers with a capped price for fixed-to-fixed calls during set periods;
- an earlier starting time for the “STD Easy A$3” tariff;
- an afternoon time band and an earlier start of the economy rate;
- a general price reduction effected in April 1998; and
- standard rate reductions to replace individual customer discounts.

During the three-year period, increasing penetration and popularity of mobile telephone services has resulted in substitution of fixed-to-fixed calls with calls made from mobile telephones as well as fixed-to-mobile calls.

Fixed-to-mobile revenue

Prior to fiscal 2000, our fixed-to-mobile revenue has always increased significantly over the prior year due to the increased numbers of mobile telephones in service and the call completion products available to mobile phone users such as voicemail and short messaging services. However, in fiscal 2000 our fixed-to-mobile revenue was affected by:

- the fixed-to-mobile preselection introduced from 1 October 1999 whereby the carriage service provider selected for fixed-to-fixed calls automatically has the same provider for fixed-to-mobile calls; and

- the flow-on effect of loss of market share of local calls, ie generally a customer will choose the same carriage service provider for local calls as they do for fixed-to-fixed calls.

Consequently in fiscal 2000 our operating revenue from retail fixed-to-mobile calls declined slightly. While minutes of use continued to grow in fiscal 2000, the rate of growth in this expanding market was lower than in prior years. Strong competition and lower prices for these calls meant that despite the increase in minutes of use, there was still an overall reduction in revenue for fixed-to-mobile calls. This is to be contrasted with

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strong growth in both minutes and operating revenue from fixed-to-mobile calls that occurred in fiscal 1999 compared with fiscal 1998.

While market share and prices for fixed-to-mobile calling declined there is still strong growth in this market due to the continuing growth in the mobiles market.

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;
- operator-assisted international calls; and
- 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.

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

Prior to fiscal 1999, we charged for these services based on the destination, duration, time of day and day of week of the call. In fiscal 1999, we amended our international tariffs to:

- introduce a flat rate charge where the same charge applies regardless of when the call was made;
- introduce the Easy $^{1}/2$ Hours® product, which allows customers to make overseas calls that are charged in 30 minute blocks of time;
- remove a number of discount plans; and
- realign wholesale rates.

Our operating revenue from fees we charge overseas telecommunications companies is largely driven by the volume of international incoming calls, our share of international outgoing calls and the charges we negotiate for transit traffic and terminating international calls. We pay for using the networks of other carriers for international outgoing calls and recognise these charges as direct cost of sales. We have historically been a net payer under these arrangements and have benefited from reducing settlement rates in recent years. We also record payments we make to overseas telecommunication companies to complete or route international outgoing calls as direct cost of sales.

Table 5 shows information about our international telephone services.

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Table 5 - International telephone services data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
International telephone services revenue					
Inbound	**333**	278	327	**19.8**	(15.0)
Outbound	**364**	431	566	**(15.5)**	(23.9)
Transit	**166**	220	280	**(24.5)**	(21.4)
International assisted/other	**124**	174	207	**(28.7)**	(15.9)
	A$987	A$1,103	A$1,380	**(10.5)**	(20.1)
International incoming minute	**1,033**	787	767	**31.3**	2.6
International outgoing minutes [(1)]	**893**	725	705	**23.2**	2.8

Note: statistical data represents management's best estimates.

[(1)] *International outgoing minutes for international settlement purposes also include international outgoing minutes from mobile telephone services, ISDN and public payphones operated by us. Total international outgoing minutes for settlement purposes were 1,046 million in fiscal 2000, 836 million in fiscal 1999 and 833 million in fiscal 1998.*

Our operating revenue from international telephone services decreased in fiscal 2000 compared with fiscal 1999 and it was substantially below fiscal 1998 levels, despite significantly increased volumes in fiscal 2000. Our operating revenue from outbound international calls over the three-year period has continued to decline. This has occurred despite the significant increase in outgoing minutes in fiscal 2000 and the moderate increase in fiscal 1999 compared with fiscal 1998. In fiscal 2000, the large increase in outgoing minutes 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. In the second half of fiscal 2000, we generally maintained our prices. In fiscal 1999, strong competition again adversely affected our operating revenue and with a lower market share we subsequently reduced our prices and offered more discounts to our customers, especially on calls to countries that receive a large volume of calls from Australia.

Our operating revenue from international incoming calls increased in fiscal 2000 making up the fiscal 1999 decrease. In fiscal 2000 incoming international call minutes were higher because of the exercise of arrangements between other countries to match traffic flows. This contributes to efficient global capacity usage. In fiscal 2000, as a result of the higher volumes and no further declines in international settlement rates, we increased our operating revenue from incoming calls. However, in fiscal 1999 compared with fiscal 1998 higher volumes did not offset the effect of lower international settlement rates driven by increased deregulation worldwide.

During the three-year period, operating revenue from transit traffic has declined as competition has reduced returns on some traffic routes. Therefore, while volumes increased, the overall stream mix and prices have led to a reduction in revenue.

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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 goods and services includes:

- revenue from initial connection charges;
- monthly access fees and usage charges;
- sales of mobile handsets;
- charges for a number of additional mobile telecommunications features and functions; and
- charges for paging services.

Prior to fiscal 2000, we charged the calling party for mobile calls on a timed basis in 30 second intervals or on a per second basis depending on the calling plan adopted. In fiscal 2000, this charging basis has continued for the vast majority of calls but in fiscal 2000 we also introduced new plan options which allow free calls at certain times to other MobileNet® customers. For example under the FreeChat™ option, we offer free the first fifteen minutes of each call to another MobileNet® customer made between 9pm and 5am. Our operating revenue from mobile telecommunications services is driven mainly by the increasing popularity of mobile telephone services in Australia, the rate of market growth and competition.

A significant component of operating revenue from mobile telecommunications services relates to sales of mobile handsets to dealers, which we sell to them at a small mark-up from our cost 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 subsidise substantially all the losses incurred by our dealers on mobile handset sales.

In fiscal 2000, we changed our accounting policy so that handset subsidies for mobiles sold under a contract for two years or more, are deferred and written off over the period of the contract. The cost of the subsidy for contracts less than two years, as well as the write-off of the subsidy that has previously been deferred, are charged as a direct cost of sales and do not affect amortisation expense. We also treat our initial costs of the mobile handsets as direct cost of sales.

Airtime charges have been trending downward during the past twelve months and we expect this trend will continue in future years, particularly as this market continues to be more competitive.

The mobile telecommunications market has grown substantially over the past few years. Although in recent years the rate of growth of services in operation has slowed, in the second half of fiscal 1999 the rate of growth of services in operation once again started to increase, stimulated by the introduction of low access fee plans and the increasing popularity of prepaid offerings. This continued for fiscal 2000. However, we expect that average revenue per user 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.

In fiscal 2000, we commenced the roll–out of a new mobile network with national coverage based on digital technology known as CDMA. This new network complements our existing GSM digital network and, by October 2000, will provide coverage in all areas previously covered by our analogue network. Our analogue network substantially closed, as required by law, in December 1999 and will completely close by October 2000.

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Table 6 shows information about our mobile goods and services.

Table 6 - Mobile goods and services data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
	(in millions, except customers in thousands)			(% change)	
Mobile services revenue	**2,533**	2,226	1,988	**13.8**	12.0
Mobile handset sales	**326**	312	166	**4.5**	88.0
Mobile goods and services revenue[(1)]	**A$2,859**	A$2,538	A$2,154	**12.6**	17.8
GSM mobile customers	**3,766**	2,762	1,745	**36.4**	58.3
CDMA mobile customers	**280**	-	-	-	-
Analogue customers	**80**	673	1,323	**(88.1)**	(49.1)
Total mobile customers	**4,126**	3,435	3,068	**20.1**	12.0
Mobile telephone minutes[(2)]	**4,464**	3,221	2,720	**38.6**	18.4
	(in A$ service in operation)				
Average revenue per user per month	**A$55.35**	A$56.24	A$55.70	**(1.6)**	1.0

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;*
- *international roaming, Messagebank® and mobile data; and*
- *selling in fiscal 1998 and fiscal 1999, analogue services to Cable & Wireless Optus and in fiscal 2000 selling CDMA to Cable &Wireless Optus, Hutchison and Primus, which we categorise as intercarrier services revenue.*

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

Our operating revenue from mobile telecommunications services increased during the three-year period, principally due to the strong growth in the number of mobile telephone customers and minutes of use. Our decline in the rate of growth in operating revenue in fiscal 2000 was due solely to lower handset sales in fiscal 2000 while our revenue from mobile services continued to grow at a higher rate in fiscal 2000 than in fiscal 1999 compared with fiscal 1998.

Operating revenue from mobile services principally comprises access and airtime fees for originating traffic. During the three-year period, our operating revenue from mobile services continued to grow strongly due to both the general expansion of the mobile market in Australia and the increased minutes of use. In fiscal 2000, this has been achieved through periods when connection fees have been waived and increased handset subsidies have been necessary. (Refer discussion under "Direct cost of sales" later in the "Management's Discussion and Analysis of Financial Condition and Results of Operations").

In fiscal 2000 as in fiscal 1999, the increased number of services in operation is due to:

- revised pricing tariffs and promotional offerings that enhance value and make our services more affordable to a greater number of customers. This included targeting analogue customers moving to digital services as well as the launch of CDMA;
- an expanded range of channels to market;
- the successful launch of the new prepaid phone pack offering for customers with anticipated low calling patterns; and
- overall market growth.

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In fiscal 1999, in anticipation of the closure of the analogue network, a number of our analogue customers moved to our GSM network. We encouraged this through attractive pricing plans and handset subsidies and this was the main reason for the significant services in operation in fiscal 1999 compared with fiscal 1998.

While our CDMA services in operation is modest compared with services on our GSM network, we expect that the rate of growth will increase in the future when our complete CDMA network is available.

During fiscal 2000, sales of handsets slowed compared to the significant growth in fiscal 1999 compared with fiscal 1998. The growth in handset sales in fiscal 2000 and fiscal 1999 compared with fiscal 1998 was primarily due to analogue customers moving to a digital network in preparation for the closure of the majority of the analogue network by December 1999. In addition, existing customers entering new contract arrangements and the general growth of new customers entering the market affected handset sales. Average revenue per user has declined slightly during the three-year period reflecting lower call charges as well as increased penetration to lower volume users offset by our larger digital subscriber base, increased use of value-added services and the growing popularity of mobile telecommunication services in Australia.

During the three-year period, the disconnection or "churn" rate on our GSM network declined from approximately 22% in fiscal 1998 to 16% in fiscal 2000. 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, including customers' payment defaults and short-term disconnections.

Data, text and internet services

Our growth in operating revenue from data, text and internet services is driven 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, in particular ISDN and FaxStream®.

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

Table 7 shows information about our data, text and internet services.

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Table 7 – Data, text and internet services data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
	(in millions except access lines and subscriber numbers in thousands)			(% change)	
Data, text and internet services					
Retail	**2,435**	2,164	1,910	**12.5**	13.3
Domestic wholesale	**403**	319	287	**26.3**	11.1
Total data, text and internet services revenue [1]	**A$2,838**	A$2,483	A$2,197	**14.3**	13.0
Consisting of:					
Integrated services (including ISDN	**1,186**	991	856	**19.7**	15.8
Packet switching	**340**	212	144	**60.4**	47.2
Internet and internet service provider revenue	**253**	168	100	**50.6**	68.0
Sub-total	**1,779**	1,371	1,100	**29.8**	24.6
Data and leased lines	**750**	799	792	**(6.1)**	0.9
Text (including Faxstream)	**309**	313	305	**(1.3)**	2.6
Total data, text and internet services revenue	**A$2,838**	A$2,483	A$2,197	**14.3**	13.0
ISDN access lines (basic access line equivalents)	**1,048.8**	722.3	488.4	**45.2**	47.9
FaxStream® services access lines	**426.8**	407.1	374.8	**4.8**	8.6

Note: statistical data represents management's best estimates

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

Our operating revenue from data, text and internet services grew strongly during the three-year period mainly due to increased revenue from ISDN, 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.

As volumes have increased, however, competitive pressures have generally resulted in price declines. In addition, as a result of the increasing economies of scale, more efficient packet-switching technologies in this market, such as frame relay, we have lowered prices for some of our other data services, particularly dedicated leased lines, to maintain their competitiveness as alternative data transmission products. Consequently while there was moderate growth in fiscal 1999 from operating revenue from data and leased lines and text, in fiscal 2000, there was a small decrease in the revenue from these products.

However in fiscal 2000, operating revenue from the areas of integrated services (including ISDN), packet switching and internet services and internet service providers continued to grow strongly. With the scheduled roll-out of ADSL services in August 2000, 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 ADSL is rolled out.

During the three-year period, the growth in our ISDN and facsimile services in operation was contributed to by customers migrating to these products from our basic access services. However while ISDN services in operation continues to grow strongly, the rate of growth in FaxStream® services access lines has declined

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reflecting the trend of the market to move to alternative products that are available – such as internet services.

During the three-year period our revenue from internet and internet service providers has continued to grow strongly even though, particularly in fiscal 2000, we have reduced our prices due to the strong competitive environment. Our subscriber base for Telstra Big Pond® Home and Business has continued to grow during fiscal 2000 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 service provider services to become a larger component of this product category.

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 data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Directory services revenue	**A$1,122**	A$1,078	A$1,029	**4.1**	4.8

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 1998, we began new advertising programmes for our customers, such as on internet sites and banners and through e-commerce that stimulated revenue growth. In fiscal 2000 as in fiscal 1999, 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; and
- from growth in the White Pages™ revenue through increased development and marketing of the product.

Customer premises equipment

The largest component of our customer premises equipment revenue comes from renting telephones to comply with our universal service obligation. Our operating revenue from customer premises equipment also includes maintenance fees for PBX systems, and rental and sales of telephones and other miscellaneous telecommunications equipment.

Table 9 shows information about our customer premises equipment revenue.

Table 9 - Customer premises equipment data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Customer premises equipment revenue . . .	**A$336**	A$368	A$538	**(8.7)**	(31.6)

(1) *During fiscal 1999, we divested our small business systems business to a joint venture in which we have a 30% interest.*

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Our operating revenue from customer premises equipment continued to decline during fiscal 2000 mainly due to:

- increased competition in the market including the expanded product range available from our competitors;
- our outsourcing of additional services such as cabling and socket installations for new services that are required before installation of new CPE; and
- the packaging of our CPE with other services we provide at a reduced charge to the customer to support customer retention and increase call completion.

The significant decrease in revenue during fiscal 1999 was principally due to the sale of our small business systems business. Excluding the effect of this sale, our fiscal 1999 operating revenue from customer premises equipment declined slightly compared with fiscal 1998 reflecting the effect of lower volumes and continued competition.

Intercarrier services

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

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 10 shows information about our intercarrier services revenue.

Table 10 - Intercarrier services data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Intercarrier services revenue	**A$819**	A$617	A$582	**32.7**	6.0

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

- 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.

In fiscal 2000, the strong increase in operating revenue from intercarrier services 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; and
- our loss of retail market share in the provision of basic access, local calls and fixed-to-fixed services due to competition.

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Our intercarrier revenue has not yet been materially affected by the provision of CDMA to other carriers since November 1999 for resale to their customers. At 30 June 2000 we had CDMA resale agreements with Cable & Wireless Optus, Hutchison, AAPT and Primus.

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 as competitive pressures and regulated prices will lead to reduced yields.

In fiscal 1999 we experienced increased demand for interconnect services primarily reflecting the increase in the number of other carriers in the market. In addition, in fiscal 1999, the growth in revenue from intercarrier services was partly offset by a reduction in our operating revenue from providing wholesale analogue mobile services to Cable & Wireless Optus in the lead up to the closure of the our analogue network in all major metropolitan areas by December 1999. In fiscal 1998, Cable & Wireless Optus stopped actively promoting analogue mobile telephone services to its customers and accelerated efforts to move analogue customers to its own GSM network.

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 for 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; as well as
- the difference between the price of the call made and the cost of the call charged to the party making the call (ie party A).

For example, under Priority®1300 and Priority®One3 the calling party (party A) incurs a cost of 25 cents whereas calls made under the Freecall™1800 and Freecall™ One8 service are all charges to the B party (the party called) with no cost incurred by the caller.

Table 11 shows information about our inbound calling products revenue.

Table 11 - Inbound calling products data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Inbound calling products revenue.	**A$432**	A$400	A$337	**8.0**	18.7

Our operating revenue from inbound calling products increased in fiscal 1999 compared with fiscal 1998 principally resulting from our expanded range of products and our marketing efforts to increase awareness of our product offerings. Priority®1300, introduced in fiscal 1998, is used by larger customers as a call centre product. It is also a cost effective alternative to the 1800 service for medium size businesses.

While in fiscal 2000, revenue grew at a lower rate than in the prior year growth was still strong particularly in the Priority® 1300 product.

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Facilities management

Our operating revenue from our Managed Solutions™ product is derived from managing all or part of a customer's information technology and / or telecommunications services and includes the following:

- our network based enhanced voice and data switching products and virtual private network products or a PABX network and the provision of related professional services;
- our core data products including ATM, frame relay, ISDN, ADSL and dedicated data network, equipment and the provision of professional services;
- a customer's call or contact centre including network services, equipment and third party hardware/ applications and professional services;
- fleet management of mobile phone networks and new wireless based technologies such as wireless LANs;
- information technology 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.

Table 12 shows information about our facilities management revenue.

Table 12 – Facilities management data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Facilities management revenue	**A$235**	A$183	A$120	**28.4**	52.5

The demand for these services has increased with the trend by major government departments and large businesses to outsource non-core services rather than continue to provide these services from their own internal resources.

We generally provide these services with a partner who is a specialised network services provider such as Advantra Pty Ltd. On 31 March 2000, we acquired the remaining 50% interest in Advantra from IBM Australia and Lend Lease and the operating revenue for fiscal 2000 includes the revenue from Advantra since it was consolidated.

Other sales and services

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

- revenue from various controlled entities;
- payphones;
- ship-to-shore services;
- international roaming;
- domestic operator-assisted calls;
- voicemail for fixed lines, recorded services and other enhanced call products; and
- radio services.

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Table 13 shows information about the five main items included under our other sales and services revenue.

Table 13 –Other sales and services

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
	A$	A$	A$		
Other sales and services revenue from					
Various controlled entities	**904**	707	621	**27.9**	13.8
Payphones.	**190**	207	225	**(8.2)**	(8.0)
Ship-to-shore	**98**	122	125	**(19.7)**	(2.4)
International roaming.	**90**	73	55	**23.3**	32.7
Domestic operator-assisted calls	**63**	61	63	**3.3**	(3.2)
Sub-total	**1,345**	1,170	1,089	**15.0**	7.4
Other minor items	**340**	274	249	**24.1**	10.0
Total other sales and services	**1,685**	1,444	1,338	**16.7**	7.9

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. During fiscal 2000 we sold our interest in our wholly–owned entity in New Zealand, to the joint venture Telstra Saturn Limited in which we have a 50% interest.

In fiscal 2000, the increased revenue from other sales and services was principally due to increased revenues from:

- our controlled entities where the main increase was for third party construction by Network Design and Construction Limited during its first year's activities;
- other minor increases in radio services, voicemail for fixed lines, charges for directory assistance services provided to business and mobile customers and mobile data.

There are now 1,162,000 customers using voicemail for fixed lines compared with 688,000 at the end of fiscal 1999.

Other revenue

Table 14 shows information about our other revenue.

Table 14 - Other revenue by category

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
	A$	A$	A$		
Proceeds from sale of:					
Property, plant and equipment	**243**	246	255	**(1.2)**	(3.5)
Other asset sales	**599**	84	11	**613.1**	663.6
Total proceeds from sale of assets	**842**	330	266	**155.2**	24.1
Interest received/receivable	**62**	49	49	**26.5**	0.0
Dividends received/receivable	**12**	13	20	**(7.7)**	(35.0)
Share of associated entities' (losses)/ profits	**(7)**	(2)	14	**250.0**	(114.3)
Miscellaneous revenue	**322**	257	250	**25.3**	2.8
Total other revenue	**1,231**	647	599	**90.3**	8.0

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During the three-year period, other revenue increased primarily as a result of increased proceeds from sale of assets, investments, patents, trademarks and licences. Proceeds from sales in fiscal 2000 included the following:

Other asset sales:

- A$195 million from the sale of our wholly owned entity, Telstra New Zealand Limited to acquire a 50% interest in Telstra Saturn Limited;
- A$170 million from the sale of our operating business in global satellite communications (A$128 million) and sale of our interest in the satellite consortium Inmarsat Holdings plc (A$42 million) to acquire a 35% interest in the joint venture entity Station 12 BV;
- A$115 million from the sale of a small proportion of our shares in Infonet Services Corporation that listed in the US at the end of calendar 1999. We still own a 5.3% equity interest in Infonet;
- A$26 million from the sale of our 60% interest in Lawpoint Pty Ltd for an additional interest in Solution 6 Holdings Limited;
- A$27 million from the sale of our 49% interest in Modi Telstra Limited;
- A$25 million from the sale of 3.4% of our interest in IBMGSA to take our interest to 22.6% in IBMGSA. At the same time we purchased the remaining 50% of Advantra from Lend Lease and IBM Australia;
- A$13 million from the sale of our remaining shareholding in Data Advantage Limited;
- in exchange for our 41% interest in ECard Limited a smart card transaction processing company, we sold our operating business in this area for A$21 million and also contributed A$10 million in cash; and
- other minor asset sales proceeds of A$7 million.

In fiscal 1999, we sold and leased-back our personal computers and received A$96 million in proceeds on the sale.

Operating expenses (before interest expense and abnormals)

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

Overall, our operating expenses (before interest expense and abnormals) increased by an annual average rate of 3.1% over the three-year period, but fell as a percentage of revenue. Our labour expense declined, and decreased as a percentage of revenue, reflecting reductions in staff numbers. Approximately A$250 million of the labour expense reduction in fiscal 2000 and fiscal 1999 compared with fiscal 1998 resulted from our ceasing employer contributions to defined benefit superannuation plans that are in surplus.

Our direct cost of sales increased mainly because:

- we made more payments to other domestic and international carriers for calls initiated on our network but terminated on their network; and
- we purchased and subsidised more mobile handsets reflecting strong competition and growth in mobile telecommunications services. Customers continued to move from our analogue mobile network to our digital mobile network.

Our depreciation and amortisation expense increased in fiscal 2000 reflecting the higher depreciation and amortisation associated with the increased levels of capital expenditure particularly in communications

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plant and capitalised software. Depreciation and amortisation in fiscal 1999 compared with fiscal 1998, also increased reflecting mainly the effect of our recent high levels of capital investments, including capitalised software, offset in part by extending the service lives of capital assets after our annual review of asset lives.

Our other operating expenses are influenced by a number of factors, including the size of our workforce, the extent of outsourcing activities, performance of strategic investments, business growth, competitor activity, market trends and economic conditions. Other operating expenses remained relatively flat as a percentage of revenues over the three-year period.

Table 15 shows a breakdown of our operating expenses (before interest expense and abnormals) and expressed as a percentage of our operating revenue.

Table 15 - Operating expense data

	Year ended 30 June					
	2000		1999		1998	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Labour expense	**3,228**	**16.3**	3,270	17.9	3,665	21.2
Direct cost of sales	**3,329**	**16.8**	3,002	16.5	2,582	14.9
Depreciation and amortisation	**2,646**	**13.3**	2,502	13.7	2,322	13.4
Other operating expenses	**4,086**	**20.6**	3,546	19.5	3,631	21.0
Operating expenses (before borrowing expense and abnormals)	**13,289**	**67.0**	12,320	67.6	12,200	70.5

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 not charged as an abnormal item.

In line with our business plans, we have continued to reduce the number of full-time employees. We have achieved this through new initiatives, applications, processes and systems designed to help us operate more efficiently.

Table16 -Labour expense

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
	(in millions, except staff numbers in whole numbers)			(% change)	
Labour expense	**A$3,228**	A$3,270	A$3,665	**(1.3)**	(10.8)
Full time staff	**50,761**	52,840	57,234	**(3.9)**	(7.7)

The number of full-time employees declined over the three-year period to 50,761 at the end of fiscal 2000 from 57,234 at the end of fiscal 1998. During the three-year period, our full-time equivalent employees also decreased. In fiscal 1999 and fiscal 2000, this decrease in full-time equivalent employees was modest mainly due to an increase in temporary employees for our year 2000 work and contracted information technology personnel. A substantial portion of labour expense associated with temporary and contracted staff,

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however, relates to information technology work that is largely capitalised. Over the three-year period, about 15-20% of the employee reductions have been attributable to outsourcing some of our operations.

During fiscal 1998, we extended our cost efficiency plans which gave rise to a redundancy expense as an abnormal item in fiscal 1997 and we took a provision of A$115 million for the expected additional costs to redundancy and restructuring as a charge to labour expense in fiscal 1998. In addition we reviewed the corporate initiatives that we were using to reduce staff as part of this programme. This review resulted in an additional 796 employees being made redundant at an additional cost of A$88 million during fiscal 1998. Refer to note 30 to the financial statements for the disclosures required by EITF 94-3 in relation to the redundancy and restructuring provisions.

Where redundancies have occurred that are not part of the approved plan for which provision had been made, these costs have been charged to labour expense in the year in which the redundancies have taken place. In fiscal 2000 we included A$38 million in our labour expense for redundancies and restructuring prior to our announcement of further staff reductions. In fiscal 1999, we incurred an additional 1,282 redundancies resulting in a charge to labour expense of A$87 million.

In March 2000, we announced that a further reduction of 10,000 staff would occur over the next two years and a charge of A$572 million for redundancy and restructuring was taken up as an abnormal item in fiscal 2000 and not charged to labour expense. This abnormal item consists of:

- actual redundancy and restructuring for 1,374 staff whose employment was terminated between 1 March 2000 and 30 June 2000 at a cost of A$86 million; and
- estimated cost of planned redundancy and restructuring for 8,272 staff over the next two years at a cost of A$486 million.

We expect that this provision will adequately cover the planned redundancies over the next two years. However, if further redundancies are required due to changes in business initiatives and structure, then any additional charge will be taken to labour expense at the time that the redundancies in excess of current plans, take place.

We have announced our intention of selling our interest in our wholly owned entity Network Design and Construction Limited in fiscal 2001 through either a trade sale or an initial public offering. When this occurs, this will result in an additional reduction of our group numbers by approximately 6,000 full time staff. The cost of work undertaken by these staff forms part of our cost of constructed assets or part of direct cost of sales for construction for third parties.

Our two-year enterprise and customer field workforce agreements expire in December 2000 and we have commenced discussions with unions for replacement agreements. As we have realigned our organisation around business units with clear portfolios, our plan is to build on this by creating separate business unit enterprise agreements. In this way we consider we will be able to meet more adequately our needs in the customer-facing areas and provide far more flexibility for our customers and staff in delivering end-to-end service needs.

The effect of our staff reductions was offset in part by a 4% pay increase effective in mid-fiscal 1999 under the 1998- 2000 enterprise agreement. Our 15,000 full-time employees in the customer field workforce received a further 4% pay increase in January 2000. The remaining 20,000 full time staff received a further 2% increase in January 2000 as staff in the customer contact, technical support and business support workforce did not support and voted against, the proposed new arrangements for these work streams. Staff on individual contracts received an average increase of 4.2% in fiscal 2000 compared with an average 5% in fiscal 1999.

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In fiscal 1999, based on actuarial advice, we were able to suspend employer contributions to the defined benefit superannuation funds that provide benefits for our employees. This action was taken in December 1998 but was effective from the commencement of fiscal 1999. Consequently, whereas employer contributions to the defined benefit superannuation funds were A$ nil in fiscal 2000 and fiscal 1999, we contributed A$294 million in fiscal 1998 to these funds. We estimate that labour expense for fiscal 2000 and fiscal 1999 is approximately A$250 million lower than it would otherwise have been as a result of cessation of employer contributions to these funds.

Based on the latest actuarial advice provided on the financial position of the funds as at 30 June 1997, we anticipate that the surplus in the superannuation schemes will continue and no employer contributions will be required in fiscal 2001, 2002 and 2003 assuming the continued sound performance of the superannuation scheme. Additional information on the superannuation fund surpluses and factors that contributed to these surpluses are disclosed in note 22 to the financial statements.

We have also made contributions to the superannuation fund under a separate arrangement that has been terminated in August 2000. This termination will not impact on our future labour expense – refer discussion under "borrowing costs".

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 costs of sales are the costs of mobile handsets, mobile handset subsidies, dealer bonuses, commissions paid to indirect distribution channels and directory publishing costs.

Table 17 -Direct cost of sales

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
Total direct cost of sales	**A$3,329**	A$3,002	A$2,582	**10.9**	16.3

Our direct cost of sales increased during the three-year period mainly because we made more payments to other carriers to terminate outgoing calls made by our customers on the networks of our competitors. These payments reflect our increased payments to domestic carriers, growth in the mobile telecommunications market and increased competition in the international transit traffic market.

In fiscal 2000, we changed our accounting policy for 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 term of the contract. The write-down of the subsidy is a charge to direct cost of sales ie it is not shown as an amortisation expense. As a result of this change in policy we have deferred A$174 million of handset subsidies as at 30 June 2000. In prior years this amount would have been included as a direct cost of sales in the year in which the expense was incurred. In fiscal 1999, higher direct cost of sales reflected increased mobile handset volumes, consistent with higher sales and subsidies.

In fiscal 2000 our payments to other mobile carriers in particular increased as more calls made by our mobile customers terminated on other carriers' mobile networks. The higher volume of this terminating traffic more than offset the lower interconnect rates that applied for fiscal 2000. In fiscal 1999, payments to international carriers were essentially flat reflecting the lower volume of outgoing minutes and transit minutes offset by increased costs relating to our United Kingdom and New Zealand controlled entities.

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In fiscal 2000, Network Design and Construction Limited expanded their activities to include construction for third parties. This resulted in an increase in direct cost of sales for the group in fiscal 2000.

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 18 -Depreciation and amortisation

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
	A$	A$	A$		
Depreciation	**2,343**	2,290	2,163	**2.3**	5.9
Amortisation of capitalised software	**193**	109	63	**77.1**	73.0
Amortisation – finance leases, licences, goodwill, etc	**110**	103	96	**6.8**	7.3
Total depreciation and amortisation	**2,646**	2,502	2,322	**5.8**	7.8

In fiscal 2000 as in fiscal 1999, the increase in depreciation 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.

Our CDMA mobile digital network has been progressively rolled out during fiscal 2000 to replace our analogue mobile network that has been fully written down and will cease operating altogether in October 2000. Due to the progressive implementation of CDMA in areas where the analogue network has been closed, the full impact of the depreciation for the CDMA network will not be reflected in expenses until later years. Our capitalised software, which is amortised over five years, has increased by 16.8% in fiscal 2000 and by 116% in fiscal 1999 compared with fiscal 1998 and this has therefore resulted in higher software amortisation in fiscal 2000.

This increase in depreciation and amortisation was offset in part by lower depreciation on personal computers and motor vehicles. Personal computers were subject to a sale and lease back during fiscal 1999 with the effect for the full year being evident in fiscal 2000. In fiscal 2000 as well as in fiscal 1999, we increased the number of our motor vehicles we leased rather than purchasing outright. Consequently depreciation on motor vehicles has reduced in both fiscal 2000 and in fiscal 1999 due to the lower number of purchased vehicles.

Other operating expenses

Our other operating expenses include such costs as:

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

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- cost of directory services paper sold; and
- losses from partnerships.

Table 19 - Other operating expenses

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
	A$	A$	A$		
Rental expense on operating leases	**403**	264	216	**52.7**	22.2
Bad debts /movement in provision for doubtful debts.	**191**	251	357	**(23.9)**	(29.7)
General operating costs	**3,492**	3,031	3,058	**15.2**	(0.9)
Total other operating costs.	**4,086**	3,546	3,631	**15.2**	(2.3)

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

- increased outsourcing of installation and maintenance costs for information technology support and service support;
- increased lease payments due to:
  - the full year impact of personal computers that were leased for 7 months of fiscal 1999 and for the whole of fiscal 2000;
  - a 91% increase in the average number of vehicles leased compared with purchased vehicles in fiscal 2000 compared with fiscal 1999. In addition, lease costs have increased in line with higher interest rates; 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.
- information technology expenses including:
  - the cost of software changes to our systems for the goods and services tax of A$49 million;
  - 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. Refer details of sales under "Other revenue". This resulted in a net profit from property, plant and equipment of A$26 million and A$313 million profit from other asset sales being taken up in fiscal 2000.

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

In fiscal 1999 compared with fiscal 1998,our other operating costs decreased slightly due to decreases in bad and doubtful debts particularly in the wholesale business, reduced losses from FOXTEL from A$83 million in fiscal 1998 to A$39 million in fiscal 1999 and ongoing initiatives to control discretionary costs. These lower costs were offset in part by increased information technology expenses, particularly relating to our year 2000 project and the leaseback payments relating to our personal computers. In addition, contract service payments increased substantially in fiscal 1999 compared with fiscal 1998, primarily due to increased:

- billing, printing and product costs associated with higher billing volumes;
- vendor support required for more products in data and internet areas; and
- year 2000 compliance activity.

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A significant portion of our bad and doubtful debt expense in fiscal 1998 related to some of our wholesale customers. We have been involved in significant legal proceedings with some of our wholesale customers.

Borrowing costs

Our borrowing costs are influenced by:

- the level of our debt;
- interest rates; and
- 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 declined in fiscal 1999 compared with fiscal 1998 as we reduced our level of net debt and refinanced part of our debt portfolio at more efficient interest rates. In fiscal 2000, borrowing costs increased to levels similar to those in fiscal 1998 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.

Our commitment to make additional payments of A$121 million per year to our main superannuation fund, over and above employer contributions to the fund, contributed to increased interest expense by A$89 million in fiscal 2000, A$93 million in fiscal 1999 and A$96 million in fiscal 1998. These payments relate to a 16-year agreement made in fiscal 1995 with the Telstra Superannuation Scheme that has continued in force even though this fund is now in surplus. In fiscal 1994 and fiscal 1995, we recorded provisions equalling the net present value of our obligations under this agreement. Interest expense arises from the difference between the actual amount of the payments we are required to make and the recorded amount of these discounted provisions.

In August 2000, we reached agreement with the Telstra Superannuation Scheme and the Government to end the 16-year agreement. Consequently, in future years we will not be required to pay A$121 million per year to the superannuation fund under this agreement. We will reverse the net present value of the liability to the TSS of A$725 million that we have in our accounts as at 30 June 2000, in fiscal 2001. Further details are provided under note 28 to the financial statements.

Our capitalised interest has increased over the three-year period from A$83 million in fiscal 1998 to A$125 million in fiscal 2000. This reflects the higher level of constructed assets and capitalised software that has taken place during the three-year period.

Abnormals

Abnormal items require separate disclosure in Australia where they are abnormal by reason of their size and effect on the operating profit or loss after income tax.

We did not recognise any abnormal items in fiscal 1999 or fiscal 1998.

In fiscal 2000, we recognised the following abnormal items:

- redundancy and restructuring expense representing:
  - the actual cost of redundancy and restructuring for 1,374 staff whose positions were made redundant during 1 March 2000 and 30 June 2000 at a cost of A$86 million; and
  - the provision required for the redundancy over the next two years of 8,272 full-time staff at an estimated cost of A$486 million.

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- the revenue and expenses for the design, construction and maintenance contract for Jindalee Operational Radar Network (JORN) of A$734 million revenue and expenses of A$734 million. In fiscal 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 have shown in the profit and loss statement both the revenue (progress billings) and the expenses (net of the provision of A$585 million) associated with this project.

Income tax expense

In fiscal 2000, our effective tax rate decreased from 34.4% in fiscal 1999 to 31.3%. However, this rate in fiscal 2000 takes into account the future income tax rates that will apply 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 will reduce from 36% of taxable income in fiscal 2000 to 34% in fiscal 2001 and 30% in future years. This lowering of income tax rates reduced the income tax expense we recognised in our accounts for fiscal 2000 by A$172 million.

In fiscal 1998, we recognised significant prior year over-provisions that reduced the tax expense in that year thereby reducing the fiscal 1998 effective rate to 32.9%. When prior year over-provisions are excluded from fiscal 1998 our effective tax rate in that year was 35.4%. The decline in fiscal 1999 compared with fiscal 1998 was primarily due to higher permanent differences for dividends for which a rebate of income tax is received.

Australian GAAP compared with US GAAP

	Year ended 30 June		
	2000	1999	1998
		(in millions)	
	A$	A$	A$
Operating profit attributable to shareholders			
US GAAP	**4,093**	3,416	2,674
A GAAP	**3,677**	3,486	3,004
Shareholders' equity			
US GAAP	**16,528**	16,199	14,676
A GAAP	**11,602**	10,294	11,079

These differences, which are shown in note 30 to the financial statements, mainly resulted from:

- the different treatment of fixed asset revaluations;
- the provision for redundancy and restructuring that we have taken into account for A GAAP in fiscal 2000 but not US GAAP;
- the timing of the adoption of accounting policies for capitalisation of interest, software and indirect overhead costs;
- superannuation liability recognition;
- employee compensation expense;
- the timing of recognition of tax rate changes; and
- dividend liabilities.

Liquidity and capital resources

Liquidity

Table 20 shows our cash flows for the three-year period.

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Table 20 - Cash flow data

	Year ended 30 June		
	2000	1999 (in millions)	1998
	A$	A$	A$
Net cash provided by operating activities	**6,547**	6,574	5,635
Net cash used in investing activities	**(4,896)**	(4,064)	(3,609)
Net cash used in financing activities	**(1,881)**	(2,484)	(1,808)
Net increase/(decrease) in cash	**(230)**	26	218

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. We capitalised interest expense of A$125 million in fiscal 2000, A$92 million in fiscal 1999 and A$83 million in fiscal 1998. During the three-year period, net cash provided by operating activities increased on average by 7.8% per annum principally due to an increase in improved sales to customers partially offset by higher payments to customers, debt providers and tax consultants.

Net cash used in investing activities

Net cash used in investing activities represents amounts paid for capital equipment, trademark licences and investments, offset by cash receipts from the sale of capital equipment and investments. During the three-year period, we committed a substantial amount of capital and other resources to upgrade and rationalise our network infrastructure and improve many of our systems.

Table 21 shows net cash used in investing activities during the three-year period.

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Table 21 - Net cash used in investing activities

	Year ended 30 June		
	2000	1999	1998
		(in millions)	
	A$	A$	A$
Switching	**647**	644	756
Transmission	**693**	624	584
Customer access	**1,285**	873	681
Mobile telecommunications networks	**628**	621	340
Broadband network	**30**	34	97
International telecommunications infrastructure	**125**	146	143
Capitalised software	**599**	513	237
Other	**823**	911	986
Sub total capital expenditure	**4,830**	4,366	3,824
Capitalised interest included in above	**(125)**	(92)	(83)
Capital expenditure excluding capitalised interest	**4,705**	4,274	3,741
Add: investments	**598**	112	149
Capital expenditures (excluding interest) and investments	**5,303**	4,386	3,890
Sale of capital equipment, investments and other	**(407)**	(322)	(281)
Net cash used in investing activities	**4,896**	4,064	3,609
Capital expenditures (including interest) and investments	**5,428**	4,478	3,973

Our cash investments during fiscal 2000 included:

- A$208 million additional investment in Computershare Limited to take our interest from 5% to 15%. In fiscal 1999, we acquired a 5% interest for A$84 million. In July 2000, we announced our sale of some of our interest in Computershare so that we now hold a 5% interest (refer note 28 to the financial statements);
- A$103 million in Solution 6 Holdings Limited;
- A$20 million in Sausage Software Limited;
- A$63 million to acquire the remaining interest in Pacific Access;
- A$50 million in relation to Telstra New Zealand's acquisition of Netlink (A$21 million) and additional shares in Telstra New Zealand (A$29 million) with both entities being sold into the New Zealand joint venture Telstra Saturn Limited;
- A$35 million to acquire a 17.1% interest in Extant Inc;
- A$13 million to acquire an interest in Australia –Japan Cable Holdings Limited;
- A$27 million to Lend Lease to acquire 20% of Advantra;
- A$3 million for preference shares in IBMGSA;
- A$18 million for the Insnet/Bimtech group of companies;
- A$33 million additional investment in FOXTEL; and
- other minor investments.

In fiscal 1999, our investments included:

- A$84 million acquisition of 5% interest in Computershare Limited; and
- A$20 million additional investment in FOXTEL.

In fiscal 1999, capital expenditures (excluding capitalised interest) increased by A$533 million over fiscal 1998. The increase was partly due to expenditure on our capitalised software programme involving work undertaken on e-commerce and internet platforms and supporting systems, the wholesale and CDMA billing

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platforms and customer segmentation and supporting software. In addition, in fiscal 1999 we incurred significant capital expenditures in expansion and remediation of our customer access network and in establishing our new CDMA mobile telecommunications network. These increases were partly offset by reduced expenditure on traditional switching equipment in conjunction with our DMO programme.

Our capital investments in fiscal 1998 included:

- A$92 million we contributed to FOXTEL;
- A$33 million we invested in WorldPartners®, which we have since divested; and
- A$24 million we invested in the Satellite Consortia, INTELSAT and INMARSAT.

We review our capital expenditure and investment requirements on a regular basis.

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 continuation of the rollout of 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;
- investment in or acquisition of enterprises that complement and fit within our growth strategy;
- the provision of enhanced telecommunications services to remote customers;
- payphones modernisation and security;
- internal business support infrastructure such as enhanced financial and information technology 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 will be sufficient to meet our anticipated capital expenditure, excluding the impact of PCCW, in each of fiscal 2001, 2002 and 2003. We intend to increase our borrowings to meet our commitments under PCCW.

Net cash used in financing activities

In fiscal 2000, the decrease in cash used in financing activities of A$603 million was driven by dividends paid increasing by A$2,573 million over fiscal 1999 and the net increase in borrowings of A$3,176 million.

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.

In fiscal 1999, the increase in cash used in financing activities of A$676 million was driven primarily by the dividends paid increasing A$380 million over fiscal 1998 and the net repayment of debt of A$682 million compared with net repayment of debt in fiscal 1998 of A$386 million.

Capital resources

At 30 June 2000, our total debt was A$9.8 billion with net debt of A$8.5 billion after deducting cash of A$751 million, other interest bearing financial assets of A$243 million and loans to employees of A$297 million. Approximately 43% of our total debt consisted of domestic borrowings with the balance sourced from a

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variety of offshore markets. Our current debt that matures in less than 12 months comprised approximately 34% of our total debt, which had an average maturity of approximately four years.

We have access to A$650 million and US$100 million of committed standby bank lines and two undrawn committed syndicated loans of A$2 billion is available until mid-2002 and approximately A$2.25 billion available until mid-2005. These standby lines comprise bilateral arrangements with seven banks which fall due for renewal at various times throughout the year. We have three commercial paper programmes with a total borrowing capacity of A$2 billion and US$2 billion and Euro 2 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.

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.

We had negative net current liabilities of A$4,532 million at 30 June 2000, A$5,600 million at 30 June 1999 and A$4,036 million at 30 June 1998.

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 negative working capital increased in fiscal 1999 compared with fiscal 1998 principally due to the provision for the special dividend of A$2,059 in fiscal 1999. This was offset slightly by a reduction in short-term borrowings during the year. The repayment of the syndicated loan in fiscal 1998 was financed by short-term promissory notes. These short-term promissory notes were then replaced by long-term debt in fiscal 1999.

Our current liabilities are typically in excess of our current assets, which is 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.

Our alliance with PCCW is likely to be funded in the first half of fiscal 2001 through a combination of drawdowns from existing loan or commercial paper facilities and capital market issues.

Segment information

Our business is currently organised and managed along business unit lines as described under "Description of Business - Organisation".

Our organisation structure for reporting purposes has changed 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;
- 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.

The following areas qualify as reportable segments under Statement of Financial Accounting Standards No. 131 for fiscal 2000 and comparatives for prior years have been derived based on the new structure:

- Commercial & Consumer;

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- Telstra Business Solutions;
- Telstra OnAir;
- Wholesale & International;
- Convergent Business; and
- Network & Technology Group.

Our business operates predominantly in one industry, telecommunications, and predominantly in one geographical area, Australia.

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 1999 and fiscal 1998 on the basis of the reporting structure for fiscal 2000, our analysis of the results is confined to fiscal 2000 compared with fiscal 1999.

We report on our operating segments in accordance with US GAAP. This requires disclosure of our segments according to how we organise and manage our business for internal management reporting purposes. Other companies may organise and manage their businesses in a different manner to us. Therefore, the operating results for one or more of our segments may not necessarily be prepared on the same basis as those of other companies operating in similar segments.

Table 22 - Segment summary data

	Year ended 30 June				
	2000	1999	1998	**2000/1999**	1999/1998
		(in millions)		(% change)	
	A$	A$	A$		
Revenue from external customers					
Commercial & Consumer	**5,791**	5,882	5,789	**(1.5)**	1.6
Telstra Business Solutions	**5,392**	5,254	5,021	**2.6**	4.6
Telstra OnAir	**3,002**	2,655	2,135	**13.1**	24.4
Wholesale & International	**2,895**	2,458	2,457	**17.8**	-
Convergent Business	**1,354**	1,241	1,214	**9.1**	2.2
Network & Technology Group	**3**	1	1	**200.0**	-
Earnings before interest and tax (before abnormals)(1)					
Commercial & Consumer	**1,600**	1,593	1,561	**0.4**	2.0
Telstra Business Solutions	**2,288**	2,376	2,156	**(3.7)**	10.2
Telstra OnAir	**832**	732	485	**13.7**	50.9
Wholesale & International	**1,202**	722	567	**66.5**	27.3
Convergent Business	**196**	103	(48)	**90.3**	(314.6)
Network & Technology Group	**245**	289	719	**(15.2)**	(59.8)
Total assets(2)					
Commercial & Consumer	**9,404**	7,731	6,074	**21.6**	27.3
Telstra Business Solutions	**13,797**	12,015	11,009	**14.8**	9.1
Telstra OnAir	**2,312**	842	110	**174.6**	665.5
Wholesale & International	**4,121**	2,776	2,398	**48.5**	15.8
Convergent Business	**1,023**	892	618	**14.7**	44.3
Network & Technology Group	**15,681**	15,123	14,703	**3.7**	2.9

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(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.*

Commercial & Consumer

Commercial & Consumer provides services to more than seven million residential and small business customers. Its primary activities include sales, customer service installation and repairs, billing, and management of our information, connection and payphone services. Commercial & Consumer also has responsibility for building and maintaining the customer access network on behalf of the Network & Technology Group.

Sales revenue decreased during the year due to the competitive residential market in local, international calls and domestic long distance (fixed-to-fixed) revenue. The lower revenue from these areas was offset in part by repriced basic access connection, the continued strong growth in value-added products such as call return and calling number display (shown under local call product revenue) increased fixed-to-mobile revenue and fixed-line voicemail (Messagebank®) included under other sales and services product revenue.

Earnings before interest and tax remained relatively flat as lower sales were offset by decreased internal charges for international calls. Among the many factors which have influenced the segment result, decreased labour expense has been offset by increased contracting costs, and promotion and advertising expense has decreased significantly with the transfer of direct responsibility to Commercial & Consumer in fiscal 2000 from the former business unit of Products & Marketing.

Telstra Business Solutions

Telstra Business Solutions sells and provides customer services for a comprehensive range of products, services and customer-driven solutions from basic telephony to complex voice and data networks. This business unit services medium and large businesses in Australia and New Zealand.

The overall improvement of 2.6% in **sales revenue** was primarily due to increases in areas such as data, text and internet with ISDN having strong growth. Managed services also showed improvement, however, reduced yield impacted international and national long distance calls, whilst preselection reduced fixed-to-mobiles revenue.

Earnings before interest and tax decreased by 3.7% during fiscal 2000 despite increased sales revenue mainly due to:

- higher promotions and advertising costs now incurred directly instead of through the former Products & Marketing business unit; and
- higher costs under service contracts and agreements including billing production costs that were previously charged through another business unit rather than directly to Telstra Business Solutions.

While the current year included a profit on sale of Telstra New Zealand Limited, this was offset by the profit on sale of our small business systems in the prior year.

Telstra OnAir

Telstra OnAir is responsible for sales, customer service, product development, pricing and investment in mobile and wireless communications and managing the launch of our new CDMA digital service.

Sales revenue includes not only product revenue for mobiles goods and services but also international roaming, mobile Messagebank®, mobile data, SMS and other minor services. Revenue form terminating traffic from either our own fixed line or mobile networks or those of our competitors is not included in this business unit. The strong growth in the current year was principally due to:

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- increased access and airtime for originating mobiles traffic for higher services in operation;
- increased prepaid sales;
- higher revenue from international roaming;
- strong growth in SMS; and
- slightly higher handset sales

Revenue from access fees and connection fees declined during the year reflecting that despite increased services in operation, a number of services were connected during periods when the connection fees were waived and access fees reduced.

Earnings before interest and tax for the current year does not include the handset subsidies that have been deferred over the period of the contract where the contract is for two years or more. At 30 June 2000, A$174 million was deferred.

Additional costs during the year included:

- costs associated with the closure of part of the analogue network and the transfer of customers to a digital service;
- the set up and marketing of the new CDMA network and handset requirements; and
- the targeting of customers whose contracts were nearing completion to encourage their continued custom on our network.

Wholesale & International

Wholesale & International provides wholesale products and services to other carriers, carriage service providers and major domestic internet service providers and develops wholesale products and pricing strategies. It also has responsibility for our global wholesale and international retail businesses, including most offshore investments.

The strong **revenue** performance in Wholesale and International was due to growth in the domestic wholesale markets where 33% year on year growth was achieved in fiscal 2000.

Interconnect volumes and revenue increased significantly driven by continuing growth in:

- total market mobiles services in operation; and
- the introduction of fixed to mobile preselection in October 1999.

Local call services resale also grew strongly, as strong competition resulted in a decline in our retail customers with some moving to become part of our wholesale customer base. Growth in other contestable products, particularly broadband and internet related, was also achieved through more market driven pricing and offerings.

As a result of the higher revenue and a containment of costs, **earnings before interest and tax** also grew with other influencing factors being:

- the profit on sale of A$108 million of a proportion of our shareholding in Infonet, which was listed in the US at the end of calendar 1999;
- profit on sale of A$62 million of our operating business to global satellite communications and sale of our interest in the satellite consortium Inmarsat Holdings plc to acquire a 35% interest in the joint venture entity Station 12;
- sale of our interest in Modi Telstra Limited A$27 million;

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- decreases in international settlement rates also contributed to the improved segment result during the period; and
- decreases in operating costs as a result of sale of businesses and assets.

Convergent Business

Convergent Business has a broad range of functions including management and development of our data, internet, e-commerce, directories and multimedia businesses. It also manages our investments in FOXTEL, IBMGSA, Advantra, Computershare Limited, Solution 6 Holdings Limited and Sausage Software Limited.

Sales revenue increased during the period primarily due to the growth in revenue from the Big Pond® Home product and increased revenue from the existing FOXTEL customer base. Directory advertising revenue also increased during the year.

Earnings before interest and tax increased due to:

- A$18 million profit on sale of our 60% equity interest in Lawpoint;
- A$25 million profit on sale of 3.4% of our interest in IBMGSA to take our interest to 22.6% in IBMGSA. At the same time we purchased the remaining 50% interest in Advantra from IBM Australia and Lend Lease;
- A$9 million profit on sale of business to Ecard;
- slowing of new connections to FOXTEL, resulting in reduced charges from Commercial &Consumer and Network &Technology Group who undertake this work on behalf of Convergent Business. The increase in sales revenue also added to the growth in the segment result.

These increases were offset in part by the following:

- goodwill amortisation charge of A$11 million in relation to the acquisition of the 25% remaining interest in Pacific Access in July 1999 and an additional A$2 million for the remaining interest in Advantra acquired during the year; and
- a provision for diminution in investment in Solution 6 of A$16 million.

Network & Technology Group

Network & Technology Group's responsibilities include planning, design, construction and operation of our domestic, international, fixed and mobile telecommunications networks and associated systems to deliver our products, services and customer support. Network & Technology Group is also responsible for technology strategy and the Telstra Research laboratories.

Earning before interest and tax declined in the current year. This was mainly due to additional expenses incurred on year 2000 issues and other information technology development costs that remained with this segment rather than being charged to other areas.

Impact of recently issued US accounting standards

The likely impact of recently issued US Accounting Standards is discussed under note 30 to the financial statements.

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Item 9A: 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 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.

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.

Item 9A: Quantitative and Qualitative Disclosures about Market Risk

Sensitivity analysis

We undertake a sensitivity analysis on our net debt and foreign exchange exposures 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	
	2000	1999
	(in millions)	
	A$	A$
Risk Categories		
Interest rates	**162**	152
Foreign currency rates	**47**	31
Total	**209**	183

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.

Item 9A: 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	
	2000	1999
	(in millions)	
One month holding period	**A$**	A$
Risk categories		
Interest rates	**148**	216
Foreign currency rates	**33**	2
Sub-total	**181**	218
Diversification effect[(2)]	**(27)**	(2)
Total	**154**	216

(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 2000. 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 2000		
	High	**Low**	**Average**
		(in millions)	
	A$	A$	A$
Risk categories			
Interest rates	188	148	172
Foreign currency rates	7	33	12
Sub-total	195	181	184
Diversification effect[(2)]	(6)	(27)	(11)
Total	189	154	173

(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.*

Item 10: Directors and Officers of Registrant

As at 30 August 2000, our directors were as follows:

Directors

Name	Age	Position	Year of initial appointment	Year last re-elected[(1)]
Robert C Mansfield	49	Chairman	1999	1999
John T Ralph	67	Deputy Chairman	1996	1997
Zygmunt E Switkowski	52	Chief Executive Officer, Director	1999	1999
N Ross Adler	55	Director	1996	1998
Anthony J Clark	61	Director	1996	1999
Malcolm G Irving	70	Director	1997	1999
Donald G McGauchie	50	Director	1998	1998
Cecilia A Moar	41	Director	1998	1998
Elizabeth A Nosworthy	54	Director	1991	1998
Christopher I Roberts	55	Director	1991	1998
John W Stocker	55	Director	1996	1999
Stephen W Vizard	44	Director	1996	1998

(1) *Other than the chief executive officer, one third of directors are subject to re-election by rotation each year.*

Mr Hoare retired as chairman during the year and Mr Mansfield succeeded Mr Hoare as chairman. A brief biography for each of the directors as at 30 August 2000 is as follows:

Robert C Mansfield – AO, BCom, FASA, CPA

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 Dimensions 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 and Queensland)

Deputy Chairman
Director and Deputy Chairman since October 1996

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

Zygmunt E Switkowski- BSc (Hons), PhD

Chief Executive Officer
Director and Chief Executive Officer since March 1999.

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

Item 10: Directors and Officers of Registrant

N Ross Adler – AO, BCom, MBA

Director since October 1996.

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

Anthony J Clark – AM, FCA, FCPA, FAICD

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.

Malcolm G Irving – AM, BCom, Hon DLit

Director since July 1997

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

Donald G McGauchie

Director since September 1998

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

Cecilia A Moar – Dip T

Director since September 1998

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

Elizabeth A Nosworthy – BA, LLB, LLM

Director since December 1991

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

Christopher I Roberts – BCom

Director since December 1991

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

Item 10: Directors and Officers of Registrant

John W Stocker – AO, MB, BS, BMedSc, PhD, FRACP, FTSE

Director since October 1996

Chairman, Grape and Wine Research and Development Corporation, 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.

Stephen W Vizard – AM, LLB, BA, FAICD

Director since October 1996

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

The executive officers who are not directors are:

Name	Position	Year appointed to position	Year appointed to Telstra
Bruce Akhurst	Group Managing Director, Legal & Regulatory	1999	1996
Doug Campbell	Group Managing Director, Country Wide	2000	1989
Robert Cartwright	Group Managing Director, Employee Relations	1995	1995
Gerry Moriarty	Group Managing Director, Infrastructure Services & Wholesale	2000	1993
Ted Pretty	Group Managing Director, Telstra Retail	2000	1997
Paul Rizzo	Group Managing Director, Finance & Administration	1993	1993
Dick Simpson	Group Managing Director, Telstra OnAir (including International)	2000	1999

A brief biography of each of the executive officers who are not directors, is as follows:

Bruce Akhurst - BEc (Hons) LLB Barrister & Solicitor
Mr Akhurst joined Telstra in 1996 as General Counsel. Prior to joining Telstra he was a partner and managing partner of a leading Australian law firm.

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

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

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

Item 10: Directors and Officers of Registrant

Ted 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 of one of Australia's leading telecommunications, regulatory and media law firms. Mr Pretty was initially appointed to the position of Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide and then Group Managing Director, Convergent Business.

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

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. The OnAir Division was initially responsible for the mobile and wireless operations but has now been expanded to include most of the International operations.

During fiscal 2000, the following executive officers completed service with us

- Peter Shore, former Group Managing Director, Commercial & Consumer;
- Graeme Ward, former Group Managing Director, Public Affairs & Corporate Marketing; and
- Lindsay Yelland, former Group Managing Director, Telstra Business Solutions.

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.

Corporate Governance

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

Our corporate governance practices continue to develop as the company evolves into a major publicly listed company with a wide shareholder base. While the Commonwealth owns more than 50% 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 Corporation Act 1991). Within these constraints, the board continues to strive to achieve best corporate governance practice.

The board

The board is accountable to shareholders for the business and affairs of Telstra and delegates responsibility for day-to-day management of the Telstra Entity to the chief executive officer ("CEO"). The 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. A casual vacancy to the board may be filled or an additional director up to the maximum number of directors may be appointed, either:

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

The tenure of the chief executive officer 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 following the release of annual results, half-yearly results, the close of our annual general meeting, and at such other times as the board permits. In addition, directors and senior management must notify the company secretary before they or their close relatives buy or sell our securities.

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

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

Corporate Governance

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.
- **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.

Business conduct

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

Business risk

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

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

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

The risk management and assurance function has promoted the common language and approach used by business units in identifying, measuring and prioritising business risks. The Audit Committee receives reports

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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 of the full financial report.

External auditors

In accordance with the Telstra Corporation Act 1991, our Australian auditor is the Auditor-General. In May 1999, Ernst & Young was selected (following a rigorous selection process) to be 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. PricewaterhouseCoopers (formerly Price Waterhouse) was the Australian sub-contractor to the Auditor-General from fiscal 1993 to fiscal 1999 and our auditor for U.S. and other overseas filings from fiscal 1997 to fiscal 1999.

Item 11: Compensation of Directors and Officers

For fiscal 2000, the aggregate amount of remuneration earned by the directors and executive officers as a group was A$17 million. Executive officers refers to not only those who hold these positions as at 30 August 2000 but also those who completed their service with us during the year as described under "Directors and Officers of Registrant".

This amount consists of:

- A$1 million that has been set aside or accrued during fiscal 2000 to provide pension and retirement benefits; and
- A$16 million representing remuneration, other than amounts for pension and retirement benefits.

Executive officers, as shown under "Directors and Officers of Registrant", participate in two incentive plans and amounts paid and accrued under these plans for fiscal 2000 are included in the above remuneration figures.

Emoluments for board members and senior executives and relationship to company performance

Remuneration strategy and relationship to company performance.

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

Non-executive directors' remuneration

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

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

(1) *Other benefits include superannuation*

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DirectShare

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

Senior executive remuneration

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

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

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

Senior executive remuneration components

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

- **Fixed remuneration**

  Total employment cost accounts for the total cost of all fixed remuneration items and is made up of salary, company superannuation contributions and benefits including fringe benefits tax.

- **Variable remuneration**

  Variable remuneration includes an annual incentive and a long-term incentive, both designed to reward managers for performance against set targets.

  - **Short-term incentive**

    The manager incentive plan rewards senior managers for meeting or exceeding specific key business objectives, at the corporate, business unit and individual level. The target incentive was between 18% and 25% of the total remuneration package, depending on the senior manager's role but for fiscal 2001 has been increased to between 19% and 27%. Measures and targeted achievement levels are reviewed each year to reflect changes in the business.

  - **Long-term incentive**

    A long-term incentive plan based on equity (Telstra Growthshare) was introduced in early fiscal 2000 to progressively replace the cash based long–term incentive plan. As a practical result of the Telstra Corporation Act, we are not able to issue new shares and therefore Telstra Growthshare purchases existing Telstra shares. Allocations are in the form of restricted shares and options over existing shares, the right to exercise both of which vests when a performance hurdle is achieved. The performance hurdle is achieved if the average of the Telstra accumulation index on the ASX exceeds the average of the all industrials accumulation index for 30 consecutive days between the third and fifth anniversary of allocation. Options are then exercisable up to 10 years after the original date of allocation. The exercise price is the market price at the time of grant of the options. Restricted shares generally may not be traded for five years after initial allocation of the rights to obtain the shares.

    Offers under Telstra Growthshare are made to managers at the discretion of the board. The number of options and restricted shares offered to each manager has been determined taking

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account of individual performance and other criteria judged relevant by the board. For fiscal 2001 and beyond, generally between 25% and 37% of total senior manager reward is to be delivered through Telstra Growthshare. Cumulatively over a five-year period the total number of shares and options over shares is not expected to exceed 1% of shares on issue.

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

Telstra employee share ownership plans

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

Telstra OwnShare

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

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Senior executive emoluments

Australian Corporations Law 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 2000 is provided in the following table:

Name and Position	Remuneration					Telstra Growthshare[4]	
	Fixed[1]	Variable Short-term[2]	Variable Long-term [2]	Other	Total	Restricted shares	Options
	A$	A$	A$	A$	A$	A$	A$
Zygmunt Switkowski, Director and Chief Executive Officer	1,000,000	400,000	254,000	909	1,654,909	50,000	300,000
Graeme Ward, former Group Managing Director, Public Affairs and Corporate Marketing	435,417	238,064	179,850	1,298,549	2,151,880	-	-
Lindsay Yelland, former Group Managing Director, Telstra Business Solutions	525,000	210,000	121,000	1,177,120	2,033,120	-	-
Peter Shore, former Group Managing Director, Commercial & Consumer	625,000	250,000	130,000	868,328	1,873,328	-	-
John Losco, former Managing Director, Major Account Sales, Telstra Business Solutions	285,562	124,380	165,000	951,206	1,526,148	-	-
Gerry Moriarty, Group Managing Director, Infrastructure Services & Wholesale	810,000	300,000	153,000	909	1,263,909	28,000	160,000

Details of issues to all managers under Telstra Growthshare:

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

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

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

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

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