Telstra Corporation Limited and controlled entities

ACN 051 775 556

Financial Statements

as at 30 June 1998

Notes to and forming part of the Financial Statements

These financial statements incorporate full disclosure requirements under both Australian and United States generally accepted accounting principles.

Profit and Loss Account

for the year ended 30 June 1998

	Note	Telstra Group Year Ended 30 June 1998 $m	1998 US $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
Operating revenue							
Sales revenue		**16,819**	**10,441**	15,436	14,716	**16,498**	15,426
Other revenue	2	**483**	**300**	547	523	**571**	1,021
		17,302	**10,741**	15,983	15,239	**17,069**	16,447
Operating expenses							
Labour		**3,665**	**2,275**	3,973	3,997	**3,451**	3,852
Direct cost of sales		**2,582**	**1,603**	2,033	1,748	**2,313**	1,823
Depreciation and amortisation	3(a)	**2,322**	**1,441**	2,353	2,351	**2,206**	2,244
Other operating expenses	3(a)	**3,631**	**2,254**	3,295	3,368	**3,929**	3,715
Borrowing costs	3(a)	**634**	**394**	524	533	**604**	520
		12,834	**7,967**	12,178	11,997	**12,503**	12,154
Operating profit before abnormals and income tax expense	3(a)	**4,468**	**2,774**	3,805	3,242	**4,566**	4,293
Abnormals	3(b)	**-**	**-**	(1,732)	205	**-**	(1,932)
Operating profit before income tax expense		**4,468**	**2,774**	2,073	3,447	**4,566**	2,361
Income tax expense attributable to operating profit	4	**1,468**	**911**	680	1,145	**1,723**	1,164
Abnormal income tax credit	3(c),4	**-**	**-**	(216)	-	**-**	(216)
Income tax expense	4	**1,468**	**911**	464	1,145	**1,723**	948
Operating profit after income tax expense		**3,000**	**1,863**	1,609	2,302	**2,843**	1,413
Outside equity interests in operating loss after income tax expense		**4**	**2**	8	3	**-**	-
Operating profit after income tax expense attributable to the Telstra Entity shareholders		**3,004**	**1,865**	1,617	2,305	**2,843**	1,413
Retained profits at the beginning of the financial year attributable to the Telstra Entity shareholders		**3,368**	**2,091**	5,868	4,931	**3,179**	5,883
Aggregate of amounts transferred from reserves	18	**-**	**-**	29	-	**-**	29
Total available for appropriation		**6,372**	**3,956**	7,514	7,236	**6,022**	7,325
Dividends provided for or paid	5	**1,802**	**1,119**	4,146	1,368	**1,802**	4,146
Retained profits at the end of the financial year attributable to the Telstra Entity shareholders	23(i)	**4,570**	**2,837**	3,368	5,868	**4,220**	3,179

	Note	¢	US ¢	¢	¢
Basic earnings per share (cents)	30				
Before abnormals		**23.3**	**14.4**	20.0	16.9
After abnormals		**23.3**	**14.4**	12.6	17.9
Dividends per share (cents)	5				
Interim dividend		**7.0**	**4.3**	28.2	5.3
Final dividend		**7.0**	**4.3**	4.0	5.3
Total dividend		**14.0**	**8.6**	32.2	10.6

The accompanying notes form an integral part of these financial statements.

Balance Sheet

as at 30 June 1998

		Telstra Group			Telstra Entity	
		As At 30 June			As At 30 June	
		1998	1998	1997	1998	1997
	Note	$m	US $m	$m	$m	$m
Current Assets						
Cash	6	**953**	**592**	742	**872**	674
Receivables	7	**3,178**	**1,973**	3,386	**3,236**	3,949
Inventories	8	**243**	**151**	237	**239**	231
Future income tax benefit		**-**	**-**	552	**-**	518
Other assets	12	**136**	**84**	192	**129**	180
Total Current Assets		**4,510**	**2,800**	5,109	**4,476**	5,552
Non Current Assets						
Receivables	7	**241**	**150**	108	**328**	167
Inventories	8	**27**	**17**	36	**27**	34
Investments	9	**228**	**142**	213	**381**	409
Property, plant and equipment	10	**19,756**	**12,264**	18,943	**19,251**	18,461
Future income tax benefit		**787**	**489**	933	**425**	700
Intangible assets	11	**496**	**308**	224	**455**	200
Other assets	12	**425**	**264**	292	**424**	291
Total Non Current Assets		**21,960**	**13,634**	20,749	**21,291**	20,262
Total Assets		**26,470**	**16,434**	25,858	**25,767**	25,814
Current Liabilities						
Accounts payable	13	**2,485**	**1,543**	2,665	**2,389**	3,249
Borrowings	14	**2,935**	**1,822**	1,560	**2,869**	1,511
Provisions	15	**2,460**	**1,527**	2,318	**2,268**	2,109
Revenue received in advance		**666**	**413**	721	**619**	680
Total Current Liabilities		**8,546**	**5,305**	7,264	**8,145**	7,549
Non Current Liabilities						
Accounts payable	13	**700**	**435**	710	**844**	763
Borrowings	14	**4,787**	**2,972**	6,421	**4,714**	6,330
Provisions	15	**1,358**	**843**	1,525	**1,101**	1,234
Total Non Current Liabilities		**6,845**	**4,250**	8,656	**6,659**	8,327
Total Liabilities		**15,391**	**9,555**	15,920	**14,804**	15,876
Net Assets		**11,079**	**6,879**	9,938	**10,963**	9,938
Shareholders' Equity						
Parent Entity						
Share capital	16	**6,433**	**3,994**	6,433	**6,433**	6,433
Reserves	18,23(i)	**30**	**19**	85	**310**	326
Retained profits	23(i)	**4,570**	**2,837**	3,368	**4,220**	3,179
Shareholders' equity attributable to the Telstra Entity shareholders		**11,033**	**6,850**	9,886	**10,963**	9,938
Outside Equity Interests						
Share capital		**41**	**25**	30	**-**	-
Reserves		**25**	**16**	21	**-**	-
Retained profits		**(20)**	**(12)**	1	**-**	-
Total outside Equity Interests		**46**	**29**	52	**-**	-
Total Shareholders' Equity		**11,079**	**6,879**	9,938	**10,963**	9,938
Expenditure commitments and contingent liabilities	19,20					

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 1998

	Telstra Group				Telstra Entity	
	Year Ended 30 June				Year Ended 30 June	
	1998 $m	**1998 US $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Cash flows from operating activities						
Receipts from trade and other debtors	**16,709**	**10,373**	15,068	14,526	**16,928**	14,822
Payments of accounts payable and to employees	**(9,807)**	**(6,088)**	(8,536)	(8,795)	**(10,088)**	(8,049)
Interest received	**48**	**30**	80	117	**47**	79
Interest paid	**(559)**	**(347)**	(385)	(375)	**(562)**	(388)
Finance charges on finance leases paid	**(16)**	**(10)**	(18)	(20)	**(9)**	(10)
Dividends received	**29**	**18**	40	27	**50**	48
Income taxes paid	**(769)**	**(477)**	(995)	(1,002)	**(712)**	(964)
Net cash provided by operating activities (i)	**5,635**	**3,499**	5,254	4,478	**5,654**	5,538
Cash flows from investing activities						
Payments for:						
- patents, trademarks and licences	**(228)**	**(142)**	(57)	(49)	**(222)**	(57)
- property, plant and equipment	**(3,286)**	**(2,040)**	(3,945)	(3,839)	**(3,227)**	(3,927)
- shares in other corporations	**-**	**-**	(1)	(2)	**-**	-
- shares in controlled entities	**-**	**-**	-	-	**(289)**	(865)
- shares in associated entities	**-**	**-**	-	(51)	**-**	-
- satellite consortia investments	**(24)**	**(15)**	(18)	(1)	**(24)**	(18)
- investment in partnerships	**(125)**	**(78)**	(129)	(113)	**-**	-
- investment in joint ventures	**-**	**-**	(2)	-	**-**	(2)
- deferred expenditure	**-**	**-**	(8)	(16)	**-**	(8)
- capitalised software	**(227)**	**(141)**	(238)	-	**(227)**	(238)
Proceeds from:						
- sale of property, plant and equipment	**255**	**158**	176	73	**333**	652
- sale of patents, trademarks and licences	**11**	**7**	-	-	**-**	-
- sale of listed securities	**-**	**-**	-	112	**-**	-
- sale of shares in controlled entities	**-**	**-**	26	-	**-**	26
- sale of shares in associated entities	**-**	**-**	-	14	**-**	-
- share buy-back by controlled entity	**-**	**-**	-	-	**-**	7
- satellite consortia investments	**7**	**4**	25	2	**7**	25
- deferred expenditure	**8**	**5**	-	-	**8**	-
Net cash used in investing activities	**(3,609)**	**(2,242)**	(4,171)	(3,870)	**(3,641)**	(4,405)
Cash flows from financing activities						
Proceeds from:						
- Telecom/Telstra bonds issue	**-**	**-**	1	263	**-**	1
- borrowings	**8,708**	**5,406**	7,841	6,087	**8,553**	7,808
Repayment of:						
- Telecom/Telstra bonds	**(192)**	**(119)**	(126)	(426)	**(192)**	(126)
- borrowings	**(8,834)**	**(5,483)**	(4,906)	(6,289)	**(8,694)**	(4,900)
- principal under finance leases	**(68)**	**(42)**	(75)	(77)	**(49)**	(56)
Dividends paid	**(1,422)**	**(883)**	(4,307)	(1,217)	**(1,422)**	(4,307)
Net cash used in financing activities	**(1,808)**	**(1,121)**	(1,572)	(1,659)	**(1,804)**	(1,580)
Net increase/(decrease)	**218**	**136**	(489)	(1,051)	**209**	(447)
Cash at the beginning of the year	**730**	**453**	1,219	2,270	**663**	1,110
Cash at the end of the year (ii)	**948**	**589**	730	1,219	**872**	663

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows (Continued)

for the year ended 30 June 1998

		Telstra Group				Telstra Entity	
		Year Ended 30 June				Year Ended 30 June	
		1998	**1998**	1997	1996	**1998**	1997
	Note	**$m**	**US $m**	$m	$m	**$m**	$m
Cash Flow Notes							
(i) Reconciliation of net cash inflows provided by operating activities to operating profit after income tax expense							
Operating profit after income tax expense		**3,000**	**1,863**	1,609	2,302	**2,843**	1,413
Add/(subtract) non cash transactions							
Depreciation and amortisation	3(a),3(b)	**2,322**	**1,441**	2,353	2,146	**2,206**	2,244
Share of associated entities' net profit after income tax expense	2,23(i)	**(14)**	**(9)**	-	-	**-**	-
Dividends received from associated entities	23(i)	**8**	**5**	-	-	**-**	-
Writedown of broadband network communication assets		**-**	**-**	342	-	**-**	-
Writedown of property, plant and equipment	3(a)	**16**	**10**	-	-	**16**	-
Profit on sale of controlled entities		**-**	**-**	(23)	-	**-**	(23)
Profit on sale of associated entities		**-**	**-**	-	(2)	**-**	-
Profit on sale of listed securities		**-**	**-**	-	(50)	**-**	-
Net loss on sale of property, plant and equipment	3(a)	**58**	**36**	39	43	**62**	40
Profit on sale of patents, trademarks and licences	3(a)	**(11)**	**(7)**	-	-	**-**	-
Increase/(decrease) in net taxes payable		**740**	**459**	(568)	177	**849**	(267)
Stocktake adjustment to property, plant and equipment		**7**	**4**	(5)	(13)	**7**	(5)
Capitalised interest costs	3(a),3(b)	**(83)**	**(52)**	(106)	-	**(82)**	(102)
Partnership losses	3(a)	**83**	**52**	106	81	**-**	-
Provision for diminution in investments	3(a),3(b)	**34**	**21**	8	14	**514**	1,118
Net foreign currency differences		**(9)**	**(6)**	3	-	**7**	1
Changes in assets and liabilities							
Decrease/(increase) in trade and other debtors		**183**	**115**	(396)	(409)	**660**	(589)
Decrease in inventories		**3**	**2**	135	63	**1**	101
Decrease/(increase) in prepayments		**3**	**2**	(23)	(2)	**(1)**	(19)
(Decrease)/increase in accounts payable and other creditors		**(265)**	**(164)**	518	33	**(1,018)**	807
(Decrease)/increase in provisions		**(447)**	**(277)**	1,252	102	**(410)**	819
Movement in foreign currency translation reserve	18	**7**	**4**	10	(7)	**-**	-
Net cash inflows from operating activities		**5,635**	**3,499**	5,254	4,478	**5,654**	5,538
(ii) Reconciliation of cash							
Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the financial statements as follows:							
Cash (Note 6)		**953**	**592**	742	1,219	**872**	674
Bank overdraft (Note 14)		**(5)**	**(3)**	(12)	-	**-**	(11)
		948	**589**	730	1,219	**872**	663

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows (Continued)

for the year ended 30 June 1998

Cash Flow Notes (Continued)

(iii) Non cash financing and investing activities

Roll over of Telecom/Telstra bonds

During the year ended 30 June 1998 $Nil (1997: $Nil; 1996: $64 million) of Telecom/Telstra Bonds matured and were re-invested by the lenders. As these transactions did not involve cash, they are not reflected in the cash flows from financing activities.

Property, plant and equipment

Property, plant and equipment for the Telstra Group includes $78 million for the year ended 30 June 1998 (1997: $96 million; 1996: $Nil) of interest which has been capitalised.

The Telstra Group acquired plant and equipment by means of finance leases with an aggregate fair value of $Nil during the year ended 30 June 1998 (1997: $66 million; 1996: $23 million). These non cash acquisitions are not reflected in the statement of cash flows. Finance lease liability includes $1 million (1997: $3 million; 1996: $37 million) relating to non cash foreign currency revaluations.

Capitalised software

Capitalised software for the Telstra Group includes $5 million for the year ended 30 June 1998 (1997: $10 million; 1996: $Nil) of interest which has been capitalised into software developed for internal use.

Share buy-back

On 25 July 1997, the Commonwealth of Australia (Commonwealth) accepted a share buy-back offer from the Telstra Entity in respect of all of the 2,000,000,000 partly paid shares in the Telstra Entity held by the Commonwealth as at that date. The proceeds of this buy-back representing $1,500 million were applied by the Commonwealth to subscribe for 1,500,000,000 ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash paid or received, they are not reflected in the cash flows from financing activities.

(iv) Financing facilities

Details of credit standby arrangements and loan facilities are included in Note 14.

(v) Acquisitions and disposals

There were no material disposals or acquisitions of businesses during the years ended 30 June 1998, 1997 and 1996.

The accompanying notes form an integral part of these financial statements.

Notes to and forming part of the Financial Statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in preparing the financial statements of Telstra Corporation Limited (referred to as the "Telstra Entity") and the consolidated financial statements of the economic entity (collectively referred to as "Telstra" or the "Telstra Group"), comprising the Telstra Entity, as the parent entity, and the entities it controls, are stated to assist in a general understanding of these financial statements. These accounting policies have been consistently applied by the Telstra Group and are consistent with those of the previous year, unless otherwise indicated.

1.1 Basis of Preparation

The financial statements are a general purpose financial report prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and Australian generally accepted accounting principles.

The financial statements have been prepared on the basis of historical cost and, except for certain categories of investments and property, plant and equipment, do not take into account current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The carrying amounts of all non current assets are reviewed at least annually to determine whether they are in excess of their recoverable amount. In assessing the recoverable amounts the relevant cash flows have been discounted to their present value.

All amounts have been prepared and are expressed in Australian dollars unless indicated otherwise.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates.

A reconciliation of the major differences between the accounts prepared under Australian generally accepted accounting principles and those applicable under United States generally accepted accounting principles is included at Note 32.

1.2 Principles of Consolidation

A controlled entity is one in which the Telstra Group is able to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the Telstra Group.

The consolidated financial statements of Telstra include the assets and liabilities of the Telstra Entity and the entities it controlled at the end of the financial year and the results of the Telstra Entity and the entities it controlled during the year. Where entities are not controlled throughout the year, consolidated results include the results of those entities for that part of the financial year during which control existed.

The entities controlled during the year are listed in Note 22 to the financial statements. Consolidated retained profits of Telstra include retained profits/accumulated losses in controlled entities.

The effect of all transactions and balances between entities in the Telstra Group are eliminated in full in preparing the consolidated financial statements of Telstra. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively, of Telstra.

1.3 Operating Revenue

Sales revenue represents revenue earned from the sale of products and services net of returns, trade allowances, duties and taxes paid. Sales revenue is recognised or accrued at the time of the provision of the product or service.

Other revenue includes interest income, dividends and proceeds from the sale of property, plant and equipment, investments, patents, trademarks and licences and other non current assets.

1.4 Income Tax

Tax effect accounting is applied using the liability method whereby current income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. Deferred income tax assets and liabilities are provided at current rates for certain timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

1.5 Cash

Cash includes cash at bank and on hand, bank deposits, bills of exchange and promissory notes with an original maturity date not exceeding three months.

Bank deposits (including those with an original maturity in excess of three months, which are classified as receivables) are carried at amounts due and interest income is recognised on a yield to maturity basis.

Bills of exchange and promissory notes (including those with an original maturity in excess of three months, which are classified as receivables) are valued at amortised cost with interest income recognised on a yield to maturity basis.

For the purposes of the statement of cash flows, cash is shown net of outstanding bank overdrafts.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.6 Receivables

Trade debtors are carried at amounts due. A provision is raised for doubtful debts based on a general and specific review of outstanding amounts at balance date. Bad debts which have been specifically provided for are written off to the provision for doubtful debts; in all other cases bad debts are written off to the profit and loss account.

Employee share loans are carried at the amount advanced to each employee, less after tax dividend repayments and loan repayments. The outstanding principal on these loans is interest free. The current portion of the loan receivable is calculated using estimated loan repayments expected to be received from tax adjusted dividend payments and estimated loan repayments as a result of staff exiting the scheme (refer Note 17).

1.7 Inventories

Inventories comprise items held for resale together with material and spare parts to be used in constructing and maintaining the telecommunications network. Inventories are valued at the lower of cost and net realisable value.

Costs have been assigned to the majority of inventory items on hand at balance date using the weighted average cost basis; for the remaining quantities actual cost is used.

Current inventories comprise inventory items held for resale or items to be consumed into the telecommunications network within one year.

1.8 Construction Contracts

(a) Valuation

Construction contracts in progress are carried at cost (net of provision for foreseeable losses, if any) less progress billings where profits are yet to be recognised.

Cost includes both variable and fixed costs directly related to specific contracts, and those which can be attributed to contract activity in general and which can be allocated to specific contracts on a reasonable basis. Those costs which are expected to be incurred under penalty clauses, warranty provisions and other variances are also included. Where a material loss is indicated on completion, a provision for foreseeable losses is brought to account and applied against the gross amount of construction work in progress.

(b) Recognition of Profit

Profit is recognised on an individual project basis using the percentage of completion method. Profits are not recognised until the stage of contract completion can be reliably determined, costs to date can be clearly identified, and total contract revenues to be received and costs to complete can be reliably estimated.

(c) Disclosure

Where progress billings are in excess of construction work in progress the net amount is shown as a current liability within other creditors.

1.9 Investments

(a) Controlled Entities

Investments in controlled entities are valued in the Telstra Entity's financial statements at cost less any amount provided for permanent diminution in the value of investments. Dividends are recognised in the profit and loss account when they are declared.

(b) Associated Entities

An associated entity is one in which the Telstra Group holds an interest in the equity and over which the Telstra Group is able to exercise significant influence, but does not have control. The Telstra Entity uses the cost method of accounting whereby investments in associated entities are valued at cost less any amount provided for permanent diminution in the value of the investments. Dividends are recognised in the profit and loss account when received.

Change in Accounting Policy

Prior to 1 July 1997, the Telstra Group's investments in associated entities were accounted for under the cost method of accounting and dividends were recognised in the profit and loss account when received. In accordance with Australian Securities & Investments Commission (ASIC) Class Order 97/0798 dated 5 June 1997, the Telstra Group, on 1 July 1997, adopted the proposed revised Accounting Standard AASB 1016: Accounting for Investments in Associates. From 1 July 1997 the equity method of accounting has been applied in accounting for investments in associated entities in the consolidated accounts of Telstra only. The cost method is still applied in the Telstra Entity's accounts.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.9 Investments (Continued)

(b) Associated Entities (Continued)

Change in Accounting Policy (Continued)

Under the equity method of accounting, the carrying amount of the investment in associated entities is adjusted for the Telstra Group's share of the post acquisition profits or losses and reserves, less any dividends received. Where the equity accounted carrying value for an associate falls below zero, the equity method of accounting is suspended and the investment recorded at zero. If this occurs, the equity method of accounting is not resumed until such time as the Telstra Group's share of losses and reserve decrements not recognised during the financial years in which the equity method was suspended, are offset by the current share of profits and reserves. Where the equity accounted carrying value of an investment has been written down to recoverable amount, writedowns are only reversed to the extent the recoverable amount at balance date exceeds the written down carrying amount.

The initial adjustment to opening retained profits and reserves required to align the investment in associated entities with the requirements of the proposed revised Accounting Standard AASB 1016 was not material.

This change in accounting policy has resulted in an increase of $1 million (being the share of associates' profits of $14 million less $13 million recoverable amount writedown) in Telstra's consolidated operating profit after income tax for the year ended 30 June 1998, a decrease of $46 million to reserves (the majority represented by $47 million decrease in the foreign currency translation reserve), and a decrease of $53 million in Telstra's aggregate consolidated carrying amount of the investments in associates at 30 June 1998.

(c) Satellite Consortia Investments

The Telstra Entity's participation in the INTELSAT and INMARSAT satellite consortia are treated as investments. These investment holdings are in US Dollars and the balance sheet valuations are based on the Telstra Entity's share at balance date and are translated to Australian currency at the exchange rates ruling at that date and any gain or loss is taken to the profit and loss account. The principal activities of INTELSAT and INMARSAT satellite consortia investments are the provision of satellite capacity to equity members.

The Telstra Entity's ownership interest in the satellite consortia investments are as follows: INTELSAT 1.83 per cent (1997: 1.78 per cent) and INMARSAT 2.03 per cent (1997: 1.56 per cent).

(d) Other Investments

Other investments are valued at cost less any amount provided for permanent diminution in their value. Dividends and interest are recognised when received.

Net fair values of investments are determined on the following bases:

(i) Listed securities traded in an organised financial market (traded securities) are determined by the current quoted market bid price at balance date.

(ii) Investments in unlisted securities not traded in an organised financial market are carried at cost. Where the investment is carried above its recoverable amount it is written down to its recoverable amount.

(e) Investment in Partnerships

Investment in partnerships are stated at cost, adjusted by the Telstra Group's share of the partnership profit or loss. The Telstra Group's share of the partnership profit or loss is determined by multiplying the partnership profit or loss by the Telstra Group's ownership interest. Any goodwill that arises on acquisition of an interest in a partnership is amortised over the expected period of benefit, subject to a maximum period of twenty years from the date of acquisition.

1.10 Property, Plant and Equipment

(a) Acquisition and Disposal

Items of property, plant and equipment are recorded at cost and depreciated as outlined below (refer Note 1.10(c)). The cost of property, plant and equipment constructed by the Telstra Group includes the cost of material and direct labour and an appropriate proportion of fixed and variable overheads (both direct and indirect). The cost of constructed assets includes borrowing costs up to the date the asset is installed ready for use. The weighted average capitalisation rate for borrowing costs for the year ending 30 June 1998 is 8.06% (1997: 8.24%). No interest has been earned on borrowed funds and therefore no amount has been deducted in the determination of borrowing costs capitalised.

Where material, property, plant and equipment certain to be sold within twelve months is transferred to current assets at the lower of net book value and net realisable value.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.10 Property, Plant and Equipment (Continued)

(a) Acquisition and Disposal (Continued)

The Telstra Group participates in under sea cable joint ventures with other telecommunication companies. The Telstra Group's interest in these cables is brought to account at cost and included as "Communication assets". The cables are depreciated as outlined below (refer Note 1.10(c)). As at 30 June 1998 the value of the Telstra Group's interest in these cables was cost $749 million (1997: $786 million), less accumulated depreciation $368 million (1997: $374 million), and net book value $381 million (1997: $412 million).

(b) Revaluation

The Telstra Group has adopted a policy of obtaining valuations of all its land and buildings at least once every three years, or more frequently if deemed necessary, in accordance with normal commercial practice.

Property, plant and equipment is written down to recoverable amount where the carrying value exceeds recoverable amount.

The profit or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the profit and loss account in the year of disposal.

The effect of capital gains tax has not been taken into account in determining the revalued amounts of property, plant and equipment.

(c) Depreciation and Amortisation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated/amortised on the straight line basis over their estimated service lives to the Telstra Group, as detailed below, when installed and ready for use.

	Telstra Group As At 30 June	
	1998	**1997**
Property, Plant and Equipment	**Service Life (years)**	**Service Life (years)**
Buildings - general purpose	**55**	53
- fitout	**10 - 21**	13 - 18
Communication Assets		
Buildings - network	**55**	53
- fitout	**15 - 25**	15 - 25
Customer premises equipment	**3 - 6**	3 - 5
Transmission equipment	**6 - 16**	10 - 16
Switching equipment	**3 - 11**	4 - 11
Cables	**9 - 25**	5 - 25
Ducts and pipes - main cables	**40**	40
- distribution	**25**	25
Other communications plant	**4 - 18**	3 - 15
Other Assets		
Leasehold plant and equipment	**10**	13
Other plant, equipment and motor vehicles	**3 - 15**	4 - 13

A unit method of accounting is applied to assets, where it is practical and feasible, and in line with commercial practice. A group method of accounting is adopted for certain communication assets. Group assets are automatically written out of the books on attaining the group life, hence, any individual asset may be physically retired before or after the group life.

The service lives and residual values of all assets are reviewed annually.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.11 Leased Plant and Equipment

(a) Where the Telstra Group is the Lessee

Leases are accounted for in accordance with Accounting Standard, AASB 1008, "Accounting for Leases". A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, and operating leases under which the lessor effectively retains all such risks and benefits. Where non current assets are acquired by means of finance leases, the present value of future minimum lease payments are recorded as a non current asset at the beginning of the lease term and amortised on a straight line basis over the shorter of the lease term or the expected useful life of the asset to the Telstra Group. A corresponding liability is also established and each lease payment is allocated between such liability and finance charges. Operating lease payments are charged to the profit and loss account in the periods in which they are incurred. Operating lease rental expense is disclosed in Note 3(a).

In the case of properties leased by the Telstra Group, costs of improvements are capitalised and amortised over the lower of the useful life of the property or the term of the lease.

Communication assets detailed below are subject to finance leases with third parties. The Telstra Group has full control of this equipment and the intention is that in due course the Telstra Group will gain title to this equipment. Some of this equipment has been used in the construction or upgrading of the telecommunications network and is therefore included as communication assets; the remainder is included in inventory. Both the asset and the liability for this equipment are brought to account.

	Telstra Group	
	As At 30 June	
	1998	1997
	$m	$m
Equipment	408	408
Accumulated depreciation. . . .	(271)	(218)
	137	190

(b) Where the Telstra Group is the Lessor

Plant and equipment under short-term operating leases is included in property, plant and equipment in the balance sheet. Rental income is brought to account in the period in which it is earned.

1.12 Intangible Assets

(a) Goodwill

Goodwill, representing the excess of the cost of equity in controlled entities over the fair value of the identifiable net assets of the controlled entities at the dates of gaining control, is shown as an intangible asset. Goodwill is amortised on a straight line basis over the period of expected benefit, subject to a maximum of twenty years from the date of gaining control. The carrying value of goodwill is reviewed annually and adjusted to the extent that future benefits are not considered probable.

(b) Patents, Trademarks and Licences

Costs associated with patents, trademarks and licences (which mainly comprise licences to use network and business software and spectrum licences) having a benefit or relationship to more than one accounting period are deferred and amortised on a straight line basis over the periods of their expected benefit. The recoverability of patents, trademarks and licences is reviewed annually and adjusted where considered necessary.

1.13 Other Assets

(a) Research and Development Costs

Research and development costs are charged to expense as incurred.

(b) Deferred Expenditure

Deferred expenditure primarily includes upfront payments for usage of international cable systems and loan flotation costs.

Material items of expenditure are deferred to the extent that they are recoverable from future revenue, do not relate solely to revenue which has already been brought to account, and will contribute to the future earning capacity of the Telstra Group.

Deferred expenditures are amortised over the average period in which the related benefits are expected to be realised. Expenditure deferred in previous periods is reviewed annually to determine the amount (if any) that is no longer recoverable and all such amounts are written off.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.13 Other Assets (Continued)

(c) Software Developed for Internal Use

The Telstra Group capitalises direct costs associated with the development of network and business software for internal use where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed, payroll and direct payroll-related costs for employees (including contractors) directly associated with the project and borrowing costs incurred while developing the software. Software developed for internal use is amortised on a systematic basis over their useful life (generally five years) to the Telstra Group and amortisation commences once the software is ready for use.

1.14 Accounts Payable

Accounts payable, including accruals, are recognised when the Telstra Group becomes obliged to make future payments as a result of a purchase of assets or services. Accounts payable are carried at amounts due.

1.15 Superannuation

The Telstra Group participates in a number of employee superannuation schemes which exist to provide benefits for employees and their dependants upon cessation of employment. For funding purposes actuarial valuations are required to be carried out no less frequently than every three years, for defined benefit funds. The Telstra Group's commitment in respect of accumulation type benefits is limited to making the contributions specified in the trust deed. Contributions to employee superannuation schemes are charged as an expense as the contributions become payable.

In relation to the defined benefit superannuation schemes in which the Telstra Group participates, where in the past there has been a shortfall in the net market value of scheme assets when compared to members' vested entitlements, the Telstra Group has provided for the present value of the shortfall, to the extent that a present obligation exists to rectify the financial position of the schemes.

1.16 Borrowings

Bills of exchange and promissory notes are recognised when issued at the amount of the net proceeds received and carried at amortised cost until the liabilities are fully settled. Interest on the instruments is recognised as an expense on a yield to maturity basis.

Telecom/Telstra bonds are carried at cost or adjusted cost (face value of debt adjusted for any unamortised premium or discount). Interest is calculated on a yield to maturity basis. Bonds repurchased are cancelled against the original liability and any gains or losses are taken to the profit and loss account as interest expense.

Bank loans are carried at cost.

Other loans are carried at cost, or adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the profit and loss account.

Net fair values of fixed rate loans and bonds issued are determined by current risk adjusted market rates.

1.17 Foreign Currency

(a) Transactions

Transactions denominated in foreign currency are translated into Australian currency at the exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at the rates of exchange ruling at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

Exchange gains and losses and hedging costs arising on forward foreign currency contracts entered into as hedges of specific commitments, or in the construction of qualifying assets, are deferred and included in the determination of the amounts at which the transactions are brought to account. All exchange gains and losses relating to other hedge transactions are brought to account in the profit and loss account in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract.

Premiums and discounts on forward exchange contracts arising at the time of entering into the hedge are amortised over the life of the forward exchange contract and included in interest expense.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.17 Foreign Currency (Continued)

(b) Translation of Foreign Entities' Financial Statements

Integrated foreign operations

Where a foreign operation is financially and operationally inter-dependent, either directly or indirectly, with the Telstra Group and whose day-to-day operations normally expose the Telstra Group to foreign exchange gains or losses, the foreign operation's financial statements are translated using the temporal method. Under this method, monetary balance sheet items are translated into Australian currency at the rates of exchange ruling at balance date and non monetary balance sheet items (including owner's equity at the date of investment) are translated at exchange rates current at transaction dates (or at the date of revaluation). The profit and loss accounts are translated into Australian currency at weighted average rates of exchange for the period. Exchange gains and losses arising on translation are taken directly to the profit and loss account.

Self sustaining foreign operations

Where a foreign operation is not an integrated foreign operation and is independent, financially and operationally, of the Telstra Group and whose operations do not normally expose the Telstra Group to foreign exchange gains or losses, the foreign operation's financial statements are translated using the current rate method. Under this method, the balance sheets are translated into Australian currency at the rates of exchange ruling at balance date and the profit and loss accounts are translated into Australian currency at weighted average rates of exchange for the period. Exchange gains and losses arising on translation are taken directly to the foreign currency translation reserve.

1.18 Derivatives

Derivative financial instruments, principally interest rate swaps, cross currency swaps, futures contracts and forward foreign exchange contracts, are entered into to manage financial risks. All derivative transactions are undertaken to hedge an underlying physical position.

Gains and losses on derivatives are accounted for on the same basis as the underlying physical exposures. Accordingly, hedge gains and losses are included in the profit and loss account when the gains or losses arising on the related physical exposures are recognised in the profit and loss account.

The foreign exchange gains and losses on the principal value of the cross currency swaps are reflected in the profit and loss account using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

The Telstra Group accounts for its interest rate swaps and cross currency swaps that hedge an underlying physical exposure using the accrual method of accounting. Interest receivable and payable under the terms of the interest rate swaps and cross currency swaps are accrued over the period to which the payments or receipts relate, and are treated as an adjustment to interest expense. Changes to the underlying market value of the remaining interest rate swap and cross currency swap payments and receipts are not recognised.

Gains and losses on futures contracts are deferred and amortised over the life of the underlying hedged asset or liability.

Forward foreign exchange contracts are accounted for as outlined in Note 1.17(a).

Gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions are deferred to be recognised when the anticipated future transaction occurs.

Net fair values of interest rate swaps, cross currency swaps and forward exchange contracts are determined at prices based on amounts quoted on Reuters to close out existing contracts (both favourable and unfavourable). Net fair value of interest rate futures is determined at a price equating to the mid point between the last bid and the last offer price quoted on the Sydney Futures Exchange at balance date.

1.19 Provisions

(a) Employee Entitlements

Liabilities for employee entitlements to wages and salaries, annual leave and other current employee entitlements are accrued at nominal amounts calculated on the basis of current wage and salary rates, including related on costs.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to an extended leave of absence of three months (or more depending on the actual length of employment). This leave of absence is called long service leave and is included in other employee entitlements. Employees of controlled entities of the Telstra Group are subject to similar benefits.

Liabilities for other employee entitlements, which are not expected to be paid or settled within twelve months of balance date, are accrued in respect of all employees at the present values of future amounts expected to be paid based on projected increases in wage and salary rates over an average of ten years. Present values are calculated using appropriate rates based on government guaranteed securities with similar maturity terms.

Notes to and forming part of the Financial Statements (Continued)

1. Summary of Significant Accounting Policies (Continued)

1.19 Provisions (Continued)

(b) Workers' Compensation

The Telstra Entity is self insured in respect of workers' compensation liabilities. Provision is made for the present value of these estimated liabilities based on an actuarial review of the liability including actual accidents and an estimate of incurred but not reported claims. Present values are calculated using appropriate rates based on government guaranteed securities with similar maturity terms. The majority of controlled entities of the Telstra Group do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

1.20 Revenue Received in Advance

Revenue received in advance principally consists of revenue from White Pages™, royalty revenue from Yellow Pages® directory advertising, and telephone rental. Royalty revenue from directory advertising is recognised at the time the directories are issued. Commission earned on the sale of directory advertising space is recognised at the point of sale. Revenue from telephone rental is recognised over the rental period.

1.21 Insurance

The Telstra Group specifically carries Property, Fidelity (Crime), General Liability, Travel/Personal Accident, General Third Party and Director and Officers' and Company reimbursement insurance. The Telstra Group carries other insurance from time to time.

With the exception of workers' compensation for the Telstra Entity, any losses are charged to the profit and loss account in the year which the loss is reported, for those risks where the Telstra Group has no insurance.

1.22 Rounding

The Telstra Entity is a company of the kind referred to in ASIC Class Order 97/1005, dated 9 July 1997, issued under Section 313(6) of the Corporations Law. All amounts in the financial statements (except where indicated) have been rounded off to the nearest million dollars ($m) in accordance with that Class Order.

1.23 United States Currency Conversions

Translation of amounts from Australian currency into United States currency has been made to Telstra's Consolidated Profit and Loss Account, Balance Sheet, Statement of Cash Flows and United States Generally Accepted Accounting Principles Disclosures for the year ended 30 June 1998, for the convenience of readers outside Australia. These conversions appear under columns headed US $m and represent rounded millions of US dollars. The translation has been performed at the noon buying rate in New York City for cable transfers in foreign currencies, as certified for custom purposes by the Federal Reserve Bank of New York on Tuesday 30 June 1998 of A$1.00 = US$0.6208. Such translation should not be construed as representation that the Australian dollar amounts represent such US$ or could be converted into US$ at the rate indicated.

1.24 Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to and forming part of the Financial Statements (Continued)

		Telstra Group			Telstra Entity	
		Year Ended 30 June			Year Ended 30 June	
		1998	1997	1996	**1998**	1997
	Note	**$m**	$m	$m	**$m**	$m

2. Other Revenue

	Note	Group 1998 $m	Group 1997 $m	Group 1996 $m	Entity 1998 $m	Entity 1997 $m
Dividends received/receivable from:						
- controlled entities	29	**-**	-	-	**39**	7
- other entities		**20**	38	33	**20**	37
Interest received/receivable from:						
- controlled entities	29	**-**	-	-	**6**	5
- other entities		**49**	85	105	**43**	79
Proceeds from the sale of:						
- property, plant and equipment		**255**	176	73	**333**	652
- investments		**-**	26	126	**-**	26
- patents, trademarks and licences		**11**	-	-	**-**	-
Share of associated entities net profit after income tax expense	23(i)	**14**	-	-	**-**	-
Other revenue		**134**	222	186	**130**	215
		483	547	523	**571**	1,021

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group Year Ended 30 June 1998 $m	1997 $m	1996 $m	Telstra Entity Year Ended 30 June 1998 $m	1997 $m
3. Operating Profit						
(a) Operating profit before income tax has been determined after charging/(crediting) the following:						
Depreciation and amortisation						
Depreciation of:						
- general purpose buildings		**45**	52	55	**45**	52
- communication assets (i)		**1,802**	1,847	1,848	**1,718**	1,757
- other plant, equipment and motor vehicles		**316**	372	375	**300**	357
		2,163	2,271	2,278	**2,063**	2,166
Amortisation of:						
- assets under finance lease		**25**	33	26	**24**	33
- patents, trademarks and licences		**25**	22	26	**22**	22
- goodwill		**11**	5	1	**-**	2
- leasehold improvements		**28**	14	9	**27**	13
- research and development		**-**	-	1	**-**	-
- deferred expenditure		**7**	8	10	**7**	8
- capitalised software		**63**	-	-	**63**	-
		159	82	73	**143**	78
		2,322	2,353	2,351	**2,206**	2,244
(i) Depreciation of communication assets for the year ended 30 June 1996 is before the abnormal item (refer Note 3(b)).						
Other operating expenses						
Rental expense on operating leases		**216**	212	243	**205**	211
Partnership losses		**83**	106	81	**-**	-
Writedown of property, plant and equipment		**16**	-	-	**16**	-
Bad debts written off - trade debtors		**175**	149	63	**151**	149
Provisions:						
- doubtful debts - trade debtors		**182**	160	85	**173**	160
- diminution in value of inventories (finished goods)		**(15)**	8	(9)	**(15)**	8
- diminution in value of investments		**34**	8	14	**514**	104
- other provisions		**21**	2	-	**-**	5
Foreign exchange (gains)/losses		**(9)**	5	(1)	**18**	15
Other operating expenses		**2,928**	2,645	2,892	**2,867**	3,063
		3,631	3,295	3,368	**3,929**	3,715
Borrowing costs						
- controlled entities	29	**-**	-	-	**9**	7
- other entities		**701**	504	511	**668**	502
- finance charges relating to finance leases		**16**	20	22	**9**	11
		717	524	533	**686**	520
- borrowing costs capitalised		**(83)**	-	-	**(82)**	-
		634	524	533	**604**	520
Other disclosures						
Research and development expenses (before crediting any grants)		**43**	58	86	**42**	56
Provisions:						
- employee entitlements		**116**	(22)	125	**116**	(28)
- workers' compensation		**68**	44	(25)	**68**	44
Net (profit)/loss on sale of:						
- property, plant and equipment		**58**	39	43	**62**	40
- investments		**-**	(23)	(52)	**-**	(23)
- patents, trademarks and licences		**(11)**	-	-	**-**	-

Notes to and forming part of the Financial Statements (Continued)

3. Operating Profit (Continued)

(b) Abnormals

Operating profit before income tax expense has been determined after charging/(crediting) the following abnormals:

	Telstra Group Year Ended 30 June			Telstra Entity Year Ended 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
Abnormal items:					
Provision for redundancy and restructuring (i)	-	1,126	-	-	1,126
Income tax (benefit) applicable thereto	-	(405)	-	-	(405)
	-	721	-	-	721
Provision for loss on long term construction contract (ii)	-	394	-	-	394
Income tax (benefit) applicable thereto	-	(142)	-	-	(142)
	-	252	-	-	252
Writedown of broadband network communication assets (iii)	-	342	-	-	-
Income tax (benefit) applicable thereto	-	(123)	-	-	-
	-	219	-	-	-
Provision for broadband network rationalisation (iv)	-	476	-	-	-
Income tax (benefit) applicable thereto	-	(113)	-	-	-
	-	363	-	-	-
Provision for diminution in value of investment (v)	-	-	-	-	1,014
Income tax expense/(benefit) applicable thereto	-	-	-	-	-
	-	-	-	-	1,014
Change in communication assets depreciation methodology (vi)	-	-	(205)	-	-
Income tax expense applicable thereto	-	-	74	-	-
	-	-	(131)	-	-
Total abnormal items before income tax expense	-	2,338	(205)	-	2,534
Income tax expense/(benefit) applicable thereto	-	(783)	74	-	(547)
Total abnormal items after income tax	-	1,555	(131)	-	1,987
Abnormal accounting policy changes:					
Capitalisation of indirect overheads (vii)	-	(287)	-	-	(287)
Capitalisation of software developed for internal use (viii)	-	(213)	-	-	(213)
Capitalisation of interest costs (ix)	-	(106)	-	-	(102)
	-	(606)	-	-	(602)
Income tax expense applicable thereto	-	218	-	-	217
	-	(388)	-	-	(385)
Total abnormals before income tax expense	-	1,732	(205)	-	1,932
Income tax expense/(benefit) applicable thereto	-	(565)	74	-	(330)
Total abnormals after income tax	-	1,167	(131)	-	1,602

Notes to and forming part of the Financial Statements (Continued)

3. Operating Profit (Continued)

(b) Abnormals (Continued)

Abnormal items:

(i) During the year ended 30 June 1997, the Telstra Entity raised a provision in the accounts of $1,126 million which represented the estimated redundancy payments and associated costs to be incurred as a result of the implementation of the corporate plan, which provided for a large reduction in staff by way of redundancy.

(ii) During the year ended 30 June 1997, as part of an ongoing review of the Jindalee Operational Radar Network Project, a reassessment of costs to complete, and the estimated percentage of completion of this project at 30 June 1997, was made. As a result of this, the Telstra Entity recognised an abnormal charge in the financial statements of $394 million which represented the additional future costs that will not be recovered from the project.

(iii) During the year ended 30 June 1997, assets relating to the Telstra Group's broadband network were written down by $587 million, of which $245 million was charged to the asset revaluation reserve and the balance of $342 million was included as an abnormal charge to operating profit. The writedown to the broadband network's recoverable amount of $210 million was based on the present value of the estimated future net cash flows before income tax and excluded significant recent pit and pipe capital expenditures which are considered to be shared assets predominantly used for narrowband services.

(iv) During the year ended 30 June 1997, the Telstra Group recorded an abnormal charge of $476 million as a result of an agreement to reduce the rollout of the Telstra Group's broadband network to 2.5 million homes passed from 4.0 million homes passed. The charge was based on estimated contract settlements of $390 million as a result of the rollout reduction and a writedown of excess inventory of $86 million. The provision for broadband network rationalisation includes an amount of $300 million which represents the net present value of a contractual obligation for fixed-dollar amount reductions in revenue share to be received by the Telstra Group from FOXTEL over the next five years (or seven years if the acquisition of FOXTEL by Australis is not completed) using a discount rate of 9.7%. In the event that there is insufficient revenue share in a given year to meet the amount of the reduction, the Telstra Group will fund the difference to FOXTEL.

(v) During the year ended 30 June 1997, as part of the Telstra Entity's review of its investment in the broadband network and the writedowns of broadband assets and provisions made as noted above in (iii) and (iv), the Telstra Entity raised a $1,014 million provision for diminution in the value of its investment in Telstra Multimedia Pty Ltd.

(vi) During the year ended 30 June 1996 the Telstra Entity changed the methodology for determining the service life (but not the method of depreciation used, being the straight line basis) of particular communication assets (primarily switching and copper cable assets) to take into account the technological life of the assets to the Telstra Entity, where the principal driver of the service life is the advancement of technology and technological replacement, rather than physical wear and tear, commercial, legal and regulatory issues. The new methodology is only applied where a new technology is known to exist and the Telstra Entity is likely to utilise the new technology, with this utilisation decision having been made through a senior management review of the technological direction of the Telstra Entity. Previously the service life of these assets was determined by reference to the physical life of the asset from the date the asset is installed ready for use. The effect of this prospective change in the service life methodology on depreciation expense for the year ended 30 June 1996, being a depreciation reduction of $205 million, was disclosed as an abnormal gain in the profit and loss account.

Abnormal accounting policy changes:

(vii) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of indirect overheads which was applied retrospectively from 1 July 1996. The effect of this change was to increase the operating profit before income tax by $287 million.

(viii) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of software developed for internal use which was applied retrospectively from 1 July 1996. The effect of this change was to increase the operating profit before income tax by $213 million.

(ix) During the year ended 30 June 1997, the Telstra Group changed its accounting policy in relation to the capitalisation of interest costs which was applied retrospectively from 1 July 1996. The effect of this change was to increase operating profit before tax by $106 million ($102 million increase for the Telstra Entity).

Notes to and forming part of the Financial Statements (Continued)

3. Operating Profit (Continued)

(c) Abnormal income tax credit

	Telstra Group			Telstra Entity	
	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
Income tax expense has been determined after crediting the following abnormal item:					
Abnormal income tax credit (i)	**-**	(216)	-	**-**	(216)

(i) During the year ended 30 June 1997, income tax expense included an abnormal income tax benefit of $216 million relating to depreciation of assets that were subject to downward revaluations in prior years.

4. Income Tax Expense

The income tax expense on operating profit is reconciled to the reported income tax expense as follows:

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Group 1996 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Operating profit before income tax	**4,468**	2,073	3,447	**4,566**	2,361
Statutory rate of taxation	**36%**	36%	36%	**36%**	36%
Income tax on operating profit before tax at 36%	**1,608**	746	1,241	**1,644**	850
Which is adjusted by the tax effect of:					
Research and development concessions	**(18)**	(21)	(23)	**(6)**	(7)
General investment/development allowance	**(11)**	-	(5)	**(11)**	-
Share of associated entities' net profit after income tax expense	**(5)**	-	-	**-**	-
Profit on sale of property, plant and equipment	**(3)**	-	-	**(1)**	-
Depreciation of revalued assets	**(39)**	(62)	9	**(30)**	(62)
Inventory adjustments	**2**	15	15	**-**	15
Diminution in the value of investments	**12**	42	(5)	**184**	517
Rebateable dividends	**-**	(13)	(8)	**(11)**	(12)
Transfer of tax losses for no consideration	**-**	-	-	**-**	(40)
Provision for broadband network rationalisation	**-**	58	-	**-**	-
Over provision in prior years (i)	**(113)**	(66)	(87)	**(104)**	(71)
Other	**35**	(19)	8	**58**	(26)
Income tax attributable to operating profit	**1,468**	680	1,145	**1,723**	1,164
Abnormal income tax credit (Note 3(c))	**-**	(216)	-	**-**	(216)
Income tax expense	**1,468**	464	1,145	**1,723**	948
Comprising:					
Current taxation provision	**1,058**	1,056	1,032	**1,008**	1,026
Movement in future income tax benefit	**524**	(522)	196	**819**	(7)
Movement in deferred income tax liability	**(1)**	(4)	4	**-**	-
Over provision in prior years (i)	**(113)**	(66)	(87)	**(104)**	(71)
	1,468	464	1,145	**1,723**	948

(i) Included in overprovision in prior years is tax refunds from the Australian Taxation Office of $103 million (1997: $69 million; 1996: $113 million) for the Telstra Group and $99 million (1997: $69 million; 1996: $113 million) for the Telstra Entity.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June			Telstra Entity As At 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
4. Income Tax Expense (Continued)					
Future income tax benefit as at 30 June not brought to account:					
Income tax losses	**20**	1	5	**-**	-
Capital losses	**28**	7	19	**5**	-
	48	8	24	**5**	-

This benefit for tax losses which can be carried forward indefinitely will only be obtained if:

(i) the controlled entity derives future assessable income of an amount sufficient to enable the benefit from the deductions for the loss to be realised or the loss is transferred to an eligible company in the Telstra Group;

(ii) the controlled entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Telstra Group in realising the benefit from the deductions for the losses.

The Telstra Group's future income tax benefit (recorded on the balance sheet) of $787 million (1997: $1,485 million; 1996: $1,181 million) includes $133 million (1997: $3 million; 1996: $9 million) in relation to the benefit of income tax losses carried forward.

	Telstra Group Year Ended 30 June			Telstra Entity Year Ended 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
5. Dividends					
Ordinary shares:					
Interim dividend paid	**901**	3,625	686	**901**	3,625
Final dividend provided/paid	**901**	521	682	**901**	521
	1,802	4,146	1,368	**1,802**	4,146
Dividends per share (cents)	**¢**	¢	¢		
Interim	**7.0**	* 28.2	* 5.3		
Final	**7.0**	* 4.0	* 5.3		
Total	**14.0**	* 32.2	* 10.6		

* Calculated assuming share split had been made in these years. Refer to Note 16(ii) for further details of the share split.

During the year ended 30 June 1998, the Telstra Entity declared and paid dividends of $1,422 million (1998 interim dividend plus 1997 final dividend paid during the year ended 30 June 1998) (1997: $4,307 million of which $3,000 million was paid as a special dividend to the Commonwealth; 1996: $1,217 million).

All dividends paid or provided for were fully franked "C" class dividends for the years ended 30 June 1998, 1997 and 1996 and the tax rate at which these dividends were franked was 36%. Franking credits arise under Australian Taxation Law. Generally, they allow Australian resident taxpayers a credit for the income tax paid by the Telstra Entity against tax payable by the shareholder calculated on the grossed up amount of franked dividends received by the shareholder. Dividends paid to non-resident shareholders will not be subject to dividend withholding tax on the basis that the dividends are fully franked.

Notes to and forming part of the Financial Statements (Continued)

5. Dividends (Continued)

	Telstra Group Year Ended 30 June			Telstra Entity Year Ended 30 June	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
The amount of franking credits available for the subsequent financial year are:					
- franking account balance as at the end of the financial year	**479**	563	3,061	**315**	442
- franking credits that will arise from the net payment of income tax payable as at the end of the financial year	**769**	768	1,225	**758**	713
- franking debits that will arise from the payment of dividends as at the end of the financial year	**(901)**	(521)	(682)	**(901)**	(521)
- franking credits that the entity may be prevented from distributing in the next financial year	**(8)**	-	-	**-**	-
	339	810	3,604	**172**	634

As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year. On 13 May 1997, the Commonwealth Treasurer announced changes to income tax laws dealing with the franking of dividends. If they are enacted, the franking credits of the Telstra Entity of 13 May 1997 will be cancelled and an equivalent amount of exempting credits will be created.

Arrangements have been put in place between the Commonwealth and the Telstra Entity in relation to the use of exempting credits in lieu of equivalent franking credits.

6. Cash

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
Cash at bank and on hand	**154**	154	**74**	86
Bank deposits, bills of exchange and promissory notes	**799**	588	**798**	588
	953	742	**872**	674

Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and promissory notes approximate net fair value due to their short term to maturity.

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
7. Receivables					
Current					
Trade debtors (i)		**2,284**	2,450	**1,709**	2,219
Provision for doubtful debts		**(237)**	(315)	**(211)**	(293)
		2,047	2,135	**1,498**	1,926
Accrued revenue		**998**	1,103	**958**	1,045
Bank deposits, bills of exchange and promissory notes (ii)		**19**	95	**19**	95
Share loans to employees (iii)	17	**46**	-	**46**	-
Amounts owed by controlled entities (other than trade debtors)	29	**-**	-	**676**	847
Loans to associated entities		**5**	-	**5**	-
Other receivables		**63**	53	**34**	36
		3,178	3,386	**3,236**	3,949
Non Current					
Bank deposits and bills of exchange (ii)		**71**	98	**42**	69
Share loans to employees (iii)	17	**160**	-	**160**	-
Amounts owed by controlled entities (other than trade debtors)	29	**-**	-	**126**	98
Other receivables		**10**	10	**-**	-
		241	108	**328**	167

(i) The Telstra Group's policy requires trade debtors to be settled within 14 days. The Telstra Group does not have any significant exposure to any individual customer, geographical location or industry category. All credit and recovery risk associated with trade debtors has been provided for in the financial statements. The carrying amount of trade debtors approximates their net fair value.

(ii) Bank deposits, bills of exchange and promissory notes as at 30 June 1998 represent Japanese Yen deposits in relation to the Telstra Group's Japanese finance lease liabilities. These deposits can only be used to satisfy these finance lease liabilities. The carrying amount of bank deposits, bills of exchange and promissory notes with an original maturity date over three months and less than one year and the non current amounts approximates net fair value.

(iii) Share loans to employees represent amounts receivable from employees under the terms of the Telstra Employee Share Ownership Plan Trust and Loan Scheme and approximate fair value. Refer to Note 17 for details regarding the scheme.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m

8. Inventories

Current

Raw materials and stores (at cost)	**23**	26	**23**	25
Work in progress (at cost)	**1**	2	**1**	1
Finished goods (at cost)	**268**	275	**263**	270
Provision for obsolescence	**(49)**	(66)	**(48)**	(65)
	219	209	**215**	205
	243	237	**239**	231

Non Current

Finished goods (at cost)	**41**	48	**41**	46
Provision for obsolescence	**(14)**	(12)	**(14)**	(12)
	27	36	**27**	34

9. Investments

Listed securities

Shares in other corporations (at cost)	**2**	38	**-**	36
Provision for diminution in value	**-**	(33)	**-**	(33)
Total listed securities (a)	**2**	5	**-**	3
(a) Net fair value at 30 June	**6**	5	**-**	3

Unlisted securities

Shares in controlled entities (at cost) (Note 22)	**-**	-	**2,157**	1,723
Provision for diminution in value	**-**	-	**(1,897)**	(1,409)
	-	-	**260**	314
Shares in associated entities (Note 23(i)) (i) (ii)	**6**	59	**-**	-
Shares in other corporations (at cost) (i)	**51**	15	**50**	14
Provision for diminution in value (i)	**(39)**	(3)	**(39)**	(3)
	12	12	**11**	11
Satellite consortia investments (i) (iii)				
INTELSAT	**75**	54	**75**	54
INMARSAT	**29**	21	**29**	21
	104	75	**104**	75
Debentures (i)	**18**	-	**18**	-
Provision for diminution in value (i)	**(18)**	-	**(18)**	-
	-	-	**-**	-
Total unlisted securities	**122**	146	**375**	400
Investment in unincorporated joint venture (i)	**6**	6	**6**	6
Investment in partnerships (i) (Note 23(ii))	**98**	56	**-**	-
	228	213	**381**	409

Notes to and forming part of the Financial Statements (Continued)

9. Investments (Continued)

(i) The net fair value of unlisted securities (other than shares in controlled entities), investment in unincorporated joint venture, and investment in partnerships approximates their carrying value.

(ii) The Telstra Group amount for 30 June 1998 is equity accounted. The Telstra Group amount for 30 June 1997 is at cost. The Telstra Entity amounts for both years are at cost. Refer Note 1.9(b) for details of the change in the Telstra Group's accounting policy.

(iii) The satellite consortia investments are translated at balance date as outlined in Note 1.9(c).

10. Property, Plant and Equipment

	Telstra Group		Telstra Entity	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
General Purpose Land and Buildings				
Land and Site Improvements				
At cost	**4**	9	**4**	9
At Directors' valuation - 31 March 1996 (i)	**191**	204	**191**	204
At Directors' valuation - 31 March 1998 (i)	**23**	-	**23**	-
	218	213	**218**	213
Buildings (including leasehold improvements)				
At cost	**438**	419	**427**	404
Accumulated depreciation	**(166)**	(130)	**(161)**	(124)
	272	289	**266**	280
At Directors' valuation - 31 March 1996 (i)	**695**	734	**695**	734
At Directors' valuation - 31 March 1998 (i)	**22**	-	**22**	-
	717	734	**717**	734
Accumulated depreciation	**(62)**	(39)	**(62)**	(39)
	655	695	**655**	695
	927	984	**921**	975
	1,145	1,197	**1,139**	1,188
Communication Assets (including leasehold improvements)				
At cost	**25,577**	22,966	**25,130**	22,640
Accumulated depreciation	**(10,500)**	(9,327)	**(10,331)**	(9,216)
	15,077	13,639	**14,799**	13,424
At Independent valuation - 1988 (ii)	**228**	254	**228**	254
At Directors' valuation:				
- 31 January 1992 (ii)	**908**	908	**908**	908
- 30 June 1992 (ii)	**706**	762	**706**	762
- 31 March 1994 (ii)	**1,087**	1,205	**1,087**	1,205
- 30 June 1995 (ii)	**3**	4	**3**	4
- 30 June 1997 (ii)	**210**	210	**-**	-
- 31 March 1998 (ii)	**5**	-	**5**	-
	3,147	3,343	**2,937**	3,133
Accumulated depreciation	**(890)**	(899)	**(869)**	(899)
	2,257	2,444	**2,068**	2,234
	17,334	16,083	**16,867**	15,658

Communication assets include certain network land and buildings which are integral to the communication assets.

Notes to and forming part of the Financial Statements (Continued)

10. Property, Plant and Equipment (Continued)

Other Plant and Equipment

	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
Other Plant, Equipment and Motor Vehicles				
At cost	**2,703**	3,410	**2,627**	3,320
Accumulated depreciation	**(1,460)**	(1,807)	**(1,415)**	(1,765)
	1,243	1,603	**1,212**	1,555
At Independent valuation 1988 (ii)	**3**	3	**3**	3
Accumulated depreciation	**(3)**	(3)	**(3)**	(3)
	-	-	**-**	-
	1,243	1,603	**1,212**	1,555
Equipment Under Finance Lease				
At cost	**108**	148	**107**	147
Accumulated amortisation	**(74)**	(88)	**(74)**	(87)
	34	60	**33**	60
Net Book Value of Property, Plant and Equipment	**19,756**	18,943	**19,251**	18,461
Assets under construction included in the above at cost:				
Communication assets	**847**	750	**841**	746
General purpose land and buildings	**13**	35	**13**	35
	860	785	**854**	781
As at 30 June 1998 and 1997, the cost/valuation and accumulated depreciation of all land and buildings was:				
Land				
At cost	**46**	14	**46**	14
At valuation (i) (ii)	**695**	700	**695**	700
	741	714	**741**	714
Buildings (including leasehold improvements)				
At cost	**1,198**	862	**1,163**	844
Accumulated depreciation	**(354)**	(202)	**(338)**	(194)
	844	660	**825**	650
At valuation (i) (ii)	**1,979**	1,998	**1,979**	1,998
Accumulated depreciation	**(338)**	(261)	**(338)**	(261)
	1,641	1,737	**1,641**	1,737
	2,485	2,397	**2,466**	2,387
	3,226	3,111	**3,207**	3,101

The Directors consider the current value of all land and buildings as at 30 June 1998 was $3,568 million (1997: $3,216 million); Telstra Entity $3,549 million (1997: $3,206 million).

From time to time the Telstra Group has revalued its property, plant and equipment. Property, plant and equipment is written down to recoverable amount where the carrying value exceeds recoverable amount.

Notes to and forming part of the Financial Statements (Continued)

10. Property, Plant and Equipment (Continued)

The valuation methods are as follows:

(i) General purpose land and buildings
- Market value.

(ii) Communication assets and other plant and equipment
(a) Network land and buildings
- Market value for network land and depreciated replacement cost or recoverable amount for network buildings.

(b) Other assets
- Depreciated replacement cost or recoverable amount.

Details of the Telstra Group's capital expenditure and finance lease commitments are provided in Note 19 to these financial statements.

	Telstra Group		Telstra Entity	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m
11. Intangible Assets				
Goodwill	**51**	27	**-**	-
Accumulated amortisation	**(13)**	(8)	**-**	-
	38	19	**-**	-
Patents, trademarks and licences	**529**	256	**522**	238
Accumulated amortisation	**(71)**	(51)	**(67)**	(38)
	458	205	**455**	200
	496	224	**455**	200
12. Other Assets				
Current				
Prepayments	**136**	158	**129**	146
Land and buildings held for sale	**-**	34	**-**	34
	136	192	**129**	180
Non Current				
Deferred expenditure	**95**	117	**94**	116
Accumulated amortisation	**(61)**	(48)	**(61)**	(48)
	34	69	**33**	68
Capitalised software	**479**	248	**479**	248
Accumulated amortisation	**(88)**	(25)	**(88)**	(25)
	391	223	**391**	223
	425	292	**424**	291

Notes to and forming part of the Financial Statements (Continued)

13. Accounts Payable

	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
Current				
Trade creditors (i)	**576**	472	**498**	416
Accrued expenses	**994**	1,153	**868**	1,084
Other creditors (i) (ii)	**794**	919	**729**	861
Amounts owed to controlled entities (other than trade creditors)	**-**	-	**173**	767
Amounts owed to the Telstra Superannuation Scheme (iii)	**121**	121	**121**	121
	2,485	2,665	**2,389**	3,249
Non Current				
Other creditors	**36**	21	**21**	16
Amounts owed to controlled entities (other than trade creditors)	**-**	-	**159**	58
Amounts owed to the Telstra Superannuation Scheme (iii)	**664**	689	**664**	689
	700	710	**844**	763

(i) Trade creditors and other creditors (excluding a long term construction contract) are generally settled within 30 days of the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

(ii) Other creditors includes a long term construction contract with the Commonwealth of Australia (Commonwealth) Department of Defence as follows:

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Gross amount of construction work in progress	**(1,024)**	(813)	**(1,024)**	(813)
Provisions for foreseeable losses	**605**	605	**605**	605
	(419)	(208)	**(419)**	(208)
Progress billings (a)	**735**	728	**735**	728
	316	520	**316**	520
(a) Includes progress billings, billed but not received at balance date (included in trade debtors)	**5**	27	**5**	27

(iii) The Commonwealth has guaranteed these payments in the event that the Telstra Entity becomes insolvent.
For details of the amount payable to the Telstra Superannuation Scheme refer to Note 21.

Net fair values

The carrying amounts of all accounts payable approximate net fair value.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
14. Borrowings				
Current				
(a) Short term debt				
Bank overdrafts (i)	**5**	12	**-**	11
Bills of exchange and promissory notes (ii)	**2,503**	159	**2,464**	130
	2,508	171	**2,464**	141
(b) Long term debt				
Bank loans (iii)	**5**	1,004	**-**	1,000
Telecom/Telstra bonds (iv)	**349**	178	**349**	178
Other loans (v)	**-**	135	**-**	135
Finance leases (vi) (refer Note 19)	**73**	72	**56**	57
	427	1,389	**405**	1,370
	2,935	1,560	**2,869**	1,511
Non Current				
(b) Long term debt				
Bank loans (iii)	**21**	2,013	**-**	2,000
Telecom/Telstra bonds (iv)	**2,338**	2,676	**2,338**	2,676
Other loans (v)	**2,298**	1,531	**2,298**	1,522
Finance leases (vi) (refer Note 19)	**130**	201	**78**	132
	4,787	6,421	**4,714**	6,330
Total debt payable				
(a) Short term debt				
Bank overdrafts (i)	**5**	12	**-**	11
Bills of exchange and promissory notes (ii)	**2,503**	159	**2,464**	130
	2,508	171	**2,464**	141
(b) Long term debt				
Bank loans (iii)	**26**	3,017	**-**	3,000
Telecom/Telstra bonds (iv)	**2,687**	2,854	**2,687**	2,854
Other loans (v)	**2,298**	1,666	**2,298**	1,657
Finance leases (vi) (refer Note 19)	**203**	273	**134**	189
	5,214	7,810	**5,119**	7,700
	7,722	7,981	**7,583**	7,841

Borrowings outstanding are unsecured, except for finance leases which are secured, as the rights to the leased asset revert to the lessor in the event of a default, and except for a bank overdraft of $4 million and a bank loan of $5 million held by an offshore controlled entity, which are secured against certain fixed and floating assets of that controlled entity.

The Commonwealth has guaranteed $217 million of these borrowings at 30 June 1998 (1997: $396 million).

The maturity table for all long term debt payable for the next five years ending 30 June and thereafter is as follows:

Telstra Group ($ millions)	1999	2000	2001	2002	2003	after 2003	Total
Long term debt payable	427	128	590	67	650	3,406	5,268
Unamortised discount							(54)
							5,214

Notes to and forming part of the Financial Statements (Continued)

14. Borrowings (Continued)

(i) Bank Overdrafts

As at 30 June 1998, The Telstra Group's bank overdrafts are unsecured except for a $4 million bank overdraft of an offshore controlled entity which is secured against certain fixed and floating assets of that controlled entity. Interest on bank overdrafts is charged at the bank's prevailing benchmark rate. The effective interest rate was 18.0% for the year ended 30 June 1998, mainly in relation to the controlled entity's overdraft (1997: 8.75% mainly relating to the Telstra Entity's overdraft). The bank overdrafts are payable on demand and are subject to review, in accordance with market movements.

(ii) Bills of Exchange and Promissory Notes

The Telstra Group has issued bills of exchange and promissory notes of $2,503 million (1997: $159 million) to financial institutions with an original maturity of less than 180 days. At 30 June 1998, $2,474 million (1997: $159 million) of these bills of exchange and promissory notes mature in less than three months. The weighted average effective interest rate applicable to these bills of exchange and promissory notes at 30 June 1998 was 5.5% (1997: 5.7%).

(iii) Bank Loans

During the year ended 30 June 1998, the Telstra Group repaid the $3,000 million in syndicated revolving bank credit facilities drawn down at 30 June 1997. Bank loans have been made to controlled entities of the Telstra Group and are denominated in Indian Rupees and Sri Lankan Rupees. The Indian Rupees loan of A$12 million (1997: A$11 million) has an interest rate of 15.5% (1997: 18.0%). The Sri Lankan Rupees loans of A$14 million (1997: A$6 million) have interest rates of 16.3% (1997: 18.0%). The amounts of these loans that mature during each of the next five years ending 30 June and thereafter are as follows:

	Telstra Group						
	1999	2000	2001	2002 ($ millions)	2003	after 2003	Total
Bank loans	5	15	3	1	1	1	26

(iv) Telecom/Telstra Bonds

Telecom/Telstra bonds are issued to both retail and wholesale investors and have effective interest rates ranging from 4.0% to 14.8% (1997: 4.0% to 14.8%), with maturities over the period to the year 2020 (1997: 2020). At 30 June 1998, Telecom/Telstra bonds were due as follows:

	Telstra Group					
Coupon Interest Rate:	up to 6.0%	up to 8.0%	up to 10.0% ($ millions)	up to 12.0%	up to 16.0%	Total
Due in the year ending June 30						
1999	10	84	21	234	-	349
2000	50	3	12	3	-	68
2001	8	11	28	17	492	556
2002	3	2	2	29	-	36
2003	-	-	62	516	-	578
After 2003	179	304	48	571	32	1,134
	250	404	173	1,370	524	2,721
Unamortised discount						(34)
						2,687

Notes to and forming part of the Financial Statements (Continued)

14. Borrowings (Continued)

(v) Other Loans

Other loans include domestic loans and offshore loans (denominated in foreign currencies) and the net (receivable)/ payable on the currency swaps of ($239) million at 30 June 1998 (1997: $25 million) entered into to hedge these borrowings. A description of the objectives and significant terms and conditions relating to cross currency swaps used to hedge the offshore loans is detailed in Note 31. The Japanese Yen loans of A$116 million at 30 June 1998 (1997: A$352 million) have interest rates ranging from 5.1% to 5.6% (1997: from 5.1% to 6.0%) and maturity dates between October 2002 and May 2003 (1997: between October 1997 and June 2009). The US dollar loans of A$1,129 million at 30 June 1998 (1997: A$940 million) have interest rates ranging from 6.3% to 6.7% (1997: from 6.3% to 6.7%) and maturity dates of July 2003 and November 2005 (1997: maturity dates of July 2003 and November 2005). The French Franc loan of A$399 million (1997: A$340 million) has an interest rate of 6.1% (1997: 6.1%) and a maturity date of December 2006 (1997: December 2006). During the year ended 30 June 1998, the Telstra Group issued a Deutschemark Eurobond loan of A$893 million with an interest rate of 5.2% and maturity of April 2008. As at 30 June 1997, a controlled entity had an Australian dollar loan of $9 million which had a fixed interest rate of 7.3%. The amounts of these loans that mature during each of the next five years ending 30 June and thereafter are as follows:

	Telstra Group						
	1999	2000	2001	2002 ($ millions)	2003	after 2003	Total
Other loans	-	-	-	-	62	2,256	2,318
Unamortised discount							(20)
							2,298

(vi) Finance Leases

The Australian dollar finance lease obligations have interest rates ranging from 6.5% to 12.5% (1997: 6.5% to 12.5%) and maturity dates between April 1999 and June 2003 (1997: July 1997 and June 2003). The Japanese Yen finance lease obligations have interest rates ranging from 1.5% to 3.4% (1997: 1.5% to 3.4%) and maturity dates between October 1998 and February 2005 (1997: October 1998 and February 2005). Details of minimum lease payments due under finance leases are disclosed in Note 19 to these financial statements.

Net fair values

The carrying amounts of bank overdrafts, bills of exchange and promissory notes, bank loans and finance lease liabilities, approximate net fair value. The net fair values of other borrowings where the carrying values (including accrued interest) are materially different to the net fair values are as follows:

	Telstra Group Carrying Value (i) As At 30 June		Telstra Group Net Fair Value As At 30 June	
	1998 $m	1997 $m	**1998 $m**	1997 $m
Telecom/Telstra bonds	**2,751**	2,924	**3,328**	3,461
Other loans (ii)	**2,601**	1,689	**2,842**	1,724

The difference between carrying value and net fair values relates principally to interest rate movements.

(i) Carrying value includes accrued interest.

(ii) The carrying value and net fair value of other loans excludes cross currency swaps which are disclosed in Note 31.

Notes to and forming part of the Financial Statements (Continued)

14. Borrowings (Continued)

	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
Financing arrangements				
The Telstra Group has access to the following lines of credit:				
Credit standby arrangements				
- unsecured committed cash standby facilities, subject to annual review	**813**	789	**813**	784
- amount of credit unused	**813**	788	**813**	784
- an unsecured bill acceptance facility reviewable for extension on an annual basis	**50**	50	**-**	-
- amount of credit unused	**11**	22	**-**	-
- secured bank overdraft facilities, subject to biannual review with amounts drawn payable at call	**7**	-	**-**	-
- amount of credit unused	**3**	-	**-**	-
Loan facilities				
- unsecured bank term loan facilities	**2,028**	3,019	**2,000**	3,000
- amount of facilities unused	**2,002**	2	**2,000**	-

The Telstra Entity has in place commercial paper facilities with financial institutions under which it may issue up to $4,256 million (1997: $3,682 million). As at 30 June 1998, the Telstra Entity had drawn down $2,464 million (1997: $130 million) of these commercial paper facilities. These facilities are uncommitted and the Telstra Entity has no guaranteed access to funds and none of the facilities are underwritten.

15. Provisions

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Current				
Dividends payable (refer Note 5)	**901**	521	**901**	521
Taxation	**474**	432	**457**	401
Employee entitlements (i)	**720**	891	**703**	874
Workers' compensation	**33**	25	**33**	25
Other provisions	**332**	449	**174**	288
	2,460	2,318	**2,268**	2,109
Non Current				
Employee entitlements (i)	**773**	923	**767**	918
Workers' compensation	**278**	219	**278**	219
Deferred income tax	**2**	3	**-**	-
Other provisions	**305**	380	**56**	97
	1,358	1,525	**1,101**	1,234
(i) Employee entitlements consist of amounts for annual leave, long service leave and redundancy payments to employees.				
Aggregate employee entitlements	**1,493**	1,814	**1,470**	1,792

The carrying amounts of all provisions approximates net fair value.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group & Telstra Entity			
	As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m

16. Share Capital: Telstra Entity

	1998 $m	**1998 US $m**	1997 $m	1996 $m
The Telstra Entity's authorised share capital is 40,000 million (1997 and 1996: 20,000 million) ordinary shares with a par value of $0.50 each (1997 and 1996: par value $1.00 each) (i)	**20,000**	**12,416**	20,000	20,000
Issued and paid up share capital				
12,866,600,200 fully paid ordinary shares of $0.50 (i) (ii) (1997 and 1996: 4,933,300,100 fully paid ordinary shares of $1.00 each)	**6,433**	**3,994**	4,933	4,933
(1997 and 1996: 2,000,000,000 partly paid ordinary shares of $1.00 each paid to $0.75) (i)	**-**	**-**	1,500	1,500
	6,433	**3,994**	6,433	6,433
Movement in share capital				
Issued and paid up share capital at beginning of year	**6,433**	**3,994**	6,433	6,433
Buyback by Commonwealth of 2,000,000,000 partly paid ordinary shares of $1.00 each paid to $0.75 (i)	**(1,500)**	**(931)**	-	-
Issue of 1,500,000,000 ordinary shares with a par value of $1.00 each (i)	**1,500**	**931**	-	-
Issued and paid up share capital at end of year (ii)	**6,433**	**3,994**	6,433	6,433

(i) On 25 July 1997, the Commonwealth accepted a share buy-back offer from the Telstra Entity in respect of all of the 2,000,000,000 partly paid shares in the Telstra Entity held by the Commonwealth as at that date. The proceeds of this buy-back representing $1,500 million were applied by the Commonwealth to subscribe for 1,500,000,000 ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash paid or received, they are not reflected in the cash flows from financing activities.

(ii) On 6 August 1997, a share split was approved so that all ordinary shares issued by the Telstra Entity on this date with a par value of $1.00 each were divided into two ordinary shares with a par value of $0.50 each. This resulted in authorised share capital of the Telstra Entity changing from 20,000,000,000 shares with a par value of $1.00 each to 40,000,000,000 shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each, to 12,866,600,200 ordinary shares with a par value of $0.50 each.

Notes to and forming part of the Financial Statements (Continued)

17. Telstra Employee Share Ownership Plan

(a) Nature of the Scheme

During the year ended 30 June 1998, the Commonwealth sold approximately 33.33 per cent of its shares in the Telstra Entity in the form of instalment receipts (throughout this Note shares are defined to include instalment receipts). Part of the sale process involved an invitation to eligible employees to acquire shares under the Telstra Employee Share Ownership Plan (TESOP). The shares sold to eligible employees were ordinary share capital of the Telstra Entity at the time of sale.

(b) Eligibility to Participate

Shares were offered to all "eligible employees". This included employees who, on 20 September 1997, were employees of (a) the Telstra Entity; or (b) a company in which the Telstra Group owned more than 50 per cent of the issued capital (subsidiary), but excluding any person who, on 20 September 1997, was: (a) a part-time employee who received loading in lieu of employee benefits (such as sick leave, annual leave or long service leave); (b) a fixed term employee (ie. employed for a specific period); (c) a casual employee; (d) a contractor; (e) an employee on leave without pay except in the category of maternity/parental leave, sick leave and study leave, subject to verification of the person's status in these categories by the Telstra Group and its subsidiaries; or (f) an employee living outside Australia.

At 20 September 1997 64,309 employees were eligible to participate in the TESOP. Of these, 55,748 applied to and were accepted to participate in the TESOP and received loan shares and 2,282 employees used their own funds to acquire shares.

(c) The Offer to Eligible Employees

Eligible employees were entitled to participate in both of the following offers:

(i) the "One for Four Offer"; and
(ii) the "One for Ten Loyalty Offer".

(d) The "One for Four Offer"

(i) Terms of the "One for Four Offer"

Under the "One for Four Offer", the Commonwealth guaranteed that each eligible employee would be able to purchase up to 2,000 shares. For every four shares purchased under this offer, the eligible employee would receive one extra share free, up to a maximum of 500 extra shares ("extra shares"). The shares issued to employees under TESOP rank equally with all other Telstra Entity shares.

Eligible employees could elect to purchase shares under the "One for Four Offer" with their own funds, or use an interest-free loan provided by the Telstra Entity. If the employee chose to use the loan, the loan (less a $1.00 discount) was used to pay the first instalment of $1.95 per share on the employee's behalf. The Telstra Entity paid $55,748 direct to the Commonwealth representing the $1.00 discount per eligible employee on the cost of purchasing the shares. This discount is borne by the Telstra Entity and is not repayable by the employee. The Telstra Entity has agreed to make a further loan which will be used to pay the final instalment of $1.35 which is due on or before 17 November 1998. The Telstra Entity's recourse under the loan is limited to the amount recoverable through sale of the employees' shares. The loan is to be repaid from after-tax dividends received on the shares and extra shares. Provided the employee remains an employee of the Telstra Group or its subsidiaries, there is no date by which the loan must be repaid. However, the loan may be repaid in full at any time by the employee using his or her own funds.

While the employee remains an employee of the Telstra Group or its subsidiaries, the shares purchased under the "One for Four Offer" cannot be sold until 3 years after allocation. After 3 years, the employee may sell the shares, provided the loan is repaid in full.

The shares and extra shares are held on behalf of the employees by Telstra ESOP Trustee Pty Ltd as trustee for the TESOP. This company is a wholly owned subsidiary of the Telstra Entity.

If an eligible employee leaves the Telstra Group or its subsidiaries, they must repay the loan before the latter of: (a) two months after leaving the Telstra Group or its subsidiaries; (b) two months after the date for payment of the final instalment; or (c) twelve months if due to death or total and permanent disablement.

If the employee fails to repay the loan by the relevant due date, the Telstra ESOP Trustee Pty Ltd may sell the shares and extra shares and repay the loan with the sale proceeds.

If Telstra ESOP Trustee Pty Ltd is still the registered holder of an employee's shares on 4 November 1998, the Telstra Entity will advance the final instalment on behalf of the employee, even if the employee has left the Telstra Group or its subsidiaries.

(ii) Market price of shares

The market value at 17 November 1997 of shares issued to participants in the TESOP (including those paid for with the employees' funds - see (iv) below) was $277,279,841 (calculated using $1.95 per share). The total amount received by the Commonwealth for these shares for the first instalment was $221,823,872. The difference between the market value of shares issued and the amount paid to the Commonwealth represents the value of the free share received by TESOP participants for every four shares purchased. The market price of the shares recorded by the Australian Stock Exchange as at close of trade on 30 June 1998 was $4.14.

Notes to and forming part of the Financial Statements (Continued)

17. Telstra Employee Share Ownership Plan (Continued)

(d) The "One for Four Offer" (Continued)

(iii) Movements in loan shares, loan extra shares and loan repayments for the year ended 30 June 1998

	No. of employees	No. of shares held	Loan Amount $'000
Commencement of TESOP:			
Sale of loan shares to employees by the Commonwealth	55,748	109,979,100	214,404
Employee loan extra shares sold by the Commonwealth	55,748	27,494,775	-
		137,473,875	214,404
Reduced by:			
After tax dividend loan repayments by employees	-	-	7,741
Loan repayments (non dividend) and exits of the scheme	207	401,600	758
Employee loan extra shares exits of the scheme	207	100,400	-
Closing balances as at 30 June 1998:			
Employee loan shares (a)	55,541	109,577,500	205,905
Employee loan extra shares (a)	55,541	27,394,375	-
		136,971,875	205,905

Share loans to employees is split between:	
Current amount (Note 7)	46,240
Non Current amount (Note 7)	159,665
	205,905

(a) 4,275 employees who left the Telstra Group or its subsidiaries on or before 30 June 1998 are required to make arrangements to repay their loan before 17 January 1999, in default of which the Telstra ESOP Trustee Pty Ltd may sell their shares in order to repay the loan.

(iv) Purchase of shares in the "One for Four Offer" using the employees' own funds

In addition to acquiring shares under the TESOP by using interest free loan funding provided by the Telstra Entity, eligible employees were also able to apply for shares under TESOP by using their own funds to purchase up to the maximum of the original 2,000 shares offered under (i) above. Upon doing this, these employees were also able to obtain 1 extra share free for every 4 shares purchased up to the maximum of 500 extra shares offered under (i) above. 2,282 employees took up the offer under these terms and were issued 3,776,732 shares and 944,183 extra shares. The shares purchased with the eligible employees' funds are able to be sold at any time and once the eligible employee leaves the Telstra Group or its subsidiaries the extra shares may be sold at any time. The remaining employees participating in this part of the scheme at 30 June 1998 was 1,448 which corresponded to 571,333 extra shares.

(e) Employee Loyalty Share Offer

Eligible employees who purchased shares in the public offer with their own funds are entitled to receive one loyalty share, at no additional cost, for every ten shares purchased in the public offer and held through to 17 November 1998 to a maximum of 200 loyalty shares. Shares purchased under the "One for Four Offer" will not count towards determining the number of loyalty shares an employee may receive.

Employees who leave the Telstra Group or its subsidiaries are eligible to receive loyalty shares if the shares purchased in the public offer are still held by the employee on 17 November 1998. Loyalty shares may be sold any time after receiving them.

Notes to and forming part of the Financial Statements (Continued)

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1998 US $m	Telstra Group As At 30 June 1997 $m	Telstra Group As At 30 June 1996 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
18. Reserves							
Asset revaluation reserve (i)		**65**	**40**	81	331	**310**	326
General reserve (ii)	23(i)	**1**	**1**	-	-	**-**	-
Satellite consortia revaluation reserve		**-**	**-**	-	21	**-**	-
Foreign currency translation reserve (ii)	23(i)	**(36)**	**(22)**	4	(6)	**-**	-
		30	**19**	85	346	**310**	326
Movements in reserves were:							
Asset revaluation reserve (i)							
Balance as at 1 July		**81**	**50**	331	313	**326**	331
Increment/(decrement) resulting from revaluation		**(16)**	**(10)**	(250)	18	**(16)**	(5)
Balance as at 30 June		**65**	**40**	81	331	**310**	326
General reserve							
Balance as at 1 July		**-**	**-**	-	-	**-**	-
Increment resulting from share of associated entities general reserve (ii)		**1**	**1**	-	-	**-**	-
Balance as at 30 June		**1**	**1**	-	-	**-**	-
Satellite consortia revaluation reserve							
Balance as at 1 July		**-**	**-**	21	20	**-**	21
Increment resulting from revaluation		**-**	**-**	8	1	**-**	8
		-	**-**	29	21	**-**	29
Transfer to retained earnings		**-**	**-**	(29)	-	**-**	(29)
Balance as at 30 June		**-**	**-**	-	21	**-**	-
Foreign currency translation reserve							
Balance as at 1 July		**4**	**3**	(6)	1	**-**	-
Translation adjustment on controlled foreign entities' financial statements		**7**	**4**	10	(7)	**-**	-
Translation adjustment on equity accounted associated entities (ii)	23(i)	**(47)**	**(29)**	-	-	**-**	-
Balance as at 30 June		**(36)**	**(22)**	4	(6)	**-**	-

(i) $245 million of the Telstra Entity asset revaluation reserve cannot be utilised by the Telstra Entity to record decrements to previously revalued assets or distributed to shareholders, as this amount was used by the Telstra Group in relation to the writedown of the broadband network in the year ended 30 June 1997 (refer Note 3(b)(iii)).

(ii) The amount of reserves applicable to associated entities are shown in Note 23(i).

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group As At 30 June		Telstra Entity As At 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m

19. Expenditure Commitments

(a) Capital expenditure commitments

Aggregate capital expenditure commitments contracted for at balance date but not provided for in the financial statements:

	1998 $m	1997 $m	**1998 $m**	1997 $m
Within 1 year	**636**	789	**552**	746
Within 1-2 years	**245**	190	**226**	190
Within 2-3 years	**124**	1	**119**	1
Within 3-4 years	**115**	4	**115**	4
Within 5 years	**116**	-	**116**	-
After 5 years	**442**	-	**442**	-
	1,678	984	**1,570**	941
Included above commitments are capital commitments relating to Information Technology Services as follows:	**972**	-	**972**	-

These capital commitments relate to amounts to be spent on capitalised software developed for internal use under a 10 year contract with IBM Global Services Australia Limited (IBMGSA) (Refer Note 19(d)(ii) for other commitments relating to IBMGSA).

(b) Operating lease commitments

Future lease payments for non-cancellable operating leases:

	1998 $m	1997 $m	**1998 $m**	1997 $m
Within 1 year	**196**	180	**181**	167
Within 1-2 years	**158**	142	**147**	132
Within 2-3 years	**107**	112	**99**	107
Within 3-4 years	**83**	92	**78**	88
Within 5 years	**66**	75	**62**	71
After 5 years	**232**	254	**228**	243
	842	855	**795**	808

In addition, the Telstra Group has commitments under cancellable operating leases of $56 million for the year ending 30 June 1999 (1997: $23 million for the year ending 30 June 1998). The Telstra Entity has commitments under cancellable operating leases of $40 million for the year ending 30 June 1999 (1997: $14 million for the year ended 30 June 1998).

Notes to and forming part of the Financial Statements (Continued)

19. Expenditure Commitments (Continued)

(c) Finance lease commitments

	Note	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m	Telstra Entity As At 30 June 1998 $m	Telstra Entity As At 30 June 1997 $m
Within 1 year		**80**	90	61	68
Within 1-2 years		**50**	83	31	61
Within 2-3 years		**34**	52	18	31
Within 3-4 years		**30**	36	10	18
Within 5 years		**11**	32	11	10
After 5 years		**17**	29	16	28
Total minimum lease payments		**222**	322	147	216
Future finance charges on finance leases		**(19)**	(49)	(13)	(27)
Present value of net future minimum lease payments		**203**	273	134	189
Current	14	**73**	72	56	57
Non Current	14	**130**	201	78	132
		203	273	134	189

Included in finance lease commitments of the Telstra Entity are finance leases with a controlled entity of $60 million (1997: $66 million). The current amount of these finance leases is $8 million (1997: $7 million), non current $52 million (1997: $59 million).

(d) Other commitments

Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been provided for in the financial statements are:

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Within 1 year	**1,030**	541	840	358
Within 1-2 years	**538**	273	452	209
Within 2-3 years	**554**	236	466	153
Within 3-4 years	**540**	184	455	93
Within 5 years	**506**	186	422	92
After 5 years	**1,663**	1,765	1,015	84
	4,831	3,185	3,650	989

The above other expenditure commitments include contracts for printing, engineering and operational support services, software maintenance, agency fees and building maintenance. The above commitments also include commitments relating to the Telstra Group's investment in partnerships (refer Note 23(ii)) and commitments relating to information technology services as follows:

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Partnership commitments (i)	**1,064**	2,054	-	-
Commitments relating to Information Technology Services (ii)	**2,307**	-	**2,307**	-

(i) Partnership commitments principally relate to Telstra Group's share of minimum subscriber guarantees of approximately US$1,306 million (1997: US$3,063 million) for pay television programming agreements over remaining periods of between 3 and 23 years, based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments are subject to fluctuation in accordance with price escalation / reduction formulae in the agreements.

Notes to and forming part of the Financial Statements (Continued)

19. Expenditure Commitments (Continued)

(d) Other commitments (Continued)

(ii) Commitments for Information Technology (IT) Services result from a contract with IBMGSA, whereby IBMGSA will provide IT services to the Telstra Entity and designated Australian controlled entities for a period of 10 years. The Telstra Entity is committed to a total amount of $3,279 million over the period, of which $972 million relates to a capital commitment (refer Note 19(a)).

Telstra Employee Share Ownership Plan

To fulfil its obligations under the rules of the Telstra Employee Share Ownership Plan, the Telstra Entity is obliged to provide further interest free loans of approximately $148 million to eligible employees (when called upon by the Telstra Instalment Receipt Trustee) on or prior to 17 November 1998 to enable the second instalment on the employee's Telstra Entity shares to be advanced. This amount is included in amounts due within 1 year above. Refer to Note 17(d)(i) for further information.

20. Contingent Liabilities

The details and maximum amounts (where reasonable estimates can be made) are set out below for contingent liabilities of:

Telstra Entity

Legal Actions

In 1995, British Telecom Australasia Pty Limited (BTA) commenced proceedings against the Government of New South Wales (NSW) and the Telstra Entity arising out of BTA terminating a 1992 telecommunications and data network supply agreement (the agreement) between BTA and NSW. Subsequently British Telecommunications plc (BT plc) made similar claims against the Telstra Entity and NSW. BTA and BT plc have so far asserted claims for direct damages, jointly against the Telstra Entity and NSW of approximately $315 million in expectation damages and approximately $155 million in reliance damages. The allegations include claims that the Telstra Entity misused market power, engaged in misleading and deceptive conduct and induced NSW to breach its obligations under the agreement. BTA has also claimed contribution and indemnity from the Telstra Entity for any damages awarded to NSW on its cross-claim against BTA for substantial damages, including damages of approximately $405 million, and other damages not quantified in the current pleading. The Telstra Entity and NSW have filed cross-claims against each other in respect of any recovery by BTA and BT plc. It is not expected that a trial will commence before February 1999. The Telstra Entity believes it has substantial defences to, and intends to defend vigorously, these claims. Telstra further believes these claims are unlikely to have a material effect on the Telstra Entity.

The Telstra Entity is currently involved in litigation with four of its wholesale customers - AAPT, I-Tel, First Netcom Pty Ltd and QAI Australia Ltd/Southern Cross Telco Pty Ltd. These proceedings (other than I-Tel) generally involve claims by the Telstra Entity for substantial charges it believes remain unpaid for the provision by the Telstra Entity of telecommunications services and claims by the wholesale customers for substantial amounts. The wholesale customers dispute that the amounts claimed by the Telstra Entity or any amounts are owing by them, and typically contend that they are entitled to offset their claims against amounts claimed by the Telstra Entity. The wholesale customers' claims typically include claims for revenue allegedly foregone from delayed on-billing of third-party customers and loss of customers and/or revenue from allegedly incorrect or delayed billing and alleged breaches by the Telstra Entity of the Telecommunications Act, Trade Practices Act and contract. It is not possible on the information currently available to assess the likely outcome of the various proceedings.

On 10 September 1997, Optus Communications Pty Ltd (Optus) and two of its subsidiaries, Optus Networks Pty Ltd (Optus Networks) and Optus Vision Pty Ltd (Optus Vision), commenced proceedings in the Federal Court of Australia against the Telstra Entity, Telstra Media Pty Ltd (Telstra Media) and Sky Cable Pty Ltd (Sky Cable), a subsidiary of News Corporation Limited (News Corporation). The claims against Telstra Media and Sky Cable have since been discontinued. The claims made against the Telstra Entity assert that the Telstra Entity has acted in breach of section 46 of the Trade Practices Act by taking advantage of a substantial degree of power in various markets for prohibited purposes. The asserted misconduct relates to an alleged refusal by the Telstra Entity to supply local number portability and local call resale to Optus on reasonable terms and conditions. Optus also asserts that the Telstra Entity has breached section 46 of the Trade Practices Act, by reason of the arrangements for the supply of Pay TV carriage services from the Telstra Entity to FOXTEL and certain arrangements concerning the construction of the Telstra broadband network. Optus claims unquantified damages including interest. The Telstra Entity believes that it has substantial defences to these claims and intends to defend the action vigorously. Nevertheless, at this early stage it is not possible, on the information currently available, to assess the effect of the proceedings on the Telstra Entity. If, however, Optus is successful in the litigation, it could have a material adverse effect on the Telstra Entity's financial results, operations and competitive position.

In addition to the above, certain common law claims by employees and third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. Management believes that the resolution of these contingencies will not have a material adverse effect on the Telstra Entity's financial position, results of operations or cash flows.

Notes to and forming part of the Financial Statements (Continued)

20. Contingent Liabilities (Continued)

Telstra Entity (Continued)

Indemnities, Performance Guarantees and Support

The Telstra Entity has provided indemnities to financial institutions to support bank guarantees to the value of $305 million (1997: $290 million) in respect of the performance of contracts.

The Telstra Entity has provided indemnities to financial institutions in respect of the obligations of controlled entities to the financial institutions. The maximum amount of the Telstra Entity's contingent liabilities was $40 million (1997: $28 million).

The Telstra Entity has resolved to provide financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling $18 million (1997: $21 million) and a requirement that the entity remains a controlled entity.

During the year ended 30 June 1998, the Telstra Entity resolved to provide its associated entity, IBMGSA with the Telstra Group's pro rata 26 per cent share of shareholder guarantees on a several basis up to $210 million through to the end of the calendar year 2000. These guarantees may be made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 1998 no guarantees had been provided.

Controlled Entities

Indemnities

The controlled entities had, at 30 June 1998, outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of the controlled entities' contingent liabilities in respect of these indemnities was $8 million (1997: $23 million).

In addition, Telstra Global Limited, under the P.T. Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement, is severally liable for the contribution of outstanding base equity should the other shareholders of MGTI default from contributing their share. The maximum amount of this additional equity contribution would be $182 million (US$112 million) (1997: $150 million; US$112 million), this excludes Telstra Global Limited's $42 million (US$28 million) current capital commitment included in Note 19(a). The agreement also allows for contingent equity calls to be made by MGTI if certain conditions are met. Should the contingent equity be called, Telstra Global Limited will be liable to contribute additional equity of $22 million (US$14 million) (1997: $18 million; US$14 million). If the other shareholders in MGTI default on contributing their share of a contingent equity call, Telstra Global Limited may be liable to contribute an additional $89 million (US$54 million) (1997: $72 million; US$54 million) as contingent equity. Telstra Global Limited executed a guarantee on 31 October 1995 for $60 million (US$37 million) (1997: $50 million; US$37 million), to guarantee that certain performance targets would be achieved by MGTI under the KSO agreement, against which indemnities of $42 million (US$25 million) (1997: $33 million; US$25 million) have been issued, by certain shareholders of MGTI, in favour of Telstra Global Limited. To date the performance targets have been met and there is no indication that they will be breached.

Telstra Global Limited has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a $782 million (US$480 million) (1997: $636 million; US$480 million) Loan Agreement dated 23 September 1996 between MGTI and various lenders. Debt finance of US$160 million has been drawn down from this facility by MGTI. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by Telstra Global Limited).

Other

As at 30 June 1998 and 1997 there are no contingent liabilities of the Telstra Entity or its controlled entities for termination benefits under service agreements with Directors or persons who take part in the management of the Telstra Group.

The Telstra Entity and its equal partner News Corporation, and Telstra Media and its partner Sky Cable, have entered into agreements relating to pay television programming with various parties, under which commitments for minimum subscriber fees exist over periods covering 25 and 10 years respectively. Due to joint and several liability under the agreements, in the event that News Corporation or Sky Cable fail to meet any of their obligations in respect of the minimum subscriber payments, the Telstra Entity and Telstra Media would be contingently liable to the extent of those failures. Refer Note 19(d) for details of minimum subscriber payment commitments.

Telstra Corporation Limited, QPSX Communications Pty Ltd, Telstra Holdings Pty Ltd, Telstra International Limited, Telstra Communications Limited, Telstra R&D Management Pty Ltd, Telstra Multimedia Pty Ltd, On Australia Pty Ltd and Telstra Finance Limited (as trustee to the deed of cross guarantee) have entered into a deed of cross guarantee dated 4 June 1996 as described in Note 22(1). Telstra Media Holdings Pty Ltd entered into an assumption deed dated 30 April 1998. The execution of this assumption deed also resulted in Telstra Media Holdings Pty Ltd becoming a party to the deed of cross guarantee dated 4 June 1996 as disclosed in Note 22(1).

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments

The Telstra Group sponsors or participates in a number of superannuation schemes which provide benefits for its employees and their dependants on cessation of employment.

The Telstra Entity or one of its predecessor companies established the defined benefit superannuation schemes, the Telstra Superannuation Scheme (TSS) and TSS No.1, on 1 July 1990. From 1 July 1997 the TSS No.1 was merged into the TSS and benefits are provided through Division 5 of the TSS. Prior to 1 July 1990, all eligible employees of the Telstra Entity were members of the Commonwealth Superannuation Scheme (CSS). The CSS is an employer sponsored scheme for Commonwealth Public Sector employees. Under the CSS, the Telstra Entity is responsible for funding all employer financed benefits that arise from 1 July 1975 in respect of its employees who are members of the CSS. It is the Telstra Entity's policy to contribute to the schemes at rates specified in the governing rules (for accumulation schemes) or determined by the respective schemes' actuaries (for defined benefit schemes).

Defined Benefit Schemes

The Telstra Entity participates in two (1997: three) defined benefit superannuation schemes which provide retirement benefits to substantially all Telstra Group employees. These schemes, the main type of benefits provided by each scheme, and the number of members at 30 June 1998 and 1997 are listed below:

Name of Scheme	Type of benefit	Members 1998	Members 1997
Commonwealth Superannuation Scheme (CSS)	Pension	30,906 (i)	31,049 (i)
Telstra Superannuation Scheme (TSS).	Lump Sum	72,163	72,305
Telstra Superannuation Scheme No.1 (TSS No.1)	Lump Sum	- (ii)	624

(i) This is the number of members in the CSS who are/were employed by the Telstra Group. The membership number includes 23,665 (1997: 22,455) former Telstra Group employees receiving or entitled to receive pension benefits and 7,241 (1997: 8,594) members still employed by the Telstra Group.

(ii) On 1 July 1997, all members of TSS No.1 were transferred to Division 5 of the TSS and the TSS No.1 is no longer in operation.

The assets of the TSS are invested in government securities, cash, equity shares, property and a variety of other securities.

The benefits provided by each scheme vary but reflect factors such as the employee's length of service, final average salary, employer and employee contributions. The relative importance of each factor varies with scheme design.

Employer contributions paid to the schemes and expensed for the years ended 30 June 1998, 1997 and 1996 were $294 million, $340 million and $320 million respectively.

The financial position of the TSS and TSS No.1, and the Telstra Group's notional fund in the CSS defined benefit superannuation schemes, measured and disclosed in accordance with Australian Accounting Standards, may be shown as follows at 30 June:

	TSS (1), (3)		TSS No.1 (1)		CSS (2)		Total	
	As At 30 June		As At 30 June		As At 30 June		As At 30 June	
	1998	1997	**1998**	1997	**1998**	1997	**1998**	1997
	$m	$m	**$m**	$m	**$m**	$m	**$m**	$m
Accrued benefits	**4,196**	4,477	**-**	61	**5,528**	5,263	**9,724**	9,801
Scheme assets	**5,971**	6,071	**-**	90	**8,546**	7,069	**14,517**	13,230
Net surplus	**1,775**	1,594	**-**	29	**3,018** (2)	1,806	**4,793**	3,429
Vested benefits	**5,003**	5,338	**-**	78	**6,049**	5,645	**11,052**	11,061

(1) Amounts for Divisions 2 and 5 of the TSS and TSS No.1 (for the year ended 30 June 1997) have been obtained from the accounts of the schemes at 30 June 1998 and 1997. The scheme assets are stated at net market values. The TSS No.1 scheme has merged with the TSS scheme from 1 July 1997.

(2) The CSS amounts for 30 June 1998 and 1997 show the Telstra Group's share of the benefit liability in respect of its employees and former employees in the CSS. The CSS figures for 30 June 1998 are at the date of the last actuarial valuation dated 30 June 1997 which was concluded on 24 July 1998. As the amount of surplus is currently being reviewed with the Commonwealth Department of Finance & Administration, these figures may be subject to revision. For the purposes of discussions with the Commonwealth in relation to the repatriation of the surplus to the TSS (refer discussion under Commonwealth Superannuation Scheme), future service benefits of $1,223 million should be added to the accrued benefits above. The CSS figures for 30 June 1997 are at the date of the actuarial review dated 30 June 1995.

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments (Continued)

(3) The Telstra Entity has committed to contribute an additional $121 million per annum to the TSS over sixteen years, commencing with the year ended 30 June 1996, to ensure that the TSS is not in an unsatisfactory financial position. As at 30 June 1998 the present value of the liability remaining is $785 million (1997: $810 million) (refer Note 13). As a result of legal agreements entered into between the Telstra Entity, the Commonwealth and the Trustee of the TSS, the TSS has recognised this receivable from the Telstra Entity as an asset of the scheme, thus eliminating the estimated shortfall in the scheme. The Commonwealth has guaranteed the Telstra Entity's payment in the event that the Telstra Entity becomes insolvent over the period of the agreement.

Commonwealth Superannuation Scheme

The Commonwealth has not established a separate trust for employer contributions to the CSS. Employer contributions by the Telstra Entity and certain other employers that participate in the CSS are paid directly to the Commonwealth Consolidated Revenue Fund. Employee contributions to the CSS are segregated and separately managed.

Every three years, separate actuarial reviews are carried out for the Telstra Entity and certain other employers that participate in the CSS. The purpose of this review is to establish the appropriate funding rate to be paid by that employer to cover that employer's liabilities in the CSS. To determine the funding status of these employers, and the level of contributions, a notional fund is created for each of these employers.

The Telstra Entity's notional fund is credited with all contributions made by the Telstra Entity in respect of its CSS members and debited with the Telstra Entity's share of benefit payments. The balance of the notional fund is credited with interest based on the rates applicable to assets invested by the TSS.

At the date of the last actuarial investigation of the Telstra Entity's participation in the CSS by S. Schubert FIAA as at 30 June 1997, the value of the Telstra Entity's notional fund was sufficient to satisfy all employer financed benefits that would have vested under the CSS in the event of the voluntary or compulsory termination of employment of all CSS members. The actuarial valuation confirmed that the Telstra Entity does not need to contribute to the CSS.

The Telstra Entity's past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

Telstra Superannuation Scheme

Defined Benefit Divisions

After establishment of the TSS a majority of the Telstra Entity's CSS members transferred to the TSS. As CSS members transferred, the liability for benefits in respect of their past service was assumed by the TSS and a transfer of amounts was made from the CSS to the TSS (A similar arrangement with the Commonwealth is in place for the TSS No.1 (now TSS Division 5)). The amount transferred did not bear a direct relationship to the benefits granted by the TSS, but this difference was to be eliminated over time by employer contributions to the TSS and investment earnings on the assets. The portion of the amount transferred that related to the employer contributions is being paid by the Commonwealth to the TSS directly, over an extended period, with the pattern of payments based on an actuarial assessment of the likely timing of benefit payments from the TSS. This amount is recorded as an asset of the TSS and a liability of the CSS for the purposes of determining the funded status of each scheme.

An actuarial investigation has been conducted by S. Schubert FIAA on the TSS as at 30 June 1997. On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of $121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the 3 year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above-mentioned discussions and a consequential response from the Minister for Finance and Administration.

Defined Contribution Division

The Telstra Entity also contributes to Division 3 of the TSS which provides benefits on a defined contribution basis. Division 3 provides a productivity superannuation benefit which began to accrue in 1988 in respect of members of the CSS and also provides superannuation benefits to Telstra Entity employees who are not eligible to become members of Division 2 or 5 of the TSS or the CSS (i.e. new executives, casuals, part time employees etc.). Employer contributions to Division 3 are made at the rate required by the governing rules. TSS Division 3 provides lump sum benefits based on the level of contributions and investment earnings.

Employer contributions paid to Division 3 and expensed for the year ended 30 June 1998, 1997 and 1996 were $10 million, $13 million and $14 million respectively.

Notes to and forming part of the Financial Statements (Continued)

21. Superannuation Commitments (Continued)

Within the TSS is also a Deferred Benefit Rollover facility known as Division 4 of the TSS. This division does not require the Telstra Entity to make contributions but is available to any Telstra Entity employee who wishes to retain superannuation entitlements in the TSS upon retirement or ceasing employment with the Telstra Entity.

Other Schemes

Pacific Access Pty Ltd, a controlled entity, sponsors the Pacific Access Superannuation Fund (PA scheme), a defined benefit and accumulation superannuation scheme. The PA scheme has approximately 1,900 (1997: 1,400) employee members. Employees contribute to the PA scheme at various percentages of their salaries and Pacific Access Pty Ltd contributes to the PA scheme at rates determined following actuarial investigations which are carried out every three years, so as to meet benefit levels established by the rules of the PA scheme. Employer contributions paid to the PA scheme and expensed for the year ended 30 June 1998, 1997 and 1996 were \$5 million, \$4 million and \$4 million respectively.

The latest actuarial assessment of the PA scheme was undertaken as at 1 July 1997 by W. E. Walker FIAA. As at 1 July 1997 the net assets of the PA scheme and the value of accrued benefits were \$27 million and \$24 million respectively, resulting in a \$3 million surplus of net market value of PA scheme's assets over accrued benefits as at that date. As at 30 June 1998, net assets of the PA scheme were \$33 million (1997: \$27 million) and the vested benefits were approximately \$28 million (1997: \$22 million).

The Telstra Group also contributes to other external defined contribution superannuation schemes for a small number of its executive employees. Lump sum benefits are provided by these schemes.

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities

Name of entity	Country of incorporation	Book value of the Telstra Entity's equity investment (i)		% of equity held	
		As At 30 June		As At 30 June	
		1998	1997	**1998**	1997
		$m	$m	**%**	%
Parent Entity:					
Telstra Corporation Limited (1)	Australia				
Controlled Entities:					
Telstra Rewards Pty Ltd (3) **	Australia	**-**	-	**100.0**	100.0
• Telstra Visa Card Trust	Australia	**-**	-	**100.0**	100.0
• Qantas Telstra Card Trust	Australia	**-**	-	**100.0**	100.0
Navigator Communications Pty Ltd (2)	Australia	**-**	3	**-**	100.0
Telecom Messagetech Pty Ltd **	Australia	**4**	4	**51.1**	51.1
• Sarzeau (NSW) Pty Ltd *	Australia	**-**	-	**100.0**	100.0
Telstra Technologies Pty Ltd (13) *	Australia	**13**	13	**100.0**	100.0
• Lyer Nystal Pty Ltd (2)	Australia	**-**	-	**-**	100.0
On Australia Pty Ltd (1)	Australia	**11**	11	**100.0**	100.0
Telecommunications Equipment Finance Pty Ltd (4)	Australia	**-**	-	**-**	-
Telstra Finance Limited (1) (3)	Australia	**-**	-	**100.0**	100.0
Transport Communications Australia Pty Ltd *	Australia	**4**	4	**100.0**	100.0
Telstra ESOP Trustee Pty Ltd (3) (6) (9) *	Australia	**-**	-	**100.0**	-
Telstra Media Pty Ltd (3) *	Australia	**-**	-	**100.0**	100.0
Telstra Multimedia Pty Ltd (1)	Australia	**1,590**	1,240	**100.0**	100.0
Telstra Media Holdings Pty Ltd (1) (3) (13)	Australia	**-**	-	**100.0**	100.0
Lawpoint Pty Ltd (13)	Australia	**2**	2	**60.0**	60.0
Telstra R&D Management Pty Ltd (1)	Australia	**1**	1	**100.0**	100.0
Telstra Ventures Pty Ltd *	Australia	**3**	3	**100.0**	100.0
QPSX Communications Pty Ltd (1)	Australia	**8**	8	**100.0**	100.0
Pacific Access Pty Ltd (7) (13)	Australia	**58**	28	**75.0**	62.5
• Pacific Access Enterprises Pty Ltd (7) *	Australia	**-**	-	**100.0**	100.0
• Pacific Access (Thailand) Ltd (2) (14)	Thailand	**-**	-	**100.0**	100.0
• WorldCorp Holdings (S) Pte Ltd (8) (14)	Singapore	**-**	-	**100.0**	-
• WorldCorp Publishing Pte Ltd (8) (14)	Singapore	**-**	-	**100.0**	-
Telstra Pay TV Investments Pty Ltd (3) (9) *	Australia	**-**	-	**100.0**	-
Atlas Travel Technologies Pty Ltd (10)	Australia	**13**	-	**52.5**	-
• Atlas Travel Technologies Inc. (10) (14)	United States	**-**	-	**100.0**	-
• Moneydirect International Limited (10) (14)	United Kingdom	**-**	-	**100.0**	-
• Moneydirect Pty Ltd (10) **	Australia	**-**	-	**100.0**	-
• Moneydirect Limited (10) (14)	New Zealand	**-**	-	**100.0**	-
OTC Electronic Trading Pty Ltd (2)	Australia	**-**	3	**-**	100.0
Telesoft Communications Pty Ltd (2)	Australia	**-**	4	**-**	100.0
T-Net Pty Ltd (2)	Australia	**-**	1	**-**	100.0
Advanced Network Management Pty Ltd *	Australia	**1**	1	**100.0**	100.0
Telstra International Limited (1)	Australia	**84**	48	**100.0**	100.0
• Modi Telstra (Private) Limited (11) (14)	India	**-**	-	**49.0**	49.0
Telstra Communications Limited (1)	Australia	**29**	29	**100.0**	100.0
• DirectoryNet Inc. (14)	United States	**-**	-	**100.0**	100.0
• Telecom Australia (Saudi) Co. Ltd (5) (11) (14)	Saudi Arabia	**-**	-	**50.0**	50.0
Telstra Holdings Pty Ltd (1)	Australia	**336**	320	**100.0**	100.0
• Telstra (Malaysia Holdings) Sdn. Bhd. (14)	Malaysia	**-**	-	**100.0**	100.0
• Telstra International (HK) Holdings Limited (14)	Hong Kong	**-**	-	**100.0**	100.0
• Mobitel (Private) Limited (14)	Sri Lanka	**-**	-	**60.0**	60.0

(Table continued over page)

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities (Continued)

Name of entity	Country of incorporation	Book value of the Telstra Entity's equity investment (i) As At 30 June 1998 $m	1997 $m	% of equity held As At 30 June 1998 %	1997 %
• Telstra (New Zealand) Limited (14)	New Zealand	**-**	-	**100.0**	100.0
• Navigator Communications (NZ) Limited (14)	New Zealand	**-**	-	**100.0**	100.0
• Telstra Global Limited (14)	United Kingdom	**-**	-	**100.0**	100.0
• Telstra UK Limited (14)	United Kingdom	**-**	-	**100.0**	100.0
• PT Telstra Nusantara (14)	Indonesia	**-**	-	**100.0**	100.0
• PT Jastrindo Dinamika (5) (14)	Indonesia	**-**	-	**75.0**	75.0
• Telstra Inc. (14)	United States	**-**	-	**100.0**	100.0
• Telstra Vishesh Communications Ltd (5) (11) (14)	India	**-**	-	**40.0**	40.0
• Satel (12) (14)	Kazakhstan	**-**	-	**-**	40.0
• Telstra South Asia Holdings Limited (14)	Mauritius	**-**	-	**100.0**	100.0
• Telstra India (Private) Limited (9) (14)	India	**-**	-	**100.0**	-
• Telstra Singapore Pte Ltd (9) (14)	Singapore	**-**	-	**100.0**	-
	Note 9	**2,157**	1,723		

(i) The amounts recorded are before any provision for diminution in value (refer Note 9).

* These entities are small proprietary companies which are not required to prepare and lodge individual audited financial statements with the ASIC.

** These entities are small proprietary companies which have prepared a separate audited set of financial statements.

(1) Telstra Corporation Limited, QPSX Communications Pty Ltd, Telstra Holdings Pty Ltd, Telstra International Limited, Telstra Communications Limited, Telstra R&D Management Pty Ltd, Telstra Multimedia Pty Ltd, On Australia Pty Ltd and Telstra Finance Limited (as trustee) have entered into a deed of cross guarantee dated 4 June 1996. Under the deed of cross guarantee each of the above named companies guarantees the payment in full of the debts of the other named companies in the event of their winding up. Telstra Finance Limited has been appointed as trustee to the deed of cross guarantee.

Pursuant to ASIC Class Order 95/1530 dated 10 November 1995 (as amended), relief has been granted to Telstra Media Holdings Pty Ltd and the entities listed above (wholly owned subsidiaries of Telstra Corporation Limited) from the Corporations Law requirements for preparation and lodgement of audited accounts. As a condition of the Class Order, the entities listed above and Telstra Media Holdings Pty Ltd, entered into an assumption deed dated 30 April 1998. The execution of this assumption deed resulted in Telstra Media Holdings Pty Ltd becoming a party to the deed of cross guarantee dated 4 June 1996, as described above.

The consolidated assets and liabilities of the class order entities (listed above) at 30 June 1998 and 1997 (with the exception of Telstra Finance Limited as trustee), and their consolidated net profit after income tax expense for the years then ended (after eliminating all transactions between them) are as follows:

	As At 30 June 1998 $m	1997 $m
Assets	**26,067**	26,249
Liabilities	**15,024**	16,271
Net Assets	**11,043**	9,978
Net profit after income tax expense	**2,976**	1,405

(2) As at 30 June 1998, Pacific Access (Thailand) Ltd is in the process of being liquidated. OTC Electronic Trading Pty Ltd, Telesoft Communications Pty Ltd and T-Net Pty Ltd were liquidated on 29 June 1998, Navigator Communications Pty Ltd was liquidated on 26 June 1998 and Lyer Nystal Pty Ltd was liquidated on 28 July 1997.

Notes to and forming part of the Financial Statements (Continued)

22. Investments in Controlled Entities (Continued)

(3) Investments eliminated when rounded to the nearest million dollars are:

	As At 30 June	
	1998	1997
	$	$
Telstra Rewards Pty Ltd	**2**	2
Telstra Finance Limited	**2**	2
Telstra ESOP Trustee Pty Ltd.	**2**	-
Telstra Media Pty Ltd	**2**	2
Telstra Media Holdings Pty Ltd . . .	**2**	2
Telstra Pay TV Investments Pty Ltd	**1**	-

(4) The Telstra Group has no investment in Telecommunications Equipment Finance Pty Ltd. The Telstra Group has effective control through economic dependency and has consolidated Telecommunications Equipment Finance Pty Ltd in accordance with AASB 1024. Telecommunications Equipment Finance Pty Ltd has no assets and no liabilities.

(5) These companies have different balance dates to the Telstra Entity's balance date of 30 June. They are as follows: Telstra Vishesh Communications Ltd - 31 March; Telecom Australia (Saudi) Co. Limited and PT Jastrindo Dinamika - 31 December. Accounts prepared as at 30 June are used for consolidation purposes.

(6) The Telstra Entity owns 100 per cent of the issued share capital of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust. Telstra Corporation Limited paid $10 as the settled sum to create the trust which is administered by Telstra ESOP Trustee Pty Ltd. The Telstra Group does not control or significantly influence the trust as beneficial ownership and control rests with the employees of the trust, therefore in accordance with AASB 1024 the trust has not been consolidated.

(7) On 5 September 1997, the Telstra Entity acquired an additional 12.5 per cent equity in Pacific Access Pty Ltd for $30 million to increase the Telstra Entity's total equity in Pacific Access Pty Ltd from 62.5 per cent at 30 June 1997 to 75 per cent.

(8) On 28 October 1997, the Telstra Group acquired 100 per cent of the equity of WorldCorp Holdings (S) Pte Ltd and its wholly owned subsidiary WorldCorp Publishing Pte Ltd for $4 million. These entities have been consolidated in accordance with AASB 1024.

(9) Telstra ESOP Trustee Pty Ltd was incorporated on 23 September 1997, Telstra Pay TV Investments Pty Ltd was incorporated on 18 August 1997, Telstra India (Private) Limited was incorporated on 11 September 1997 and Telstra Singapore Pte Ltd was incorporated on 19 May 1998. All of these entities have been consolidated in accordance with AASB 1024.

(10) On 1 December 1997, the Telstra Entity acquired 52.5 per cent of the equity of Atlas Travel Technologies Pty Ltd and its wholly owned subsidiaries Atlas Travel Technologies Inc., Moneydirect International Limited, Moneydirect Pty Ltd and Moneydirect Limited for $13 million. These entities have been consolidated in accordance with AASB 1024.

(11) The Telstra Group owns 40 per cent of the issued capital of Telstra Vishesh Communications Limited, 50 per cent of the issued capital of Telecom Australia (Saudi) Co. Ltd and 49 per cent of the issued capital of Modi Telstra (Private) Limited. The Telstra Group can exercise control over the Boards of Directors of these entities in perpetuity, and therefore these entities have been consolidated in accordance with AASB 1024.

(12) In August 1997 the Telstra Group no longer had control of Satel, therefore the company was deconsolidated from the Telstra Group's financial statements. The investment has not been classified as an associated entity as the Telstra Group does not have significant influence over Satel.

(13) Dividends received by the Telstra Entity during the year ended 30 June 1998 were Lawpoint Pty Ltd $1 million (1997: $0.424 million), Telstra Technologies Pty Ltd $Nil (1997: $7 million), Telstra Media Holdings Pty Ltd $8 million (1997: $Nil) and Pacific Access Pty Ltd $30 million (1997: $26 million during which time Pacific Access Pty Ltd was an associated entity).

(14) Companies not audited by the Auditor-General.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships

(i) Associated Entities

Telstra Group's investment in associated entities are as follows:

Name of Associated Entity	Principal Activities	Ownership Interest As At 30 June 1998 %	Ownership Interest As At 30 June 1997 %	Telstra Group's Carrying Amount of Investment ** As At 30 June 1998 $m	Telstra Group's Carrying Amount of Investment ** As At 30 June 1997 $m	Telstra Entity's Carrying Amount of Investment # As At 30 June 1998 $m	Telstra Entity's Carrying Amount of Investment # As At 30 June 1997 $m
Telecom Services Kiribati Limited (incorporated in Kiribati) (a) (2)	Telecommunications services	**49.0**	49.0	**1**	1	**-**	-
Telstra Hewlett-Packard (R&D) Pty Ltd (b) (1) *	Computer services	**50.0**	50.0	**-**	-	**-**	-
P.T. Mitra Global Telekomunikasi Indonesia (incorporated in Indonesia) (c) (1)	Telecommunications services	**20.0**	20.0	**-**	58	**-**	-
Customer Services Pty Ltd (1)	Customer services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Management Pty Ltd (1)	Management services	**50.0**	50.0	**-**	-	**-**	-
FOXTEL Cable Television Pty Ltd (1) (3)	Pay television	**80.0**	80.0	**-**	-	**-**	-
Advantra Pty Ltd (1) (4)	Network services	**50.0**	-	**-**	-	**-**	-
IBM Global Services Australia Limited (c) (2) (5)	Information technology services	**26.0**	-	**5**	-	**-**	-
Stellar Call Centres Pty Ltd (1) (6) *	Call centre services and solutions	**50.0**	-	**-**	-	**-**	-
Telstra Super Pty Ltd (1) (7) *	Superannuation trustee	**100.0**	100.0	**-**	-	**-**	-
OTC Super Pty Ltd (1) (7) *	Superannuation trustee	**-**	100.0	**-**	-	**-**	-
			Note 9	**6**	59	**-**	-

* Direct Associates of the Telstra Entity.

** The 30 June 1998 amounts represent equity accounted consolidated carrying amounts. The 30 June 1997 amounts represent the carrying amount of the investments at cost (refer Note 1.9(b) for details of the change in accounting policy).

The Telstra Entity's carrying amounts for both 30 June 1998 and 30 June 1997 are valued at cost.

Unless otherwise indicated, all associates have a balance date of 30 June. Accounts prepared as at 30 June are used for equity accounting purposes.

(a) Balance date is 31 March.
(b) Balance date is 31 October.
(c) Balance date is 31 December.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

(i) Associated Entities (Continued)

(1) Investment amounts not disclosed when rounded to nearest million dollars are:

	Carrying Amount of Investment			
	Telstra Group		Telstra Entity	
	Equity	Cost	Cost	
	As At 30 June		As At 30 June	
	1998	1997	**1998**	1997
	$	$	**$**	$
Telstra Hewlett-Packard (R&D) Pty Ltd	**1**	1	**1**	1
P.T. Mitra Global Telekomunikasi Indonesia	*	-	**-**	-
Customer Services Pty Ltd	*	1	**-**	-
FOXTEL Management Pty Ltd	**1**	1	**-**	-
FOXTEL Cable Television Pty Ltd	*	8	**-**	-
Advantra Pty Ltd	*	-	**-**	-
Stellar Call Centres Pty Ltd	**250,001**	-	**250,001**	-
Telstra Super Pty Ltd	*	2	**2**	2
OTC Super Pty Ltd	**-**	-	**-**	2

* Equity accounted amount of investment is suspended and the investment recorded at zero due to losses incurred by the associated entities or as a result of writing down the equity accounted investment to zero.

(2) Dividends received by the Telstra Group from Telecom Services Kiribati Limited were $0.323 million (1997: $0.356 million) and from IBMGSA were $8 million (1997: $Nil) for the year ended 30 June 1998.

(3) Telstra owns 80 per cent of the share capital of FOXTEL Cable Television Pty Ltd. This entity is disclosed as an associate as the outside equity shareholders have participating rights that preclude the Telstra Entity from dominating the decision making of the Board of Directors.

(4) On 24 July 1997, the Telstra Group acquired a 50 per cent equity interest in Advantra Pty Ltd, a network services joint venture company. The cost of the investment was $1,000 and the Telstra Group has significant influence over Advantra Pty Ltd.

(5) On 24 July 1997, the Telstra Group acquired a 26 per cent equity interest in IBMGSA, an information technology services company. The cost of the investment was $78 and the Telstra Group has significant influence over IBMGSA.

(6) On 13 May 1998, the Telstra Entity acquired a 50 per cent equity interest in Stellar Call Centres Pty Ltd (Stellar), a newly incorporated joint venture company which will provide call centre and ancillary services and solutions to markets in the Australian and Asia-Pacific region. The cost of the investment was $250,001 and the Telstra Entity has significant influence over Stellar.

(7) The Telstra Entity owns 100 per cent of the issued share capital of Telstra Super Pty Ltd (the Trustee for the Telstra Superannuation Scheme) and in accordance with AASB 1024 Telstra Super Pty Ltd is not consolidated, as the Telstra Entity does not have control over the Board of Directors due to equal representation with employee representatives. Prior to 16 April 1998, the Telstra Entity owned 100 per cent of the issued share capital of OTC Super Pty Ltd (the Trustee for the Telstra Superannuation Scheme No.1 which ceased to exist on 1 July 1997). OTC Super Pty Ltd was not consolidated as the Telstra Entity did not have control over the Board of Directors due to equal representation with employee representatives. On 16 April 1998, OTC Super Pty Ltd was deregistered as an incorporated company and ceased to exist on that date.

Equity Accounted Information

Included in the consolidated accounts of Telstra at 30 June 1998 are:

(a) retained profits of $1 million (1997: $Nil) relating to the Telstra Group's share of its associates' net profit after income tax expense and equity accounting investment writedowns;

(b) a foreign currency translation reserve balance of $47 million debit (1997: $Nil) relating to the Telstra Group's share of its associates' foreign currency translation reserve; and

(c) a general reserve balance of $1 million (1997: $Nil) relating to the Telstra Group's share of its associates' general reserve.

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

Equity Accounted Information (Continued)

The movement in the consolidated equity accounted amount of investments for Telstra can be summarised as follows:

	Telstra Group Year Ended 30 June 1998 $m
Cost of investment in associates at 30 June 1997	59
Share of associates' operating profits/(losses) before income tax expense	23
Share of associates' income tax expense attributable to operating profit	(9)
Share of associates' operating profit after income tax expense (Note 2)	14
Less: dividends received from associates	(8)
Less: share of associates' foreign currency translation reserve	(47)
Add: share of associates' general reserve	1
Add: new investments in associates during the year	-
Less: writedown of equity accounted investment to recoverable amount	(13)
Equity accounted carrying amount at end of financial year (Note 9)	6
Share of associates' contingent liabilities (refer below)	18
Share of associates' capital commitments contracted for	36
Share of associates' other expenditure commitments contracted for (other than the supply of inventories)	207
Summarised presentation of the aggregated recognised amounts of the Telstra Group's share of all associates' assets, liabilities and net profit after income tax expense of associates (Telstra Group's share):	
Net profit after income tax expense	14
Assets	151
Liabilities	138

Notes to and forming part of the Financial Statements (Continued)

23. Investments in Associated Entities and Partnerships (Continued)

(i) Associated Entities (Continued)

Equity Accounted Information (Continued)

Share of associates' contingent liabilities (refer above)

FOXTEL Management Pty Limited, FOXTEL Cable Television Pty Limited and Customer Services Pty Limited (associated entities of the Telstra Group) entered into agreements on 25 February 1998 to jointly and severally guarantee the due and punctual performance of the FOXTEL Partnership, or any of its partners, of obligations under pay television programming agreements with various parties. Refer Note 19(d) and Note 20 for further details relating to this obligation.

The amount of $18 million relates to Telstra Group's equity accounted indirect share of IBM Global Services Australia Limited's fully drawn down bank guarantee facilities.

		Telstra Group		Telstra Entity	
		As At 30 June		As At 30 June	
		1998	1997	**1998**	1997
		$m	$m	**$m**	$m
(ii) Investment in Partnerships					
FOXTEL Partnerships (a)		**65**	56	**-**	-
WorldPartners Company (b)		**33**	-	**-**	-
	Note 9	**98**	56	**-**	-

(a) At 30 June 1998, the Telstra Group had a 50 per cent investment (1997: 50 per cent) in the FOXTEL Television Partnership and the FOXTEL Partnership whose principal activities are pay television services. The Telstra Group has contributed $92 million (1997: $129 million) in capital to the partnerships for the year ended 30 June 1998. The Directors consider the carrying amount of the investment in the FOXTEL Television Partnership and the FOXTEL Partnership approximates net fair value.

The partnerships do not supply the Telstra Group with products or services. The Telstra Group does however, provide products and services to the partnerships. The amounts received by the Telstra Group are included in Note 29.

(b) On 17 June 1998, the Telstra Group acquired a 10 per cent interest in the WorldPartners Company, a partnership that provides a clearing house function for services operated on infrastructure owned by member companies, for $33 million (US$20 million). The Telstra Group's investment is largely protected under the terms of the purchase in the event that the partnership is wound up prior to 31 December 1999.

24. Segment Information

(a) Industry Segment

The Telstra Group operates predominantly in the telecommunications industry which comprises more than 90 per cent of total consolidated operating revenue, operating profit before income tax expense, and net assets.

(b) Geographical Segment

The Telstra Group operates predominantly in Australia and is therefore one geographical area for reporting purposes. Overseas business operations do not form a material component of the consolidated operations.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group Year Ended 30 June		Telstra Entity Year Ended 30 June	
	1998	1997	**1998**	1997
	$m	$m	**$m**	$m

25. Directors' Remuneration

Income paid or payable or otherwise made available to:

	Telstra Group 1998 $m	Telstra Group 1997 $m	Telstra Entity 1998 $m	Telstra Entity 1997 $m
Directors of the parent entity from the Telstra Entity or related parties (i) (ii)			**2.242**	1.916
Directors of entities in the economic entity from corporations of which they are Directors or related parties or entities controlled by the Telstra Entity (i) (ii) (iii)	**2.889**	10.033		

The number of Directors of the Telstra Entity included in these figures are shown below in their relevant income bands:

	No.	No.
$0 - $9,999	**-**	3
$10,000 - $19,999	**-**	5
$30,000 - $39,999	**-**	4
$40,000 - $49,999	**-**	3
$50,000 - $59,999	**-**	1
$60,000 - $69,999	**7**	-
$70,000 - $79,999	**1**	-
$100,000 - $109,999	**1**	-
$110,000 - $119,999	**-**	1
$160,000 - $169,999	**1**	-
$1,410,000 - $1,419,999	**1**	1

(i) Directors' remuneration also includes employer contributions to superannuation funds.

(ii) Directors' remuneration for the year ended 30 June 1998 includes an amount of $240,000 (in total) paid to the Telstra Entity Directors in recognition of their additional workload and responsibilities in the lead up to the one-third privatisation of the Telstra Entity. This amount is included in the bands noted above.

(iii) During the year ended 30 June 1998, the Telstra Group changed the method of disclosing remuneration of Directors of controlled entities. Previously, the total remuneration of Telstra Entity employees who were Directors of controlled entities was included in Directors' Remuneration even where their prime job function was as a Telstra Entity employee. The disclosure has been changed to include as Directors' Remuneration only those Telstra Entity employees who have been paid a Director's fee by the controlled entity for performing their duties as a Director. If this form of disclosure was made as at 30 June 1997, the amount of remuneration disclosed would have been $2.471 million.

Notes to and forming part of the Financial Statements (Continued)

26. Executives' Remuneration

An executive officer is a person who, as a member of the Telstra Group senior management team, is involved in the strategic direction and operational management of the Telstra Group. This includes the Chief Executive Officer (CEO), those who report direct to him and the next level of executives who have a direct reporting relationship to the CEO's direct reports.

Income received or receivable by Australian based executive officers whose income is $100,000 or more from:

	Telstra Group Year Ended 30 June 1998 $m	Telstra Group Year Ended 30 June 1997 $m	Telstra Entity Year Ended 30 June 1998 $m	Telstra Entity Year Ended 30 June 1997 $m
- the Telstra Entity and related parties (i)			**26.261**	23.122
- entities in the economic entity and their related parties (i)	**31.492**	26.893		

The number of Australian based executive officers whose income is $100,000 or more are shown below in their relevant income bands:

	Telstra Group 1998 No.	Telstra Group 1997 No.	Telstra Entity 1998 No.	Telstra Entity 1997 No.
$100,000 - $109,999	**1**	8	**1**	1
$110,000 - $119,999	**2**	3	**-**	-
$120,000 - $129,999	**3**	4	**2**	2
$130,000 - $139,999	**4**	8	**4**	6
$140,000 - $149,999	**5**	2	**2**	2
$150,000 - $159,999	**4**	1	**3**	1
$160,000 - $169,999	**3**	2	**2**	1
$170,000 - $179,999	**4**	5	**2**	4
$180,000 - $189,999	**4**	3	**2**	2
$190,000 - $199,999	**3**	2	**2**	2
$200,000 - $209,999	**4**	3	**1**	2
$210,000 - $219,999	**8**	3	**4**	3
$220,000 - $229,999	**3**	8	**3**	8
$230,000 - $239,999	**4**	2	**4**	2
$240,000 - $249,999	**5**	2	**4**	2
$250,000 - $259,999	**4**	-	**4**	-
$260,000 - $269,999	**2**	2	**2**	2
$270,000 - $279,999	**1**	3	**1**	3
$280,000 - $289,999	**3**	3	**3**	3
$290,000 - $299,999	**3**	2	**3**	2
$310,000 - $319,999	**2**	3	**1**	3
$330,000 - $339,999	**3**	2	**2**	2
$340,000 - $349,999	**-**	2	**-**	2
$350,000 - $359,999	**-**	1	**-**	1
$360,000 - $369,999	**1**	2	**1**	2
$370,000 - $379,999	**3**	-	**3**	-
$380,000 - $389,999	**2**	-	**2**	-
$390,000 - $399,999	**4**	-	**4**	-

(Table continued over page)

Notes to and forming part of the Financial Statements (Continued)

26. Executives' Remuneration (Continued)

	Telstra Group Year Ended 30 June 1998	Telstra Group Year Ended 30 June 1997	Telstra Entity Year Ended 30 June 1998	Telstra Entity Year Ended 30 June 1997
	No.	No.	**No.**	No.
$400,000 - $409,999	**2**	-	**1**	-
$410,000 - $419,999	**-**	2	**-**	1
$420,000 - $429,999	**2**	-	**1**	-
$430,000 - $439,999	**-**	2	**-**	2
$450,000 - $459,999	**2**	1	**2**	1
$460,000 - $469,999	**-**	1	**-**	1
$470,000 - $479,999	**-**	1	**-**	-
$480,000 - $489,999	**2**	-	**2**	-
$490,000 - $499,999	**-**	1	**-**	1
$500,000 - $509,999	**1**	-	**1**	-
$510,000 - $519,999	**1**	-	**1**	-
$530,000 - $539,999	**2**	-	**2**	-
$540,000 - $549,999	**-**	1	**-**	1
$550,000 - $559,999	**-**	1	**-**	-
$590,000 - $599,999	**-**	1	**-**	1
$620,000 - $629,999	**-**	1	**-**	1
$630,000 - $639,999	**1**	-	**1**	-
$640,000 - $649,999	**2**	-	**2**	-
$650,000 - $659,999	**1**	1	**1**	1
$660,000 - $669,999	**1**	-	**1**	-
$680,000 - $689,999	**-**	1	**-**	1
$710,000 - $719,999	**-**	1	**-**	1
$760,000 - $769,999	**-**	1	**-**	1
$780,000 - $789,999	**1**	-	**1**	-
$920,000 - $929,999	**1**	-	**1**	-
$1,140,000 - $1,149,999 (ii)	**-**	1	**-**	1
$1,410,000 - $1,419,999	**1**	1	**1**	1

(i) In addition to base salary, management incentive and non-cash benefits (including notional interest charges for the interest free employee share loans provided by the Telstra Entity under the Telstra Employee Share Ownership Plan), disclosed income includes superannuation and retirement/redundancy payments totalling $4.102 million (1997: $5.092 million) for the Telstra Group and $3.436 million (1997: $4.685 million) for the Telstra Entity.

(ii) This amount mainly relates to a redundancy.

(iii) Compensation for Telstra Group executives (including those executives in controlled entities) as stated, includes payments resulting from two incentive plans. The Management Incentive Plan (MIP) is an annual plan open to all executives in the Telstra Group. The amount at risk (target incentive) varies between 10% and 22% of the total remuneration package depending on the executive's role. The plan is based on performance against set targets for Corporate, Business Unit and individual measures. The measures include financial, customer service and individual measures that support the Telstra Group's key business objectives. Before any MIP is payable a certain threshold must be reached, according to the predefined measures. The plan also provides that payments are capped.

Selected senior executives who contribute significantly to the future long term profitability and success of the Telstra Group also participate in a Long Term Incentive Plan (LTI). At target, the LTI comprises 16% to 19% of the total remuneration package depending on the executive's level. Any payment made under this plan depends on the achievement of Return on Investment targets over a three year period. The plan, which began in 1994, also includes an annual payment based on the dividend declared in respect of earnings.

Notes to and forming part of the Financial Statements (Continued)

	Telstra Group			Telstra Entity	
	Year Ended 30 June			Year Ended 30 June	
	1998	1997	1996	**1998**	1997
	$m	$m	$m	**$m**	$m
27. Auditors' Remuneration					
Amounts received, or due and receivable, by the Australian statutory auditor of the Telstra Entity for:					
Auditing and reviewing the financial statements (i)	**4.741**	3.896	3.612	**4.404**	3.601
Other services (i)	**0.692**	0.363	0.342	**0.676**	0.363
Amounts received, or due and receivable, by auditors other than the Australian statutory auditor of the Telstra Entity for:					
Auditing and reviewing the financial statements	**0.243**	0.247	0.196	**0.023**	-

(i) The audit and other services provided by the Australian statutory auditor have been subcontracted to Price Waterhouse. In addition, the Telstra Group has engaged Price Waterhouse for other services during the year ended 30 June 1998 and amounts paid for these services were approximately $10.536 million (1997: $6.615 million).

28. Events Subsequent To Balance Date

Superannuation contributions

As outlined in Note 21 "Superannuation Commitments", the Telstra Entity's past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of $121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the 3 year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above-mentioned discussions and a consequential response from the Minister for Finance and Administration.

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions

Controlling Entity

The Commonwealth is the ultimate chief and controlling entity of the Telstra Group. Telstra Corporation Limited is the chief entity in the group comprising the Telstra Entity and its controlled entities.

The Telstra Group supplies telecommunications services to, and acquires other services from, the Commonwealth, its Departments of State, trading and other agencies. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers and there are no exclusive rights to supply any such services. Services provided to any one governmental department or agency or in total do not represent a significant component of the Telstra Group's operating revenues. For these reasons the financial statements do not disclose transactions relating to the purchase and sale of goods and services from/to the Commonwealth, its Departments of State, trading and other agencies.

Directors of the Telstra Entity

The names of each person who held office as a Director of the Telstra Entity for the whole of the year ended 30 June 1998 were Messrs David M. Hoare, W. Frank Blount, Michael H. Codd, Christopher I. Roberts, Elizabeth A. Nosworthy, N. Ross Adler, Anthony J. Clark, John T. Ralph, John W. Stocker and Stephen W. Vizard. Malcolm G. Irving was appointed as a Director of the Telstra Entity on 10 July 1997.

Details of Directors' remuneration, superannuation and retirement payments are set out in Note 25.

Loans to Directors of the Telstra Entity

No Director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during the years ended 30 June 1998, 1997 and 1996, other than W. Frank Blount who was provided with a loan as part of his participation in the Telstra Employee Share Ownership Plan (TESOP). The loan was provided interest free and on the same conditions as all other eligible employees who participated in the TESOP. Further details of the TESOP are contained in Note 17. The loan provided was $3,899 (for 2,000 shares) and the amount repaid was $141.

Other Transactions with Directors of the Telstra Entity and their Director Related Entities

Director related entities of Ms E.A. Nosworthy, Bay Technologies Pty Ltd and Bay Technologies Communications Pty Ltd, supplied software and associated support and maintenance services to the Telstra Group during the year on normal commercial terms and conditions amounting to $Nil (1997: $2,000; 1996: $1,692,000) and $Nil (1997: $56,000; 1996: $Nil) respectively. Ms Nosworthy has no involvement or interest in Bay Technologies Pty Ltd and Bay Technologies Communications Pty Ltd.

Mr A.J. Clark is a partner in the accounting firm of KPMG which provided professional services to the Telstra Group during the year on normal terms and conditions.

The following disclosures made in relation to Mr S. Vizard and his Director related entities have arisen from agreements entered/negotiations that commenced prior to Mr S. Vizard becoming a Director of Telstra Corporation Limited:

(i) During the year ended 30 June 1998, a controlled entity of the Telstra Group has provided funding of $300,000 (1997: $100,000) by way of an advance to Artsim (a Director related entity of Mr S. Vizard) to develop an internet on-line service providing management and information services. The advance is on normal commercial terms and conditions.

(ii) Artist Services Pty Ltd, Artist Services Cable Pty Ltd and Artist Services Cable Management Pty Ltd are Director related entities of Mr S. Vizard in which he has a minority indirectly owned interest. These entities are involved in joint ventures with FOXTEL to provide pay television programming. Each party to the joint ventures has contributed capital in proportion to its equity interests. In accordance with the joint venture arrangements, the joint ventures have incurred progamming licence and production fees to the Director related entities during the year ended 30 June 1998. All of the relevant transactions are on normal commercial terms and conditions.

Each of the Directors of the Telstra Entity have telecommunications services transactions with the Telstra Group which are not material and are domestic in nature. Director related entities also have telecommunications services which are on normal commercial terms and conditions.

Directors of the Telstra Entity Interests in Shares of the Telstra Entity

No Director of the Telstra Entity had an interest in the share capital of the Telstra Entity as at 30 June 1997. As at 30 June 1998, the Directors and their related parties had interests in the share capital of the Telstra Entity (acquired during the year ended 30 June 1998) as follows:

	Telstra Corporation Limited - Instalment Receipts (a) (b)		
	Direct	**Indirect**	**Total**
D.M. Hoare	11,720	16,000	27,720
J.T. Ralph	600	40,000	40,600
W.F. Blount (c)	12,700	-	12,700
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	13,000	21,000
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

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Directors of the Telstra Entity Interests in Shares of the Telstra Entity (Continued)

(a) Instalment Receipts evidence beneficial ownership of an ordinary share subject to payment of the final instalment on or before 17 November 1998.

(b) Guidelines for Dealings by Directors in Shares (including Instalment Receipts)

The restrictions imposed by law on dealings by Directors in the securities of the Telstra Entity have been supplemented by the Board of Directors adopting guidelines which further limit such dealings by Directors, their spouses, dependent children, family companies and family trusts. The guidelines provide, that in addition to the requirement that Directors not deal in the securities of the Telstra Entity or any related body corporate when they have or may be perceived to have relevant unpublished price sensitive information, Directors are only permitted to deal within certain specified window periods. Further, the guidelines require that Directors not deal on the basis of considerations of a short term nature or by trading securities within the same " window period".

(c) Includes 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the TESOP (refer Note 17). In addition, W. Frank Blount is entitled to 200 loyalty shares obtained under the 1 for 10 loyalty offer available to all employees who participated in the public offer (refer Note 17(e)).

Directors of Controlled Entities

Each of the controlled entity Directors of the Telstra Group and their Director related entities have telecommunications services transactions with the Telstra Group which are on normal commercial terms and conditions and are trivial and domestic in nature.

Lawpoint Pty Ltd (Lawpoint) is partially owned by Alloway Investments Pty Ltd (Alloway). The Directors of Alloway are Mr E. Griffin, Sir D. Griffin and Mr A. Griffin who are also Directors of Lawpoint. Lawpoint paid a dividend during the year ended 30 June 1998 of $504,000 (1997: $579,000; 1996: $666,000) to Alloway. Lawpoint participates in other transactions with Alloway and its Directors which are on normal terms and conditions and are trivial in nature.

Ms Z. Mody, a Director of two controlled entities, has provided legal advice to controlled entities. Fees received/receivable by Ms Z. Mody are on normal terms and conditions amounting to $Nil for the year ended 30 June 1998 (1997: $70,000; 1996: $Nil).

Loans to Directors of Controlled Entities

No controlled entity Director of the Telstra Group had a loan or made a loan repayment with the Telstra Entity or any of its controlled entities at any time during the years ended 30 June 1998, 1997 and 1996, apart from the following:

During the year ended 30 June 1998, certain employees of the Telstra Group who were eligible to participate in the TESOP (refer Note 17 for further details) were also Directors of controlled entities. The Telstra Group Directors (as noted below) were provided an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in the TESOP. The total loan advanced to these Directors was $152,061 and loan repayments of $5,493 were made. All of the Directors listed below were provided with and made loan repayments during the year ended 30 June 1998:

P. Abery	E. F. Griffin	A. Polmear
B. Akhurst	J. Hibbard	N. F. Robertson
G. Avard	R. Holihan	L. P. Shore
K. Bradshaw	R. Horgan	D. Smith
J. Burke	A. T. Huxtable	J. V. Stanhope
D. Campbell	M. Montalto	Z. Switkowski
G. Cassidy	G. Moriarty	R. Verco
A. Cherubin	G. J. Nicholson	C. Vonwiller
B. Copp	D. R. Nicol	K. Wijeyewardene
C. B. Davis	C. Petersen	C. C. Wilkinson
G. Fidler	K. Phillips	T. Wulfse
P. Frueh	P. I. Pickering	R. Wyss
A. C. Griffin	D. Pitt	L. Yelland

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Wholly Owned Group and Other Related Party Disclosures

Amounts receivable from and payable to entities in the wholly owned group and other related parties:

		Telstra Group			Telstra Entity	
		As At 30 June			As At 30 June	
		1998	1997	1996	**1998**	1997
	Note	**$m**	$m	$m	**$m**	$m
Aggregate amounts receivable (including trade debtors) at balance date from:						
***Current*:**						
Wholly owned controlled entities (i)	7	**-**	-	-	**412**	847
Other controlled entities	7	**-**	-	-	**264**	278
Associated entities and partnerships		**33**	46	298	**33**	-
Non Current:						
Wholly owned controlled entities	7	**-**	-	-	**126**	98
Aggregate amounts payable (including accounts payable) at balance date to:						
***Current*:**						
Wholly owned controlled entities (i)	13	**-**	-	-	**175**	774
Other controlled entities	13	**-**	-	-	**6**	-
Associated entities and partnerships		**72**	19	11	**61**	-
Non Current:						
Wholly owned controlled entities	13	**-**	-	-	**212**	117

(i) During the year, the Telstra Entity has participated in interest free transactions with its controlled entities. As a result of these transactions, at 30 June 1998, the aggregate amounts receivable from controlled entities amounted to $379 million (1997: $845 million; 1996: $212 million) and the aggregate amounts payable to controlled entities amounted to $198 million (1997: $428 million; 1996: $166 million). The amounts payable to the wholly owned controlled entities at 30 June 1998 includes $155 million (1997: $198 million; 1996: $121 million) being consideration for the transfer of tax losses.

Notes to and forming part of the Financial Statements (Continued)

29. Related Party Transactions (Continued)

Wholly Owned Group and Other Related Party Disclosures (Continued)

During the year, communication assets were sold by the Telstra Entity to an entity in the wholly owned group at cost for $88 million (1997: $526 million; 1996: $329 million).

The Telstra Entity sold services, purchased goods and communications assets, paid fees and received dividends from, and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.

Included in gross construction work in progress (refer Note 13) are progress billings made by another controlled entity on normal commercial terms and conditions amounting to $Nil (1997: $Nil; 1996: $59 million).

Included in revenue received in advance is an amount of $294 million (1997: $322 million) received from a controlled entity in relation to royalties received from directory advertising which is not recorded as revenue until the directories are issued.

Included in capitalised software for the year ended 30 June 1998 is $111 million (1997: $Nil; 1996: $Nil) paid to IBMGSA. In addition, during the year ended 30 June 1998, $23 million was paid to IBMGSA for the transfer of employee entitlements and other transition costs.

		Telstra Group			Telstra Entity	
		Year Ended 30 June			Year Ended 30 June	
		1998	1997	1996	**1998**	1997
	Note	**$m**	$m	$m	**$m**	$m
Amounts attributable to transactions with entities in the wholly owned group and other related parties						
Operating profit before income tax expense for the year includes aggregate amounts attributable to transactions in respect of:						
Interest received/receivable from:						
Wholly owned controlled entities	2	**-**	-	-	**6**	5
Associated entities		**-**	-	1	**-**	-
Borrowing costs:						
Wholly owned controlled entities	3(a)	**-**	-	-	**9**	7
Dividends received/receivable from:						
Wholly owned controlled entities	2	**-**	-	-	**39**	7
Associated entities		**-**	26	14	**-**	26
Sale of goods and services to:						
Wholly owned controlled entities		**-**	-	-	**615**	475
Other controlled entities		**-**	-	-	**598**	-
Associated entities and partnerships		**91**	661	597	**31**	560
Purchase of goods and services from:						
Wholly owned controlled entities		**-**	-	-	**66**	121
Other controlled entities		**-**	-	-	**85**	4
Associated entities and partnerships		**395**	19	12	**377**	-

Notes to and forming part of the Financial Statements (Continued)

30. Earnings Per Share

	Telstra Group Year Ended 30 June		
	1998	1997	1996
	¢	¢	¢
Basic earnings per share (cents)			
- before abnormals	**23.3**	*20.0	*16.9
- after abnormals	**23.3**	*12.6	*17.9

Diluted earnings per share is the same as basic earnings per share.

	Number (millions)		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	**12,867**	**12,867	**12,867

* Calculated assuming share split had been made in these years. Refer to the section below *'Adjusted earnings per share for changes to share capital'* for details of these changes.

** Number of shares calculated assuming share split had been made in these years. Refer to the section below *'Adjusted earnings per share for changes to share capital'* for details of these changes.

Adjusted earnings per share for changes to share capital

On 6 August 1997, a share split was approved so that all ordinary shares issued by the Telstra Entity on this date with a par value of $1.00 each were divided into two ordinary shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each, to 12,866,600,200 ordinary shares with a par value of $0.50 each.

The actual earnings per share as disclosed in the financial statements for the years ended 30 June 1997 and 1996 were 39.9 cents and 33.8 cents respectively before abnormals and 25.1 cents and 35.8 cents respectively after abnormals. These amounts were determined prior to the share split.

Adjusted earnings per share for changes in accounting policy

In addition, during the year ended 30 June 1997, the Telstra Group changed its accounting policies as disclosed in Note 3(b) as abnormal items. The effect on earnings per share of the changes in these accounting policies was an increase of 6.0 cents per share for earnings per share after abnormals to 25.1 cents per share for the year ended 30 June 1997 (calculated prior to share split).

The effect on earnings per share of the changes in accounting policies calculated after the share split would have been an increase of 3.0 cents per share for earnings per share after abnormals to 12.6 cents per share for the year ended 30 June 1997.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures

Derivative Financial Instruments

Objectives and Significant Terms and Conditions

Derivative financial instruments are used by the Telstra Group to hedge against risks from changes in interest rates and foreign exchange rates. Instruments used include forward foreign currency contracts, cross-currency swaps, interest rate swaps, and interest rate futures contracts. The Telstra Group does not undertake speculative trading in these instruments. All derivative transactions are undertaken to hedge the risks relating to an underlying physical position.

Because of this, the potential for loss or gain under derivative transactions arising as a result of interest rate risk, currency risk or other market risk will be substantially matched by corresponding gains or losses in the value of the underlying physical position.

Throughout this note, interest rate risk refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates and foreign currency risk refers to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Liquidity Risk and Credit Risk

Liquidity risk includes the risk that, as a result of liquidity requirements in the future, the Telstra Group will be forced to sell financial assets or derivative positions at a value which is below their underlying worth or may be unable to exit the positions at all, or the Telstra Group will have insufficient funds to settle a transaction on the due date.

To help counter these risks the Telstra Group generally uses derivatives that are tradeable in highly liquid markets, and has standby facilities and other funding arrangements in place, and has a liquidity policy which requires a minimum liquidity level to be maintained.

Credit risk includes the risk that a counterparty will fail to discharge its obligations under a financial instrument and cause the Telstra Group to incur a financial loss. To help counter this risk the Telstra Group ensures it does not have any significant exposure relative to approved counterparty limits, and has a conservative policy in establishing counterparty limits.

Forward Foreign Currency Contracts

The Telstra Group enters into forward foreign currency contracts to hedge the exchange rate risk on firm or anticipated purchase commitments and short term borrowings denominated in foreign currencies.

A key purpose of foreign currency hedging activities is to minimise the volatility of the Telstra Group's cash flows from purchases due to changes in exchange rates.

The Telstra Group principally hedges in the following currencies: United States Dollars, British Pounds Sterling, German Deutschemarks, and European Currency Unit.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

The settlement dates, dollar amounts to be received and contractual forward exchange rates of the Telstra Group's significant outstanding contracts at balance date are as follows:

	Telstra Group As At 30 June 1998	1997
	(A$ millions)	
United States Dollars		
- less than three months, at rates averaging United States Dollars $0.6341 (1997: US$0.7571)	**(11)**	45
- 3 to 12 months, at rates averaging United States Dollars $0.6427 (1997: US$0.7694)	**148**	86
- 12 to 18 months, at rates averaging United States Dollars $0.6312 (1997: US$0.7738)	**6**	20
	143	151
British Pounds Sterling		
- less than three months, at rates averaging British Pounds Sterling 0.3727 (1997: British Pounds Sterling 0.4734)	**24**	26
- 3 to 12 months, at rates averaging British Pounds Sterling 0.3729 (1997: British Pounds Sterling 0.4790)	**-**	32
	24	58
German Deutschemarks		
- less than three months, at rates averaging German Deutschemarks 1.0724 (1997: German Deutschemarks 1.3194)	**27**	31
- 3 to 12 months, at rates averaging German Deutschemarks 1.1500 (1997: German Deutschemarks 1.3194)	**-**	38
	27	69
European Currency Units		
- less than three months, at rates averaging European Currency Units 0.5504 (1997: European Currency Units 0.6839)	**34**	20
- 3 to 12 months, at rates averaging European Currency Units 0.5574 (1997: European Currency Units 0.6778)	**-**	58
	34	78

The Telstra Group has a net foreign exchange exposure on equipment, material and translation exposures, excluding borrowings, as follows:

	Telstra Group: Exposure before hedging As At 30 June 1998	1997	Exposure after hedging As At 30 June 1998	1997
	(A$ millions)		(A$ millions)	
Anticipated future transactions	**255**	226	**128**	113
Transaction exposure	**416**	649	**208**	325
Translation exposure (on offshore investments)	**(224)**	(310)	**(140)**	(253)
	447	565	**196**	185
The maturity dates of the anticipated future transactions are as follows:				
Within 1 year	**155**	155		
Within 1 - 2 years	**100**	71		
	255	226		

The hedging policy of the Telstra Group is considered to provide effective hedging for all its foreign exchange exposures.

At 30 June 1998 and 1997 the net deferred gain on hedges of anticipated foreign currency commitments is not material to the financial statements.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Net Fair Value - Forward Foreign Currency Contracts

Valuation as at 30 June 1998

There is no material difference between the carrying value and the net fair value. The carrying value for forward currency contracts at 30 June 1998 is a $8 million gain (1997: $14 million gain).

Cross Currency Swaps and Interest Rate Swaps

The Telstra Group has borrowings denominated in foreign currencies. It is the Telstra Group's policy to hedge all currency exposure on such borrowings with foreign currency derivative transactions such as cross currency swaps and forward foreign exchange contracts.

The terms and conditions of the swaps substantially match the terms and conditions of the underlying hedged borrowings in Note 14.

The Telstra Group enters into interest rate swaps to adjust interest rate exposures on its debt portfolio, to match the ratio of fixed interest debt, to variable interest debt as required by the Telstra Group's debt management policy. The debt management policy is undertaken on a portfolio basis. The maturity of interest rate swaps matches the maturity profile of the underlying debt within the requirements of the debt management policy. Net interest receipts and payments are recognised as an adjustment to interest expense.

At 30 June 1998 and 1997 the Australian dollar interest rates varied as follows:

For cross currency swaps:		
Fixed	- 1998 7.86%	(1997: from 7.86% to 11.78%)
Variable	- 1998 from 4.94% to 5.52%	(1997: from 5.36% to 5.98%)
For interest rate swaps:		
Fixed	- 1998 from 5.07% to 13.58%	(1997: from 5.59% to 14.27%)
Variable	- 1998 from 4.84% to 5.97%	(1997: from 5.15% to 6.77%)

Net Fair Value - Interest Rate and Cross Currency Swaps

Derivative transactions are only used for the purposes of managing financial exposures that arise from underlying business positions. Therefore net market values should not be assessed in isolation. Their overall impact should take account of the underlying exposures being hedged. For further information on the carrying value and net market value on hedged positions refer Note 14.

Interest Rate Swaps

The notional amounts of interest rate swaps shown below represent the face values of such transactions entered into by the Telstra Group at balance date. The notional amounts do not represent amounts exchanged by the parties to the contract, and are not a true reflection of the credit risk and are therefore not recorded on the balance sheet.

The remaining terms, net notional principal amounts, and net fair value amounts of the Telstra Group's outstanding interest rate swaps at balance date are:

	Telstra Group					
	Net Notional Principal Amount (a)		Net Fair Value		Carrying Value (b)	
	As At 30 June					
	1998	1997	**1998**	1997	**1998**	1997
	(A$ millions)					
Interest rate swaps:						
- Less than one year	**83**	39	**10**	9	**6**	3
- One to five years	**(445)**	64	**28**	43	**2**	7
- Greater than five years	**(2,000)**	(284)	**(82)**	53	**(7)**	3
	(2,362)	(181)	**(44)**	105	**1**	13

(a) At 30 June 1998 and 30 June 1997, the Telstra Group has a net interest rate swap position of pay fixed.

(b) The carrying value represents the accrued interest on interest rate swaps.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Swaps (Continued)

The gross notional principal of interest rate swaps was $6,048 million and $4,616 million for the years ended 30 June 1998 and 1997 respectively. The gross notional amount of interest rate swaps is significantly larger than the net effective position shown since it is the gross sum of all swaps over time, many of which have been undertaken to modify positions at a number of stages as volumes and positions have changed. This approach is undertaken to manage the Telstra Group's fixed to variable ratio on net debt, where net debt is defined as financial liabilities less financial assets.

Cross Currency Swaps

The remaining terms, net principal amounts, and net fair value amounts of the Telstra Group's outstanding cross currency swaps at balance date are:

	Telstra Group					
	Net Notional Principal Amount		Net Fair Value		Carrying Value	
	As At 30 June					
	1998	1997	**1998**	1997	**1998**	1997
	(A$ millions)					
Cross currency swaps:						
- Less than one year	**-**	194	**-**	42	**-**	40
- One to five years	**120**	-	**15**	-	**(2)**	-
- Greater than five years	**2,186**	1,465	**414**	(64)	**277**	(39)
	2,306	1,659	**429**	(22)	**275**	1

For cross currency and interest rate swaps where the carrying value is in excess of net fair value at balance date no writedown to net fair value has been made since these derivatives act as hedges of underlying physical positions.

Interest Rate Futures

From time to time, the Telstra Group uses interest rate futures contracts to adjust interest exposures on its debt portfolio to match the ratio of fixed interest debt to variable interest debt as required by the Telstra Group's policy. These contracts are commitments to either purchase or sell designated financial instruments at a future date for a specified price and are settled in cash.

No futures contracts were outstanding at either 30 June 1998 or 30 June 1997.

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Risk

The Telstra Group's exposure to interest rate risk, repricing maturities and the effective interest rates on financial instruments at balance date are:

	Telstra Group As At 30 June 1998							
	Weighted Average Effective Interest Rate	Interest Rate				Non interest bearing	Total	Note
		Floating	Fixed maturities					
			1 yr or less	2 to 5 yrs	over 5 yrs			
	%	($ millions)						
Assets								
Cash	5.24	799	-	-	-	154	953	6
Trade debtors and accrued revenue	-	-	-	-	-	3,045	3,045	7
Bank deposits, bills of exchange and promissory notes	4.44	-	19	55	16	-	90	7
Share loan to employees	-	-	-	-	-	206	206	7
Loans to associated entities	9.50	-	5	-	-	-	5	7
Other receivables	6.30	-	-	10	-	63	73	7
Investments	-	-	-	-	-	222	222	9
Total financial assets as at 30 June 1998		799	24	65	16	3,690	4,594	
Liabilities								
Trade creditors and accrued expenses	-	-	-	-	-	1,570	1,570	13
Other creditors	-	-	-	-	-	830	830	13
Amounts owed to the Telstra Superannuation Scheme	11.80	-	121	151	513	-	785	13
Bank overdraft	18.00	5	-	-	-	-	5	14
Bills of exchange and promissory notes	5.55	2,503	-	-	-	-	2,503	14
Bank loans	15.95	26	-	-	-	-	26	14
Telecom/Telstra bonds	10.78	-	349	1,244	1,094	-	2,687	14
Other loans	5.69	-	-	62	2,475	-	2,537	14
Cross currency swaps	-	1,866	-	(116)	(1,989)	-	(239)	14
Finance lease liabilities	5.49	-	73	114	16	-	203	14
Dividends payable	-	-	-	-	-	901	901	15
Taxation	-	-	-	-	-	474	474	15
Interest rate swaps	-	(2,362)	(83)	445	2,000	-	-	-
Total financial liabilities as at 30 June 1998		2,038	460	1,900	4,109	3,775	12,282	
Net financial assets/(liabilities) as at 30 June 1998		(1,239)	(436)	(1,835)	(4,093)	(85)	(7,688)	

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Interest Rate Risk (Continued)

	Telstra Group As At 30 June 1997							
	Weighted Average Effective Interest Rate	Interest Rate				Non interest bearing	Total	Note
		Floating	Fixed maturities					
			1 yr or less	2 to 5 yrs	over 5 yrs			
	%	($ millions)						
Assets								
Cash	5.62	588	-	-	-	154	742	6
Trade debtors and accrued revenue	-	-	-	-	-	3,238	3,238	7
Bank deposits, bills of exchange and promissory notes	5.08	95	-	74	24	-	193	7
Other receivables	6.30	-	-	10	-	53	63	7
Investments	-	-	-	-	-	154	154	9
Total financial assets as at 30 June 1997		683	-	84	24	3,599	4,390	
Liabilities								
Trade creditors and accrued expenses	-	-	-	-	-	1,625	1,625	13
Other creditors	-	-	-	-	-	940	940	13
Amounts owed to the Telstra Superannuation Scheme	11.80	-	121	189	500	-	810	13
Bank overdraft	8.75	12	-	-	-	-	12	14
Bills of exchange and promissory notes	5.62	159	-	-	-	-	159	14
Bank loans	5.55	3,017	-	-	-	-	3,017	14
Telecom/Telstra bonds	10.71	-	178	992	1,684	-	2,854	14
Other loans	6.82	-	135	9	1,497	-	1,641	14
Cross currency swaps	-	1,020	(41)	-	(954)	-	25	14
Finance lease liabilities	5.97	-	72	175	26	-	273	14
Dividends payable	-	-	-	-	-	521	521	15
Taxation	-	-	-	-	-	432	432	15
Interest rate swaps	-	(181)	(39)	(64)	284	-	-	-
Total financial liabilities as at 30 June 1997		4,027	426	1,301	3,037	3,518	12,309	
Net financial assets/(liabilities) as at 30 June 1997		(3,344)	(426)	(1,217)	(3,013)	81	(7,919)	

The effective yield on the Telstra Group's net debt at 30 June 1998 and 30 June 1997 is 7.8 per cent and 7.5 per cent respectively, after taking into account the impact of interest rate swaps and cross currency swaps. The yield of 7.5 per cent at 30 June 1997 incorporated the effect of adding $3,000 million of new debt drawn down on 30 June 1997 (refer Note 14(iii)).

Notes to and forming part of the Financial Statements (Continued)

31. Additional Financial Instruments Disclosures (Continued)

Credit Risk

The Telstra Group obtains collateral on all money market deposits except those deposited with licensed banks.

The carrying amounts of financial assets included in the consolidated balance sheet represent the Telstra Group's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with accounting standards.

Credit risk exposure value shown in the table below includes all transactions where the net fair value is favourable. For credit purposes there is only a credit risk where the counterparty would pay the economic entity in the event of a closeout. The amount derived differs from that shown in the previous table which states the net fair value after netting favourable against unfavourable transactions.

	Telstra Group	
	Net Fair Value	
	As At 30 June	
	1998	1997
	(A$ millions)	
Interest rate swaps	**167**	172
Cross currency swaps	**429**	61
Forward foreign currency contracts	**10**	14
	606	247

Credit Risk - Concentrations

The Telstra Group does not have any significant exposure to any individual counterparty. The major concentrations of credit risk that arise from the Telstra Group's financial transactions (including money market, forward foreign currency contracts, cross currency and interest rate swaps) by country of financial institution are:

	Telstra Group			
	As At 30 June			
	1998		1997	
	%	**(A$ millions)**	%	(A$ millions)
Australia	**32**	**1,698**	31	1,011
United States	**32**	**1,675**	36	1,166
Japan	**2**	**108**	4	128
Europe	**33**	**1,777**	23	758
Other	**1**	**33**	6	201
	100	**5,291**	100	3,264

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures

Reconciliation to US GAAP

Australian generally accepted accounting principles (AGAAP) vary in certain significant respects from generally accepted accounting principles in the United States (US GAAP). Application of US GAAP would have affected shareholders' equity as at 30 June 1998, 1997 and 1996 and operating profit after income tax expense attributable to the Telstra Entity shareholders (defined as net income throughout this Note) for each of the years in the three year period ended 30 June 1998, to the extent quantified below. A description of the material differences between AGAAP, as followed by the Telstra Group, and US GAAP are as follows:

The reconciliation of net income and shareholders' equity contained in this Note are completed on the financial statements of the Telstra Group.

(a) Property, Plant and Equipment

Revaluations

AGAAP allows property, plant and equipment assets to be revalued. Increments arising from a revaluation of a class of property, plant and equipment are made directly to an asset revaluation reserve (shareholders' equity) unless they reverse a previous revaluation decrement. Impairments (decrements) to asset values must be recorded in the profit and loss account, unless reversing a previous increment recorded in the asset revaluation reserve which is still maintained in the asset revaluation reserve. Property, plant and equipment disclosed in Note 10 includes balances at valuation which are inclusive of the respective revaluation decrement or increment after applying the accumulated depreciation against the historical cost at the time of revaluation. Revaluations of property, plant and equipment are not allowed under US GAAP. Adjustments to reduce revalued property, plant and equipment to historical cost for revaluations and impairments included in the reconciliation of shareholders' equity to US GAAP were $317 million, $271 million, $772 million for the years ended 30 June 1998, 1997 and 1996 respectively. Adjustments included in the reconciliation of net income to US GAAP for the years ended 30 June 1998, 1997 and 1996 (including the impairments noted below) were $62 million expense, $256 million income and $10 million income respectively.

US GAAP requires impairments on non current assets to be recorded as an expense. Once such impairments have been recorded, subsequent recoveries are not allowed. Statement of Financial Accounting Standards No.121 (SFAS 121) "Accounting for the impairment on Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires that assets to be disposed of be valued at the lower of carrying amount or fair value less costs to sell. Furthermore, companies are required to review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Telstra Group recorded a $16 million impairment in the profit and loss account under AGAAP during the year ended 30 June 1998 (refer Note 3(a)). In the year ended 30 June 1997, the Telstra Group has recorded an impairment in the profit and loss account relating to its broadband network (refer Note 3(b)). This impairment loss was recognised under AGAAP as the discounted future cash flows were less than the carrying value of the asset. The determination of the impairment loss recognised under AGAAP was not in accordance with US GAAP. SFAS 121 only allows an impairment loss to be recognised when the future cash flows (undiscounted and without interest charges) are less than the carrying amount of the asset. If such cash flows are less than the carrying value of the asset, the asset is adjusted to fair value. The future undiscounted cash flows of the broadband network assets were in excess of the carrying amount of the asset, accordingly the impairment loss recognised in the year ended 30 June 1997 for AGAAP of $342 million was adjusted in the reconciliation of net income and shareholders' equity to US GAAP. In the year ended 30 June 1998 additional depreciation on the broadband asset of $59 million has been recognised in the reconciliation of net income to US GAAP. The Telstra Group did not record any impairment to the profit and loss account under AGAAP during the year ended 30 June 1996.

Additional impairment losses for US GAAP were $10 million (excluding $16 million for AGAAP as noted above), $Nil and $4 million for the years ended 30 June 1998, 1997 and 1996 respectively.

Profits/(Losses) on Disposal

The AGAAP accounting for revaluing property and certain investments also causes differences in reported profits or losses on the sale of revalued properties and investments as the reported profit or loss is based on consideration received, less revalued net book value. For US GAAP purposes, profits or losses are determined as the difference between the consideration and net book value based on historical depreciated cost and would be reported as profits or losses in the year realised. These differences have been disclosed in the reconciliations of net income and shareholders' equity to US GAAP.

Depreciation Expense

Depreciation expense for AGAAP and US GAAP has been calculated using the straight line method of depreciation. Under AGAAP depreciation expense is based on the carrying value of the asset rather than the historical cost of the asset and therefore the depreciation expense is higher in the year assets are revalued upwards and in subsequent years. Since US GAAP does not permit assets to be valued above historical cost, the depreciation charge has been adjusted to reflect historical cost depreciation in the reconciliations of net income and shareholders' equity to US GAAP.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(a) Property, Plant and Equipment (Continued)

Capitalisation of Indirect Overheads

In order to further align its accounting policies with common practice in the telecommunications industry, the Telstra Group changed its accounting policies in relation to the capitalisation of indirect overheads and interest during the year ended 30 June 1997 and applied these changes retrospectively from 1 July 1996.

Prior to 1 July 1996 the Telstra Group capitalised overheads directly associated with the construction of its communication assets but all indirect overheads were expensed as incurred. The Telstra Group has commenced capitalising indirect overheads associated with operations and management personnel also directly involved in the construction of the Telstra Group's communication assets.

The policy prior to 1 July 1996 was not in accordance with US GAAP which requires the cost of self constructed assets to include appropriate proportions of direct and indirect overheads. To reflect the inclusion of indirect overheads in the cost of communication assets for all periods, the Telstra Group capitalised in the reconciliation of net income and shareholders' equity to US GAAP, $2,503 million and amortised $1,072 million for the years up to 30 June 1995, and capitalised $285 million and amortised $156 million for the year ended 30 June 1996, amortised $167 million for the year ended 30 June 1997 and amortised $157 million for the year ended 30 June 1998.

Capitalisation of Interest Costs

Prior to 1 July 1996, the Telstra Group expensed all interest costs as incurred. From 1 July 1996, interest costs relating to the construction of property, plant and equipment for internal use is recognised and capitalised as part of the cost of the asset. This accords with common practice of entities involved in large capital expenditure programmes. US GAAP requires interest costs incurred during the construction of property, plant and equipment to be capitalised. The US GAAP reconciliation includes adjustments arising from the application of the method prescribed by Statement of Financial Accounting Standards No.34 (SFAS 34), "Capitalisation of Interest Costs". The Telstra Group capitalised $581 million and amortised $193 million for years up to 30 June 1995, and capitalised $57 million and amortised $35 million for the year ended 30 June 1996, amortised $37 million for the year ended 30 June 1997 and amortised $41 million for the year ended 30 June 1998.

(b) Investments

Equity Securities (excluding Satellite Consortia Investments and Associates)

In accordance with Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities", the Telstra Group classifies certain debt and equity securities into either held-to-maturity or available-for-sale based on the Telstra Group's purpose for holding the securities. Securities that are held to maturity are written down to fair value, through the profit and loss account, when the decline in fair value is other than temporary. Securities that are classified as available for sale are to be carried at fair value with changes in fair value, other than a temporary reduction, being taken to a separate component of shareholders' equity until realised. Realised gains and losses measured against cost are included in the profit and loss account.

There is no requirement under AGAAP for an increase in the fair value of an equity security to be recorded in the financial statements. A permanent diminution in the value of an equity security is taken to the profit and loss account. An adjustment has been made in the reconciliation of AGAAP to US GAAP to revalue equity securities classified as available for sale to fair market value in accordance with SFAS 115.

Shares in Associates

US GAAP requires companies to account for investments in associates using the equity method of accounting. Prior to 1 July 1997, the Telstra Group accounted for its investments in associates using the cost basis. The effect of this departure in the years ending 30 June 1997 and prior years was not considered significant and therefore no differences have been included in the reconciliation of US GAAP for these years. From 1 July 1997, the Telstra Group adopted the equity method of accounting (refer Note 1.9(b)) which is similar to US GAAP requirements. Therefore, for the year ended 30 June 1998 there are no significant differences between AGAAP and US GAAP for accounting for investments in associates.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(b) Investments (Continued)

Satellite Consortia Investments

The Telstra Group's participation in the INTELSAT and INMARSAT satellite consortia are treated as investments. The investment holdings are in US dollars and the balance sheet valuations are based on the Telstra Group's share at balance date and are translated to Australian currency at exchange rates in effect at that date. Up to 30 June 1996, any increments/decrements in the value of the investments were transferred to a satellite consortia revaluation reserve. This method of accounting for changes in the fair value of satellite consortia investments represented a departure from US GAAP as investments are required to be carried at cost. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to US GAAP, through to 30 June 1996. In the year ended 30 June 1997, the reserve has been transferred to retained earnings as the reserve has been realised, thus there is no adjustment required for US GAAP.

(c) Dividend Payable Recognition

Under AGAAP, dividends declared after balance date and prior to the approval of the financial statements are accrued for in those financial statements. Under US GAAP provisions for dividends are only recognised as liabilities if the dividends are formally declared prior to balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to US GAAP. The dividends per share for US GAAP that would be disclosed for the years ending 30 June 1998, 1997 and 1996 would be 11.1, 33.5 and 9.5 cents per share respectively.

(d) Retirement Benefits

The Telstra Group's periodic pension cost in relation to defined benefit plans included in these financial statements is based on the contributions payable to the retirement plans for the year, at rates determined by the actuary of the defined benefit plans. For a description of the Telstra Group's superannuation plans refer to Note 21. For the purposes of US GAAP disclosures, the CSS is a multiple employer plan within the context of Statement of Financial Accounting Standard No.87 (SFAS 87) "Employers' Accounting for Pensions".

In relation to the defined benefit schemes in which the Telstra Group participates where in the past there has been a shortfall in the net market value of the scheme assets when compared to members' vested entitlements, the Telstra Group has provided for the present value of any shortfall, to the extent that it has a present obligation.

For US GAAP, pension costs for defined benefit superannuation plans are actuarially computed using the projected unit credit method and include current service cost, interest cost, return on plan assets and amortisation of transition asset. Unrecorded gains and losses exceeding ten per cent of the greater of the projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

SFAS 87 was adopted by the Telstra Group on 1 July 1992 as it was not feasible to adopt SFAS 87 from the effective date of the Standard, being 1 July 1989. The transition asset is being amortised from the date of adoption over 11 years and $331 million of amortisation was recorded directly to shareholders' equity on 1 July 1992.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(d) Retirement Benefits (Continued)

The effect of the adjustment of SFAS 87 to retirement benefit expense has been disclosed in the reconciliation of net income and shareholders' equity to US GAAP. If the Telstra Group had reported its net periodic pension cost and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions generally accepted in the United States, the disclosures required would have been as follows:

	Telstra Group			
	Year Ended 30 June			
	1998	**1998**	1997	1996
	$m	**US $m**	$m	$m
Net periodic pension cost				
The components of net periodic pension cost for Telstra Group's defined benefit superannuation plans are as follows:				
Service cost on benefits earned	**430**	**267**	376	305
Interest cost on projected benefit obligation	**728**	**452**	747	696
Actual return on assets	**(1,206)**	**(749)**	(1,493)	(1,204)
Deferral of net asset loss	**79**	**49**	478	281
Amortisation of transition asset	**(97)**	**(60)**	(101)	(101)
Curtailment and settlement loss	**10**	**6**	414	-
Net periodic pension cost	**(56)**	**(35)**	421	(23)
The major assumptions used in accounting for the Telstra Group's defined benefit superannuation plans at 30 June and for the years then ended are:				
Discount rate	**6.00%**	**6.00%**	7.00%	8.00%
Rate of increase on compensation levels	**4.00%**	**4.00%**	4.50%	4.50%
Expected long-term rate of return on assets	**8.50%**	**8.50%**	8.50%	8.50%
Funded status of plans				
The funded status of the defined benefit superannuation plans is as follows:				
Accumulated benefit obligation				
Vested	**9,264**	**5,751**	7,354	6,418
Non vested	**-**	**-**	-	-
	9,264	**5,751**	7,354	6,418
Value of projected compensation increase	**2,785**	**1,729**	3,583	2,727
Projected benefit obligation	**12,049**	**7,480**	10,937	9,145
Fair value of plan assets (i)	**14,031**	**8,710**	13,867	12,221
Excess of assets over projected benefit obligation	**1,982**	**1,230**	2,930	3,076
Unrecognised net transition asset	**(553)**	**(343)**	(679)	(806)
Unrecognised net actuarial loss/(gain)	**878**	**545**	(298)	(236)
Prepaid pension cost	**2,307**	**1,432**	1,953	2,034

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(d) Retirement Benefits (Continued)

(i) The difference between the fair market value of scheme assets for AGAAP and US GAAP is primarily attributable to the value of the additional contributions payable by the Telstra Group to the TSS which are not considered to be a scheme asset for the purposes of SFAS 87 of $785 million, $810 million and $833 million at 30 June 1998, 1997 and 1996 respectively.

There has been no significant settlement or curtailment of the Telstra Group's defined benefit superannuation schemes through to 30 June 1996. In conjunction with the redundancy and restructuring charge to the profit and loss account in the year ended 30 June 1997, the Telstra Group recorded an estimated liability of $365 million for curtailment losses and $49 million for settlement losses under the provision of Statement of Financial Accounting Standard No.88 (SFAS 88) "Employers Accounting for Settlement and Curtailments of Defined Benefit Pension Plans and for Termination Benefits". For the year ended 30 June 1998 curtailment gains of $12 million and settlement losses of $22 million have been recorded as part of the Telstra Group's ongoing redundancy and restructuring plan. The losses are expected to impact the Telstra Group's defined benefit pension plans for the period to 30 June 2001.

(e) Software Developed for Internal Use

Prior to 1 July 1996, the Telstra Group capitalised network management software which is included in patents, trademarks and licences. In order to further align its accounting policies with common practice in the telecommunications industry, the Telstra Group changed its accounting policy during the year ended 30 June 1997 and applied this policy retrospectively from 1 July 1996. From 1 July 1996, the Telstra Group has capitalised costs (including interest) associated with software developed for internal use in addition to network management software. The costs included direct labour (both internal and external) and other directly associated costs.

The policy prior to 1 July 1996 was not in accordance with US GAAP. The Telstra Group has capitalised, in the reconciliation of net income and shareholders' equity to US GAAP, $1,116 million and amortised $513 million for the years up to 30 June 1995, and capitalised $254 million and amortised $219 million for the year ended 30 June 1996, amortised $217 million for the year ended 30 June 1997, and amortised $181 million for the year ended 30 June 1998.

(f) Income Tax

Under AGAAP deferred tax assets and liabilities are provided for timing differences using the liability method of tax effect accounting. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Under US GAAP deferred tax assets and liabilities are provided for all temporary differences between the accounting and tax bases of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management it is more likely than not that, some portion, or all, of the deferred tax asset will not be realised. Deferred taxes are also provided for the income tax effects of differences between US GAAP and AGAAP.

AGAAP requires the effect of a change in the income tax rate to be brought to account in the calculation of deferred tax balances when the change has been announced by the Treasurer of the Commonwealth. US GAAP requires the tax rate change to be recognised in the year of enactment. The effect of the income tax rate change from 33 per cent to 36 per cent, that was announced in the year ended 30 June 1995 but enacted subsequent to that balance date has been disclosed in the reconciliation of net income to US GAAP.

For AGAAP the classification of deferred tax balances between current and non current is based on when the temporary difference is expected to reverse. For US GAAP the classification between current and non current is based on the balance sheet classification of the underlying asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the balance sheet prepared in accordance with US GAAP.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(f) Income Tax (Continued)

	Telstra Group			
	As At 30 June			
	1998	**1998**	1997	1996
	$m	**US $m**	$m	$m
Deferred tax assets				
Property, plant and equipment	**-**	**-**	-	56
Foreign exchange translation, hedge and other finance costs	**17**	**11**	32	39
Employee entitlements	**296**	**184**	625	431
Income received in advance	**-**	**-**	39	119
Inventory valuation	**22**	**14**	41	62
Provisions	**634**	**394**	522	174
Tax losses	**181**	**112**	11	31
Other	**75**	**47**	119	64
Total deferred tax assets	**1,225**	**762**	1,389	976
Valuation allowance	**(48)**	**(30)**	(8)	(22)
Deferred tax assets after valuation allowance	**1,177**	**732**	1,381	954
Deferred tax liabilities				
Property, plant and equipment	**785**	**487**	385	-
Foreign exchange translation, hedge and other finance costs	**36**	**22**	59	45
Prepaid pension cost	**830**	**515**	703	732
Capitalised software	**316**	**196**	231	230
Prepayments	**35**	**22**	38	30
Finance leases	**10**	**6**	55	44
Other	**19**	**12**	41	80
Deferred tax liabilities	**2,031**	**1,260**	1,512	1,161
Net deferred tax liability under US GAAP	**(854)**	**(528)**	(131)	(207)
Represented by:				
Net deferred tax asset under AGAAP	**785**	**488**	1,482	1,171
US GAAP/AGAAP differences	**(1,639)**	**(1,016)**	(1,613)	(1,378)
Net deferred tax liability under US GAAP	**(854)**	**(528)**	(131)	(207)
The components of income tax expense for US GAAP are:				
Current tax expense	**1,058**	**657**	1,056	1,032
Deferred tax expense	**549**	**341**	(291)	358
Effect of enacted tax rate change	**-**	**-**	-	(28)
Under provision in prior year	**(113)**	**(71)**	(66)	(87)
Income tax expense for US GAAP	**1,494**	**927**	699	1,275

During the year ended 30 June 1997, the Telstra Group recorded a cumulative adjustment to income tax expense of $216 million (refer Note 3(c)) for prior years depreciation on previously devalued assets. The depreciation adjustment has been appropriately treated in all applicable years for US GAAP.

The adjustment included in the reconciliation of net income to US GAAP for the year ended 30 June 1996 was $87 million. The adjustments included in the reconciliation of shareholders' equity to US GAAP were $Nil and $216 million for the years ended 30 June 1997 and 1996 respectively.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(g) Lease Incentives

Prior to 6 July 1995, lump sum payments received in relation to major lease contracts were credited to the profit and loss account in the year in which they were receivable. US GAAP requires lease incentives to be recognised on a straight line basis over the term of the new lease. The effect of this departure is immaterial and no adjustment has been made in the reconciliation to US GAAP. Since 6 July 1995, lease incentives are deferred and recognised on a straight line basis over the term of the lease in accordance with AGAAP.

(h) Minority Interests (Outside Equity Interests per AGAAP)

Under US GAAP, minority interests are not included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to US GAAP. For the purposes of reconciling changes in minority interests, as at 30 June 1995, the balance of minority interests was $29 million. During the year ended 30 June 1996, there was a decrease of $5 million relating to minority capital, reserves and retained profits (other than minority's interest in operating loss after income tax benefit) and a decrease of $3 million relating to minority's interest in operating loss after income tax benefit. The balance of total minority interests as at 30 June 1996 was $21 million. Apart from a minority's interest in operating profits or losses after income tax expense/benefit, movements in minority interest balances from year to year result from changes to minority share capital, minority reserves and minority retained profits due to changes to ownership interests in controlled entities, the issue of equity by controlled entities and the receipt of dividends by minority interests.

(i) Financial Instruments

US GAAP does not permit deferral of gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions. The effect of this departure is considered immaterial and no adjustment has been made in the reconciliation to US GAAP.

(j) Employee Entitlements

The Telstra Group employee entitlement provisions include a liability for long service leave. The assumptions used to calculate this liability are consistent with those used for SFAS 87.

(k) Share Split

On 6 August 1997 a share split was approved so that all ordinary shares of the Telstra Entity on issue at this date with a par value of $1.00 each, were divided into two ordinary shares with a par value of $0.50 each. This resulted in the authorised share capital of the Telstra Entity changing from 20,000,000,000 shares with a par value of $1.00 each to 40,000,000,000 shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each to 12,866,600,200 ordinary shares with a par value of $0.50 each.

The number of shares in accordance with US GAAP as restated for the share split would be 12,866,600,200 at 30 June 1997 and 1996. The share data for US GAAP for the years ending 30 June 1997 and 1996 have been restated to reflect the share split. As the share split occurred in the year ended 30 June 1998, no restatement was necessary for this year.

(l) Direct Cost of Sales

Included in direct cost of sales for AGAAP are dealer commissions and bonuses as they are directly related to revenue recognised as a result of the sale of the Telstra Group's products.

For US GAAP, dealer commissions and bonuses are not considered to be direct costs of sales, and therefore, in the profit and loss account measured and classified in accordance with US GAAP, dealer commissions and bonuses of $283 million, $251 million and $173 million for the years ended 30 June 1998, 1997 and 1996 respectively, have been reclassified from direct cost of sales to other operating expenses.

(m) Employee Compensation Expense

During the year ended 30 June 1998 eligible employees were entitled to participate in the Telstra Employee Share Ownership Plan (TESOP) (refer Note 17). The Telstra Entity provided eligible employees with a non-recourse loan (interest free) to enable the purchase of a maximum of 2,000 shares. For every four shares purchased under the interest free loan offer, the eligible employee would receive one extra share free, up to a maximum of 500 extra shares. The employee share offer was a one-time offer in conjunction with the one-third privatisation of the Telstra Entity and does not represent an ongoing share purchase plan.

AGAAP does not require the recognition of compensation expense in the profit and loss account in relation to employee share schemes. US GAAP requires that shares issued in conjunction with non-recourse loans be accounted for as options. Compensation expense for US GAAP includes the excess of the fair value of the stock options over the exercise price at the date of grant.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

(m) Employee Compensation Expense (Continued)

The compensation expense is recorded in the balance sheet under share capital as additional paid in capital. In addition, for US GAAP the outstanding balance of the loans provided to the employees is required to be deducted from shareholders' equity (share capital) rather than classified as an asset.

The Telstra Group has adopted the accounting principles of Statement of Financial Accounting Standard No.123 (SFAS 123) "Accounting for Stock Based Compensation" in determination of employee compensation expense. The Telstra Entity granted 137,473,875 options in conjunction with the one-third privatisation on 17 November 1998, 502,000 options were exercised to 30 June 1998 resulting in 136,971,875 options outstanding at 30 June 1998. All options vested immediately upon grant and will expire at the earlier of repayment of the loan balance or employment termination. These options are dilutive for earnings per share calculations (refer to Earnings Per Share calculations below).

The binomial option valuation model was used to estimate the fair value of the options at the date of grant, utilising the following weighted average assumptions: risk-free interest rate of 5.8 per cent; dividends yield of nil per cent as dividends are reinvested to reduce the price of the option; expected stock market price volatility factor of 30 per cent; and a weighted average expected life of options of 7 years. The weighted average price of the option at 30 June 1998 was A$4.88.

There is no income tax effect on the compensation expense for US GAAP as it is a permanent difference (ie. not deductible to the Telstra Entity).

Operating Profit Reconciliation

The following is a reconciliation of the significant adjustments necessary to reconcile net income in accordance with US GAAP to the amounts determined under AGAAP, for the years ended 30 June 1998, 1997 and 1996.

	Telstra Group			
	Year Ended 30 June			
	1998	**1998**	1997	1996
	$m	**US $m**	$m	$m
Net income as reported in the Telstra Group profit and loss account according to AGAAP	**3,004**	**1,865**	1,617	2,305
Adjustments required to accord with US GAAP:				
- Property, plant and equipment (a)	**(260)**	**(161)**	52	161
- Retirement benefit expense (d)	**354**	**220**	(81)	343
- Capitalisation of software (e)	**(181)**	**(112)**	(217)	35
- Employee compensation expense (m)	**(217)**	**(136)**	-	-
- Income tax expense (f)	**(26)**	**(16)**	(235)	(130)
Net income according to US GAAP	**2,674**	**1,660**	1,136	2,714

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

Operating Profit Reconciliation (Continued)

	Telstra Group			
	Year Ended 30 June			
	1998	**1998**	1997	1996
	$m	**US $m**	$m	$m
Profit and loss account information measured and classified in accordance with US GAAP is as follows:				
Operating revenue	**16,819**	**10,441**	15,436	14,716
Operating expenses				
Labour	**3,882**	**2,410**	4,802	3,409
Direct cost of sales	**2,299**	**1,427**	1,782	1,575
Depreciation and amortisation	**2,763**	**1,715**	2,895	2,545
Other operating expenses	**3,247**	**2,016**	4,041	3,072
Total Operating Expenses	**12,191**	**7,568**	13,520	10,601
Operating income	**4,628**	**2,873**	1,916	4,115
Interest expense, net	**(585)**	**(363)**	(333)	(357)
Dividend income	**20**	**12**	38	33
Other income	**101**	**63**	206	195
Net income before income tax expense and minority interests	**4,164**	**2,585**	1,827	3,986
Income tax expense	**1,494**	**927**	699	1,275
Net income before minority interests	**2,670**	**1,658**	1,128	2,711
Minority interests in operating income	**4**	**2**	8	3
Net income	**2,674**	**1,660**	1,136	2,714
Presenting information in accordance with US GAAP involves reclassifying the presentation adopted for AGAAP. The reconciliation of net income, other income and interest expense net for AGAAP to US GAAP is provided below:				
Operating revenue per AGAAP	**17,302**	**10,741**	15,983	15,239
Less:				
Dividend income	**20**	**12**	38	33
Interest income	**49**	**30**	85	105
Proceeds on sale of property, plant and equipment and patents, trademarks and licences	**266**	**165**	176	73
Proceeds on sale of investments	**-**	**-**	26	126
Other revenue	**148**	**92**	222	186
Operating revenue per US GAAP	**16,819**	**10,442**	15,436	14,716
Interest expense, net per AGAAP				
Interest expense	**(717)**	**(445)**	(524)	(533)
Interest revenue	**49**	**30**	85	105
Interest capitalised	**83**	**52**	106	71
Net interest expense per US GAAP	**(585)**	**(363)**	(333)	(357)
Other income				
Other revenue per AGAAP	**148**	**92**	222	186
Net profit/(loss) on sale of:				
- property, plant and equipment and patents, trademarks and licences	**(47)**	**(29)**	(39)	(43)
- investments	**-**	**-**	23	52
Other income per US GAAP	**101**	**63**	206	195

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

	Telstra Group			
	Year Ended 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Earnings Per Share				
Net income according to US GAAP	**2,674**	**1,660**	1,136	2,714
	¢	**US ¢**	¢	¢
Basic earnings per share according to US GAAP (cents)	**20.9**	**13.0**	8.8	21.1
Diluted earnings per share according to US GAAP (cents)	**20.8**	**12.9**	8.8	21.1
	Number (in millions)			
Weighted average number of ordinary shares and common share equivalents for basic calculations	**12,781**	**12,781**	12,867	12,867
Assumed weighted average number of employee share options exercised at grant date	**47**	**47**	-	-
Weighted average number of potential ordinary shares and common share equivalents for diluted calculations	**12,828**	**12,828**	12,867	12,867

Under AGAAP, earnings per share is calculated by dividing operating profit after income tax expense attributable to the Telstra Entity shareholders by the weighted average number of shares and share equivalents outstanding during the year on a basic and fully diluted basis. Earnings per share computations are calculated on the same basis for AGAAP and US GAAP for the years ended 30 June 1997 and 1996. The earnings per share calculation for the year ended 30 June 1998 is affected by the issue of the employee stock options referred to in (m) above. The stock options are dilutive to earnings per share.

The $3,000 million paid as a special dividend on 30 June 1997 required the Telstra Entity to replenish working capital by incurring additional debt. Had this debt been outstanding from the beginning of the year, interest expense would have been $250 million higher (income tax benefit of $90 million) (unaudited), and net income after income tax expense would have been $160 million lower (unaudited) as a result of additional interest expense, and earnings per share would have been 1.2 cents lower (unaudited).

The abnormal reduction in depreciation expense of $205 million (income tax expense of $74 million) for the year ended 30 June 1996 disclosed in the profit and loss account and detailed in Note 3(b) for AGAAP would be reported as a change in accounting estimates and disclosed as an unusual item forming part of income from continuing operations in accordance with US GAAP. The change in estimate effect on earnings per share was an increase of 1.0 cents in the year ended 30 June 1996.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

The following is a reconciliation of the significant adjustments necessary to reconcile shareholders' equity in accordance with US GAAP to the amounts determined under AGAAP as at 30 June 1998, 1997 and 1996.

	Telstra Group As At 30 June			
	1998 $m	**1998 US $m**	1997 $m	1996 $m
Shareholders' equity as reported in the Telstra Group Balance Sheet under AGAAP	**11,079**	**6,879**	9,938	12,668
Cumulative adjustments required to accord with US GAAP				
- Property, plant and equipment (a)	**1,251**	**777**	1,495	1,198
- Satellite consortia reserve (b)	**-**	**-**	-	(21)
- Listed investments (b)	**4**	**2**	-	-
- Dividend payable (c)	**901**	**559**	521	682
- Retirement benefits (d)	**3,092**	**1,920**	2,763	2,867
- Capitalisation of software (e)	**240**	**149**	421	638
- Employee share loans (m)	**(206)**	**(128)**	-	-
- Income tax (f)	**(1,639)**	**(1,017)**	(1,613)	(1,378)
- Minority interests (h)	**(46)**	**(29)**	(52)	(21)
Shareholders' equity according to US GAAP	**14,676**	**9,112**	13,473	16,633

Balance sheet information measured and classified in accordance with US GAAP is as follows:

	1998 $m	1998 US $m	1997 $m	1996 $m
Current assets				
Cash	**953**	**592**	742	1,219
Marketable securities	**-**	**-**	95	95
Accounts receivable, net	**3,132**	**1,944**	3,291	2,895
Inventories	**243**	**151**	237	368
Future income tax benefits	**589**	**367**	723	428
Other assets	**136**	**84**	192	156
Total current assets	**5,053**	**3,138**	5,280	5,161
Non current assets				
Receivables	**81**	**50**	108	89
Investments	**232**	**144**	213	157
Inventories	**27**	**17**	36	40
Property, plant and equipment	**36,733**	**22,804**	35,108	32,329
Accumulated depreciation	**(15,726)**	**(9,763)**	(14,670)	(13,161)
Intangible assets, net	**2,803**	**1,740**	2,177	2,140
Other assets	**665**	**413**	713	704
Total non current assets	**24,815**	**15,405**	23,685	22,298
Total assets	**29,868**	**18,543**	28,965	27,459

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Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Reconciliation to US GAAP (Continued)

	Telstra Group			
	As At 30 June			
	1998	**1998**	1997	1996
	$m	**US $m**	$m	$m
Balance sheet information measured and classified in accordance with US GAAP is as follows: (Continued)				
Current liabilities				
Accounts payable and accrued expenses	**2,364**	**1,468**	2,544	2,020
Short term debt	**2,508**	**1,557**	171	581
Long term debt due within one year	**427**	**265**	1,389	212
Provisions	**1,559**	**968**	1,797	1,519
Revenue received in advance	**666**	**413**	721	662
Total current liabilities	**7,524**	**4,671**	6,622	4,994
Non current liabilities				
Accounts payable	**36**	**22**	21	20
Long term debt	**4,787**	**2,972**	6,421	4,350
Provisions	**1,356**	**842**	1,522	806
Provisions for deferred income tax	**1,443**	**895**	854	635
Total non current liabilities	**7,622**	**4,731**	8,818	5,811
Total liabilities	**15,146**	**9,402**	15,440	10,805
Minority interests	**46**	**29**	52	21
Shareholders' equity				
Issued ordinary share capital	**6,433**	**3,994**	6,433	6,433
Share loan to employees (m)	**(206)**	**(128)**	-	-
Additional paid in capital (m)	**217**	**136**	-	-
Total share capital	**6,444**	**4,002**	6,433	6,433
Reserves	**(32)**	**(20)**	4	(6)
Retained earnings	**8,264**	**5,130**	7,036	10,206
Total shareholders' equity	**14,676**	**9,112**	13,473	16,633
Total liabilities and shareholders' equity	**29,868**	**18,543**	28,965	27,459

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Other disclosures

SFAS 115 requires accounting for debt and equity securities based upon the Telstra Group's intent to hold or sell the securities. As at 30 June 1998 and 1997, all of the Telstra Group's marketable securities and equity securities were classified as available-for-sale or held-to-maturity. The disclosures required by SFAS 115 are as follows:

	Telstra Group As At 30 June 1998 $m	Telstra Group As At 30 June 1997 $m
Securities held-to-maturity		
The following is a summary of the held-to-maturity debt securities:		
Marketable securities included in cash:		
Bank deposits	**-**	45
Bank bills and promissory notes	**-**	-
	-	45
Marketable securities maturing in less than one year:		
Bank bills and promissory notes	**-**	32
Foreign exchange deposits (i)	**19**	-
	19	32
Marketable securities maturing in more than one year:		
Bank bills and promissory notes	**-**	10
Foreign exchange deposits (i)	**71**	98
	71	108

(i) The foreign exchange deposits are directly related to the Telstra Group's finance lease liabilities and cannot be used by the Telstra Group other than for settlement of these finance leases.

Securities available-for-sale

The following is a summary of the debt and equity securities available-for-sale:

Telstra Group As At 30 June 1998	Principal $m	Accrued Interest $m	Amortised Cost $m	Fair Value $m	Unrealised Gain / (Loss) $m
Marketable securities included in cash:					
Bank deposits	**-**	**-**	**-**	**-**	**-**
Bank bills and promissory notes	**799**	**1**	**800**	**800**	**-**
	799	**1**	**800**	**800**	**-**
Marketable securities maturing within one year:					
Bank bills and promissory notes	**-**	**-**	**-**	**-**	**-**
Equity securities:					
Listed investments	**2**	**-**	**2**	**6**	**4**

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Securities available-for-sale (Continued)

	Telstra Group				
	As At 30 June 1997				
	Principal	Accrued Interest	Amortised Cost	Fair Value	Unrealised Gain / (Loss)
	$m	$m	$m	$m	$m
Marketable securities included in cash:					
Bank deposits	125	-	125	125	-
Bank bills and promissory notes	418	2	420	420	-
	543	2	545	545	-
Marketable securities maturing within one year:					
Bank bills and promissory notes	63	1	64	64	-
Equity securities:					
Listed investments	5	-	5	5	-

Redundancy and restructuring disclosures

The disclosures required by EITF 94-3 in relation to the redundancy and restructuring provision raised by the Telstra Group are as follows:

In the year ended 30 June 1997, the Telstra Group approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. The Telstra Group has (in June 1998) approved a three year plan to 30 June 2001 which included an additional reduction of approximately 2,000 employees by way of redundancy. The Telstra Group is effecting the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions are expected to occur primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

The total cost of the redundancy program is estimated to be $1,329 million (1997: $1,126 million) which includes severance and award payments of $1,043 million (1997: $840 million), career transition and other employee benefit costs of $286 million (1997: $286 million) (career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties in relation to the outplacement program), of which $203 million was charged to the profit and loss in the year ended 30 June 1998 and $1,126 million in the year ended 30 June 1997. The additional 2,000 redundancies to 30 June 2001 are anticipated to cost $115 million in severance and award payments and $39 million in career and transition costs.

The impact of these redundancies on SFAS 87 calculation has been included in Note 32(d) Retirement Benefits.

During the year ended 30 June 1998, 7,715 employees (1997: 5,515) have accepted the offer for redundancy or have been made involuntarily redundant, this was in excess of the amount expected of 6,919 due to a reassessment of the initiatives being used to reduce the staffing levels. The Telstra Group has made severance payments in the year ended 30 June 1998 of $386 million (1997: $293 million) and career transition and other employee cost payments of $140 million (1997: $46 million), which have been charged against the provision for redundancy and restructuring.

In the years ended 30 June 1999, 2000 and 2001, the remaining staff redundancies are expected to be 4,796 employees, 2,103 employees and 694 employees, with severance payments expected to be approximately $225 million, $106 million and $33 million and payments for career transition and other employee costs expected to be $75 million, $20 million and $4 million respectively.

The severance payments are included in current and non current employee entitlements. The payments for career transition and other employee costs are included in other provisions current and non current.

Notes to and forming part of the Financial Statements (Continued)

32. United States Generally Accepted Accounting Principles (US GAAP) Disclosures (Continued)

Recently issued US Accounting Standards

In June 1997, the US Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No.130 (SFAS 130), "Reporting Comprehensive Income", which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 130 requires that changes in certain items, including foreign currency translation adjustments, be reported in a statement of comprehensive income that is displayed in equal prominence with the other financial statements. SFAS 130 does not specify the format of the statement of comprehensive income, but it does require that an amount representing total comprehensive income be reported in that statement for all periods for which net income is presented. The Telstra Group does not believe that adoption of SFAS 130 will have a material effect on the Telstra Group's financial statements.

Also in June 1997, the FASB issued Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information", which is effective for financial statements issued for fiscal years beginning after 15 December 1997. SFAS 131 establishes standards for the way public companies report information about segments of their business in annual financial statements. SFAS 131 also requires entity-wide disclosures about the products and services an entity provides, its major customers and the countries in which it holds material amounts of assets and reports material amounts of revenue. The standard requires public companies to restate comparative information for earlier years in the initial year of application and to report selected segment information in their interim reports issued to shareholders. SFAS 131 need not be applied to interim financial statements in the initial year of its application. The Telstra Group has not determined the potential effect of this standard on the Telstra Group's financial statements.

In February 1998, the FASB issued Statement of Financial Accounting Standards No.132 (SFAS 132) "Employers' Disclosures about Pension and other Post Retirement Benefit Disclosures" which is effective for fiscal years beginning after 15 December 1997. SFAS 132 revises employers' disclosures about pensions and other post-retirement plans. In the initial year of application comparatives for the prior year are required to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No.133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities" which is effective for financial statements issued for fiscal years beginning after 15 June 1999. SFAS 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 broadens the definition of a derivative instrument and significantly modifies the accounting treatment for certain types of derivatives. In the initial year of application comparative information for earlier years is to be restated. The Telstra Group has not yet determined the potential effect of this standard on the Telstra Group's financial statements.

Statement by Directors

In accordance with a resolution of the Directors of Telstra Corporation Limited (the Telstra Entity), in the opinion of the Directors:

a) the Profit and Loss Account for the year ended 30 June 1998 and the Balance Sheet as at 30 June 1998 of Telstra Corporation Limited are drawn up so as to give a true and fair view of the profit of the Company for the financial year and the state of affairs of the Company as at the end of the financial year;

b) at the date of this statement, there are reasonable grounds to believe that the Telstra Entity will be able to pay its debts as and when they fall due; and

c) at the date of this statement, there are reasonable grounds to believe that the companies identified in Note 22 as parties to a deed of cross guarantee will be able as an economic entity to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed of cross guarantee described in Note 22. The provisions of the deed of cross guarantee are substantially in the same terms as the form of deed annexed to the ASIC Class Order 95/1530 dated 10 November 1995 (as amended). The deed of cross guarantee has been entered into by the parties to take advantage of relief from accounting requirements available through the Class Order 95/1530 (as amended). At the date of this statement the companies identified in Note 22 are within the classes of companies affected by this Class Order; and

d) the consolidated financial statements of the Telstra Group have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law and give a true and fair view of the matters with which they deal.

The Directors have elected to adopt the proposed revised Accounting Standard AASB 1016: 'Accounting for Investments in Associates' for the year ended 30 June 1998 (in accordance with Subsection 285(3) of the Corporations Law), as allowed pursuant to ASIC Class Order 97/0798 dated 5 June 1997.

The financial statements have been made out in accordance with Applicable Accounting Standards and Urgent Issues Group Consensus Views.

For and on behalf of the Board

David M. Hoare
Director

W. Frank Blount
Director

Date: 26 August 1998

Independent Audit Report to the Members of Telstra Corporation Limited

This report is included herein solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 1998 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Scope

I have audited the financial statements of Telstra Corporation Limited (the Telstra Entity) for the financial year ended 30 June 1998 as set out on pages 70 to 149. The financial statements consist of the accounts of the Telstra Entity and the consolidated accounts comprising the Telstra Entity and the entities it controlled at the end of or during the financial year (the Telstra Group). The Telstra Entity Directors are responsible for the financial statements. I have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Telstra Entity.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America), to provide reasonable assurance whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law, so as to present a view which is consistent with my understanding of the Telstra Entity's and the Telstra Group's state of affairs, the results of their operations and their cash flows.

I have not acted as auditor of the controlled entities identified in Note 22 to the financial statements. I have, however, received sufficient information and explanations concerning those controlled entities to enable me to form an opinion on the consolidated accounts.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In my opinion, the financial statements of Telstra Corporation Limited are properly drawn up:

(a) so as to give a true and fair view of:

- (i) the state of affairs as at 30 June 1998 and 1997, and the results and cash flows for the financial years in the three year period ended on 30 June 1998 of the Telstra Entity and the Telstra Group; and
- (ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of the Corporations Law; and

(c) in accordance with applicable accounting standards and other mandatory professional reporting requirements.

Accounting principles generally accepted in Australia vary in certain respects from accounting principles generally accepted in the United States of America. An explanation of the major differences between the sets of accounting principles is presented in Note 32 to the financial statements. The application of the United States of America accounting principles would have affected the determination of consolidated net income for each of the three years ended 30 June 1998 and the determination of consolidated shareholder's equity to the extent summarised in Note 32 to the financial statements.

PJ Barrett
Auditor-General

Date: 26 August 1998
Melbourne, Australia

Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

This report is included herein solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

We have audited the accompanying consolidated balance sheets of Telstra Corporation Limited and its subsidiaries as of 30 June 1998 and 1997 and the related consolidated statements of profit and loss and retained profits and of cash flows for each of the three years in the period ended 30 June 1998, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Telstra Corporation Limited and its subsidiaries at 30 June 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended 30 June 1998, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for each of the three years ended 30 June 1998, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 1998, 1997 and 1996 to the extent summarised in Note 32 to the consolidated financial statements.

PricewaterhouseCoopers

PricewaterhouseCoopers

Date: 26 August 1998
Melbourne, Australia