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.

[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 1999 of A$1.00 =US$0.6611. These translations are indicative only and do not mean that the A$ 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
1995	0.7108	0.7412	0.7778	0.7108
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

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

Item 1: Description of Business

Overview

We are Australia's leading telecommunications and information services company with fiscal 1999 revenue of more than A$18 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;
- switched, data, transaction and digital data networks;
- a hybrid fibre co-axial cable broadband network that runs past 2.5 million homes;
- Internet protocol networks; and
- international submarine cables and access to international satellite infrastructure.

We are the largest mobile telecommunications provider in Australia, with a digital GSM network covering over 94% of the population and international roaming to more than 65 countries. We have recently launched a second digital mobile network-based on CDMA technology. We expect our digital CDMA mobile network to provide wide-ranging coverage and high quality service.

Recognising the importance of data services and the Internet to the future and their potential to transform the nature of the telecommunications industry, we are reviewing our business, operations and networks to assess the changes required to enable us to compete effectively in rapidly growing data markets. We have established a single strategic business unit that is responsible for both 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. For example, we are already the largest Internet service provider in Australia, with over 400,000 Internet subscribers at 30 June 1999, 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. This has enabled us to maintain our revenues from our traditional telephony products and services and grow our revenues in these other markets. Over the last several years, we have also focused on our operating efficiency and on changing our corporate culture to be more commercially oriented and more customer focused. Our efforts have included:

Item 1: Description of Business

- enhancing the efficiency of our networks, systems and processes;
- improving work practices; 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 full-time employees, particularly over the last four years. We are committed to continuing our review of areas of the business where we believe cost efficiencies can be gained. Future reductions in full-time staff will follow but are likely to be smaller than have been experienced over the last few years.

To date, our investments outside Australia have been modest. We continue to review opportunities, some of which could be substantial, that interest us both strategically and financially offshore and in Australia.

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. Initiatives include reorganising our business units to serve customer segments more effectively and introducing new products to increase network usage. We also intend to continue to offer a broad range of customer focused product packages. The packages 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 telecommunications and data

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 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; and
- rolling out 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 believe that longer term growth opportunities for our business exist 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 move further into these markets. Growth from converging technologies, products and services could be developed internally or externally by investment in synergistic businesses.

As part of these initiatives:

- we are reviewing our network architecture, which was originally built principally to carry voice traffic but is increasingly required to support an exponential growth in data traffic. This project, called the

Item 1: Description of Business

Data Mode of Operation, will ensure that our networks and systems are appropriately conditioned for a world where data traffic far exceeds voice;

- 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 and to further penetrate the pay television 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. We believe that growth opportunities exist in these markets for carriers that offer commercially attractive terms and conditions and value-added wholesale services such as managed network services. We will shape our wholesale strategy to pursue these opportunities.

We also believe we can increase our revenues and earnings from outside Australia by:

- strengthening our ability to provide seamless delivery of products and services to internationally oriented companies by expanding our presence in key markets;
- increasing participation in the wholesale delivery of international traffic, particularly to markets where our infrastructure or traffic patterns give us a competitive advantage over other international carriers; and
- pursuing selected international investment, acquisition and alliance opportunities generally and, in particular with enterprises engaged in mobile telecommunications, data, the Internet or content-based businesses. Currently, we are in discussions concerning the possible acquisition of an interest in a Malaysian telecommunications company, DIGI Swisscom Bhd, although no agreement has been reached. Significant work remains to be done and the terms of any acquisition will be subject to board approval.

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 also are 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

Item 1: Description of Business

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 two years and at 30 June 1999 there were approximately 30 licensed carriers, 50 carriage service providers and 700 Internet service providers competing in Australia.

While this environment presents significant challenges for us, we believe it also provides new opportunities for us and our strategy is designed to take advantage of these opportunities. We have greater competitive flexibility under the current regulatory regime than we had under the earlier legislation as the changes allow us to structure our products, marketing and pricing in a more commercial fashion. 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. Currently, we continue to be the market leader in all our main businesses.

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. 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.

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 and Consumer Commission and the Australian Communications Authority oversee the overall regulatory framework and over the last two years have increased their level of activity in telecommunications markets, including in some highly competitive markets. For example, the ACCC has issued a number of competition notices to us, and commenced legal proceedings against us, alleging that we are acting anti-competitively and has recently mandated that we provide our competitors with access to a range of wholesale services, including unconditioned local loop and local call resale.

Organisation

Our internal organisation structure continues to evolve to meet the needs of the market environment in which we operate. Before 1 July 1999, we had five strategic business units for financial reporting purposes. These units comprised Commercial & Consumer, Business & International, Products & Marketing, Network Technology Group & Multimedia and Carrier Services Group. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Segment Reporting" for a discussion of the financial performance of our reportable segments during the last three fiscal years.

In the second half of fiscal 1999, we announced changes to our organisation structure which focus on our main areas of potential growth, data and Internet and mobile communications, and segregate our wholesale and international businesses into a separate business unit to bring together our domestic and international wholesale operations. We have also streamlined our operations by integrating the Products

Item 1: Description of Business

& Marketing Group with the customer-facing business units. Under the new organisation structure, we assigned responsibility for brand image and corporate marketing to our Public Affairs & Corporate Marketing Group. Our Legal & Regulatory Group now has responsibility for all regulatory issues. Our new structure, which took effect on 1 July 1999 for financial reporting purposes, is outlined below.

Strategic business units

- **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 payphones services. Commercial & Consumer also has responsibility for building and maintaining our customer access network on behalf of the Network & Technology Group.
- **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.
- **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.
- **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.
- **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, IBM Global Services Australia and Advantra, and our recent 5% equity investment in Computershare Limited.
- **Network & Technology Group** is responsible for 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.

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. We will review the possibility of divesting this operation in the future. It will compete for some of our annual network expenditure against other suppliers, and will also perform construction activities for others, including other telecommunications companies. The commercialisation of NDC is aimed at lowering the cost of 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, 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.

Item 1: Description of Business

- **Employee Relations** manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programmes.
- **Public Affairs & Corporate Marketing** manages corporate and brand advertising, sponsorship, market research, pricing strategy as well as public policy and corporate and government affairs.

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; and
- product design and support.

We own and operate over 80 shops nationwide that sell a range of consumer telecommunications products, including mobile telecommunication services. We also sell our services through external channels consisting of third party retail stores, dealers and independent contractors.

Residential customers and small businesses

We have approximately seven million residential and small business customers. We segment our residential customers into four life-stage segments which allows 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 which 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 will allow rapid resolution of customer enquiries and assist sales consultants to sell appropriate products and packages to meet customer needs.

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

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

Item 1: Description of Business

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 the most cost effective manner.

International businesses

We offer multinational corporations and small and medium-sized exporters a single source of telecommunications services. We have international sales and technical professionals in Australia and overseas. We have installed facilities in the United Kingdom, New Zealand, Japan and Hong Kong and we propose to establish further facilities in North America and other countries in Asia and Europe.

Mobile telecommunications customers

Telstra MobileNet® currently offers mobile services on both our GSM digital and our AMPS networks. The AMPS network will soon be replaced by our new CDMA network. 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 also sold to businesses and residential customers through more than 1,700 corporate and dealer outlets nationwide. We also have relationships with two independent contractors which bill and service some of our customers. We pay the independent contractors a connection commission and a percentage of revenue from these customers.

Directory services

We distribute White Pages™ directories and Yellow Pages® directories to virtually every household and business in Australia. 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 AltaVista Australian site and a street atlas service called WhereIs™. We are developing a range of other electronic commerce and Internet products and services based on our directory products.

Pay television

We own 50% of FOXTEL which 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.

Item 1: Description of Business

Wholesale customers

We have established a dedicated group to serve the specific needs of our wholesale customers. 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 regulatory framework and by the commercial importance of this growing market. 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 limited automated interfaces to our systems, international Internet protocol voice services, CDMA resale services and tailored wholesale billing.

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.

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 which 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.

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.

Demand for residential basic access lines is driven by housing growth and customer requirements for second 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 second 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 second lines has in some cases been limited by existing capacity in our customer access network, we market second 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. In addition, we are now selectively upgrading our customer access network. We expect that this will help us reduce the number of faults that occur in our customer access network and provide our network with additional capacity for second line growth. We are investigating technologies such as DSL and CDMA to enhance capacity to meet retail and wholesale market demand and are implementing satellite technologies to service rural and remote areas.

Item 1: Description of Business

Table 1 - Operating revenue by major product and service category

	Year ended 30 June					
	1999		1998		1997	
	(in millions, except percentages)					
	A$	%	A$	%	A$	%
Basic access	**1,855**	**10**	1,770	10	1,740	11
Local calls	**2,727**	**15**	2,664	15	2,664	17
National long distance calls	**2,775**	**15**	2,594	15	2,455	15
International telephone services	**1,103**	**6**	1,380	8	1,342	8
Mobile telecommunications services	**2,538**	**14**	2,154	13	1,981	12
Data, text and Internet services	**2,483**	**14**	2,197	13	1,932	12
Directory services(1)	**1,078**	**6**	1,029	6	723	5
Customer premises equipment	**368**	**2**	538	3	576	4
Intercarrier services	**617**	**3**	582	3	558	3
Inbound calling products	**400**	**2**	337	2	309	2
Payphones	**207**	**1**	225	1	248	2
Other sales and services	**1,420**	**8**	1,233	7	902	6
Sales revenue	**17,571**	**96**	16,703	96	15,430	97
Other revenue(2)	**647**	**4**	599	4	553	3
Operating revenue	**18,218**	**100**	17,302	100	15,983	100

(1) *We did not consolidate a part of our directories business before fiscal 1998.*
(2) *Our other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.*

Local calls

We currently provide local call services to nearly all the residential market and a substantial majority of businesses in Australia. We generally charge for local calls on an untimed per call basis. 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 are designed to increase the number of calls they make. These include messaging services, call waiting, call forwarding, calling number display and call return.

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 wholesale 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 calls made between 7:00 pm and midnight each week-night. Capped price calls have increased call minutes and significantly improved customers' perceptions about the price and value of our long distance service.

Item 1: Description of Business

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. We have recently introduced Easy 1/2 Hours® where customers 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 use our services more.

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 1999, 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
New Zealand	15	20
United States	13	21

(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. The current international settlements structure has recently come under pressure from increased competition and from initiatives by the United States Federal Communications Commission to lower accounting rates.

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

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.

We also provide international carriers with services to carry transit traffic through our network from one country to another country. In such cases, we act as an intermediary and charge a transit fee for this refile traffic.

Mobile telecommunications services

We are the leading provider of mobile telecommunications services in Australia in terms of 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 35% at 30 June 1999. We also provide our customers with a range of information services.

Item 1: Description of Business

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:

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

GSM digital service

Our digital GSM network covers more than 94% 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.

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

- voicemail;
- call waiting;
- call forwarding;
- mobile facsimile and data services;
- operator assisted paging;
- operator through connect;
- short message services;
- financial and sports information services; and
- international roaming in more than 65 countries.

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

We offer our GSM digital customers different pricing options which 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 charge customers an activation fee.

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

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

Analogue service

We operate the only AMPS mobile telecommunications network in Australia. At 30 June 1999, our AMPS network covered approximately 94% of the Australian population. As required by regulation, we have sold AMPS mobile telecommunications services to Cable & Wireless Optus for resale. We categorise the revenue we receive from Cable & Wireless Optus for these services as intercarrier services revenue.

Item 1: Description of Business

We are progressively closing our AMPS network as required by law. We will close all metropolitan and 130 non-metropolitan AMPS sites by 31 December 1999. We will close the remaining non-metropolitan sites by 31 December 2000.

We will continue to invest considerable resources and develop targeted programmes to offer and encourage our analogue customers to switch to our digital GSM service and, when it is introduced, to our new digital CDMA mobile service.

CDMA digital service

We are in the process of establishing a new mobile telecommunications network based on CDMA. In fiscal 1998, we purchased 800MHz spectrum to operate our CDMA digital mobile network. The 800MHz spectrum is the spectrum we previously used for our AMPS network. We believe that our new CDMA network will:

- provide similar coverage to that provided by our AMPS 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 launched our CDMA service in the first half of fiscal 2000 into areas covered by our AMPS network that we are required to close by 31 December 1999. We then plan to offer our CDMA service in the remaining areas covered by our AMPS network beginning in the second half of fiscal 2000. We will initially offer dual band handsets that will allow customers to roam between our AMPS network and our new CDMA network.

Data, text and Internet access services

We provide a wide range of data services to customers in Australia and selected overseas markets. We also provide facsimile products and services.

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 data services offered through global or bi-lateral agreements with international partners including:
  - leased services;
  - frame relay and packet switched services; and
  - Internet protocol services offered through alliances with international partners.

The services we provide vary in bandwidth and also in the degree of network management and network redundancy provided. Different customers require different levels of network availability. 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.

Item 1: Description of Business

LAN/WAN services

We offer a wide variety of local and wide area network 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 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 Internet services to residential and business users. Big Pond® Direct provides larger retail and wholesale customers with dedicated Internet access within Australia at different transmission rates. Big Pond® Intranet enables our customers to construct their own intranets. Big Pond® Advance provides broadband Internet services through cable and satellite.

We also build "extranets" for corporate and business customers which extend their intranets to other authorised users. Our DialConnect® service provides Internet protocol dial access to corporate 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.

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

Transaction services and e-commerce

We offer low speed, packet switched data services designed mainly for transaction services. For example, we provide end-to-end connections for electronic funds transfer applications. We also supply dial-up and leased line transaction services. We are trialing a replacement for our current transaction platform which may enable us to offer a more flexible service at reduced cost.

We offer a range of transaction services designed specifically for an Internet protocol environment both in Australia and overseas. These services provide customers with catalogue, procurement and financial settlement capabilities through their websites or corporate procurement systems.

Other data services

We offer other data services, in some cases with 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.

Item 1: Description of Business

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 and storing facsimiles;
- retrieving stored facsimiles; and
- forwarding facsimiles to alternative locations.

In addition, our FaxStream® Duet® service supplies customers with multiple numbers 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. Some of our high-volume customers, however, are changing to alternative technologies, such as e-mail.

Directory services

We are the main provider of directory services in Australia through our controlled entity Pacific Access Pty Ltd. In 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. Each telephone subscriber receives one free listing of name, address and telephone number in the White Pages™ directories and can purchase special listings, such as bolded print, or pay for an unlisted number. Businesses can 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 AltaVista® Australia site (www.altavista.yellowpages.com.au); and
- the street atlas site WhereIs™ (www.whereis.com.au)

Our White Pages™ directories portfolio includes various new media products, including Internet and CD ROM products. We also offer our NetSelect™ product that allows businesses to list details of their products to facilitate on-line shopping. We are developing a range of other electronic commerce and Internet products and services based on our directory products.

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; and
- installation and maintenance of 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.

Item 1: Description of Business

Intercarrier services

In addition to providing services for resale, we provide a range of other services to carriers. 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;
- transmission services, including switched services and leased lines;
- data access services;
- international services;
- analogue mobile telecommunications services; and
- systems maintenance and billing services.

We do not provide GSM telecommunication services as a wholesale product but will commence providing CDMA telecommunication services on a wholesale basis during fiscal 2000.

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 local call rates 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 local call rates 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 are developing facilities managed services to provide to our business customers. We also supply a range of products that offer alternative billing options, including prepaid cards, automated reverse charging and calling cards.

Payphones

We are the leading provider of payphones in Australia. As at 30 June 1999, we operated approximately 36,000 public payphones. Other operators had approximately 42,000 coin-only payphones under equipment sale or lease arrangements with us. Our universal service obligation 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.

We have upgraded most of our public payphones to accept smartcards with embedded computer chips. Specific smartcards have a reload capability. These reloadable smartcards and other Telstra smartcards are on trial today in selected locations for use as electronic cash payments in vending machines and point-of-sale devices.

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.

Item 1: Description of Business

We provide information and connection services through 60 call centres in Australia. In fiscal 1999, we responded to over 520 million calls with the majority of these basic operator services being provided without charge to the customer. We cannot charge or amend charges for our directory assistance services without the approval of the Communications Minister. We have also introduced an innovative new product that, for a set fee, automatically connects our customers directly to the number about which they have enquired.

Pay television

We own 50% of FOXTEL, Australia's largest pay television provider. FOXTEL currently provides over 30 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. In December 1998, Publishing and Broadcasting Ltd exercised an option to acquire 50% of The News Corporation Limited's interest in FOXTEL. As a consequence, each of PBL and News Corporation now have 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.

There are a number of issues in FOXTEL on which the partners have a difference of view including equalisation of ownership interests and the treatment of some sports programming.

FOXTEL has entered into various programme supply arrangements, including some with minimum subscriber commitments. At 30 June 1999, the amount of FOXTEL's commitment discounted to present value was A$1,850 million. To the extent that FOXTEL does not meet these commitments, the FOXTEL partners are jointly and severally liable for the short-fall.

We are the exclusive long-term supplier of cable distribution services for FOXTEL's 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 to anyone else unless we are required to do so by law. We can, however, 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 Austar. FOXTEL has licensed movie programming to Austar for satellite delivery on an exclusive basis and therefore may not provide a satellite service containing this programming in areas serviced by Austar.

The FOXTEL partners have committed to confine their involvement in the provision of pay television services in Australia to participation in FOXTEL, with a limited exception for small interests in other entities.

International investments

A component of our strategy is to provide seamless delivery of products and services to multinational companies. We are pursuing a number of options to achieve this goal.

- We have established sales and service offices in Asia, North America and United Kingdom/Europe to serve our multinational customers.

Item 1: Description of Business

- We are establishing facilities based points of presence in Asia, Europe and the United States and investing in mobile communications, directories and telecommunications infrastructure in those regions. Initially, we have installed facilities in the United Kingdom, New Zealand, Japan and Hong Kong, with planned facilities in South Korea, the United States and other Asian and European countries expected to follow.
- We have recently entered into a global service provider agreement with Infonet Services Corporation, in which we have a 8% equity interest, that will allow us to expand our global service offerings to our multinational customers.
- We continue to focus on our New Zealand operations and are continuing to expand our product and service offerings for this market to better meet the needs of customers. Options we are exploring to achieve this objective include network rollout and, where appropriate, strategic alliances and acquisitions. We currently have interconnect arrangements and, where appropriate, reseller arrangements with each of the major carriers in New Zealand.

We also have some investments in Asia, including:

- a business co-operation contract, which will be scaled down in October 2000 and cease altogether in March 2002, if not extended, with the Vietnamese Government carrier, VNPT, to expand and upgrade Vietnam's international network;
- an interest in a digital mobile telephone network in Calcutta and a joint venture to operate a mobile telephone network in Sri Lanka;
- a meshed satellite based voice and data network and a network management system in India; and
- an interest in a Build-Operate-Transfer venture to operate existing regional basic services and to install 350,000 additional lines in Central Java in Indonesia.

To date, our investments outside Australia have been modest. We continue to review opportunities, some of which could be substantial, that interest us both strategically and financially offshore and in Australia.

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 management support our networks. We are currently centralising the operational management of our core networks by establishing a single global operations centre. The new 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 AMPS network. We have also recently completed 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.

Item 1: Description of Business

In addition to our capital expenditure programme, we spent A$34 million in fiscal 1999, A$43 million in fiscal 1998 and A$58 million in fiscal 1997 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. We anticipate that data traffic in our domestic network will exceed voice traffic within the next two-to-three years. We are currently undertaking a key initiative called Data Mode of Operation 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.

As part of our DMO project, we are 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.

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

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 2.8 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 recently 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.

Our international transmission 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 which is scheduled to be in service in fiscal 2000. This cable links Asian countries and Australia with the Middle East and Western Europe.

We have been admitted as an initial party to the China-U.S. cable consortium which plans to link some Asian countries to the west coast of the United States. We expect this cable to be in service in fiscal 2000. We have also been admitted as a party to the Japan-U.S. cable consortium which plans to link Japan to the west coast of the United States. We expect this cable to be in service in calendar 2000.

Item 1: Description of Business

In addition, we are conducting feasibility studies related to our possible new cable from Australia to Japan, and are participating in the planning of a possible new cable called APCN 2 which is proposed to connect a number of Asian countries.

We are a small shareholder in two of the international satellite operators, INTELSAT and INMARSAT. 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. Recently, we entered into an agreement in principle allowing us exclusively to undertake due diligence and negotiations in relation to the possible acquisition of an equity interest in Skybridge L.P. and the acquisition of regional service provider rights for Skybridge services in Australia, New Zealand, certain South East Asian countries and other regions. Skybridge is a next generation low earth orbiting satellite constellation which is currently expected to commence service in 2002 and will enable broadband services to be delivered by satellite.

Public switched telephone network

Our PSTN is fully digitalised and connects virtually all Australian homes. It concentrates traffic from about 8,600 access sites to approximately 200 digital nodal switches across Australia. Our transmission infrastructure connects these digital switches and our two international gateway switches. 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 unseasonal weather, has 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.

In 1998, we announced a project called CAN 2001 to reduce the level of faults in our customer access network. This project is focused on improving the quality and reliability of our customer access network and reducing operating expenses.

We are considering the use of various technologies that may be used in our customer access network in the future, such as hybrid-fibre co-axial cable, xDSL, satellite and CDMA. The purpose of this review is to enhance our ability to accommodate the demands of wholesale access, second line demand, residential and business growth in urban areas and rural and remote networks. We also believe that improving the quality of our customer access network will help us to retain our customers, increase our operating efficiency and develop and deploy new products and technologies.

We are upgrading and augmenting 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

Item 1: Description of Business

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.

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 local 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 1999, 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; 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 additional intelligent network platforms that provide a range of enhanced features that support our MobileNet® products and a selected range of services provided by our controlled entities in the United Kingdom and New Zealand.

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 are moving selected services to commercially sourced platforms. This will expand the range of integrated customer services we can provide at reduced operational cost. However, it is unlikely that these savings will be realised before fiscal 2002.

Item 1: Description of Business

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 2 megabits per second; and
- asynchronous transfer mode services supporting access rates from 2 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 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 are 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 national and remote Internet users.

We also provide dedicated Internet access services under the brands of Big Pond® Direct and Big Pond® Advance. 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. We are evaluating the speed at which we deploy new broadband access technologies in fiscal 2000 using ADSL.

We have recently installed a major connection point on the west coast of the United States that substantially lowers the cost of carrying traffic to the U.S. This traffic route dominates our international connections with over 92% of all our international Internet traffic being carried between Australia and the U.S.

Item 1: Description of Business

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 two networks for the provision of mobile telephone services that cover more than 94 per cent of the Australian population. Our existing digital network uses the GSM protocol and spectrum in the 900MHz and 1800MHz bands. As at 30 June 1999, our GSM digital network had 32 mobile switching centres, 14 home location registers and 2,689 base stations. We are continuing to expand GSM coverage into regional centres and along highways linking those centres. We are also continuing to focus on improving depth of coverage in major cities, particularly in-building and underground coverage, such as in underground railway stations.

Our analogue network uses the AMPS protocol and spectrum in the 800MHz band and at 30 June 1999 had 41 switching centres and 1,349 base stations. By law, we are required to close all metropolitan and 130 non-metropolitan AMPS base stations by 31 December 1999 and the remaining non-metropolitan base stations by 31 December 2000.

We are in the process of rolling out a second digital mobile telecommunications network based on CDMA technology. This network operates in the 800MHz band which our AMPS network has been using. We expect that the CDMA network will provide coverage in rural areas similar to that provided by the AMPS network and will also provide coverage in urban areas, which will help relieve potential congestion on our digital GSM network.

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;
- providing more flexible and detailed billing; and
- reducing the overall costs to us.

To achieve this strategy, we are:

- rationalising our existing systems and the related processes;
- developing and deploying new systems and processes;
- implementing new management disciplines; and
- outsourcing certain of our information technology functions.

We have recently invested in many new systems and processes in the following six principal areas:

- sales;
- customer ordering and provisioning;
- billing and credit management;
- service assurance;
- workforce management; and
- back office processes.

Item 1: Description of Business

We have aligned our provisioning and billing databases and taken steps to improve validation of data entry. We believe that this will help us reduce service order rejects and billing anomalies. We are also introducing 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.

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, which 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

Allegations have been made but not proven and a claim has been filed against us in the District Court of New South Wales alleging that mobile telecommunications equipment may pose health risks due to emissions of electromagnetic energy from mobile telecommunication devices. We obtained a judgment in our favour in relation to that claim.

Typically, the maximum level of energy involved at ground level in the transmission from our mobile telecommunications base stations is approximately 100 times less than the public exposure level permitted by Government legislation.

Currently, the weight of national and international scientific opinion is that there is no substantiated evidence of adverse public health effects from radio signals at typical community levels. However, this evidence has not prevented lawsuits from being initiated against providers of mobile telecommunications services. Occasionally, studies are reported suggesting avenues for further research.

The Government has established a Committee on Electromagnetic Energy Public Health Issues to advise on the issue. The Government has also established a public information and research programme to support further studies, which is funded by a levy on holders of radio-communications licences.

Information technology alliances

In July 1997, we acquired a 26% equity interest in IBM Global Services Australia Limited, also owned by IBM Australia (51%) and Lend Lease (23%) and outsourced our data centre operations and some of our applications maintenance and enhancement activities to IBM Global Services Australia for 10 years. We have engaged IBM Global Services Australia to provide services during the contract period. We can terminate the agreement for services after 2001, subject to payment of potentially significant financial penalties. If we do so, IBM and Lend Lease may require us to exit our investment.

We have formed a network services joint venture company, Advantra Pty Limited, with IBM Australia and Lend Lease. We own 50% of Advantra, IBM Australia owns 30% and Lend Lease owns 20%. Advantra supplies network facilities management, network systems integration services and supplies network application services to major business and government customers in Australia. Advantra also supplies network services to IBM Global Services Australia's customers across Australia.

Item 1: Description of Business

Sydney 2000 Olympics

We are a "Team Millennium Olympic Partner" of the Sydney 2000 Olympic Games and a worldwide partner of the Sydney 2000 Paralympic Games. We have been selected to provide the combined telecommunications infrastructure for fixed and mobile telephony, data, broadcast and print media including the carriage of high definition television. We believe that these partnerships will reinforce the Telstra brand in Australia and enhance our image overseas.

Jindalee Operational Radar Network

In June 1991, we entered into a contract with the Commonwealth to establish the Jindalee Operational Radar Network. The JORN project has not been profitable for us. In February 1997, we entered into arrangements with Lockheed Martin Corporation and Tenix Defence Systems Pty Ltd to manage the JORN project to completion on our behalf. We expect that the project will not be completed until 2001. We have made allowance for our ongoing obligations in relation to the JORN project. We have fully provided for our expected losses through to the completion of the project. We have the right, on certain events happening, to require Lockheed Martin and Tenix to assume full responsibility for the JORN project.

Employees

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

	As at 30 June			
	1999	1998	1997	1996
Full-time employees	**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, although only modestly in fiscal 1999 mainly due to an increase in temporary employees for our year 2000 work and other contracted information technology personnel. These figures also 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.

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 25,200 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. We have been reviewing 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 are re-designing our policies and processes to complete the transition from public service practice to systems which prompt and reward commercial competitiveness;
- we are simplifying excessive workplace regulation to give our managers more discretion, by simplifying industrial awards that govern some of the terms and conditions of employment of many of our employees and rationalising industrial agreements with unions. We have already terminated many of these agreements and plan to terminate all the remaining agreements that are no longer relevant to our business. The unions oppose some of our initiatives which will see the Australian Industrial Relations Commission arbitrate the outcome where it has the power to do so;

Item 1: Description of Business

- we intend to maximise the productivity benefits from the increased management and workforce flexibility provided in our enterprise agreement and customer field workforce agreement which both operate for two years from 21 December 1998. A separate enterprise agreement has applied since December 1998 for our network design and construction business, which generally mirrors our enterprise agreement, but includes additional workplace changes. Examples of the reforms we are implementing as a result of these agreements include:
  - elimination of traditional demarcations between parts of our workforce, creating one customer field workforce and a standard rate of pay for each level of work;
  - standardising hours of work and shift arrangements;
  - removing restrictions and quotas on numbers and types of part-time staff;
  - progressive implementation of one standard job evaluation system;
  - performance-based compensation; and
  - elimination and rationalisation of special allowances.

During fiscal 2000 we plan to negotiate at least two more workforce agreements to extend to other employees the job evaluation and salary system introduced for the customer field workforce. We also intend to employ more of our managers and critical technical specialists under individual performance-based contracts rather than under award conditions.

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.

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.

Item 1: Description of Business

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 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 to resell our 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. Local number portability may further accelerate the development of facilities based competition in these markets.

Because of a recent ACCC decision, we will be required to unbundle access services and to offer local loop access and local call services at prices which can be arbitrated by the ACCC and may therefore be reduced. This may provide 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 which 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 second 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.

Our larger 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; and
- One.Tel.

Item 1: Description of Business

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 1999 was approximately 35%.

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 AMPS mobile telecommunications network is closing, we and other digital service competitors are seeking to move analogue customers to digital services. To encourage movement to our digital services, we have developed targeted programmes and offerings. Other digital service competitors are also targeting these customers. The regulatory regime assists these competitors by requiring us to provide analogue-to-digital call diversion.

Item 1: Description of Business

The availability of spectrum will determine, in part, the number of mobile telecommunications carriers. Existing carriers, including ourselves, and new entrants like Hutchison and One.Tel, acquired 800MHz and 1800MHz spectrum at recent public auctions. We are planning to provide competitors with CDMA service for resale and provide CDMA roaming to competitors with regional CDMA networks. The ACA has proposed future spectrum auctions of various frequency bands, including 800MHz and 1800MHz, suitable for mobile telecommunications. The Communications Minister may make rules which limit our ability or the ability of others to participate in these auctions.

The industry regulators are currently considering whether it is necessary to encourage further competition in this market through possible developments, such as a requirement that carriers provide digital mobile customers with preselection and the introduction of number portability in the digital mobile service market. 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 services

For Internet services, competition is generally based on price, speed and availability of access and associated information or transaction services. The Internet service provider market in Australia is highly competitive, with over 700 competing service providers. Our key competitor in this market is OzEmail. Other competitors include Cable & Wireless Optus/Microplex, America OnLine, AAPT Connect.Com, Liberty One Online and One.Net.

We are the largest Internet service provider in Australia. At 30 June 1999, we had over 400,000 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;
- the growing range of available information and transaction services; and
- development of new products.

Item 1: Description of Business

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.

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, while recovering our costs and optimising commercial outcomes.

The degree of competition in wholesale markets varies by product. To date, we have faced limited competition in the domestic wholesale access and local call markets. However, 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 500,000 subscribers, including satellite customers, as at 30 June 1999. 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 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.

Item 1: Description of Business

The ACCC has recently made a new broadband access declaration declaring an analogue specific television access service. As a result, two potential competitors have sought access to our broadband cable network notwithstanding our exclusive cable delivery arrangements with FOXTEL. The ACCC may also challenge the exclusive nature of these arrangements. 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 the last two 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.

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 to give binding directions to Telstra to take specified action towards ensuring that Telstra complies 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 the powers of Telstra as appear to the Minister to be necessary in the public interest.

Item 1: Description of Business

The Australian Competition and Consumer Commission administers the Trade Practices Act 1974 (Cth). 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 Australian Communications Authority 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;
- preselection, numbering and number portability;
- the universal 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.

The industry also self-regulates through codes and standards

Bodies that represent one or more sections of the industry, such as the Australian Communications Industry Forum may develop industry codes governing activities of carriers, carriage service providers and other industry participants.

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 Telecommunications Access Forum, 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 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.

Item 1: Description of Business

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.
- 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.

Item 1: Description of Business

Over the last two 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 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 (four of which remain in effect) claiming that we have 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 is currently the subject of Federal Court proceedings as discussed in "Legal Proceedings".

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 participants 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 which would prejudice substantially the interests of any person.

Record-keeping rules

The ACCC is developing new record-keeping rules. These are accounting rules which 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. We may also be required to report on detailed cost and revenue information in relation to specified geographic segments of certain services and on the usage of key assets related to certain declared 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

Item 1: Description of Business

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

A review of the industry specific competition regulation must be initiated before 1 July 2000 to consider whether the provisions should be repealed or amended. The review is expected to commence early in calendar 2000 and to finish in December 2000. The Government has not ruled out the introduction of additional regulation. The terms of reference are likely to cover a review of Parts XIB and XIC of the Trade Practices Act and the competition provisions in the Telecommunications Act.

Retail price restrictions

The Government has set retail price controls on some of our services and groups of services which apply from 1 July 1999 to 30 June 2001. The Government is considering an adjustment to the price controls for fiscal 2001 as a result of the introduction of the goods and services tax and the Government's policy that business should be permitted to pass on to customers the impact of the goods and services tax.

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 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, trunk calls and international calls. This change provides scope for rebalancing line rentals and call charges.

A cap of CPI minus 1% applies to a basket of services for residential customers which 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.

Item 1: Description of Business

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. 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
- 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. We have notified the Communications Minister that we intend to commence charging for directory assistance services for business customers and mobile telecommunications customers and the Communications Minister has indicated that he will not disallow our charges.

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 Trade Practices Act 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.

Item 1: Description of Business

Services which are 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 declared the following services:

- originating and terminating access for domestic PSTN, ISDN, GSM and AMPS-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 AMPS numbers to the customers' new GSM-based numbers; and
- an analogue broadcasting access service for the supply of a broadcasting service provided by cable networks and related elements such as conditional access functionality ("existing broadband access declaration").

In July 1999, the ACCC decided that the following services should become declared services:

- an "unconditioned local loop 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); and
- local carriage services (in effect, this is local call resale).

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 Optus, AAPT, Primus and Macquarie Corporate Telecommunications.

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; and
- the direct costs of providing access.

Item 1: Description of Business

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

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

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

In conducting an access arbitration, the ACCC may make an interim determination which will bind the parties during the course of the arbitration, including on important matters such as access price. The ACCC can engage in a very brief review of the merits of an access dispute and make an interim determination binding on the parties. 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. 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, 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 which 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 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 which 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.

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.

In June 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

Item 1: Description of Business

USO cost and access deficit) an efficient firm will incur in providing such access is around two cents per minute. 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, and our current charges to wholesale customers. Although the view expressed by the ACCC is not binding on us, it is indicative of the costs and methodologies the ACCC may apply in determining pricing for access to our PSTN.

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 may make a binding decision as to the pricing of these access services;
- the ACCC may reduce our ability to recover the access deficit through wholesale charges as a result of recent amendments to price control regulations; 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.

Carrier-to-carrier access obligations

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

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

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

Carriers must also comply with the Facilities Access Code issued by the ACCC in relation to access to underground facilities and certain towers and sites. Amendments to the legislation enable 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 Telstra, are carriage service providers.

Subject to the comments below, under the existing broadband access declaration, broadcasters and others may claim access to our broadband network and related functionality to deliver their services at prices which, in the absence of agreement, would be arbitrated by the ACCC.

Our view is that the existing declaration is legally invalid. The ACCC asserts that the existing declaration is valid, but in August 1999 the ACCC made a new broadband access declaration which declares an analogue specific subscription television access service limited to line links (“new broadband access declaration”). This is essentially the same basic carriage service as the existing broadband access declaration. In our view, in these circumstances the validity of the new broadband access declaration is also in doubt. The ACCC has decided not to declare a digital service at this stage.

A carrier or carriage service provider is not required to supply a declared service if doing so would deprive any person of a “protected contractual right”. FOXTEL has some exclusive contractual rights to access our

Item 1: Description of Business

broadband network to supply pay television. Further, under our agreement with FOXTEL, we may not provide a broadcasting access service to any person using set-top unit functionality unless that service includes particular bundled functionality. These FOXTEL rights are, in our view, protected contractual rights, although the ACCC and some of FOXTEL's competitors may have a different view.

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 which 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 AMPS 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 AMPS, when AMPS is phased-out.

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.

Item 1: Description of Business

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; or
- the installation is carried out before 1 July 2000 for the sole purpose of connecting a building to a network that was in existence on 30 June 1997.

If we engage in these activities, we must restore land and pay compensation to land owners. 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 agreement of the relevant land owner 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 rules about number portability for:

- local services (excluding paging) by 1 January 2000, with limited portability being available by 30 November 1999;
- freephone (e.g. 1800) services by 16 November 2000; and
- local rate (e.g. 13) services by 16 November 2000.

We currently only provide portability to Optus for local call services which are single line services.

ACIF is currently finalising a code which sets out operational procedures for the implementation of local number portability processes, and a network plan which sets out inter-network arrangements.

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.

Optus has lodged a dispute in respect of the manner in which we route calls to ported numbers. The dispute is currently being arbitrated by the ACCC. The issue is also being raised in industry forums.

Item 1: Description of Business

The Communications Minister may make a number portability pricing principles determination which would govern any arbitration. However, no such determination has been made. In June 1999, the ACCC issued a paper setting out pricing principles which it would be inclined to apply if it was 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.

Requirement of full number portability

The ACA has issued criteria which it says it will use to assess whether number portability being provided by a carrier allows the customer to receive "equivalent service" and thereby satisfies the requirement of full number portability. We are currently assessing the implications of that paper. We will be required to demonstrate that our number portability service satisfies these criteria by 31 December 1999. If our proposed number portability service is found to be inadequate, we may need to incur substantial additional capital costs to implement an adequate system.

Pricing principles with respect to inbound (freephone and local rate) number portability have not yet been issued.

Mobile number portability

In May 1999, the ACCC issued a discussion paper to identify issues relevant to whether or not it should mandate portability for mobile telephone numbers. Compliance with any such requirement could require significant capital expenditure and the resolution of numerous technical issues. We might not be able to recover our costs of providing mobile number portability in full from other carriers or carriage service providers. We have lodged a submission in response to the ACCC's paper generally supporting mobile number portability, subject to the resolution of a number of technical and related issues.

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 AMPS network closure

Subject to limited exceptions, we are required by law to close our AMPS mobile telecommunications network by 31 December 1999. Neither we nor any other carrier may install or operate any other AMPS mobile telecommunications network after that date. The exceptions apply in some non-metropolitan areas, where

Item 1: Description of Business

we may continue to operate our present network for up to 12 months beyond 31 December 1999. This additional period will enable 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 and equivalent mobile service.

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 who 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 obligation

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 which 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 are made, this would be likely to result in substantial additional costs.

In addition, we expect shortly to be declared a "digital data service provider" requiring that we must 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 service. When this occurs, we must give the 4% of the population which cannot access an ISDN 64 kilobits per second land line and who instead use satellite downlink technology, a rebate of up to 50% of the price of purchasing the necessary satellite receiving equipment.

We must prepare, and take all reasonable steps to comply with, a universal service plan. This plan sets out how we will progressively fulfil our universal service obligation, and must be approved by the Communications Minister.

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

The Communications Minister may impose price control arrangements in relation to charges for services provided as part of the universal service obligation, if those charges are not already governed by Telstra specific price control arrangements under the Telecommunications (Consumer Protection and Service Standards) Act.

The losses that result from supplying loss-making services and from paying the satellite subsidy in the course of fulfilling the universal service obligation are required to be shared among all carriers. Prior to passage of the Telecommunications Laws Amendment (Universal Service Cap) Act 1999, the Telecommunications Act 1997 provided that a universal service provider's net universal service cost as assessed by the Australian Communications Authority was to be shared amongst the universal service provider and other participating carriers on a basis proportional to the eligible revenue of each carrier.

Item 1: Description of Business

For this purpose, the Authority assesses levy debits of other participating carriers, thereby requiring them to make payments into a Universal Service Reserve from which payments are to be made to the universal service provider equal to the amount of its corresponding levy credit.

However, in accordance with the Telecommunications Laws Amendment (Universal Service Cap) Act 1999, levy debits and levy credits for the fiscal 1998 year will not necessarily be proportional to our net universal service cost as assessed by the Australian Communications Authority. Instead, they will be proportional to the lesser of that assessed figure and A$253 million. Our net universal service cost claim for 1998 was for an amount of approximately A$1.8 billion. The ACA has made a preliminary assessment of our claim at A$580 million. Further, the Telecommunications Laws Amendment (Universal Service Cap) Act 1999 provides that the net universal service cost for fiscal 1999 and 2000 will again be A$253 million (plus adjustment for inflation), unless the Communications Minister determines some other amount.

The Government has announced that it will review and settle the methodology for calculating the net universal service cost of a universal service provider, and for sharing that cost amongst all participating carriers, before the end of fiscal 2000.

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. The Communications Minister has published a draft direction which tightens the connection and restoration timeframes. It is proposed that the new standards will take effect from 1 January 2000.

The current standards relate to connection times, fault repair times and the keeping of appointments in relation to these activities. The damages payable for a missed appointment is one month's line rental. For a delayed connection or repair, the damages payable are one month's line rental 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 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 Telstra provides services to the carriage service provider. This provision will take effect from February 2000.

Supply terms and conditions

In July 1999, the ACA made a determination which from March 2000 will require carriage service providers to provide customers with concise summaries of the terms and conditions on which customers acquire their goods and services.

Item 1: Description of Business

Broadcasting regulation

The Broadcasting Services Act 1992 has recently been amended to provide for the introduction of digital television from 2001. It also establishes 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); 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 which 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; and
- anti-hoarding rules which regulate the use of rights by the commercial and national television operators to televise major designated events.

The Government is currently reviewing broadcasting regulation or developing further legislative amendments in several areas, including reviewing the basis on which digital terrestrial television may be introduced in Australia.

Recent legislation will permit free-to-air television broadcasters (FTAs) 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.

A series of reviews are to be completed by 1 January 2000 which will determine the regulatory arrangements concerning, amongst other things, the scope for datacasting services, the nature of enhanced services to be provided by FTA broadcasters, the format, goals and targets for HDTV transmissions by FTA broadcasters, the allocation of broadcasting spectrum for datacasting by players other than the FTAs, and whether and under what conditions the national broadcasters will be permitted to provide multi-channel services. Following these reviews, subject to the assent of both Houses of Parliament, the FTAs will be required to implement digital transmission by a specified date and be able to use the spare loaned spectrum for datacasting and enhanced programming.

Item 1: Description of Business

Content regulation

Telephone sex services

From February 2000, we and other carriage service providers will be prohibited from allowing telephone sex service providers to supply telephone sex services to customers except where:

- the customer has given their prior written agreement to telephone sex services being accessed using their telephone service;
- the customer has been given a personal identification number (PIN) or some other means to limit access; and
- the service is supplied using a specific number range.

Internet services

Recent amendments to the Broadcasting Services Act 1992 have introduced a scheme for regulating unsuitable content on the Internet. We will be subject to the scheme.

The key elements of the scheme can be summarised as follows:

- Internet content will be prohibited if it is classified as RC (refused classification) or X by the Classification Board. R-rated content hosted in Australia will not be prohibited if there is a suitable restricted access system in place.
- The Australian Broadcasting Authority (ABA) may require persons hosting prohibited Internet content inside Australia to cease hosting the content.
- In relation to prohibited content hosted outside Australia, the ABA may refer the matter to the Australian police and notify Internet service providers so that the providers can deal with the transmission of the content in accordance with industry codes - for example, by filtering the content. The ABA may prescribe industry standards if there are no codes or the codes are deficient.

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 6,500 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 State or Territory, and in some cases, native title claimants and holders, to access land where native title may exist.

Item 2: Description of Property

The amendments to the Native Title Act 1993 (Cth) that commenced on 30 September 1998 have increased the circumstances in which the States and Territories will consent to our accessing land where native title may exist. However, obtaining the necessary consent is often slow. Native title holders will have rights of compensation, which could be recovered against us, where we access native title land.

Native title claims

As at 30 June 1999, we were a party to about 20 contested native title claims in the Federal Court of Australia and approximately 260 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 where we have 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 freehold or leasehold. All facilities installed under powers and immunities conferred by the Telecommunications Act 1991, which remained in force to 30 June 1997, will either be valid or have the benefit of the validation provisions of the Native Title Act. Telstra's current practices are such that the installation of facilities pursuant to the Telecommunications Act 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 have been brought against us 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

On 10 September 1997, Cable & Wireless Optus and two of its subsidiaries commenced proceedings against us in the Federal Court of Australia. Cable & Wireless Optus claims that we have breached section 46 of the TPA (misuse of market power provision) by reason of the arrangements for the supply of our pay TV carriage services to FOXTEL and the construction of our broadband network.

Cable & Wireless Optus claims unquantified damages, including interest. We believe that we have substantial defences to these claims, and will continue to defend the action vigorously.

The proceedings are provisionally listed for trial in June 2000.

Item 3: Legal Proceedings

Cable & Wireless Optus' previous claims in this proceeding concerning local number portability and local call access and resale services, including our commercial churn service, were settled on confidential terms in August 1999. The settlement will not have a material adverse affect on our financial results or position.

The ACCC claims we have breached the competition rule

On 24 December 1998, the Australian Competition and Consumer Commission commenced proceedings in the Federal Court of Australia against us for breach of the competition rule in section 151AK of the Trade Practices Act. On 23 April 1999, the ACCC commenced further proceedings for breach of the competition rule. These proceedings have now been consolidated.

The ACCC seeks declarations that we have engaged in anti-competitive conduct, injunctions and pecuniary penalties. The alleged anti-competitive conduct involves our commercial churn service. The ACCC alleges that in imposing the terms and conditions of the commercial churn service, we are using our market power in the market for fixed local calls with the effect of substantially lessening competition in that market and the long distance market.

We believe that the ACCC's claims are unfounded and that we have substantial defences to them. We will continue to defend the proceedings vigorously.

Substantial penalties of up to A$10 million and A$1 million per day of contravention apply for a breach of the competition rule.

We are involved in significant litigation with two of our wholesale customers

We are currently involved in significant litigation with two of our wholesale customers - AAPT Limited and First Netcom Pty Ltd. AAPT is a wholesale customer of Telstra and First Netcom was a wholesale customer.

We claim that AAPT and First Netcom have not paid us for telecommunications services we have provided to them. Our claim against AAPT is for approximately A$123 million and our claim against First Netcom is for approximately A$15 million. Both AAPT and First Netcom dispute that the amounts claimed by us or any amounts are owing by them.

AAPT and First Netcom have both cross-claimed and seek to offset their claims against amounts claimed by us. AAPT's cross-claim is for losses which it estimates to be in the order of A$315 million. First Netcom has estimated its losses to be up to approximately A$37 million.

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

AAPT's and First Netcom's cross-claims include 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 proceedings against AAPT have been provisionally set down for trial to commence in the Federal Court of Australia in December 1999. The proceedings against First Netcom commenced in April 1997 and are currently before the Federal Court of Australia, but no trial date has been set.

Item 3: Legal Proceedings

Legal proceedings settled

The following legal proceedings were settled during fiscal 1999 and did not have a material adverse affect on our financial results or position:

- proceedings brought by British Telecom Australasia Pty Limited, and British Telecom plc, against the State of New South Wales and us arising out of the termination of a supply agreement between BTA and NSW; and
- litigation with two wholesale customers - QAI Australia Limited/Southern Cross Telecommunications Pty Limited and I-Tel Pty Limited.

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 13 August 1999, is shown in the following table. The table also shows as a group, the shareholdings of our directors and officers.

Title of class	Identity of person or group	Amount owned	% of class
Shares	The Commonwealth	8,577,733,567	66.7%
Shares	Listed shareholders	4,288,866,733	33.3%
		12,866,600,200	100.0%
Shares	Directors and officers as a group	481,480[1]	

(1) *Refers to direct and indirect holdings.*

As at 13 August 1999, 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 13 August 1999

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

	Number of shareholders[1]		Shares[2]	
Size of holding	**Number**	**%**	**Number**	**%**
1 - 1,000	853,843	65.3	606,570,754	14.1
1,001 – 2,000	223,690	17.1	369,267,982	8.6
2,001 – 5,000	185,223	14.2	537,915,203	12.5
5,001 –10,000	33,484	2.6	241,714,028	5.6
10,001 – 100,000	10,040	0.7	195,766,454	4.6
100,001 and over	508	0.1	2,337,632,312	54.6
Total	1,306,788	100.0	4,288,866,733	100.0

(1) *Number of shareholders holding less than a marketable parcel of shares was 1,181.*
(2) *Not including those shares held by the Commonwealth.*

Item 4: Control of Registrant

Twenty largest shareholders as at 13 August 1999

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

	Shareholder	Number of shares	% of issued shares[1]
1	Westpac Custodian Nominees Limited	346,664,515	8.1
2	Chase Manhattan Nominees Limited	296,067,312	6.9
3	National Nominees Limited	246,338,795	5.7
4	Telstra ESOP Trustee Pty Limited	110,930,375	2.6
5	BT Custodial Services Pty Limited	100,301,511	2.3
6	Permanent Trustee Australia Limited	89,232,194	2.1
7	ANZ Nominees Limited	83,722,172	1.9
8	AMP Life Limited	76,545,372	1.8
9	Queensland Investment Corporation	67,969,306	1.6
10	Citicorp Nominees Pty Limited	62,989,411	1.5
11	Commonwealth Custodial Services Limited	41,534,989	1.0
12	MLC Limited	40,022,632	0.9
13	Perpetual Trustees Victoria Limited	38,705,789	0.9
14	Perpetual Trustee Company Limited	34,587,064	0.8
15	HKBA Nominees Limited	29,592,446	0.7
16	Perpetual Trustees Nominees Limited	25,123,500	0.6
17	NRMA Investments Pty Limited	23,234,600	0.5
18	The National Mutual Life Association of Australasia Limited	20,462,833	0.5
19	Mercantile Mutual Life Insurance Company Limited	19,430,709	0.5
20	AMP Nominees Pty Limited	17,900,709	0.4
	Total	1,771,356,244	41.3

[1] *Not including those shares held by the Commonwealth.*

Substantial shareholders

As at 13 August 1999, other than the Commonwealth of Australia, there were no substantial shareholders (as defined in the Australian Corporations Law) in the Telstra Entity.

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 Australian Stock Exchange 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 1999, the Commonwealth owned 66.7% of our shares. It intends to reduce this shareholding to 50.1% in fiscal 2000. The Telstra Act precludes any reduction in the Commonwealth's voting rights, paid-up capital or rights to distributions of capital or profit, if any, below a 50.1% interest without amending legislation. The effect of this is that we cannot introduce a dividend reinvestment plan or raise

Item 4: Control of Registrant

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 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 of 1999.

The 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 universal service obligations or customer service guarantee 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 by 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 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 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$300 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 Trading Market

We are listed, and those of our shares which are not held by the Commonwealth are quoted, on the Australian Stock Exchange and on the New Zealand Stock Exchange. American depositary shares, each representing five shares, evidenced by American depositary receipts, have been issued by The Bank of New York, as depositary, and are listed on the New York Stock Exchange.

The stock market operated by the Australian Stock Exchange is the principal stock exchange in Australia. The exchange operates by way of the Stock Exchange Automated Trading System, 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 which satisfy both buyers and sellers. The prices of all listed shares are continuously quoted while the market is open and the system prioritises orders first by price and second by time of placement in the system. Exchange participants can cross stock between buying and selling orders, at the buy or sell quote provided those quotes are no more than one marketable bid apart and can cross outside this range in amounts of A$1 million or more. Transactions on the ASX are settled on the third business day following the trade date.

Our securities were initially listed on 17 November 1997 as instalment receipts on the ASX and interim ADRs, each interim ADR representing 20 instalment receipts, on the NYSE which were replaced by shares and ADRs, each ADR representing 20 shares, upon payment of the final instalment of A$1.40 for instalment receipts and US$17.75 for interim ADRs.

Instalment receipts and interim ADSs ceased trading on 26 October 1998 and shares and ADSs began trading on a deferred settlement basis on 27 October 1998. The following table presents the actual high and low closing prices for instalment receipts and interim ADSs from the period of initial issue until 26 October 1998.

	A$ per instalment receipt		US$ per interim ADS[1]	
Period	**High**	**Low**	**High**	**Low**
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	$58^{3}/_{16}$	$54^{1}/_{2}$

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

For comparative purposes, we have restated the historical high and low closing prices for instalment receipts and interim ADSs below. The table below shows:

For the period to 26 October 1998:

- highest and lowest closing sale prices for instalment receipts plus A$1.40, as derived from the daily official list of the ASX; and
- highest and lowest closing sale prices of interim ADRs plus US$17.75, quoted on the NYSE.

Item 5: Nature of Trading Market

For the period after 26 October 1998:

- 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 New York Stock Exchange.

	A$ per share		US$ per ADS[(1)]	
Period	**High**	**Low**	**High**	**Low**
1997				
17 November – 31 December	4.65	3.93	$59^{15}/_{16}$	$53^{5}/_{16}$
1998				
1 January – 31 March	5.38	4.49	$72^{1}/_{8}$	$57^{7}/_{8}$
1 April – 30 June	5.54	4.98	69	$59^{11}/_{16}$
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) *Each ADS represented 20 ordinary shares.*

At 30 June 1999, 4,288,866,733 shares were issued and available for trading on the market. This does not include those shares held by the Commonwealth. At that date, 717,446 ADSs (equivalent to 14,348,920 shares) were held by 11 record holders.

The volume of trading activity of ADRs listed on the NYSE has been low. As a result, effective 23 August 1999, we decreased the number of shares underlying each ADR from 20 shares to five shares to reduce the trading price of ADRs to be at a level more in line with other foreign issuers listed on the NYSE. Even with this ratio change, however, there is no assurance that the volume of trading activity for our ADRs will improve.

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$44,000.

The Communications Minister or Telstra may apply to the federal court for remedial orders where an unacceptable foreign ownership situation exists, including orders requiring the disposal of shares, restricting the exercise of rights attaching to shares or prohibiting or deferring receipt of sums due on shares. In addition, we are required under the Telstra Act to take all reasonable steps to ensure that an unacceptable foreign ownership situation does not exist in relation to us.

Our constitution contains provisions to enable us to monitor and enforce the foreign ownership restrictions. We have adopted rules to implement these provisions, which bind all shareholders. These are outlined below. They may be amended at any time by resolution of our board.

On or after registration of a transfer or transmission application for a share, when the acquirer first becomes a shareholder, the acquirer must generally notify us whether it is either:

- a person with an interest in a share who is either a foreign person or an associate of a foreign person; or
- a person who holds a share in which a foreign person or an associate of a foreign person has an interest (in either case, a foreign holder).

The information derived from these notifications will be reflected in a register by means of a foreign coding.

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

Systems have been established for shares traded on the ASX so that notifications are given by brokers as part of routine provision of ASX settlement information (the ASX systems). The ADR custodian under the ADR facilities is automatically treated as a foreign holder for the purposes of the constitution, as are all holders of shares on the New Zealand share register. In the case of other transfers or transmission applications, the onus is on the acquirer to notify us if it is a foreign holder.

All shares held by foreign holders will be treated as foreign unless the holder:

- notifies that some of its shares are ones in which a foreign person or associate of a foreign person has an interest (foreign shares) whereas others are not; and
- either:
  - divides its holding into separate Holder Identification Numbers or Security Holder Reference Numbers under the ASX's CHESS system, one for foreign shares and one for shares which are not foreign; or
  - agrees to provide bi-monthly notices indicating the breakdown of its holding into foreign and non-foreign shares.

The constitution and rules also contain provisions permitting us to send notices to registered holders of shares with a view to determining whether they are foreign holders or not, and requesting details of any foreign persons or associates of foreign persons having interests in the relevant shares, and any other information relating to foreign ownership which may be requested. Such notices must be answered within 30 days.

If we determine, as a result of information obtained from the notifications and responses to notices referred to above, that an unacceptable foreign ownership situation exists in relation to us, there is power under our constitution to require divestment of shares to remedy this situation. In exercising these divestment powers, we are entitled to rely on foreign codings in the relevant register and upon the notifications and responses to notices referred to above. We will notify the ASX, NZSE and NYSE if the level of foreign codings comes within five percentage points of the aggregate limit, and after that at one percentage point intervals.

The divestment powers are broadly framed, and we and our directors are not liable to shareholders for the manner of their exercise.

If we believe that the individual limit has been breached, we may require that any shareholder whose shares we believe form part of the contravening ''stake'' be divested within 30 days of the date a notice requiring divestment (disposal notice) is given.

If we believe the aggregate limit has been breached, the rules currently provide that disposal notices will be given to all holders whose foreign shares became registered in their names or which became coded as ''foreign'', on the day that the aggregate number of foreign coded registrations on the relevant register exceeded the limit and on each succeeding day whilst the limit is exceeded.

The recipient of a disposal notice is required to divest the shares that are the subject of the notice before the divestment date specified in the notice. The divestment date will be the fifth business day of the month next following the month in which the disposal notice was issued unless that would be less than 30 days after the date of issue of the notice, in which case the divestment date will be the fifth business day of the next month.

No divestment will be required on a divestment date if foreign shares, as shown on the relevant register on that date do not exceed the aggregate limit. If a disposal notice is not complied with, the constitution contains provisions empowering us to sell the relevant shares on behalf of the holder on or after the relevant divestment date (and the holder will lose the ability to transfer the shares itself after that date).

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

Transfers among foreign holders and ADR holders

Special arrangements apply to certain transfers from one foreign holder to another.

Disposal notices will not be given in respect of:

- foreign shares acquired from the international underwriters on closing of the international offering in 1997;
- foreign shares acquired under a particular form of ASX ''special crossing'' for transfers among foreign holders. Shares can only be transferred under such a special crossing if they are not, and are not liable to become, the subject of a disposal notice; or
- shares registered on the New Zealand branch register or represented by ADRs, though shares may only be transferred onto the New Zealand branch register or ADR programme if they are not, and are not liable to become, the subject of a disposal notice.

NZSE trading is only in shares registered on the New Zealand branch register.

Holders of ADRs are subject to the individual limit, and must notify the depositary, as applicable, if any of the ADRs they hold form part of a ''stake'' which breaches the individual limit. Where the individual limit is breached, the depositary may be required to divest the relevant shares, and the corresponding ADRs may be cancelled. The deposit agreement contains provisions permitting the depositary to obtain, and supply to us, information relevant in monitoring and enforcing the foreign ownership limits.

The above summary is not complete and is subject to, and qualified by reference to, the constitution and current rules which have been adopted by us for the administration of our foreign ownership provisions and the Telstra Act. Copies of the constitution, the rules and the Telstra Act, are available for inspection through the Company Secretary, Telstra Centre, 242 Exhibition Street, Melbourne, Victoria 3000, Australia during normal working hours.

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;

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

- 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.

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;

Item 6: Exchange Controls and Other Limitations Affecting Security Holders

- 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 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 13 August 1999, the number of Telstra shares recorded as foreign on the Telstra register was 7.4% of the total number of issued Telstra shares.

Item 7: Taxation

Australian taxation

The Australian Taxation Office has provided an indicative opinion confirming the Australian income taxation implications of investment in 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. However, the Government is currently conducting a review of business taxation in Australia and recently received an independent report setting out recommendations for consideration. No policy decisions in relation to the review of business taxation have been made as at the date of this report, but policy decisions may be taken and announced by the Government in the near future. Once policy decisions are made, both the House of Representatives and the Senate would need to pass appropriate legislation to give effect to the policy adopted. The legislation finally passed, if any, may also have an effect on individual investors. There is a risk that changes to Australian business taxation may adversely affect us.

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 (currently 36%). 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 recently enacted 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.

It is unlikely that, we will be able to fully frank declared ordinary dividends out of fiscal 2000 earnings. 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.

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

Item 7: Taxation

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.

Under recently enacted changes to the income tax law, 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.

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 Australian Taxation Office, 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.

Item 7: Taxation

Treatment of American depositary receipts

Tax non-resident holders of ADRs evidencing ADSs will be treated for Australian income tax purposes as the owners of the shares represented by the ADSs.

Taxation of distributions

The depositary will receive dividends on the shares represented by the ADSs net of DWHT (where payable). Holders of ADRs will not be subject to any further Australian income tax on distributions representing fully franked dividends (franked with franking credits) or dividends that have been subject to DWHT.

Taxation of capital gains

A disposal of an ADR by a tax non-resident investor will constitute a disposal by the investor of the Telstra shares represented by the ADS evidenced by that ADR. Tax non-residents who, together with their associates, hold less than 10% of the shares or interests in our shares (including through ADSs) will, on disposal of ADRs, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in us should ensure that tax non-resident investors qualify for this exemption.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

Generally, the "business profits" articles of Australia's double tax treaties provide that a resident of a treaty party is not subject to Australian income tax on "business profits" derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the United States, Article 7 (1) of the U.S. Treaty provides that the business profits of a U.S. enterprise are only taxable in the U.S. unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term "permanent establishment" is defined in Article 5 of the U.S. Treaty. In the view of the Australian Taxation Office, 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.

Australian stamp duty

Effective from 1 March 1999, the stamp duty law applicable in the Australian Capital Territory has been rewritten. As a result of the rewritten law, 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.

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 Australian Stock Exchange or a recognised stock exchange located outside Australia or an ADR that relates to shares that upon issue, will be quoted on the Australian Stock Exchange or a recognised stock exchange located outside Australia either to:

Item 7: Taxation

- 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 effected on the Australian Stock Exchange ("on-market") and those which are effected "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 New Zealand Stock Exchange or SEAQ International, London or other exemption applies, the stamp duty for off-market transfers of marketable securities is payable by the transferee at the rate of 0.3% (calculated on the higher of the sale price or the value of the underlying marketable securities) and is payable in the ACT.

Apart from the exemptions applicable to foreign residents, other particular exemptions may apply.

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 of the financial statements. You should note that during fiscal 1997 certain accounting policies changes were made and some of these changes have had a significant effect on the results for the following fiscal years.
- Statistical data. This represents management's best estimates.

	Year ended 30 June					
	1999	**1999**(1)	1998	1997	1996	1995
	(in millions, except per share and per ADS amounts)					
	A$	**US$**	A$	A$	A$	A$
Profit and Loss Statement Data						
***Amounts in accordance with Australian GAAP*:**						
Operating revenue(2)	**18,218**	**12,044**	17,302	15,983	15,239	14,081
Operating expense (excluding depreciation and amortisation, interest expense, and abnormals)(2)	**9,818**	**6,491**	9,878	9,301	9,113	8,398
Depreciation and amortisation	**2,502**	**1,654**	2,322	2,353	2,351	2,204
Operating profit before interest expense, abnormals and income tax expense	**5,898**	**3,899**	5,102	4,329	3,775	3,479
Operating profit before abnormals and income tax expense	**5,320**	**3,517**	4,468	3,805	3,242	2,973
Operating profit before income tax expense	**5,320**	**3,517**	4,468	2,073	3,447	2,405
Operating profit after income tax expense	**3,488**	**2,306**	3,000	1,609	2,302	1,756
Operating profit attributable to shareholders	**3,486**	**2,305**	3,004	1,617	2,305	1,753
Earnings per share(3)	**0.27**	**0.18**	0.23	0.13	0.18	0.14
Earnings per ADS(3)	**1.35**	**0.90**	1.17	0.63	0.90	0.68
Dividends provided for or paid(4)	**4,247**	**2,808**	1,802	4,146	1,368	944
Dividends per share(3)	**0.33**	**0.22**	0.14	0.32	0.11	0.07
Dividends per ADS(3)	**1.65**	**1.09**	0.70	1.61	0.53	0.37
Dividends per ADS(5)	**US$0.45**		US$0.37	US$1.27	US$0.36	US$0.23
Amounts in accordance with US GAAP:	**A$**		**A$**	**A$**	**A$**	**A$**
Operating revenue	**17,571**	**11,615**	16,703	15,430	14,716	13,613
Operating profit attributable to shareholders	**3,416**	**2,257**	2,674	1,136	2,714	2,463
Earnings per share(3)	**0.27**	**0.18**	0.21	0.09	0.21	0.19
Earnings per ADS(3)	**1.33**	**0.88**	1.04	0.44	1.05	0.96
Balance Sheet Data (at year end)						
***Amounts in accordance with Australian GAAP*:**						
Total assets	**27,682**	**18,300**	26,470	25,858	24,362	24,083
Current borrowings	**2,265**	**1,497**	2,935	1,560	793	1,984
Non-current borrowings	**4,946**	**3,270**	4,787	6,421	4,350	3,872
Shareholders' equity	**10,294**	**6,805**	11,079	9,938	12,668	11,727
Amounts in accordance with US GAAP:						
Total assets	**31,108**	**20,564**	29,868	28,965	27,459	26,246
Current borrowings	**2,265**	**1,497**	2,935	1,560	793	1,984
Non-current borrowings	**4,946**	**3,270**	4,787	6,421	4,350	3,872
Shareholders' equity	**16,199**	**10,709**	14,676	13,473	16,633	15,181

Item 8: Selected Financial Data

	Year ended 30 June				
	1999	1998	1997	1996	1995
	A$m	A$m	A$m	A$m	A$m
Operating Revenue includes:					
Sales revenue	**17,571**	16,703	15,430	14,716	13,613
Interest received/receivable	**49**	49	85	105	107
Proceeds from sale of assets/investments	**330**	266	202	199	153
Dividends received/receivable	**13**	20	38	33	38
Share of associated entities net profit after income tax expense	**(2)**	14	-	-	-
Miscellaneous revenue	**257**	250	228	186	170
	18,218	17,302	15,983	15,239	14,081
Operating expenses (excluding depreciation and amortisation, interest expense and abnormals) include:					
Book value of assets/investments sold	**308**	313	218	190	179

(1) *All amounts have been translated at the noon buying rate on 30 June 1999 of A$1.00 = US$0.6611, 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 1999, we declared and paid dividends of A$1,802 million (1999 interim dividend plus 1998 final dividend paid during the year ended 30 June 1999). During the year ended 30 June 1998, we declared and paid dividends of A$1,422 million (1998 interim dividend plus 1997 final dividend paid during the year ended 30 June 1998), and in fiscal 1997, A$4,307 million, of which A$3,000 million was paid as a special dividend to the Commonwealth on 30 June 1997.*

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

Statistical Data

	Year ended 30 June		
	1999	1998	1997
Billable traffic data (in millions)			
Local calls (number of calls)	**11,190**	11,138	10,844
National long distance minutes[(1)]	**12,329**	11,319	10,326
International outgoing minutes[(2)]	**725**	705	700
International incoming minutes	**787**	767	755
Mobile telephone minutes[(3)]	**3,221**	2,720	2,415
Network and operations data (at year end)			
Basic access lines in service (in millions)[(4)]			
Residential	**6.93**	6.77	6.58
Business	**2.83**	2.77	2.68
Total	**9.76**	9.54	9.26
FaxStream® services access lines (in thousands)[(5)]	**407.1**	374.8	300.0
ISDN access lines (basic access line equivalents) (in thousands)[(6)]	**722.3**	488.4	360.3
Digitalisation of PSTN exchanges[(7)]			
Metropolitan	**100%**	95%	86%
Non-metropolitan	**100%**	94%	81%
All areas	**100%**	95%	84%
Mobile telephone customers (in thousands)			
Analogue[(8)]	**673**	1,323	1,688
Digital	**2,762**	1,745	1,089
Total	**3,435**	3,068	2,777
Payphones[(9)]	**36,595**	36,892	37,362
Broadband network homes passed (in thousands)[(10)]	**2,508**	2,505	2,088
Full-time employees[(11)]	**52,840**	57,234	66,109

(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 390 million minutes in fiscal 1999, 298 million minutes in fiscal 1998 and 131 million minutes in fiscal 1997 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 836 million in fiscal 1999, 833 million in fiscal 1998 and 829 million in fiscal 1997.*

(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 414,000 at the end of fiscal 1999, 320,000 at the end of fiscal 1998 and 205,000 at the end of fiscal 1997.*

(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.*

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

In this section, we have referred to our fiscal years ended 30 June 1997, 30 June 1998 and 30 June 1999 as fiscal 1997, fiscal 1998 and fiscal 1999, and we have referred to the three-year period ending 30 June 1999 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 non-traditional markets, such as mobile telecommunications, fixed-to-mobile services, and data, Internet and other value-added services. Although revenues grew in basic access and local calls in fiscal 1999, overall revenues in our traditional markets remained relatively flat during the three-year period. 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 and international 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; and
- expanding further into growing data, Internet and content-based markets.

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. For example, we have recently 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 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 expect that this programme will substantially enhance our data transmission capabilities and our wideband service offerings.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

- ***Code Divisional Multiple Access*** – We have commenced the rollout of our new digital mobile network based on CDMA technology to supplement our existing GSM network and provide coverage similar to our AMPS network in rural areas of Australia.
- ***CAN 2001*** – We are currently undertaking a project to upgrade and rehabilitate parts of our customer access network to improve service levels and reduce costs, particularly in areas that are subject to high fault rates.

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 capital investment in our networks and systems through our operating cash flows. In addition, we will 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.

In recent years, the Australian Government has adopted laws and regulations to introduce open competition into the Australian telecommunications markets. As at 30 June 1999, there were approximately 30 licensed carriers, 50 carriage service providers and 700 Internet 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. Partly as a result of increased competition, 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.

For example, in fiscal 1999, the ACCC issued a number of competition notices alleging that we are acting non-competitively. Conduct in breach of the competition rule which occurs after a competition notice comes into effect exposes us to a penalty of up to A$10 million and A$1 million per day of contravention, together with potential liability to pay compensatory damages to affected third parties. To date we have not altered our conduct in response to these notices because we do not believe that our conduct is anti-competitive and we are contesting these allegations. The outcome of these competition notices is yet to be determined, but their resolution could have a significant effect on our results of operations in the next fiscal year. The ACCC is continuing to review our conduct in a number of areas and may issue further competition notices against us if it believes we are acting anti-competitively.

Over the last two 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. In addition, the Government is required to initiate a review of the telecommunications-specific competition legislation before 1 July 2000, which could result in further expansion of the scope of regulation applicable to us.

Examples of the type of regulatory developments that have occurred during the last two 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 and declaration of local call resale and access to our unconditioned local loop;

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

- ACA's report recommending that the customer service guarantee be upgraded, which the Communications Minister has yet to act on, and legislation requiring carriage service providers to implement automatic payments in relation to the customer service guarantees;
- ACA's determination of preselection of fixed-to-mobile services and institution of local number portability; and
- legislative capping of our ability to recover costs associated with our universal service obligation.

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

- 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; and
- more closely aligning the activities of our Legal and Regulatory Group with the planning and strategic direction of our strategic business units.

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

The Government is currently conducting a review of business taxation in Australia and recently received an independent report setting out recommendations for consideration. Once policy decisions are made, both the House of Representatives and the Senate would need to pass appropriate legislation to give effect to the policy adopted. Depending upon the legislation finally passed, if any, there is a risk that changes to Australian business taxation may adversely affect our financial position and results of operation.

In addition, the Government has enacted legislation implementing a 10% tax on the supply of goods and services in Australia and eliminating the wholesale sales tax. The tax will take effect beginning 1 July 2000. This new tax may negatively affect earnings because, for example:

- regulatory caps on local calls and local calls from payphones may prevent us from passing on the full effect of the tax to our customers;
- we will need to devote significant resources to implement the transition to the GST environment; and
- customer spending patterns may be adversely affected.

Changes in accounting policies

In fiscal 1997, we changed our accounting policies to:

- capitalise software developed for internal use; and
- capitalise interest and indirect overheads we incurred constructing assets.

Prior to this, these costs were expensed as incurred. We made these changes to align our accounting policies with common practice in the international telecommunications industry. The reconciliation of amounts determined under Australian GAAP to amounts determined under US GAAP includes adjustments on the basis that these policies had been in effect historically under US GAAP. See note 30 to the financial statements for more detail about this reconciliation.

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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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 propose to change 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. The proposed change in accounting policy will not materially affect our financial position or results of operations.

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 telecommunications services, data, text and Internet services and directory services. During the last three fiscal years, we have successfully grown our revenues and have also been able to control costs.

During the three-year period, we have maintained our overall operating profit from telephony products such as basic access, local calls, long distance calls and international calls, despite competition reducing our market share and 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 our mobile telecommunications services business. However, margins in this 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 AMPS network to our digital network. In addition, depreciation expense associated with our mobile telecommunications business grew during the three-year period which reflected our continued investment in our GSM digital network and the accelerated depreciation associated with our AMPS 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 our recovery of the costs of providing these services has been limited by the regulators.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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 major product and service category

	Year ended 30 June					
	1999		1998		1997	
	(in millions, except percentages)					
	A$	**%**	A$	%	A$	%
Basic access	**1,855**	**10**	1,770	10	1,740	11
Local calls	**2,727**	**15**	2,664	15	2,664	17
National long distance calls	**2,775**	**15**	2,594	15	2,455	15
International telephone services	**1,103**	**6**	1,380	8	1,342	8
Mobile telecommunications services	**2,538**	**14**	2,154	13	1,981	12
Data, text and Internet services	**2,483**	**14**	2,197	13	1,932	12
Directory services(1)	**1,078**	**6**	1,029	6	723	5
Customer premises equipment	**368**	**2**	538	3	576	4
Intercarrier services	**617**	**3**	582	3	558	3
Inbound calling products	**400**	**2**	337	2	309	2
Payphones	**207**	**1**	225	1	248	2
Other sales and services	**1,420**	**8**	1,233	7	902	6
Sales revenue	**17,571**	**96**	16,703	96	15,430	97
Other revenue(2)	**647**	**4**	599	4	553	3
Operating revenue	**18,218**	**100**	17,302	100	15,983	100

(1) *We did not consolidate a part of our directories business before fiscal 1998.*
(2) *Our other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.*

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 6.8% each year from fiscal 1997 to fiscal 1999. The principal areas of strong operating revenue growth were:

- mobile telecommunications services (13.2% each year on average);
- fixed-to-mobile calls which are included in national long distance calls;
- data, text and Internet services (13.4% each year on average);
- other sales and services (25.5% each year on average), particularly revenue from controlled entities, facilities management and international roaming; and
- basic access and local calls driven by new products and services such as voicemail and call waiting.

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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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 AMPS 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 and text 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 ACCC is currently drafting a new set of revenue and cost reporting guidelines. As a result, in the future we may change the way we categorise our operating revenue. See "Description of Business - Regulation" for a discussion of the ACCC's record keeping rules.

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

The rates we charge our customers for basic access, local, national long distance and international calls, domestic and international leased lines, fixed-to-mobile calls and mobile telecommunications 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.

The price control regulations have recently been amended. These changes will provide us with greater pricing flexibility to rebalance our access and calling charges and have decreased the cap from CPI - 7.5% to CPI - 5.5% for the next two years. 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 internal charges to calling products for use of the network. Our basic access revenue generally increases with housing growth, improving general economic conditions and increasing demand for telephone services and second lines. Basic access revenue is also affected by competition and by customers moving to our other higher value access services. Table 2 shows information about our basic access performance.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 2 - Basic access data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
Basic access revenue[1]	**A$1,855**	A$1,770	A$1,740	**4.8**	1.7
Basic access lines in service (at year end)[2]					
Residential	**6.93**	6.77	6.58	**2.4**	2.9
Business	**2.83**	2.77	2.68	**2.2**	3.4
Total	**9.76**	9.54	9.26	**2.3**	3.0

Note: statistical data represents management's best estimates.

(1) *Approximately 5% in fiscal 1999, 5% in fiscal 1998 and 7% in fiscal 1997 of basic access revenue was derived from wholesale activities.*
(2) *Excludes basic access lines for our internal use.*

Our operating revenue from basic access services grew moderately in fiscal 1999, having been relatively flat in fiscal 1998 compared with fiscal 1997. Our operating revenue from basic access services in fiscal 1998 grew at a slower rate than the rate of growth of basic access lines in service principally because we lowered business basic access prices in response to competition for business customers. However, in fiscal 1999 our basic access operating revenue grew at a greater rate than access lines in service, principally due to increased penetration of pricing packages that allow customers to pay lower local call prices, but higher access charges.

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. Statistical information for these services is shown under "- 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 during fiscal 1999.

Local calls

Our local call revenue comes from our local calling charges and additional billable 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 voicemail, call waiting, call forwarding, call conferencing and, more recently, 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 or building their own local access network;
- the introduction of local number portability; or
- pricing regulation that requires us to balance our metropolitan and non-metropolitan call charges.

Nevertheless, we expect that these factors may have a more pronounced effect on our local call revenue in future years. In addition, as our customers shift from our basic access service to other access services that we provide, such as ISDN and FaxStream®, our local call revenue will shift to these other product categories.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 3 shows information about our local call business.

Table 3 - Local call data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
Local call revenue[(1)]	**A$2,727**	A$2,664	A$2,664	**2.4**	0.0
Number of local calls	**11,190**	11,138	10,844	**0.5**	2.7

Note: statistical data represents management's best estimates.

(1) *Approximately 6% in fiscal 1999, 6% in fiscal 1998 and 10% in fiscal 1997 of local call revenue were derived from wholesale activities.*

Our operating revenue from local calls remained relatively flat during the three-year period, despite an increase in the number of local calls made over our network. This was primarily a reflection of lower call charges offered in response to increased competition in this market. However, our operating revenue from billable services, such as calling number display and call return, increased substantially in fiscal 1999. Our operating revenue from local calls also has been positively affected by local charges associated with inbound calling products such as Freecall™ 1800, Priority® One and Priority® 1300, which grew significantly during the three-year period.

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, last number dialled and call conferencing, which stimulate call completion; and
- increased Internet usage.

In response to increased competition, we have increasingly used discount pricing plans and we experienced increased take-up by business customers of a local call product charging reduced rates for short-duration calls. Local call revenue growth was also negatively affected by increased penetration of pricing packages allowing customers to pay lower local call charges, but higher access charges, particularly in fiscal 1999.

Penetration of value-added services increased significantly during the three-year period with more than 680,000 fixed line voicemail services, over 5.45 million call waiting services and 227,000 calling number display services at the end of fiscal 1999.

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 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 competitive alternatives. Falling prices have

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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 should continue to increase as technical barriers are reduced and the market is further opened to competition.

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. Our operating revenue from fixed-to-mobile national long distance calls increased during the three-year period reflecting the increased use of mobile telephones in Australia. This has been the primary reason that our national long distance revenue has grown during the three-year period.

From July 1999, customers who have preselected another carriage service provider for fixed-to fixed national long distance calls will automatically have their fixed-to-mobile calls carried by the same carriage service provider. Accordingly, we anticipate that our market share of fixed-to-mobile minutes will decline sharply to the level of our market share of fixed-to-fixed national long distance minutes. However, we expect the overall fixed-to-mobile market to grow as mobile telephones in service increase and the number and duration of completed calls continue to grow. We may also derive increased wholesale revenues from carriage service providers that provide fixed-to-mobile services.

Table 4 shows information about our national long distance calls.

Table 4 - National long distance call data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
National long distance calls revenue[1]	**A$2,775**	A$2,594	A$2,455	**7.0**	5.7
National long distance minutes	**12,329**	11,319	10,326	**8.9**	9.6

Note: statistical data represents management's best estimates.

(1) *Approximately 4% in fiscal 1999, 5% in fiscal 1998 and 8% in fiscal 1997 of national long distance calls revenue was derived from wholesale activities.*

Our operating revenue from national long distance calls increased during the three-year period, principally due to an increase in our operating revenue from fixed-to-mobile calls which more than offset a reduction in operating revenue from fixed-to-fixed calls. This increase was primarily a result of an increase in the number of mobile telephones in service and increased use of mobile voice mail and mobile messaging services, which increased the number of completed calls. In fiscal 1999, operating revenue from fixed-to-mobile calls represented over 45% of national long distance calls revenue.

As in fiscal 1997 and 1998, our operating revenue from fixed-to-fixed national long distance calls continued to decline in fiscal 1999, 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. These initiatives included:

- our "STD Easy $3" tariff, which provides customers with a capped price for fixed-to-fixed calls during set periods;
- an earlier starting time for the "STD Easy $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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

These initiatives helped to improve customer price perceptions and generate growth in fixed-to-fixed minutes during the three-year period.

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. We expect that this trend will continue.

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 transit over our network of 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 is expected to continue to affect our international telephone services business. Historically, 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®, 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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 5 shows information about our international telephone services.

Table 5 - International telephone services data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
	(in millions)			(% change)	
International telephone services revenue[1]	**A$1,103**	A$1,380	A$1,342	**(20.1)**	2.8
International outgoing minutes[2]	**725**	705	700	**2.8**	0.7
International incoming minutes	**787**	767	755	**2.6**	1.6

Note: statistical data represents management's best estimates.

(1) *Approximately 46% in fiscal 1999, 45% in fiscal 1998 and 38% in fiscal 1997 of international telephone services revenue was derived from wholesale activities.*

(2) *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 836 million in fiscal 1999, 833 million in fiscal 1998 and 829 million in fiscal 1997.*

Our operating revenue from international telephone services decreased in fiscal 1999 compared with fiscal 1998 and it was substantially below fiscal 1997 levels, despite increased volumes during the period. International outgoing minutes increased modestly during the three-year period. However, competition adversely affected our operating revenue as we lost market share and subsequently reduced 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 continued to decline during the three-year period despite increased volumes. This was primarily the result of lower international settlement rates and reduced outgoing market share.

Our operating revenue from international telephone services increased marginally in fiscal 1998 compared with fiscal 1997. This marginal increase reflected an increase in our operating revenue from international transit traffic calls over our network. In fiscal 1999, however, operating revenue from international transit traffic calls over our network significantly declined as competition and declining margins in this business reduced our opportunity to make adequate returns on some traffic routes.

Mobile telecommunications services

Our operating revenue from mobile telecommunications 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.

We charge 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. 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 and

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

treat this subsidy as direct cost of sales. We also treat our initial costs of the mobile handsets as direct cost of sales.

While we have been able to maintain relatively stable air-time charges during the three-year period, we expect that air-time charges will trend downward in future years particularly as more competitors enter this market.

The mobile telecommunications market has grown substantially over the past few years. Although in recent years the rate of growth of services in operation started to decline, 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. However, we expect that average revenue per user will inevitably 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 1999, we announced our intention to introduce a new mobile network with national coverage based on digital technology known as CDMA. This new network will complement our existing GSM digital network and will provide similar coverage to our AMPS network in rural areas of Australia. We expect that the additional capacity provided by the new network will help us to serve additional mobile telecommunications customers and to provide similar coverage to that previously provided by our AMPS network. We also expect that the new network will enhance our ability to move analogue customers to one of our digital networks before our AMPS network is closed down commencing at the end of calendar 1999.

Table 6 shows information about our mobile telecommunications services.

Table 6 - Mobile telecommunications services data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
	(in millions, except customers in thousands)			(% change)	
Mobile telecommunications services revenue[1]	**A$2,538**	A$2,154	A$1,981	**17.8**	8.7
Analogue mobile telephone customers	**673**	1,323	1,688	**(49.1)**	(21.6)
Digital mobile telephone customers	**2,762**	1,745	1,089	**58.3**	60.2
Total mobile telephone customers	**3,435**	3,068	2,777	**12.0**	10.5
Mobile telephone minutes[2]	**3,221**	2,720	2,415	**18.4**	12.6

Note: statistical data represents management's best estimates.

(1) *Excludes revenue from selling analogue services to Cable & Wireless Optus, which we categorise as intercarrier services revenue, and call termination charges, including calls from our fixed network which we categorise as national long distance calls.*

(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. A significant component of the growth in operating revenue in fiscal 1999 also stemmed from the sale of mobile handsets, which more than doubled in volume compared to fiscal 1998. This was primarily due to an exclusive supply arrangement which enabled us, through our dealer channels, to offer attractive handset, access and air-time packages to end users.

The number of our digital customers increased during the three-year period as many of our analogue customers have moved to our digital service and the overall market has grown. Average revenue per user remained relatively flat during the three-year period reflecting our larger digital subscriber base, increased

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

use of value-added services and the growing popularity of mobile telecommunication services in Australia, offset by increased market penetration to lower volume users.

During the three-year period, the disconnection or "churn" rate on our GSM network declined from approximately 22% in fiscal 1997 to 19% in fiscal 1999 despite strong competition. Churn rates are influenced by a number of factors, including customers' payment defaults and short-term disconnections.

Data, text and Internet services

Our operating revenue from data, text and Internet services consists mainly of revenue from:

- ISDN access and associated call charges;
- data transmission services, including frame relay;
- dedicated leased lines;
- facsimile products such as FaxStream® services; and
- Internet access and service provider revenue.

Our revenue growth 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 also been intense which has put pressure on our margins and resulted in price reductions. We expect that these trends will continue.

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

Table 7 – Data, text and Internet services data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
	(in millions, except access lines in thousands)			(% change)	
Data, text and Internet services revenue[(1)(2)]	**A$2,483**	A$2,197	A$1,932	**13.0**	13.7
FaxStream® services access lines	**407.1**	374.8	300.0	**8.6**	24.9
ISDN access lines (basic access line equivalents)	**722.3**	488.4	360.3	**47.9**	35.6

Note: statistical data represents management's best estimates.

(1) *Approximately 13% in fiscal 1999, 13% in fiscal 1998 and 15% in fiscal 1997 of data, text and Internet services revenue was derived from wholesale activities.*

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

Our operating revenue from data, text and Internet services increased 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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

As volumes have increased, however, competitive pressures have generally resulted in price declines. In addition, as a result of the increasing use of 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.

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.

In fiscal 1999, most of our operating revenue in this product category stemmed from integrated services, including ISDN, (approximately 40%) and dedicated data lines and leased lines (approximately 24%). Only a small component of this product category relates to Internet access and service provider revenue (less than 7%). 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. During fiscal 1998, we began consolidating part of our directories business after increasing our ownership interest in this business. As a result of this consolidation, our operating revenue from directory services markedly increased in fiscal 1998 compared with fiscal 1997. Before the consolidation, operating revenue from this part of our directories business consisted of royalties and dividends with the dividends accounted for as "other revenue".

Table 8 shows information about our directory services revenue.

Table 8 - Directory services data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
	(in millions)			(% change)	
Directory services revenue[(1)]	**A$1,078**	A$1,029	A$723	**4.8**	42.3

(1) *In fiscal 1998, our operating revenue from directory services grew by 4.1% excluding the effect of consolidating part of our directories business for the first time.*

During the three-year period, our directory services revenue, excluding the effect of consolidating part of our directories business, 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 which stimulated revenue growth. In fiscal 1999, revenue growth was also stimulated in part through the launch of our Yellow Pages® Internet product "NetSelect™", which provides customers with priority Internet listings and hyperlink services.

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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 9 shows information about our customer premises equipment revenue.

Table 9 - Customer premises equipment data

	Year ended 30 June				
	1999[(1)]	1998	1997	**1999/1998**	1998/1997
	(in millions)			(% change)	
Customer premises equipment revenue	**A$368**	A$538	A$576	**(31.6)**	(6.6)

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

Our operating revenue from customer premises equipment decreased markedly during fiscal 1999 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 continued competition. In fiscal 1998, our operating revenue from customer premises equipment decreased principally due to lower volumes and pricing pressure from increased competition. Partially offsetting the decline in fiscal 1998, however, were increased sales of advanced equipment products reflecting growth in ISDN and other advanced access services.

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. As the ACCC is developing a new set of revenue reporting guidelines, in future years we may reclassify revenue from one category to another.

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				
	1999	1998	1997	**1999/1998**	1998/1997
	(in millions)			(% change)	
Intercarrier services revenue	**A$617**	A$582	A$558	**6.0**	4.3

Our operating revenue from intercarrier services increased during the three-year period mainly due to increased termination of calls on our mobile and other 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 addition, in fiscal 1999 we experienced increased demand for interconnect services primarily reflecting the increase in the number of competitors in the market.

The growth in revenue from intercarrier services has been 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 the previous two years, Cable & Wireless Optus stopped actively promoting analogue mobile telephone services to its customers and accelerated efforts to move AMPS customers to its own GSM network.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Inbound calling products

Our operating revenue from inbound calling products consists principally of:

- subscription and call charges;
- charges for inbound calling services, such as Freecall™ 1800, Priority® One and Priority® 1300; 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.

Table 11 shows information about our inbound calling products revenue.

Table 11 - Inbound calling products data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
Inbound calling products	**A$400**	A$337	A$309	**18.7**	9.1
Total inbound minutes	**2,732**	2,147	1,617	**27.2**	32.8

Note: statistical data represents management's best estimates.

Our operating revenue from inbound calling products increased in fiscal 1998 compared with fiscal 1997 principally resulting from our expanded range of products and our marketing efforts to increase awareness of our product offerings. Strong revenue growth continued in fiscal 1999 with Freecall™ 1800 minutes increasing by 5%, Priority® One3 minutes increasing by 30% and Priority® 1300 minutes increasing by 89%.

Priority® One3 growth was driven by our corporate customers implementing call centres. We introduced in fiscal 1998 Priority® 1300 which is used by larger customers as a call centre product and is also a cost effective alternative to 1800 service for medium size businesses.

Payphones

Our operating revenue from payphones consists of:

- charges for coin-paid calls made from payphones operated by us;
- revenue from pre-paid phone cards; and
- revenue from payphones we sell or lease to independent operators.

Under our universal service obligation, about half of our payphones are located in non-metropolitan areas where usage levels are lower than in urban areas.

Table 12 shows information about our payphones revenue.

Table 12 - Payphones revenue data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
Payphones revenue	**A$207**	A$225	A$248	**(8.0)**	(9.3)

During the three-year period, our operating revenue from payphones decreased moderately, reflecting a mature market and increased use of mobile telephones and calling card products in place of our payphone services. We expect that our operating revenue from payphones will continue to decrease due to increasing competition and the growing popularity of mobile telephone services.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Other sales and services

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

- revenue from various controlled entities;
- ship-to-shore services;
- facilities management;
- international roaming;
- domestic operator-assisted calls;
- commercial works; and
- voicemail recorded services and other enhanced call products.

Table 13 shows information about our other sales and services revenue.

Table 13 - Other sales and services revenue data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
Other sales and services	**A$1,420**	A$1,233	A$902	**15.2**	36.7

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, facilities management, research and development management and other project management services and international roaming. Our international controlled entities in the United Kingdom and New Zealand, however, have not been profitable for us.

Other revenue

Table 14 shows information about our other revenue.

Table 14 - Other revenue by category

	Year ended 30 June		
	1999	1998	1997
		(in millions)	
	A$	A$	A$
Interest received/receivable	**49**	49	85
Proceeds from sale of assets/investments/patents, trademarks and licences	**330**	266	202
Dividends received/receivable	**13**	20	38
Share of associated entities net profit after income tax expense	**(2)**	14	-
Miscellaneous revenue	**257**	250	228
Total other revenue	**647**	599	553

During the three-year period, other revenue increased primarily as a result of increased proceeds from sale of assets/investments/patents, trademarks and licences. 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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overall, our operating expenses (before interest expense and abnormals) increased by an annual average rate of 2.8% over the three-year period, but fell significantly as a percentage of revenue. Our labour expense declined, and decreased as a percentage of revenue, reflecting reductions in staff numbers. In fiscal 1999, approximately A$250 million of the labour expense reduction 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 to terminate calls initiated over our network; and
- we purchased and subsidised more mobile handsets reflecting strong growth in mobile telecommunications services and customers moving from our analogue mobile network to our digital mobile network.

Our depreciation and amortisation expense was relatively flat in fiscal 1998 compared with fiscal 1997 but increased in fiscal 1999 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.

In fiscal 1999 and fiscal 1998, labour expense and other operating expenses were favourably affected and depreciation and amortisation expense was adversely affected by changes we made to our accounting policies in fiscal 1997. We recognised the effects of these accounting policy changes as abnormal items in fiscal 1997. See "Changes in accounting policies".

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					
	1999		1998		1997	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Labour expense	**3,270**	**17.9**	3,665	21.2	3,973	24.9
Direct cost of sales	**3,002**	**16.5**	2,582	14.9	2,033	12.7
Depreciation and amortisation	**2,502**	**13.7**	2,322	13.4	2,353	14.7
Other operating expenses	**3,546**	**19.5**	3,631	21.0	3,295	20.6
Operating expenses (before interest expense and abnormals)	**12,320**	**67.6**	12,200	70.5	11,654	72.9

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.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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.

The number of full-time employees declined over the three-year period to 52,840 at the end of fiscal 1999 compared with 57,234 at the end of fiscal 1998 and 66,109 at the end of fiscal 1997. During the three-year period, our full-time equivalent employees also 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. A substantial portion of labour expense associated with temporary and contracted staff, 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.

We initially raised a provision for redundancy and restructuring in fiscal 1997 of A$1,126 million to cover planned reductions of 25,500 full-time staff. We treated this provision as an abnormal item. During fiscal 1998, we extended our cost efficiency plans, which we expect will reduce staff by a further 2,000 employees by fiscal 2001 and we took a provision of A$115 million for the expected additional costs. 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. 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 1999, we incurred an additional 1,282 redundancies resulting in a charge to labour expense of A$87 million.

Effective December 1998, our staff agreed to a new enterprise agreement to succeed the enterprise agreement which expired in October 1997. The new agreement provides for substantial workplace change and simplification, which we believe will assist productivity improvements in future years. The effect of our staff reductions was offset in part by a 4% pay increase effective in mid-fiscal 1999 under the new enterprise agreement. Full-time staff covered by the new enterprise agreement will also receive a 4% pay increase in January 2000. Staff on individual contracts received an average increase of 5% in the second quarter of fiscal 1999.

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 1999, we contributed A$294 million in fiscal 1998 and A$340 million in fiscal 1997 to these funds. We estimate that labour expense for 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 2000 and 2001 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.

Labour expense also declined in fiscal 1999 and fiscal 1998 as a result of the changes in accounting policies adopted in fiscal 1997 to capitalise labour costs associated with assets we construct and software developed

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

for internal use. In fiscal 1997, we recorded the fall in labour expense associated with these changes in accounting policies as an abnormal item.

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. In fiscal 1999, higher direct cost of sales reflected increased mobile handset volumes, consistent with higher sales and subsidies.

Our direct cost of sales increased during the three-year period mainly because we made more payments to other carriers to terminate outgoing calls. 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 1999, payments to international carriers were essentially flat reflecting the lower volumes of outgoing minutes and transit minutes offset by increased costs relating to our United Kingdom and New Zealand controlled entities.

Depreciation and amortisation

Our depreciation and amortisation expense has been and will remain a major component of our cost structure, reflecting our capital investments. 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 current capital expenditure activity. This increase 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 and we also decreased the number of purchased motor vehicles. Our depreciation and amortisation expense remained relatively flat during fiscal 1997 and 1998 reflecting increases we made in capital investment in recent periods relating to the networks and systems modernisation programme, the GSM digital mobile telecommunications network and the broadband network, substantially offset by extending the service lives of some capital assets.

The changes in accounting policies we adopted in fiscal 1997 to capitalise overhead and interest costs associated with assets we construct and software developed for internal use contributed to increased depreciation and amortisation expense in fiscal 1998 and fiscal 1999 and we expect them to continue to do so in future years. In fiscal 1997, we recorded the increase in depreciation and amortisation expense associated with these changes in accounting policies as an abnormal item.

Other operating expenses

Our other operating expenses include such costs as:

- accommodation (rent, municipal rates, land tax and power);
- network maintenance materials;
- travelling and fares;
- promotion and advertising;
- fleet running costs;
- information technology costs;
- bad and doubtful debts;
- service contracts and agreements for outsourced activities, such as information technology, cleaning services and warehousing and distribution;
- the carrying value of assets disposed of;
- cost of directory services paper sold; and
- losses from partnerships.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Other operating expenses decreased slightly in fiscal 1999 mainly due to decreases in bad and doubtful debts particularly in our 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 lease-back 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.

Our other operating expenses increased in fiscal 1998 principally due to increased outsourcing costs, increased costs to ensure that our network and systems are year 2000 compliant, increased book value of assets sold, promotion and advertising activity and, to a lesser degree, additional bad and doubtful debts. These increases were offset in part by the effect of changes in accounting policies we adopted in fiscal 1997 to capitalise overhead costs associated with assets we constructed and software developed for internal use.

A significant portion of the increase in 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. While two of these proceedings are ongoing, we believe that we have made appropriate provision for bad and doubtful debts. However, such provisions may not prove to be adequate.

Overall, we expect that our other operating expenses will be relatively flat as a percentage of our operating revenue for the near term. This trend is principally due to increased outsourcing costs, information technology expenses and contractor service payments.

Interest expense

During the three-year period, our interest expense (borrowing costs) increased to A$578 million in fiscal 1999 from A$524 million in fiscal 1997. Interest expense was influenced by:

- the level of our debt;
- declining interest rates;
- our commitment to make additional annual payments over and above normal employer contributions to a superannuation fund; and
- changes in accounting policies we adopted in fiscal 1997 to capitalise interest costs associated with assets we constructed and software developed for internal use.

On 30 June 1997, we fully drew down credit facilities consisting of a A$1 billion 364 day credit facility and a A$2 billion five-year credit facility in order to replenish working capital following the payment of a A$3 billion special dividend to the Commonwealth. The A$1 billion loan was fully repaid during fiscal 1998 and the A$2 billion loan was refinanced in fiscal 1998 with a more efficient combination of short and long term facilities. However, the A$2 billion credit facility remains in place should the need for additional funds arise.

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$93 million in fiscal 1999, A$96 million in fiscal 1998 and A$98 million in fiscal 1997. These payments relate to a 16 year agreement made in fiscal 1995 with the Telstra Superannuation Scheme which remains 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. Further details are provided under note 22 to the financial statements.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

In fiscal 1997, we recorded the decrease in interest expense associated with the changes in accounting policies referred to above as an abnormal item.

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 1997, we recognised an abnormal charge of A$1.1 billion for redundancy and associated costs related to our workforce reduction and restructuring programme. Refer to the discussion under labour expense on the charges made against this redundancy and restructuring provision.

In fiscal 1997, we changed our accounting policies to capitalise interest costs associated with assets we construct and software developed for internal use. Prior to these changes, we expensed these costs rather than capitalised them. The effect of these changes in accounting policies in fiscal 1997 was an abnormal benefit to profit before income tax of A$606 million.

In fiscal 1997, we recognised an abnormal charge of A$394 million reflecting management's best estimate of our cost to satisfy future obligations related to the JORN project.

We wrote down our broadband network assets in fiscal 1997 by A$587 million, of which A$245 million was charged to the asset revaluation reserve and the balance of A$342 million was included as an abnormal charge against operating profit before income tax expense. We based this writedown on the present value at 30 June 1997 of our estimated future net cash flows before income tax expense over the remaining service lives of the assets. The writedown was caused principally by a reduction in the number of homes to be passed by, and a reassessment of other potential usages for, the broadband network. Even after this writedown, however, we do not expect our broadband network to be profitable for at least the next few years.

In addition, in fiscal 1997, we recorded an abnormal charge of A$476 million as a result of an agreement to reduce our rollout of our broadband network to 2.5 million homes passed from the previously contracted 4.0 million homes passed. The charge was based on estimated contract settlements of A$390 million as a result of the rollout reduction and a writedown of excess inventory of A$86 million.

Income tax expense

In fiscal 1999, our effective tax rate increased to 34.4% from 32.9% in fiscal 1998. However, in fiscal 1998, we recognised significant prior year over-provisions which reduced the tax expense in that year thereby reducing the fiscal 1998 effective rate. When prior year over-provisions are excluded from both years, our effective tax rate declined in fiscal 1999 to 34.6% from 35.4% in fiscal 1998 primarily due to higher permanent differences for rebateable dividends. In fiscal 1997, our effective tax rate was 22.4% reflecting a tax benefit of A$285 million related to depreciation on devalued assets and adjustments for prior year provisions of A$66 million.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Australian GAAP compared with US GAAP

	Year ended 30 June		
	1999	1998	1997
		(in millions)	
	A$	A$	A$
Operating profit attributable to shareholders			
US GAAP	**3,416**	2,674	1,136
A GAAP	**3,486**	3,004	1,617
Shareholders' equity			
US GAAP	**16,199**	14,676	13,473
A GAAP	**10,294**	11,079	9,938

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

- the different treatment of fixed asset revaluations;
- 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 16 shows our cash flows for the three-year period.

Table 16 - Cash flow data

	Year ended 30 June		
	1999	1998	1997
		(in millions)	
	A$	A$	A$
Net cash provided by operating activities	**6,574**	5,635	5,254
Net cash used in investing activities	**(4,064)**	(3,609)	(4,171)
Net cash used in financing activities	**(2,484)**	(1,808)	(1,572)
Net increase/(decrease) in cash	**26**	218	(489)

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$92 million in fiscal 1999, A$83 million in fiscal 1998 and A$106 million in fiscal 1997 as a result of the accounting policy changes we adopted in fiscal 1997. During the three-year period, net cash provided by operating activities grew on average by 11.9% per annum principally due to improved cash flow from our sales to customers, offset somewhat by an increase in payments to suppliers.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Table 17 - Net cash used in investing activities

	Year ended 30 June		
	1999	1998	1997
		(in millions)	
	A$	A$	A$
Switching	**626**	739	768
Transmission	**602**	563	579
Customer access	**863**	672	848
Mobile telecommunications networks	**612**	332	330
Broadband network	**34**	97	459
International telecommunications infrastructure	**138**	136	119
Capitalised software	**502**	227	238
Other	**897**	975	907
Capital expenditures(1)	**4,274**	3,741	4,248
Investments	**112**	149	150
Capital expenditures and investments(1)	**4,386**	3,890	4,398
Sale of capital equipment, investments and other	**(322)**	(281)	(227)
Net cash used in investing activities	**4,064**	3,609	4,171
Capital expenditures (including interest)	**4,366**	3,824	4,354
Capital expenditures & investments (including interest)	**4,478**	3,973	4,504

(1) *Excludes A$92 million in fiscal 1999, A$83 million in fiscal 1998 and A$106 million in fiscal 1997 of capitalised interest which is reflected in net cash provided by operating activities.*

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 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.

In fiscal 1998, we spent A$507 million less on capital expenditures than we spent in fiscal 1997, reflecting the substantial completion of various large capital expenditure projects, including our programme to modernise and digitise the PSTN and the rollout of the broadband network.

During fiscal 1999, our capital investments included:

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

On 22 June 1999, we acquired a 5% interest in Computershare, a public company listed on the Australian Stock Exchange involved in the development of financial markets, products and services. Computershare

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

has also granted us an option to increase our holding to 15% of its issued capital at any time prior to 31 December 1999 through a new share issue.

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.

In fiscal 1997, our capital investments principally comprised A$129 million we contributed to FOXTEL.

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, including the CAN 2001 project;
- investment in international cables to cater for the expansion of overseas telecommunications traffic;
- further investment in pay television and on-line services content and development;
- investment in offshore ventures;
- the provision of enhanced telecommunications services to remote customers; 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 expenditures and investments in each of fiscal 2000, 2001 and 2002. To the extent that unforeseen capital expenditures and investments arise or our estimates of our capital requirements prove to be understated, we may need to fund some of our capital expenditures and investments with debt, disposal of assets or other financing.

Net cash used in financing activities

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. 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 these dividends, we intend to increase our borrowings.

In fiscal 1998, the increase in cash used in financing activities of A$236 million was principally driven by the net repayment of debt in fiscal 1998 of A$386 million compared with net borrowings in fiscal 1997 of A$2,735 million, offset by a reduction in dividends paid of A$2,885 million.

In fiscal 1997, the decrease in cash used in financing activities of A$87 million reflected primarily a net increase in borrowings of A$3.2 billion, offset by increased dividend payments of A$3.1 billion. The increase in dividends was due mainly to a special dividend of A$3 billion we made to the Commonwealth.

Capital resources

At 30 June 1999, our total debt was A$7.2 billion with net debt of A$5.8 billion after deducting cash of A$979 million, other interest bearing financial assets of A$184 million and loans to employees of A$279 million. Approximately 44% of our total debt consisted of domestic borrowings with the balance sourced from a

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

variety of offshore markets. Our current debt which matures in less than 12 months, comprised approximately 31% of our total debt, which had an average maturity of approximately five years.

We have access to A$750 million and US$100 million of committed standby bank lines and an undrawn syndicated loan of A$2 billion which is available until mid-2002. 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. 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 working capital of A$5,600 million at 30 June 1999, A$4,036 million at 30 June 1998 and A$2,155 million at 30 June 1997.

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. Borrowings also reduced with the gradual maturity of the Telecom/Telstra bonds and the repayment of finance leases due to early close out of Japanese cross border leases.

As at 30 June 1998, our negative working capital was attributable primarily to our short term borrowings of A$1 billion undertaken to refinance a portion of the syndicated bank loan credit facility drawn down in June 1997. On 30 June 1997, we paid a special dividend of A$3.0 billion to the Commonwealth. Also on 30 June 1997, to partially replenish our working capital, we drew down a A$1.0 billion 364 day credit facility and a A$2.0 billion, five-year credit facility. This draw down contributed to the increase in our negative working capital as at 30 June 1997. In addition, our expected workforce reductions have contributed to the increase in our negative working capital due to the increased payables associated with the programme.

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.

Segment information

Our business is organised and managed along business unit lines as described under "Description of Business - Organisation". Although changes to the organisation structure were announced in late fiscal 1999, the new reporting regime was not put in place until fiscal 2000.

During this transition stage, our internal reporting has continued under the old organisation structure and this results in the following areas qualifying as reportable segments under Statement of Financial Accounting Standards No. 131 for fiscal 1999:

- Commercial & Consumer;
- Business & International;
- Network Technology Group & Multimedia; and
- Carrier Services Group.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Products & Marketing and the Corporate Centre are not reportable segments and have been aggregated in the "Other" segment in note 5 to the financial statements which provides more information on segment reporting. 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

Table 18 - Segment summary data

	Year ended 30 June				
	1999	1998	1997	**1999/1998**	1998/1997
		(in millions)		(% change)	
	A$	A$	A$		
Revenue from external customers					
Commercial & Consumer	**5,955**	5,838	5,802	**2.0**	0.6
Business & International	**8,490**	7,730	6,742	**9.8**	14.7
Network Technology Group & Multimedia	**1,213**	1,213	910	**0**	33.3
Carrier Services Group	**1,878**	1,897	2,022	**(1.0)**	(6.2)
Earnings before interest and tax (before abnormals)(1)					
Commercial & Consumer	**1,592**	1,575	1,045	**1.1**	50.7
Business & International	**2,884**	2,263	1,659	**27.4**	36.4
Network Technology Group & Multimedia	**526**	731	699	**(28.0)**	4.6
Carrier Services Group	**696**	566	531	**23.0**	6.6
Total assets(2)					
Commercial & Consumer	**7,991**	6,354	4,671	**25.8**	36.0
Business & International	**13,978**	11,323	9,388	**23.5**	20.6
Network Technology Group & Multimedia	**17,038**	16,228	16,302	**5.0**	(0.5)
Carrier Services Group	**2,161**	1,449	826	**49.1**	75.4

(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's responsibilities include providing telecommunications services to our more than seven million residential and small business customers. In particular, Commercial & Consumer manages sales, customer service installation and repairs, billing, and management of our information and connection services and payphone services. Commercial & Consumer is also responsible for building and maintaining the customer access network on behalf of the Network Technology Group & Multimedia.

Revenue increased slightly over the three-year period reflecting overall market growth partially offset by market share losses particularly in international telephone services and more competitive pricing in international and national long distance calls. In addition, the internal transfer of customers with more than three telephone lines from Commercial & Consumer to Business & International offset some of the revenue gains in fiscal 1998 and fiscal 1999.

Commercial & Consumer's earnings before interest and tax increased significantly in fiscal 1998 compared with fiscal 1997, but remained relatively flat in fiscal 1999. The relatively flat fiscal 1999 earnings before interest and tax principally reflected lower labour costs mostly offset by higher outsourcing costs associated with installation and maintenance work and an increase in bad and doubtful debts. The improvement in

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

earnings before interest and tax in fiscal 1998 compared with fiscal 1997 was primarily attributable to lower inter-company charges from Network Technology Group & Multimedia due in part to the transfer of customers with more than three telephone lines to Business & International. In addition, in fiscal 1998, increased outsourcing costs associated with operator information and connection services, telemarketing and other functions were more than offset by reduced labour costs.

Business & International

Business & International's responsibilities include sales and services to larger businesses and the Commonwealth, State and Territory governments. In addition, Business & International is responsible for mobile telecommunications and manages satellite and radio services, global business services, international operations and international joint ventures.

Business & International experienced strong revenue growth during the three-year period. Domestic revenue growth was mostly attributed to a significant increase in its mobile telecommunications customer base and increased mobile handset sales as a result of the impending closure of the analogue network and the migration of customers to our digital GSM service. Increased volumes in national long distance calls, particularly fixed-to-mobile calls, and increased demand for data and Internet services, particularly flexible, high capacity data transmission services, also contributed to revenue growth during the period. International revenue growth during the three-year period reflected increased revenues from international controlled entities in the United Kingdom and New Zealand. The internal transfer of customers with more than three lines from Commercial & Consumer also resulted in increased revenues in fiscal 1998 and fiscal 1999.

Business & International's earnings before interest and tax increased significantly during the three-year period primarily reflecting strong revenue growth. This revenue growth was partially offset by increased costs associated with mobile handsets, mobile handset subsidies and mobile dealer commissions, and in fiscal 1998, higher inter-company charges from Network Technology Group & Multimedia after the transfer of customers with more than three telephone lines from Commercial & Consumer. In addition, over the three-year period, the higher payments to international carriers reflected the lower margins in transit traffic through our United Kingdom and New Zealand controlled entities. These controlled entities have not been profitable for us.

Network Technology Group & Multimedia

Network Technology Group & Multimedia's responsibilities include:

- planning, design, construction and operation of our fixed and mobile networks in Australia;
- the associated systems and processes required to deliver products, services and customer support;
- research and development;
- the management of our pay television and other multimedia joint venture interests; and
- the management of our directory services controlled entity.

Revenue increased significantly in fiscal 1998 compared with fiscal 1997, but remained flat in fiscal 1999. The flat fiscal 1999 revenue principally reflected revenue growth in Yellow Pages®, offset by transfer of businesses into other operating segments. The significant increase in fiscal 1998 revenues principally reflected the consolidation of our directory services controlled entity for the first time.

Network Technology Group & Multimedia's earnings before interest and tax increased marginally in fiscal 1998 compared with fiscal 1997 but decreased significantly in fiscal 1999. Generally, Network Technology Group & Multimedia recovers the cost to operate the networks and systems internally from the other operating segments resulting in no effect on earnings before interest and tax. In fiscal 1999, however, the

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

migration of mobile AMPS customers to our mobile GSM service resulted in lower internal recovery of interconnection costs, which had a negative effect on fiscal 1999 earnings before interest and tax. Whereas Network Technology Group & Multimedia internally charges wholesale GSM interconnection rates to the other operating segments, the regulatory regime requires it to apply the same commercial interconnection charges for AMPS that we charge our external customers. The increase in earnings before interest and tax in fiscal 1998 was primarily due to increasing our interest in our directory services company to 75%.

Carrier Services Group

Carrier Services Group's primary responsibilities include managing carriers, carriage service providers and suppliers in Australia and overseas.

During the three-year period, revenue decreased, although only marginally in fiscal 1999 compared with fiscal 1998. The marginal decrease in fiscal 1999 revenue principally reflected reduced payments from other international carriers to transmit traffic over and terminate calls on our network and reduced revenues from expected lower mobile AMPS resale volumes pending the closure of this network. However, these declines were mostly offset by increased revenues for both switched and non-switched services. Revenue decreased more significantly in fiscal 1998 compared with fiscal 1997 principally reflecting reduced revenue from non-switched services as customers shifted to switched services and lower mobile AMPS resale volumes. These declines were partially offset by higher international transit revenue from increased volumes and increased revenue for switched services.

During the three-year period, earnings before interest and tax increased despite falling revenues principally due to lower doubtful debt expenses and lower charges from other operating segments, particularly in fiscal 1999.

Our new organisation structure

From fiscal 2000, the new organisational structure, as outlined under "Description of Business" will be in place for management reporting purposes. For fiscal 2000 we will report our segment information on this new basis and, where administratively possible, the two prior fiscal years.

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.

External auditors

In accordance with the Telstra Corporation Act 1991, our Australian auditor is the Auditor-General. For fiscal 1993 to fiscal 1999, the Auditor-General sub-contracted a substantial part of the audit work initially to Price Waterhouse and then to PricewaterhouseCoopers who also acted as our auditor for the U.S. and other overseas filings for fiscal 1997 to fiscal 1999. In May 1999, the Auditor-General and Telstra announced that Ernst & Young had been selected 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. Ernst & Young was appointed following a rigorous selection process conducted jointly by the Auditor-General and us.

Year 2000

In common with many large businesses around the world, we have established a programme designed to minimise the effect of the transition to the year 2000 on us and our customers. In repairing or replacing our computer systems and network equipment we have placed priority on those systems that could cause significant financial and legal effects on our business if they were to fail.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

We have also incorporated year 2000 considerations into our system development and maintenance plans. Our operations, however, may also be affected by the ability of third parties dealing with us to manage the effect of the year 2000 date change.

Our state of readiness

Our year 2000 programme has addressed the year 2000 status of, among other things, telephony and data networks, customer premises equipment, information technology, electronic data information transactions and building support infrastructure, such as building management systems, air-conditioning controls and electrical power systems.

The objective of the programme is to enable us to manage our business operations with minimal risk and financial effect before, during and after the transition from 1999 to 2000.

We completed the assessment phase for our critical telecommunications network components and information technology applications in 1997. Where we identified problem areas, we have sought to remedy the problem by either repairing our existing components and applications or replacing these items with year 2000 compliant items.

Our programme for repair, deployment, replacement and retirement of critical information technology applications and network systems is almost complete as at the end of June 1999. The small number of remaining systems due to be completed after July 1999 are included in our contingency planning activity.

Non-critical network components and information technology applications are largely complete. Outstanding items are intended to be completed during the remainder of calendar 1999.

We have completed year 2000 assessments of our high-priority buildings and aim to complete necessary remediation work by the end of September 1999.

We have a major dependency upon our suppliers and are focused on obtaining year 2000 compliant assurances from suppliers which are critical to our business, or which supply products that are business critical. We have obtained compliance information from many of our suppliers of information technology and network products, including customer premises equipment, electronic data interchange and general products and services.

We are working closely with our suppliers to:

- ensure acceptance of our year 2000 compliance definition;
- establish and maintain the currency of supplier's current year 2000 compliance position for its products and services and suppliers' schedule for becoming compliant, where relevant; and
- achieve the timely delivery by the suppliers of year 2000 compliant products and services.

Estimated cost

We estimate that the cost of our year 2000 programme will be up to A$400 million for the period to 31 December 2000. Approximately A$300 million of the anticipated cost relates to remediation work and the remaining amount relates to contingency planning and capital expenditure.

As at 30 June 1999, the year 2000 programme had incurred total direct expenditures of A$235 million. In some cases, year 2000 upgrades of networks and systems may be incorporated into other general upgrades. In these cases, year 2000 compliance costs may not be easily distinguished from normal upgrade and maintenance costs.

Item 9: Management's Discussion and Analysis of Financial Condition and Results of Operations

Remaining risks

While we have devoted significant resources to address the year 2000 problem, there is a risk that our year 2000 programme will not be successful or that the date change from 1999 to 2000 will materially affect our operations and financial results. In addition, we face other material year 2000 risks, including:

- year 2000 problems in the networks of other domestic or international carriers or carriage service providers that have an effect on our ability to continue to provide services;
- suppliers' failure to provide us with year 2000 compliant products or maintain continuity of supply of products or services affecting our ability to continue to provide services;
- customers or trading partners taking action against us if we are unable to maintain services to them; and
- regulators imposing fines or taking other actions against us for failing to maintain continuous services, such as under our customer service guarantees.

Year 2000 contingency plans

Our year 2000 contingency planning is progressing well. We have established contingency plans as part of our standard disaster recovery planning. We are reviewing these plans and augmenting them where needed to deal with the types of scenarios that might occur in relation to the year 2000 problem.

Our year 2000 specific contingency planning is focused on such areas as business products and services, network systems, information technology applications, facilities, and emergency services and infrastructure. External telecommunications industry consultants are now working with us to assist in these year 2000 contingency planning activities and we have completed contingency planning pilots for key business functions. We are currently undertaking cross company year 2000 scenario planning including the establishment of corporate wide priorities and are working to augment existing business unit operational centres as necessary.

A key component of our contingency planning is to ensure that appropriate management arrangements and processes are in place during key events. As part of this approach, we are establishing a control centre for the transition period. This control centre will form the focal point for management communications and processes during the transition period and will build upon the capabilities of existing network and information technology management centres. Contingency planning and transition management will remain major areas of focus in our year 2000 programme during the remainder of the 1999 calendar year.

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 which 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 19 - Adverse proportional movement of 10% across risk categories

	As at 30 June	
	1999	1998
	(in millions)	
	A$	A$
Risk Categories		
Interest rates	**152**	177
Foreign currency rates	**31**	35
Total	**183**	212

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 actuary, William M Mercer, 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 20 - VaR[(1)]

	As at 30 June	
	1999	1998
	(in millions)	
One month holding period	**A$**	A$
Risk categories		
Interest rates	**216**	212
Foreign currency rates	**2**	26
Sub-total	**218**	238
Diversification effect[(2)]	**(2)**	(31)
Total	**216**	207

[(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 1999. The following table shows the high, low and average amounts of the portfolio VaR based on these quarterly results:

Table 21 - VaR[(1)] analysis

	As at 30 June 1999		
	High	**Low**	**Average**
		(in millions)	
	A$	**A$**	**A$**
Risk categories			
Interest rates	247	209	225
Foreign currency rates	17	13	11
Sub-total	264	222	236
Diversification effect[(2)]	(20)	(15)	(13)
Total	244	207	223

[(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 26 August 1999, our directors were as follows:

Directors

Name	Age	Position	Year of initial appointment	Year last re-elected[1]
David M Hoare	66	Chairman	1991	1997
John T Ralph	66	Deputy Chairman	1996	1997
Zygmunt E Switkowski	51	Chief Executive Officer, Director	1999	-
N Ross Adler	54	Director	1996	1998
Anthony J Clark	60	Director	1996	1997
Michael H Codd	59	Director	1992	1996
Malcolm G Irving	69	Director	1997	1997
Donald G McGauchie	49	Director	1998	1998
Cecilia A Moar	40	Director	1998	1998
Elizabeth A Nosworthy	53	Director	1991	1998
Christopher I Roberts	54	Director	1991	1998
John W Stocker	54	Director	1996	1997
Stephen W Vizard	43	Director	1996	1998

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

Mr Frank Blount retired as chief executive officer in fiscal 1999. Dr Zygmunt E Switkowski, formerly Group Managing Director of Business & International, was appointed to this position.

Mr Codd has advised that he will not stand for re-election as a director and will retire at the annual general meeting on 12 November 1999. The board has invited Mr Robert C Mansfield, BCom, FASA, CPA, to become a director on Mr Codd's retirement and Mr Mansfield has agreed to accept this position if elected. As at 3 September 1999, Mr Mansfield held the positions of Chairman of CBS Technologies Pty Ltd and Director, McDonald's Australia Limited and Datacraft Asia Limited. He was formerly chief executive officer of McDonald's Australia Limited, Wormald International Limited, Optus Communications Limited and John Fairfax Holdings Limited. Mr Mansfield will be nominated at the annual general meeting to fill the vacancy created by Mr Codd.

Mr Hoare will retire as chairman shortly after the annual general meeting. The board has decided to invite Mr Mansfield to become the chairman to succeed Mr Hoare.

A brief biography for each of the directors as at 26 August 1999 is as follows:

David M HOARE - BEc, FCPA
Chairman
Director and Chairman since December 1991.

Chairman, Pioneer International Ltd, Bridon Australia Pty Ltd (formerly Birkmyre Pty Ltd) and Board of Partners, Mallesons Stephen Jaques; Director, Bankers Trust Australia Limited Group, Comalco Ltd and Strand Lighting Pty Ltd; Fellow of the Senate, University of Sydney and Chairman, Australian Graduate School of Management.

Item 10: Directors and Officers of Registrant

John T RALPH - AO, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melb & Qld)
Deputy Chairman
Director and Deputy Chairman since October 1996.

Chairman, Foster's Brewing Group Ltd and Pacific Dunlop Limited; Deputy Chairman, Commonwealth Bank of Australia; Director, BHP Limited and Pioneer International Ltd; Member, Board of Melbourne Business School; National Chairman, The Queen's Trust for Young Australians; Chairman of the Australian Foundation for Science.

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 Limited 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.

N Ross ADLER - AO, BCom, MBA
Director since October 1996.

Chief Executive Officer and Managing Director, Santos Ltd; Director, Santos Group Companies, Commonwealth Bank of Australia, QCT Resources Ltd and Australian Institute of Petroleum Ltd; Member, Business Council of Australia and Corporations & Securities Panel; Chairman of the Board of the Art Gallery of South 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 Limited; Deputy Chairman, Australian Tourist Commission; Director, Amalgamated Holdings Limited Group and Ramsay Health Care Limited.

Michael H CODD - AC, BEc (Hons)
Director since February 1992.

Chancellor, Wollongong University; Director, Qantas Airways Limited, MLC Ltd, MLC Lifetime Ltd and Toogoolawa Consulting Pty Ltd; Director and Deputy Chair, Australian Nuclear Science and Technology Organisation (ANSTO) and Menzies Foundation; Member, Advisory Board, Spencer Stuart, Advisory Board, Blake Dawson Waldron and Board of Advisers, Constitutional Centenary Foundation; Senior Adviser, Asia-Australia Institute.

Malcolm G IRVING - AM, BCom, Hon DLit
Director since July 1997.

Chairman, Caltex Australia Limited, Australian Industry Development Corporation; Member, Merrill Lynch Australasian Board of Advice and Advisory Member of the Deloitte Touche Tohmatsu Board of Partners.

Donald G McGAUCHIE
Director since September 1998.

Senior Partner, C&E McGauchie - Terrick West; Chairman, WoolStock Australia Limited; Director, 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.

Item 10: Directors and Officers of Registrant

Cecilia A MOAR - DipT
Director since September 1998.

Partner, cereal grower near Swan Hill in Victoria. Graduate of the Australian Rural Leadership Programme; Chairperson, WARM Plan 2001 - Water and Resource Management and Planning for the Northern Mallee; Member, Mallee Catchment Management Authority, Understanding Rural Australia Advisory Committee and the Swan Hill Rural City Development & Marketing Board.

Elizabeth A NOSWORTHY - BA, LLB, LLM
Director since December 1991.

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

Christopher I ROBERTS - BCom
Director since December 1991.

Chairman, Email Limited; Director, Petaluma Limited, Amcor Limited, Transparency International Australia and Juvenile Diabetes Foundation Inc.

John W STOCKER - AO, MB, BS, BMedSc, PhD, FRACP, FTSE
Director since October 1996

Director, Cambridge Antibody Technology Group plc, Circadian Technology Ltd; Principal, Foursight Associates Pty Ltd, Fernz Corporation Limited; former Chief Scientist, Commonwealth of Australia; former Chairman, Australian Science Technology and Engineering Council; Chairman, Grape and Wine Research and Development Corporation and Chiron Technologies Ltd and Sigma Company Limited.

Stephen W VIZARD - AM, LLB, BA, FAICD
Director since October 1996.

Chairman, Artist Services Group, Granada Media Australia; Board Member, Australian Commercial Television Production Fund, Victorian Multimedia Taskforce, State Library of Victoria Foundation; Member of the Committee, Melbourne Cricket Club; President, Council of Trustees for the National Gallery of Victoria; 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, Wholesale & International	1999	1989
Robert Cartwright	Group Managing Director, Employee Relations	1995	1995
Gerry Moriarty	Group Managing Director, Network & Technology Group	1998	1993
Ted Pretty	Group Managing Director, Convergent Business	1999	1997
Paul Rizzo	Group Managing Director, Finance & Administration	1993	1993
Peter Shore	Group Managing Director, Commercial & Consumer	1997	1981
Dick Simpson	Group Managing Director, Telstra OnAir	1999	1999
Graeme Ward	Group Managing Director, Public Affairs & Corporate Marketing	1999	1972
Lindsay Yelland	Group Managing Director, Telstra Business Solutions	1999	1992

Item 10: Directors and Officers of Registrant

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, 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 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.

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's last appointment within Telstra was as Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide.

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.

Peter Shore - BSc
Mr Shore was formerly Managing Director of Telstra's International Business Unit and General Manager of Overseas Telecommunications Commission's international operations. He has 17 years experience in telecommunications.

Graeme Ward - BEc (Hons)
Mr Ward has extensive telecommunications industry experience, including senior positions in corporate strategy, business planning and external relations. Most recently, he was the Group Director Regulatory & External Affairs which led Telstra's relationship with the Commonwealth Government on regulatory, shareholder and industry policy matters and was the Company's prime interface with the industry regulators.

Item 10: Directors and Officers of Registrant

Lindsay Yelland - BSc
Prior to joining Telstra, Mr Yelland held numerous positions in the computer industry, including Vice President, Asia-Pacific, Data General Corp and Vice President of Apollo Computer Corporation. Mr Yelland is a Director of the Australian Information Industry Association.

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 for the whole of the year ended 30 June 1999 and those that have been introduced more recently.

Our corporate governance practices continue to evolve as the company moves from a Commonwealth Government-owned business enterprise to a major publicly listed company with a wide shareholder base. While the Commonwealth owns more than 50 per cent of the shares in Telstra, we will remain subject to various ministerial and other controls to which other 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.

The chief executive officer is an executive director and the chairman, the deputy chairman and other members are non-executive directors.

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

During the year ended 30 June 1999, the following changes in board membership occurred:

- two new non-executive directors, Mrs Cecilia A Moar and Mr Donald G McGauchie joined the board in September 1998;
- Mr W Frank Blount retired from his role as chief executive officer and director in February 1999; and
- Dr Zygmunt E Switkowski was appointed as chief executive officer and director in March 1999.

In August 1999, the following changes to the board were announced:

- Mr Michael H Codd has advised that he will not stand for re-election as a director and will retire at Telstra's annual general meeting on 12 November 1999;
- The board, through the chairman, has consulted with the majority shareholder as provided in our constitution on the matter of a suitable replacement director. As a result, Mr Robert C Mansfield has been invited to become a director on Mr Codd's retirement. Mr Mansfield will be nominated at the annual general meeting to fill the vacancy created by Mr Codd; and
- Mr David M Hoare has previously indicated that he wished to retire from the position of chairman and will do so shortly after the annual general meeting. Mr Mansfield has been asked to become Telstra's chairman to succeed Mr Hoare.

Corporate Goverance

Individual directors and board committees are able to obtain professional advice independent of advice received from management or Telstra's professional advisers. This advice may be obtained, after consultation with the chairman, at Telstra's cost and would be made available 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 in Australia and our constitution require directors to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the board has developed procedures to be followed by a director who believes he or she may have a conflict of interest or material personal interest.

Meetings and committees of the board

The board normally meets nine times each year for scheduled meetings and on other occasions to deal with specific matters that require attention between meetings that have been scheduled.

The regular business considered by 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 board committees, both of which have operated throughout the year, are:

- **Audit and Compliance Committee.** The role of this committee is to:
  - oversee our compliance with external and internal obligations and our risk management programmes;
  - review our annual audit programme; and
  - provide 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 within Telstra. This includes:
  - 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 as well as the succession plans for senior executives.

Corporate Governance

Until July 1998, the finance committee considered financial and strategic matters and then made recommendations to the board. However, it was considered that these issues were more appropriate for consideration by the full board and therefore this committee was dissolved in July 1998.

Remuneration of board members

The remuneration for:

- the chief executive officer, as an executive director is shown on page 114 under the heading of senior executive emoluments; and
- non-executive directors is on page 112 under non-executive director emoluments.

External auditors

In accordance with the Telstra Corporation Act 1991, our Australian auditor is the Auditor-General. For the years ended 30 June 1993 to 30 June 1999, the Auditor-General sub-contracted a substantial part of the audit work initially to Price Waterhouse and then to PricewaterhouseCoopers who also acted as our auditor for the U.S. and other overseas filings for the years ended 30 June 1997 to 30 June 1999. In May 1999, the Auditor-General and Telstra announced that Ernst & Young had been selected 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. Ernst & Young was appointed following a rigorous selection process conducted jointly by the Auditor-General and us.

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 & Compliance Committee provides advice to the board on the status of business risks to the organisation 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 & Compliance Committee receives reports independently prepared by the risk management and assurance group, on significant business risks and the strategies to manage these risks.

In addition, Telstra uses risk financing techniques including insurance to reduce the financial impact of any uncontrollable or catastrophic risks.

A central treasury function manages the financial exposures to reduce the volatility of cash flows and asset values arising from interest rate and exchange rate movements in accordance with board approved limits. Details of the nature of these exposures and the value at risk are detailed in note 29 of the full financial report.

Corporate Goverance

Recommendations on improving the effectiveness of audit committees

In September 1998, the New York Stock Exchange and the National Association of Securities Dealers established a blue ribbon committee in the U.S. to review and recommend ways in which the effectiveness of audit committees could be improved. The committee was established in response to concerns raised by the Chairman of the Securities and Exchange Commission who called for improved oversight of the financial reporting of public companies. The committee tabled its report in February 1999 with ten recommendations that covered:

- means by which the independence of the audit committee could be strengthened;
- ways to make the audit committee more effective; and
- mechanisms for accountability among the audit committee, the outside auditors and management.

The recommendations of the report are still subject to discussion and debate in the U.S. However, while not all of the recommendations may be adopted, it is likely that the report from the blue ribbon committee will lead to changes that will impact on U.S. listed companies. As Telstra is listed in the U.S. on the New York Stock Exchange, it is likely to be directly affected by the adopted recommendations.

The board is maintaining interest in these recommendations and will put into effect changes considered appropriate as soon as is practicable.

Item 11: Compensation of Directors and Officers

For fiscal 1999, the aggregate amount of remuneration earned by the directors and executive officers as a group was A$13 million.

This amount consists of:

- A$1 million that has been set aside or accrued during fiscal 1999 to provide pension and retirement benefits; and
- A$12 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 1999 are included in the above remuneration figures.

Senior manager equity participation plan

Since 1994 our senior managers have participated in a long-term incentive plan, conditional upon the company exceeding over three years the return on investment target agreed by the board. The incentive plan was designed to replicate many of the features of an equity plan but, since no shares were traded at the time of its introduction, any awards from the plan are paid in cash.

The board has now decided to replace progressively the existing long-term incentive plan and as a result move from an internally measured plan to one linked to company performance in the market.

The benefits of this change for us are:

- to align senior manager and shareholder interests;
- to reinforce a strong focus for senior managers on the future performance of the company; and
- to keep pace with reward practices in the market.

As a practical result of the Telstra Corporation Act, we are not able to issue new shares. Accordingly, the new plan to be introduced is dependent on purchasing existing Telstra shares. Its operation will be a direct charge against the company's accounts. The ASX has confirmed that, since there are no new shares to be issued directly or through the exercise of options, its listing rules do not require the board to submit the plan for shareholder approval.

To achieve a reasonable balance of fairness and incentive, the senior manager equity participation plan (SMEPP) adopted by the board has two equally weighted parts, one involving the allocation of restricted shares, and the other involving the grant of options over issued shares.

For the offer to be made in calendar 1999, restricted shares and options are subject to the same performance hurdle three to five years after allocation. Each will be earned by the participant only 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 the SMEPP will be made to executives at the discretion of the board. Less than 50 senior managers will be offered participation in SMEPP in calendar 1999. The chief executive officer has been allocated 50,000 restricted shares and 300,000 options. A total of less than 600,000 restricted shares and less than 3,500,000 options will be allocated to participants in calendar 1999. The number of options and restricted shares offered to each executive has been determined taking account of individual performance and other criteria judged relevant by the board.

Item 11: Compensation of Directors and Officers

Cumulatively over a five year period the total number of shares and options over shares is not expected to exceed 0.5% of shares on issue.

The board wishes to encourage senior managers to be holders of significant shareholdings in the company, so as to align strongly with the interests of shareholders. As a guideline, the board has indicated an expectation that the chief executive officer and those reporting to him would build and hold over five years a stake equivalent to at least one and a half times salary and one times salary, respectively, out of shares acquired through the SMEPP.

Emoluments for board members and senior executives

Remuneration strategy and relationship to company performance

Telstra's senior executive remuneration strategy is designed to provide competitive total reward levels conditional upon the achievement of business improvement and personal performance accountabilities. A significant proportion of senior executive total remuneration is variable, or "at risk" pay, dependent on meeting defined goals. Incentive plans and personal performance reviews are based on fundamental improvement drivers and increased shareholder value.

Non-executive director remuneration

Remuneration for non-executive directors is 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 Telstra in accordance with board policy.

Name	Position	Base fee A$	Other benefits(1) A$	Total reward A$
David M Hoare	Chairman	116,350	8,145	124,495
John T Ralph	Deputy Chairman	69,820	4,887	74,707
N Ross Adler	Director	50,000	3,500	53,500
Anthony J Clark	Director	50,000	3,500	53,500
Michael H Codd	Director	50,000	3,500	53,500
Malcolm G Irving	Director	50,000	3,500	53,500
Donald G McGauchie (2)	Director	40,625	2,844	43,469
Cecilia A Moar (2)	Director	40,625	2,844	43,469
Elizabeth A Nosworthy	Director	50,000	3,500	53,500
Christopher I Roberts	Director	50,000	3,500	53,500
John W Stocker	Director	50,000	3,500	53,500
Stephen W Vizard	Director	50,000	3,500	53,500

(1) *Other benefits include superannuation.*
(2) *Appointed on 8 September 1998.*

Senior executive remuneration

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

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

Item 11: Compensation of Directors and Officers

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

Senior executive remuneration components

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

- **Fixed remuneration**
  Total employment cost accounts for the total cost of all fixed remuneration items and is made up of salary, company superannuation contributions and benefits including fringe benefits tax.
- **Variable remuneration**
  Variable remuneration includes an annual incentive and a long-term incentive, both designed to reward managers for performance against set targets.
  - **Short-term incentive**
    The management incentive plan rewards senior executives for meeting or exceeding specific key business objectives, at the corporate, business unit and individual level. The target incentive is between 15% and 26% of the total remuneration package, depending on the senior executive's role. Measures and targeted achievement levels are reviewed each year to reflect changes in the business.
  - **Long-term incentive**
    The long-term incentive is a three-year incentive plan designed to reward senior executives 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 comprises 13% to 22% of the total remuneration package, depending on the senior executive's role. Participation in the long-term incentive plan is at the discretion of the chief executive officer.

Telstra employee share ownership plan

Senior executives employed on 20 September 1997 were eligible to participate in the Telstra Employee Share Ownership Plan in conjunction with the sale by the Commonwealth of 33% of its holding in Telstra. Telstra provided interest free financial support to enable employees to purchase up to 2000 shares, in conjunction with a Commonwealth "one for four offer".

In addition, the Commonwealth offered a "one for ten loyalty offer", up to a maximum of 200 shares, for employees who purchased shares in the public offer. These shares were allocated to participating employees on 17 November 1998.

Senior manager equity participation plan

The board has approved the introduction of a senior manager equity participation plan to progressively replace the existing long-term incentive plan and as a result move from an internally measured plan to one linked to Telstra's performance in the market.

Item 11: Compensation of Directors and Officers

Senior executive emoluments

Name and Position	Fixed[1] A$	Remuneration Variable[2] short-term A$	Variable[2] long-term A$	Other[3][4] A$	Total A$
W Frank Blount, Director and Chief Executive Officer until 28 February 1999	607,808	300,000	800,000	2,000,000[3] 1,753[4]	3,709,561
Zygmunt E Switkowski, Director and Chief Executive Officer from 1 March 1999	699,083	400,000	73,000	1,753[4]	1,173,836
Paul Rizzo, Group Managing Director, Finance and Administration	638,667	231,000	207,000	1,753[4]	1,078,420
Doug Campbell, Group Managing Director, Wholesale & International	586,833	231,000	189,000	1,753[4]	1,008,586
Gerry Moriarty, Group Managing Director, Network & Technology Group	598,167	247,500	150,000	1,753[4]	997,420
Peter Shore, Group Managing Director, Commercial & Consumer	542,000	247,500	148,000	1,753[4]	939,253
Lindsay Yelland, Group Managing Director, Telstra Business Solutions	536,250	231,000	157,000	1,753[4]	926,003

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

(2) *Variable component relates to performance for the year ended 30 June 1999 and is based on the achievement of target performance for Telstra and the individual.*

(3) *W Frank Blount retired as chief executive officer on 28 February 1999 and received a contract extension payment and a contract completion payment.*

(4) *Refers to 200 free shares issued under the "one for ten loyalty offer" valued at the closing price of A$6.46 for listed shares on the date of issue, 17 November 1998. The value of the loyalty shares was A$1,292 and the benefit of the interest free loan from the Telstra employee share ownership plan was A$461. The balance of the loan for each executive still employed by Telstra, as at 30 June 1999 was A$6,177. No loan was outstanding as at 30 June 1999 for the former chief executive officer, W Frank Blount.*

Item 16: Use of Proceeds

The Commonwealth received all the net proceeds of the initial public offering payable under the first instalment in fiscal 1998 and the final instalment in fiscal 1999. None of the proceeds have been, or will be, received by us.