Directors' Report

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

The directors present their report on the consolidated entity (Telstra or Telstra Group) consisting of Telstra Corporation Limited (Telstra Entity) and the entities it controlled at the end of or during the year ended 30 June 1999.

Chief executive officer

During the year Mr W Frank Blount retired as chief executive officer and director and the board appointed Dr Zygmunt E Switkowski to this role. The board acknowledges with appreciation the substantial progress and achievements of Telstra made under the direction of Mr Blount in a time of unprecedented change.

Principal activity

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

Results of operations

Telstra's net profit for the year was A$3,486 million (1998: A$3,004 million).

This was after:

- deducting income tax expenses of A$1,832 million (1998: A$1,468 million); and
- allowing for after tax profits attributable to outside equity interest in controlled entities of A$2 million (1998: A$4 million loss).

Review of operations

Telstra's operational results for the year ended 30 June 1999 reflected a strong performance. Total revenue increased by A$916 million to A$18,218 million. Main growth areas were:

- mobiles revenue increased by A$384 million or 17.8% from the continued expansion of the mobile services market and increased sales of mobile handsets as more customers move from the analogue network to the digital network;
- lower revenue from the highly competitive fixed-to-fixed long distance services was more than offset by the continued growth in fixed-to-mobile calls so that overall our revenue from national long distance increased by A$181 million or 7%;
- data, text and Internet revenue increased by A$286 million to A$2,483 million from increased customer demand for high capacity data transmission and increased penetration and use of the Internet;
- inbound calling products revenue increased by A$63 million or 18.7% due to the expansion of the range of products and increased market awareness of the services available;
- basic access and local calls increased by A$148 million or 3.3% due to growth in basic access lines, increased use of the Internet and increase use of added features; and
- other sales and service revenue also increased by A$187 million mainly due to increased revenues from our international controlled entities, the expansion of our managed services business and international roaming.

The growth in these revenues was offset in part by reduced revenue (A$277 million or 20.1%) from international long distance services due to price competition despite increased volumes.

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Operating expenses (excluding borrowing costs) remained static overall due to the following:

- as Telstra's main superannuation fund is in surplus, Telstra ceased employer contributions to this fund. Based on current actuarial advice, no contributions will be required for at least another two years assuming the continued sound performance of the superannuation scheme. Due to the absence of superannuation payments, labour expense reduced by approximately A$250 million in the full year. The balance of the labour reductions were due to lower staff numbers offset in part by a 4% pay increase effective in the latter half of the financial year due to the new enterprise agreement finalised in December 1998;
- direct cost of sales increased by A$420 million or 16.3% due to increased payments to other carriers to terminate international and domestic outgoing calls and international transit traffic (particularly in relation to the activities of our international controlled entities) together with increased costs of mobile handset sales and subsidies;
- depreciation and amortisation increased by A$180 million or 7.8% due to the capital expenditure on the network and increased software capitalisation in prior years; and
- other operating expenses decreased A$85 million or 2.3% due to reduced bad and doubtful debts expense and our continuing efforts to control operating costs, which were offset by increased information technology costs and contract service payments in part due to the year 2000 programme and other initiatives.

Borrowing costs were down 8.8% due to lower debt levels during the year and increased capitalised interest related to the communications network and capitalised software as a result of the high level of capital expenditure during the year.

Income tax expense increased by 24.8% over 1998 primarily due to the increased profit of the group.

Capital expenditure and investment increased by 12.7% over 1998 to A$4,478 million. This increase reflects the higher capitalised software expenditure on development for products, the wholesale and CDMA billing platforms and customer segmentation and supporting software. In addition, significant expenditure has been undertaken on the new CDMA mobiles telecommunications network and expansion and upgrade of the customer access network. Also, in June 1999, Telstra acquired a 5% interest in Computershare Limited.

Dividends

It is our current policy to declare ordinary dividends of at least 60% of operating profit attributable to shareholders, subject to taking into consideration a number of commercial factors, including the interests of shareholders, cash requirements for future capital expenditures and investments, as well as relevant industry practice.

The directors decided to return approximately A$2 billion to Telstra's existing shareholders by way of a special dividend for fiscal 1999. The directors considered that it was an appropriate time to make this special dividend and adjust Telstra's balance sheet as Telstra enters a new phase in the further privatisation of the company. A distribution by way of a special dividend was considered the most appropriate option for shareholders after consideration of tax advice, including discussions with the Australian Taxation Office.

Consequently, the directors have declared a final dividend for the year ended 30 June 1999 of 26 cents per share franked to 38.46%. The tax rate at which the dividend is franked is 36%. This final dividend is similar to:

- a fully franked ordinary dividend of 10 cents per share (A$1,287 million); and
- an unfranked special dividend of 16 cents per share (A$2,059 million).

This amounts to a total final dividend of A$3,346 million. The record date for the final dividend will be 10 September 1999 with payment being made on 29 October 1999.

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During the financial year, fully franked dividends shown in the table below were paid.

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 1998	26 August 1998	30 October 1998	7 cents	A$901 million
Interim dividend for the year ended 30 June 1999	11 March 1999	30 April 1999	7 cents	A$901 million

Under current legislation, it is unlikely that Telstra will be able to fully frank declared dividends out of fiscal 2000 earnings. At present, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2001 earnings. However, the directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because it depends upon, among other factors, our earnings, Government legislation and our tax position.

Significant changes in the state of affairs

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

Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs other than on 5 July 1999, the Telstra (Further Dilution of Public Ownership) Act 1999 received Royal Assent. This Act amends the Telstra Corporation Act 1991 to permit the Commonwealth to sell a further 16.6% of Telstra's shares. The Commonwealth has commenced a sale process which is expected to involve a global offering of approximately 16.6% of Telstra's shares in the first half of fiscal 2000.

Likely developments

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

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

Details about directors

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

- names of directors and details of their qualifications, experience and special responsibilities are given on pages 102 to 104;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 120;
- details on directors' emoluments is given on page 112; and
- details on directors' shareholdings in Telstra are shown on page 120.

Senior executives' emoluments

This information is provided on pages 112 to 114 and forms part of this report.

Directors' Report

Directors' and officers' indemnity

Constitution

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

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

These indemnities apply to the maximum extent permitted by law.

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

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

For the purposes of these provisions:

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

Deeds of indemnity in favour of directors, officers and employees

Telstra has executed deeds of indemnity in favour of:

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

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

Directors' Report

Directors' and officers' insurance

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

Environmental regulation

Performance in relation to particular and significant environmental legislation

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

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

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

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

Year 2000 date change disclosure

In common with many large businesses around the world, Telstra has established a programme designed to minimise the impact of the transition to the year 2000 on Telstra 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 impact on our business if they were to fail.

Telstra has also incorporated year 2000 considerations into system development and maintenance plans. Telstra's operations, however, may also be affected by the ability of third parties dealing with Telstra to manage the effect of the year 2000 date change. Telstra expects to spend up to A$400 million on its year 2000 programme by 31 December 2000; the cumulative expenditure for the project since commencement to 30 June 1999 is A$235 million.

While Telstra is making every effort to mitigate its risks, there can be no absolute assurance that Telstra's year 2000 programme will be completely successful, or that the date change from 1999 to 2000 will not materially affect its operations and financial results.

Rounding of amounts

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

Signed in accordance with a resolution of the directors.

Director
Date: 26 August 1999

Directors' Report

Directors' meetings

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

	Board		Committees					
			Finance(1)		Audit and compliance		Appointments and compensation	
	a	b	a	b	a	b	a	b
D M Hoare	9	9	1	1	5	4	2	2
J T Ralph	9	9	1	1	5	5	2	2
W F Blount (2)(3)	5	5	1	1	3	3	1	1
Z E Switkowski (3)(4)	4	4	-	-	2	2	1	1
N R Adler	9	8	-	-	5	4	-	-
A J Clark	9	8	1	1	-	-	-	-
M H Codd	9	9	-	-	5	5	-	-
M G Irving	9	9	-	-	5	5	-	-
D G McGauchie (5)	7	7	-	-	-	-	-	-
C A Moar (5)	7	7	-	-	-	-	-	-
E A Nosworthy	9	9	1	1	-	-	-	-
C I Roberts	9	9	1	1	-	-	-	-
J W Stocker	9	9	-	-	5	5	-	-
S W Vizard	9	8	1	1	-	-	-	-

Column a: number of meetings held while a member.
Column b: number of meetings attended.
(1) *Role of finance committee incorporated into the full board in July 1998.*
(2) *Retired on 28 February 1999.*
(3) *Ex-officio member of all board committees.*
(4) *Appointed on 1 March 1999 as chief executive officer and managing director.*
(5) *Appointed on 8 September 1998.*

Shares in Telstra held by our directors

As at 26 August 1999

	Number of shares held		
	Direct interest	Indirect interest	Total
D M Hoare	11,720	16,000	27,720
J T Ralph	600	40,000	40,600
Z E Switkowski (1)	8,020	59,100	67,120
N R Adler	8,000	42,000	50,000
A J Clark	8,000	40,000	48,000
M H Codd	8,000	-	8,000
M G Irving	8,000	8,000	16,000
D G McGauchie	-	2,200	2,200
C A Moar	-	5,000	5,000
E A Nosworthy	5,600	11,000	16,600
C I Roberts	16,000	30,360	46,360
J W Stocker	400	32,080	32,480
S W Vizard	-	16,000	16,000

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