Directors' Report

This directors' report is required by the Corporations Law of Australia.

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

Principal activity

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

Results of operations

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

This was after:

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

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

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

Review of operations

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

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

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

Directors' Report

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

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

- increased direct cost of sales of A$327 million due to:
  - increased payments made to other carriers to terminate international and domestic outgoing calls and international transit traffic; as well as
  - increased cost of goods sold;
- higher depreciation and amortisation of A$144 million which reflects our higher capital expenditure on the network and increased software capitalisation in prior years; and
- other operating costs increased by A$540 million mainly due to:
  - higher payments made under our service contracts and agreements;
  - increased rental expenses on operating leases;
  - the book value of assets sold was A$195 million higher than in the prior year due to more sales occurring; and
  - higher promotion and advertising.

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

Labour expense declined slightly during the year.

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

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

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

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

- operational capital expenditure requirements that increased by A$464 million to A$4.8 billion. This level of expenditure was driven by our commitment to service both the meeting of demand for services in a more timely way, the elimination of faults from the customer access network that is undergoing a major upgrade and the roll-out of the new CDMA network; and
- cash investments of A$598 million made during the year as a result of a number of changed business requirements and strategic investments.

Events occurring after the end of the financial year

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

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

Directors' Report

- A merger of some of the businesses and assets of Telstra and PCCW to create a 50:50 joint venture operating a global Internet Protocol backbone business (IP Backbone Company). This IP Backbone Company will be a regional and global carrier of voice and data services and PCCW and Telstra will inject debt of up to US$1.125 billion and US$0.625 billion respectively, subject to IP Backbone Company retaining an investment grade rating;
- Telstra will purchase a 40% stake in the mobiles business of PCCW for US$1.5 billion (Wireless Co). Wireless Co is intended to be the primary vehicle for the execution of Telstra's and PCCW's wireless strategy in Asia;
- Telstra will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres throughout Asia. IDC Co will initially focus on core hosting services; and
- Telstra will invest US$1.5 billion (A$2.5 billion) in a PCCW convertible note, which is repayable to Telstra, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

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

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

- Our sale of some of our interest in Computershare Limited in July 2000 has resulted in revenue of A$386 million and a profit before tax of A$187 million that will be taken up in the half-year accounts ended 31 December 2000.
- We have signed a term sheet with Keycorp Limited to build a global full service end-to-end internet payment service provision business in which we will hold a 51% interest for a cost of approximately A$515 million.

Dividends

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

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

Directors' Report

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

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

During the financial year, the following dividends were paid:

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

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

Significant changes in the state of affairs

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

Likely developments

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

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

Details about directors

Retirement of directors

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

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

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

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

Directors' Report

- names of directors and details of their qualifications, experience and special responsibilities are given on pages 118 - 120;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 135;
- details of directors' shareholdings in Telstra are shown on page 135; and
- details of directors' emoluments are given on pages 125 - 126.

Senior executive emoluments

This information is provided on pages 126 - 128 and forms part of this report.

Directors' and officers' indemnity

Constitution

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

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

These indemnities apply to the maximum extent permitted by law.

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

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

For the purposes of these provisions:

- an "officer" means a person who is or has been a director, secretary or executive officer of:
  - the Telstra Entity or one of its wholly owned subsidiaries; or
  - any other related body corporate of Telstra if the person is also a director or employee of the Telstra Entity or one of its wholly owned subsidiaries;
- an "outside officer" means a person who is or has been a director, secretary or executive officer of one of Telstra's related bodies corporate (other than one of its wholly owned subsidiaries) while not an employee or director of the Telstra Entity or one of its wholly owned subsidiaries; and
- an "employee" means a person who is or has been an employee of the Telstra Entity or one of its related bodies corporate who is not an officer or outside officer.

Deeds of indemnity in favour of directors, officers and employees

Telstra has executed deeds of indemnity in favour of:

- directors (including past directors);
- executive officers (other than directors) and certain employees generally; and

Directors' Report

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

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

Directors' and officers' insurance

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

Environmental regulation

Performance in relation to particular and significant environmental legislation

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

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

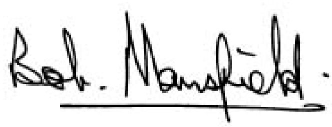
Telstra has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

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

Rounding of amounts

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

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



Robert C Mansfield
Chairman and director
30 August 2000

Directors' Report

Directors' meetings

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

	Board		Committees			
			Audit		Appointments and Compensation	
	a	b	a	b	a	b
R C Mansfield [(1)]	12	11	3	3	1	1
D M Hoare [(2)]	7	6	2	2	1	1
J T Ralph	18	17	5	5	2	2
Z E Switkowski [(3)]	18	18	-	-	2	2
N R Adler	18	16	5	5	-	-
A J Clark	18	18	-	-	-	-
M H Codd [(4)]	6	6	1	1	-	-
M G Irving	18	14	5	4	-	-
D G McGauchie	18	17	-	-	-	-
C A Moar	18	16	-	-	-	-
E A Nosworthy [(5)]	18	18	3	3	-	-
C I Roberts	18	17	-	-	-	-
J W Stocker	18	16	5	5	-	-
S W Vizard	18	16	-	-	-	-

Column a: number of meetings held while a member.
Column b: number of meetings attended.
(1) *Appointed as a director on 12 November 1999 and as chairman of the board on 1 January 2000.*
(2) *Retired as a director and chairman of the board on 31 December 1999.*
(3) *Attended audit committee meetings in the role as chief executive officer.*
(4) *Retired as a member and chairman of the audit committee and as a director of the board on 12 November 1999.*
(5) *Appointed as a member and chairman of the audit committee on 22 February 2000.*

Directors' shareholdings in Telstra

As at 30 August 2000

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

(1) *Some of the directors' holdings were instalment receipts purchased in the Telstra 2 Commonwealth share offering. Instalment receipts give rights to beneficial ownership of an ordinary share once the final instalment is paid. The final instalment is due by 2 November 2000.*
(2) *Includes:*
- *400 shares acquired with an interest free loan and 200 free shares under the terms of the Telstra Employee Share Ownership Plan 1999; and*
- *2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the Telstra Employee Share Ownership Plan 1997 and 200 loyalty shares obtained under the "one for ten loyalty offer" available to all employees who participated in the 1997 public offer.*

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

(This page has been left blank intentionally)