

The future is looking good



Communications

is the fastest
industry in the world today.
our future

The Annual Review is a 'short form' overview only. It is designed to give a concise summary of Telstra's activities and financial position for the year ended 30 June 1999.

The Annual Review does not represent or summarise all publicly available information in relation to Telstra. There is other publicly available information in relation to Telstra in both Telstra's full Annual Report and information that has been notified to the ASX and the ASIC. To obtain a free copy of the Annual Report please call FREECALL™ 1800 13 12 34*.

If you prefer, you can access both the Annual Report and the Annual Review through the Internet at <http://www.investor.telstra.com.au>

Nothing in this Annual Review is or should be taken to be an invitation or application or offer to subscribe for or buy securities in Telstra.

Telstra Corporation Limited
ACN 051 775 556

*A free call unless from a mobile phone which will be charged at the applicable rate.

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growing That's why is exciting

Communication: it is exchanging ideas and thoughts back and forth between individuals. Now think of all those one-to-one exchanges in Australia and then around the world. Add to that the different forms of communication. It is no longer simply a voice heard over the telephone, but e-mail, multimedia, data, mobiles, wireless and the Internet.

The benefits to customers of advanced communications is driving growth and momentum. Innovative products. Increased value. Improved convenience. This year's Annual Review outlines the opportunities in front of us and how Telstra is well positioned to take advantage of them, for our customers and our shareholders.

Data and Internet
Communication is being transformed by data and the Internet. Telstra is positioning for the future.
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Our Vision

To enhance our position as the leading full-service telecommunications and information services company in Australia and to expand our presence internationally.

Our Values

- The customer comes first
- Respect for individuals, both customers and staff
- Highest standards of integrity
- Business success provides for our future
- Continuous improvement in everything we do
- Acknowledgment of our own interdependence
- A bias for action

Our Objective

Sustainable creation of shareholder value

from our Chairman



‘Very strong and very sound.’ That was my answer to questions posed to me about Telstra’s performance this past year. Revenue totalled \$18.2 billion representing an increase of 5.3% earnings per share for the year was 27.1¢. Overall, a satisfying result.

Telecommunications is undergoing enormous change and I felt it important to draw your attention to the creed by which we work here at Telstra. Across the page you will see our vision, values and prime objective. These are the guideposts for all our activity.

Part of that activity relates to the further privatisation of Telstra and many people have asked me, ‘What does this mean for the company?’ My answer remains the same. We support the Government’s intentions relating to further privatisation. For the Government, it moves towards solving the potential conflicting position of being an owner as well as a regulator. For shareholders, it means a greater opportunity to participate in direct ownership and for the company it enables greater commercial flexibility.

Our Appreciation. During the year Mr W Frank Blount retired as Chief Executive Officer and Director and the board appointed Dr Zygmunt E Switkowski to this role. The board acknowledges with appreciation the substantial progress and achievements of Telstra made under the direction of Mr Blount in a time of unprecedented change.

A handwritten signature in black ink, which appears to read 'David M Hoare'.

David M Hoare
Chairman

Mr W Frank Blount
retired Chief Executive
Officer and Director.



Strong earnings

creating shareholder value.

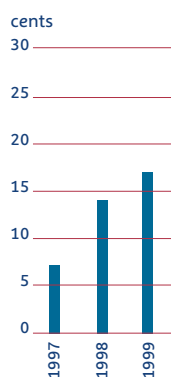
The strong performance of the company in the past 12 months is reflected in the following:

- Earnings per share: Increased by 16.3% to 27.1 cents.
- Total revenue: Increased by 5.3% to \$18.2 billion.
- Operating profit after tax: Grew by 16.0% to \$3.5 billion.

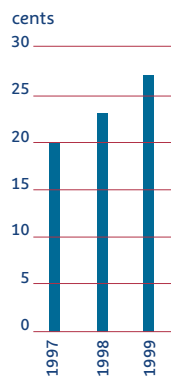
Consolidated Profit and Loss

	1999 \$m	1998 \$m	change %
Total revenue	18,218	17,302	5.3
Operating expenses	12,898	12,834	0.5
Operating profit before income tax expense	5,320	4,468	19.1
Operating profit after tax and minority interests	3,486	3,004	16.0
Retained profits	3,809	4,570	(16.7)
Earnings per share	27.1¢	23.3¢	16.3
Normal dividends per share	17.0¢	14.0¢	21.4
Special dividend	16.0¢	–	
Return on average assets	22.7%	20.1%	
Number of full-time employees	52,840	57,234	(7.7)

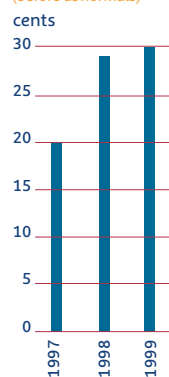
Ordinary dividends per share



Earnings per share (before abnormals)



Return on average shareholder equity (before abnormals)



from our CEO



This is my first Annual Review to Telstra shareholders as your Chief Executive Officer and Managing Director, and I trust you will be pleased with what I have to report: great news for today, and a future that is looking good.

As a shareholder, you have a stake in the future of Telstra and there's something important you should know: your company is no longer just a telephone company. It's more, much more.

It's a full service, 21st century electronic communications company, driven by our commitment to bring the benefits of advanced communications to our customers and the commitment of our staff to this task.

How will we perform tomorrow and in the years to come? I would like to answer this question by telling you some of the strategies that will transport us into the next century.

Optimising returns from traditional telecommunication products and services in Australia is the first of a four part strategy.

We have reorganised our business units to serve customers more effectively, introduced new products to increase network usage and will combine traditional products with newer products, such as high-speed Internet access and mobile communications.

The second part of our strategy is to focus on key growth opportunities in mobile telecommunications and data. We intend to build on our position as market leader in mobile telecommunications in Australia. An example of our initiatives in this area is our new CDMA network, being quickly rolled-out nationally. This network will provide additional digital coverage, particularly in rural and regional Australia, and will complement our GSM network, which is also going to be expanded.

In the longer term we see growth opportunities in data, Internet, e-commerce and content-based markets.

It is an exciting era in communications where mobility, telecommunications, computing and media technologies are converging. We intend to focus on enhancing our capabilities to provide services more efficiently and develop new and innovative products. Telstra has already embarked on a new generation infrastructure blueprint, the Data Mode of Operation (DMO), to embrace an environment where data traffic far exceeds voice.

Thirdly, we will explore growth opportunities in other areas of our business, for example providing wholesale customers with a greater range of value added wholesale services, such as managed network services. We also aim to increase our earnings from outside Australia by strengthening our ability to provide seamless delivery of products and services to internationally oriented companies and pursuing selected international investment and acquisition opportunities.

The last, and by no way the least important, part of our strategy is the transformation of our corporate culture and improvement in productivity and customer service.

We will continue to change and meet evolving customer requirements, make major changes to our work practices and improve management accountability and commercial discipline. We expect this to result in improved operating flexibility, efficiency and service reliability.

As we grow and expand, so too must we work hard at improving the quality of contact with our customers. Our customers' demands change every day, so we must be flexible to change with them, to meet their needs. We have had to throw out the more old-fashioned ideas and ways of doing things and develop new and more productive ways of dealing with today's competitive environment. For example, we have introduced the first Customer Service Charter to more than 10 million residential, small business and **MobileNet**[®] customers around Australia. It defines the levels of service customers should expect. Not only is this good for customers, but it drives us to better define, monitor and improve our own performance.

How we intend to grow the business.

Key growth strategies	How we will implement the strategy	Some of our initiatives
<p>Optimise return from traditional telecommunications products and services in Australia</p>	<p>Improve productivity in delivery of our traditional telephony services</p> <p>Enhance our extensive distribution capabilities</p> <p>Improve marketing and sales activities</p> <p>Improve customer service</p>	<p>Reorganise our business units to service customers more efficiently</p> <p>Introduce new products to increase network usage, such as Easycall® Call Return</p> <p>Continue to offer a broad range of customer focussed product packages which increasingly mix traditional products with new products such as high speed Internet access and mobile and wireless telecommunications</p>
<p>Focus on key growth opportunities in mobile telecommunications</p>	<p>Continue to be market leader in mobile telecommunications in Australia</p> <p>Grow our revenues and earnings in this market</p>	<p>Establish a dedicated Telstra OnAir Business Unit</p> <p>Expand digital GSM coverage, particularly in high usage areas like highways and in-building coverage</p> <p>Introduce innovative products and services, such as data and information services</p> <p>Roll out CDMA mobile network</p>
<p>Focus on longer term growth opportunities in data, Internet, e-commerce and content-based markets</p>	<p>As telecommunications, computing and media technologies converge, we intend to focus on enhancing our capabilities to:</p> <ul style="list-style-type: none"> • Provide services more efficiently • Develop new and innovative products • Move further into these markets <p>Position ourselves to take advantage of this rapidly changing business environment</p>	<p>Establish a dedicated Convergent Business Unit</p> <p>Further penetrate broadband services, including pay TV</p> <p>Data Mode of Operation – a review of network architecture and systems to cope with exponential growth in data traffic</p> <p>Strategic partnerships, investments and acquisitions to enhance ability to offer an expanded range of data, Internet and e-commerce products and services</p>
<p>Explore growth opportunities in other areas of our business</p>	<p>Optimise wholesale earnings</p> <p>Increase revenues and earnings from outside Australia</p>	<p>Improve and expand products and service offerings to wholesale clients</p> <p>Provide seamless products and services to internationally oriented companies</p> <p>Participation in wholesale delivery of international traffic</p> <p>Pursue selected international investment and acquisition opportunities</p> <p>Increase international capacity</p>

Not all of our businesses, products, services and activities can be shown.

Our business products and branding

Our customers and our contact with them

MessageBank®
 Easycall® Calling Number Display
 Easycall® Call Waiting, Call Return
 Call Forward, Call Manager
 Telecard™, Phoneaway®
 Information Services, Freecall™ 1800
 Priority® One 3, Yellow Pages® directory (printed)
 White Pages® directory (printed), 0018 Easy 1/2 hours®
 International Direct™, Facsimile
 Qantas Telstra Visa Card/Telstra Visa Card

More than 7 million residential and small business customers
 Business customers
 Approximately 78,000 public and leased payphones
 Services to over 230 countries and territories worldwide
 Flexible billing
 Over 80 Telstra shops
 Approximately 60 information and connection call centres responding to over 520 million calls during fiscal 1999

MobileNet®, MessageBank®
 Easycall® Call Waiting, Call Forward
 Facsimile and data services
 Operator assisted paging
 Operator through connect
 Short message services
 Information services

3.4 million customers
 GSM covering 94% of Australian population
 International Roaming in more than 65 countries
 35% of Australians have mobile phones
 CDMA network is expected to cover 95% of Australian population
 1,700 MobileNet® dealer outlets

Dedicated data services, LAN/WAN services
 OnRamp®, Frame Relay, FaxStream®
 Big Pond®, ISDN
 SureLink® ShopSafe
 Easymail™
 Yellow Pages® On-Line
 White Pages® On-Line
 (1) AltaVista®, Select.net
 WhereIs™, FOXTEL (50% ownership)
 (2) KAHooTZ™

Largest Internet service provider in the country, with more than 400,000 Internet subscribers
 ISDN available to 96% of customers
 FOXTEL is the largest pay TV operator in Australia, with approximately 1/2 million subscribers
 Broadband cable available to 2.5 million homes

Interconnect
 Resale
 Managed network services
 Tailored products
 International transit traffic
 Global points of presence
 Selected international investments in mobiles, data, Internet and content based business

Other telecommunications companies who purchase our products and services or connect with our networks
 Multinational corporations

(1) AltaVista is a registered trade mark used under licence by Telstra.
 (2) KAHooTZ is a trade mark of Telstra Corporation Limited, Australian Children's Television Foundation and Hewlett Packard Australia Limited.

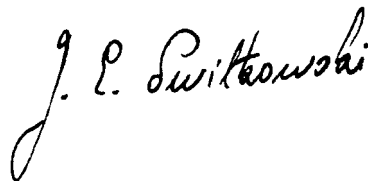
With this in mind, during the year we announced some changes to the organisational structure. The purpose is to lift the focus on our main areas of potential long term growth, data, Internet and mobile communications. We also segregated our wholesale and international businesses into a separate business unit to bring together our domestic and international wholesale operations. In addition we streamlined our existing operations by integrating the Products and Marketing group with the customer-facing business units and assigned responsibility for brand image and corporate marketing to our Public Affairs and Corporate Marketing group. Our Legal and Regulatory group now has responsibility for all regulatory issues.

In July 1997, the Government removed restrictions on the number of carriers in Australia. As at the end of June 1999, there were approximately 30 licensed carriers, 50 carriage service providers and 700 Internet service providers. We face an 'open market', a highly competitive, constantly changing and challenging environment.

These strategies I have outlined are designed to serve our customers better, grow the company and compete more effectively.

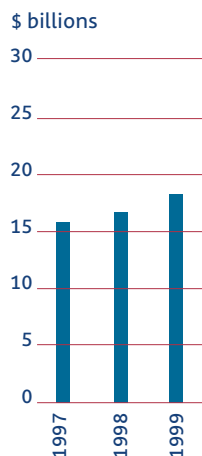
My conviction is strong. I'm here to do a job. Telstra will be under an ongoing transformation and I will be quickening the pace because there is no time to be lost. I hasten to add, I will do it within the appropriate strategic and financial discipline, my eyes always on our customers.

Delivering value to customers is the way – the only way – we will deliver sustainable growth in shareholder value.

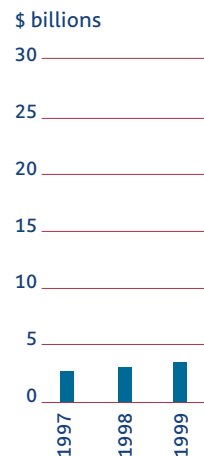


Ziggy Switkowski
Chief Executive Officer and
Managing Director

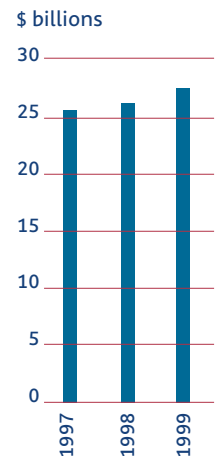
Total revenue



Net profit after tax (before abnormals)



Group assets



voice
We've made it easier for you to understand how
wireless
your company works by presenting information
Data and Internet
in a way customers think about our services in
networks
voice, wireless, data/Internet and networks.



Peter Shore BSc
Group Managing Director
Commercial and Consumer

Mr Shore was formerly Managing Director of Telstra's International Business Unit and General Manager of Overseas Telecommunications Commission's international operations. He has 18 years experience in telecommunications.



Lindsay Yelland BSc
Group Managing Director
Telstra Business Solutions

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



Dick Simpson
Group Managing Director
Telstra OnAir

Before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He was previously the Director, Residential Division at Cable & Wireless Optus and prior to that the Managing Director for Unisys Australia and New Zealand, having started his career in IBM.



Ted Pretty BA LLB (Hons)
Group Managing Director
Convergent Business

Prior to joining Telstra, Mr Pretty was a director of Optus Communications and an adviser to BellSouth Corporation. Mr Pretty was previously a partner of one of Australia's leading telecommunications, regulatory and media law firms. Mr Pretty's previous appointment within Telstra was as Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide.



Doug Campbell BEng
Group Managing Director
Wholesale and International

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

Business Unit

Role

Commercial and Consumer	Primary activities include sales, customer service installation and repairs, billing and management of our information, connection and payphone services for residential and small business customers.
Telstra Business Solutions	Sells and provides customer services for a comprehensive range of products, services and customer driven solutions from basic telephony to complex voice and data networks servicing medium and large businesses in Australia and New Zealand.
Telstra OnAir	Responsible for sales, customer service, product development, pricing and investment in mobile and wireless communications and managing the launch of the new CDMA digital service.
Convergent Business	Management and development of our data, Internet, e-commerce, directories and multimedia businesses. Manages our investments in FOXTEL, IBM Global Services Australia and Advantra, and our recent investment in Computershare Limited.
Wholesale and International	Provides wholesale products and services to other carriers and carriage service providers and develops wholesale products and pricing strategies. Has responsibility for our global wholesale and international retail businesses, including offshore investments.
Network and Technology	Responsible for planning, design, construction and operation of domestic, international, fixed and mobile telecommunications networks and associated systems delivering products, services and customer support. Responsible for technology strategy and the Telstra Research Laboratories.
Finance and Administration	Responsible for strategic planning and investment opportunities and provides corporate policy and support functions, including finance, risk management and audit, treasury, investor relations, corporate secretarial functions and other corporate services.
Legal and Regulatory	Provides legal services and has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to regulators.
Public Affairs and Corporate Marketing	Manages corporate and brand advertising, sponsorship, market research, pricing strategy as well as public policy and corporate and government affairs.
Employee Relations	Manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programs.



Gerry Moriarty BEng (Hons)
Group Managing Director
Network and Technology
Group

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



Paul Rizzo BCom, MBA
Group Managing Director
Finance and Administration

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



Bruce Akhurst
B.Ec (Hons) LLB Barrister & Solicitor
Group Managing Director
Legal & Regulatory and
Group General Counsel

Mr Akhurst joined Telstra in 1996 as General Counsel. Prior to joining Telstra he was a partner and managing partner of a leading Australian law firm.



Graeme Ward BEc (Hons)
Group Managing Director
Public Affairs and Corporate
Marketing

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



Robert Cartwright
BA (Hons), MBA, FAIM
Group Managing Director
Employee Relations

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

In a changing marketplace we concentrate on what our customers want. Greater convenience.

voice

Understanding key communication needs from the customer's perspective is helping us create opportunities to develop and tailor new product and service packages in markets many would think are saturated.

We provide services to over 7 million residential customers and small businesses across Australia, including basic access, local calls, long distance calls, both national and international, directory services, customer premises equipment, other sales and service and much more. These and more sophisticated products are also provided to medium and large businesses as well as to the Government.

We provide information and connection services through approximately 60 call centres in Australia. During the year we responded to over 520 million calls.

Demand is driven by households and businesses who are using more phone lines and services to connect to a more convenient world – through faxes, **MessageBank®**, **Easycall®** features, including Call Waiting, Call Forward, Calling Number Display, Call Return and the Internet. These value added services are driving higher network utilisation. In October 1998 MessageBank expanded Australia wide, where previously the service had only been available in 5 state capital calling areas. Over 200,000 new service numbers were connected during the year bringing the total number of services activated at the end of June to 9.76 million. The new Easycall services, Calling Number Display and Call Return have already been enthusiastically embraced by customers.

We face limited competition in access and local call services right now, but we expect competition to increase significantly as competitors build their own infrastructure and reduce prices. In this changing marketplace we also provide our products and services on a wholesale basis to other carriage service providers. In turn, they then resell our products and services and bill their customers directly.



Growth indicators: (approximate)	1999	1998	% change
Local Calls (number of calls)	11,190,000,000	11,138,000,000	0.5
National Long Distance Minutes	12,329,000,000	11,319,000,000	8.9
International Outgoing Minutes	725,000,000	705,000,000	2.8
International Incoming Minutes	787,000,000	767,000,000	2.6
Easycall Call Waiting (% penetration)	56%	43%	

1999 over 11 billion

local calls

National long distance calls comprise fixed-to-fixed phone calls and fixed-to-mobile phone calls. Our capped price for **STD**[®] calls made between 7pm and midnight each weeknight and a recent 15% reduction on average STD rates has resulted in increased call minutes and significantly improved customers' perceptions about price and value of the long distance service.

In Australia, Telstra is also the leading provider of international telephone services, providing services to over 230 countries and territories. A significant event for international calls was the introduction and launch of **0018 Easy 1/2 hours**[®] calls in November 1998. For the first time, customers could purchase 30 minute call blocks at a flat rate, 24 hours a day, 7 days a week. 0018 Easy 1/2 hours calls have gained ready acceptance by customers and represent a significant proportion of Telstra international calls.

In May 1999, international call charges were further simplified by eliminating different charges for weekday and weekend calls. There are now simple flat rates to all overseas countries that are in place 24 hours a day, 7 days a week. Since June 1994, the average

During the year the top three destinations for outgoing traffic were the United Kingdom with 19% of total usage, followed by New Zealand with 15% and the USA with 13%.



Telstra operates approximately 36,000 public payphones. Other operators have approximately 42,000 coin only payphones under equipment sale or lease arrangements with us.

cost of a 0011 international call with Telstra has fallen by almost 60% in real terms.

Residential customers make up the majority of our international outgoing calling and tend to treat it as a discretionary expense, more so than national long distance calls. As prices have fallen, our customers have made more calls for longer periods of time.

Through our fixed lines, our payphones, our advertising and customer interaction, millions of Australians experience Telstra's brand promise of greater convenience.

Australia has a significant degree of mobile usage penetration – we estimate over 35% at 30 June 1999.

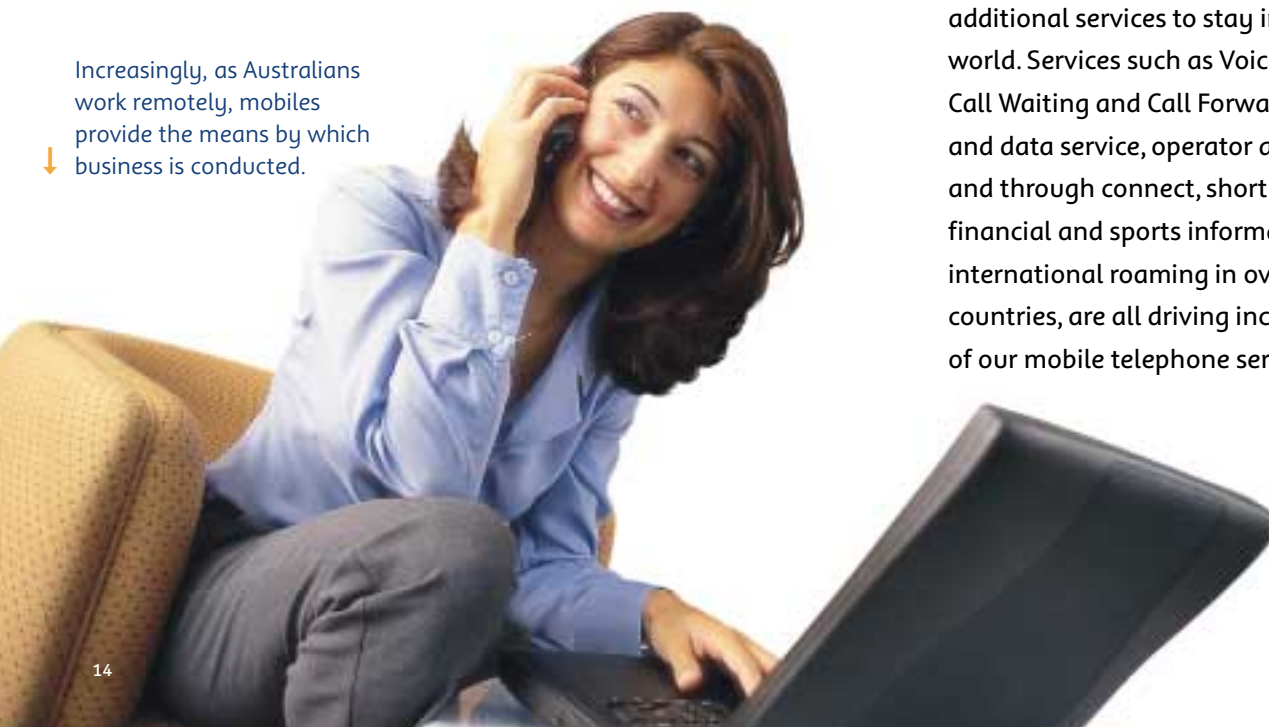
wireless

As the leading provider of mobile telecommunications services in Australia, we offer our customers the widest range of quality services and most extensive geographic coverage. People can 'connect' to MobileNet at any one of over 80 Telstra Shops nationwide and at other retail stores, dealers and independent contractors. In total, 1,700 outlets carry and promote Telstra's telephone products and MobileNet services.

The mobile telephone market is a highly competitive one, yet Telstra remains the leading provider of mobile telecommunications services, with 3.4 million customers at June 1999. Our GSM digital network provides coverage for over 94% of the Australian population, but we are still concentrating on improving the quality of coverage, particularly in regional centres, along highways that link those regional centres and in buildings and underground locations in major cities.

Mobile customers can now send and receive voice and data calls, with a range of additional services to stay in touch in a busy world. Services such as VoiceMail, Easycall Call Waiting and Call Forward, mobile fax and data service, operator assisted paging and through connect, short message service, financial and sports information, and international roaming in over 65 foreign countries, are all driving increased usage of our mobile telephone service.

Increasingly, as Australians work remotely, mobiles provide the means by which business is conducted.



Growth indicators:
(approximate)

	1999	1998	% change
Mobile telephone minutes	3,221,000,000	2,720,000,000	18.4
Mobile telephone customers			
Analogue	673,000	1,323,000	(49.1)
Digital	2,762,000	1,745,000	58.3
Total	3,435,000	3,068,000	11.9
Mobile MessageBank (% penetration)	62%	46%	

1999 over 3.2 billion

mobile telephone minutes

Currently, we own and operate both an analogue (AMPS) and a digital mobile network (GSM). As required by law, the analogue network will be progressively closed down by the end of calendar year 2000.

Our continued investment in network expansion and targeted programs is encouraging analogue customers to switch to our digital GSM service, and when it is introduced, to our new digital Code Division Multiple Access (CDMA) mobile service, which we launched in the second half of calendar 1999.

This new network will not only service areas similar to those covered by our AMPS network, but will provide features and services similar to the current GSM digital network. CDMA customers will enjoy privacy and security for voice communications, enhanced messaging and data service. Another aspect of CDMA is that it will also enable us to provide broad geographic coverage, particularly in rural regions.

Mobile subscribers have increased over the last 5 years. 1 in 3 Australians has a mobile phone.



As at 30 June 1999, our mobile networks were supported by 4,038 GSM and analogue base stations around Australia.

There is no doubt that wireless communications are part of everyone's life today and tomorrow. We are continuing to deliver improved mobile solutions to allow people to communicate in more ways than ever before.



Telstra MobileNet is developing a Wireless Application Protocol (WAP) service which will enable interaction with the Internet on the screen of a WAP compatible mobile phone. The WAP service will provide access to a wide range of information services and personal applications, such as e-mail and address books, when out and about.



Communications are being transformed by data transmission and the Internet. Telstra is positioning itself to benefit in this rapidly changing environment.

Data and

The fastest growing segment of the communications market is data and Internet services, two highly competitive and evolving markets.

Let's look at data first – the transfer of information in a digital form. Telstra provides a backbone for data transfer in the form of networks, data switching technologies for Local Area Networks (LAN), Wide Area Networks (WAN) and transaction services. Data includes facsimile products like **FaxStream**[®], but also encompasses businesses using the Telstra network to form their own private networks, carriage service providers establishing their own facility-based communication services, as well as the provision of broadband capacity for the transmission of TV programs and international data services.

Customers are increasingly sharing computer resources, connecting networks and conducting business electronically. Already data traffic exceeds voice on our international network and is expected to do so over our domestic network by 2001. We are taking important steps to capitalise on the growth in data by redesigning the network architecture and infrastructure. The project, called the Data Mode of Operation (DMO), will create exciting new platforms for growth, but more on DMO later. Suffice to say, dramatic demand for online services is generating expansion of Telstra's Internet business.

We have also established strengths in products such as Internet access and electronic directories. For example, we are already the largest Internet service provider in Australia, with over 400,000 Australians now using our **Big Pond**[®] brands. Our **Yellow Pages**[®] web site (www.yellowpages.com.au) is one of the most frequently visited sites in Australia. **White Pages**[®] (www.whitepages.com.au), AltaVista Australia (www.altavista.yellowpages.com.au) and the street atlas site **WhereIs**[™] (www.whereis.com.au) are also popular content sites.

Telstra's 24 hour 'customer network support' centres monitor data networks across Australia. Video walls allow staff to identify and proactively solve problems before impacting on customers. National weather patterns indicate potential weather related network failures.



Growth indicators:
(approximate)

1999

1998

% change

FaxStream services access lines

407,100

374,800

8.6

Internet subscribers

>400,000

>200,000

100

Pay TV services in operation

496,100

320,000

55.0

Internet

1999
over
400,000
Internet subscribers



Telstra is the largest Internet service provider in Australia and offers a range of Internet access products and packages under our Big Pond brands.

Games-based entertainment, children's education and online music services rich in diversity are exciting developments that customers are enthusiastically embracing. For example *KAHooTZ™ is an initiative of Telstra, the Australian Children's Television Foundation and Hewlett Packard Australia Limited. The program combines the latest CD ROM and Internet technology that allows children to express their creativity and explore the limitless world of on-line communications. It is an on-line kids' club that encourages creativity and communication, improves their computer skills and helps to develop self-confidence. We have also released ConferLink® services that provide audio, video and Internet conferencing and v-commerce™ services based on interactive voice response technology. And we are only just beginning.

Being introduced progressively are new satellite products where rural and remote customers can experience the Internet at the broadband speeds essential for enhanced digital commerce.

Telstra also owns 50% of Australia's largest pay television provider, FOXTEL. Much to the enjoyment of nearly 500,000 subscribers, FOXTEL provides more than 30 television channels, including movies, sports, news and other entertainment channels. During the year, FOXTEL introduced a commercial satellite service that enables pay television to be delivered to approximately two million homes not already passed by Telstra's broadband cable.

Our aim is to be the market leader in information and communication services for all of our customers.

Launched in late 1998, **easymail™**, a simple service to allow people to send and receive e-mail globally for the price of a local call using the Internet.



* KAHooTZ is a trade mark of Telstra Corporation Limited, Australian Children's Television Foundation and Hewlett Packard Australia Limited.

Networks are the pathways along which information travels. Telstra is in a pivotal position as a major conduit of data flows.

networks

How does the 'word' get around? It travels through fibre optic cables undersea and underground or via radio frequencies or to and from a constellation of satellites to copper wire in an individual's home. Communications can involve video, the Internet, telephony, e-mail, electronic funds transfer and much more.

Our customers demand greater control of these services and instant access to information. To meet this customer demand, and the explosive growth in data requirements, a new initiative has been put in place called the Data Mode of Operation (DMO). It's all about positioning ourselves for potentially significant new revenue streams from on-line sources, developing cost competitive networks with the capacity

to handle exponentially increasing volumes of traffic and catering for a wide range of data and voice product and service offerings.

Why are we doing this? As previously mentioned, we know that in Australia data traffic will soon exceed voice traffic, placing greater demands on the existing network. But the reason for the increase in data traffic is simple. Our customers are increasingly using data and Internet, and demand greater control of these services and access to information, such as their own billing information. It's all about making life easier for our customers.

Connecting virtually all Australian homes is our fully digitised Public Switch Telephone Network. It concentrates traffic from about 8,600 access sites to about 200 digital nodal switches across Australia. A substantial proportion of our customer access network was constructed many years ago, and the cable joints in our customer access network have been frequently opened to make alterations. As a result, a number of factors, including unseasonal weather, have caused this network to experience relatively high

→
In order to manage and monitor our extensive national and international transmission infrastructure, we are centralising the operational management of our core networks by establishing a single global operations centre.



Growth indicators: (approximate)	1999	1998	% change
Basic access lines in service			
Residential	6,930,000	6,770,000	2.4
Business	2,830,000	2,770,000	2.2
Total	9,760,000	9,540,000	2.3
ISDN access lines (equivalents)	722,300	488,400	47.9
Digitalisation of PSTN exchanges			
Metropolitan	100%	95%	
Non-metropolitan	100%	94%	
All areas	100%	95%	

It's all about making life easier for our customers.

1999 over 9.7 million

basic access lines in service

fault rates by world standards. This has made it difficult for us to maintain high service levels. In response, we introduced the CAN 2001 project in 1998. This project focuses on improving the quality and reliability of our network and reducing operating expenses.



← Telstra's repeater stations, such as this one at Six Mile Creek in NT, are fundamental to Telstra's network serving rural Australians.

For those customers wanting high data speed or FOXTEL's pay TV, they can connect to Telstra's broadband network. This passes 2.5 million homes, of which the majority can have access to both FOXTEL and high speed Internet. Approximately 70% of this network is underground. We designed the hybrid fibre coaxial broadband network to provide video services and two-way transmission for interactive services and high-speed data transfer.

Various technologies are expected to be used to extend the availability of high speed data and Internet access, for example xDSL, satellite and CDMA. These

technologies will also enhance our ability to accommodate the demands of wholesale access, second line demand, residential and business growth in urban areas and rural and remote networks.

Where undersea cable capacity is limited, satellites are used to supplement our international traffic capacity. We are a shareholder and user of the international satellite operators, INMARSAT (of which Telstra is a founding member) and INTELSAT. In the future we expect to utilise satellite services for further telephony, access to the Internet, e-mail and more.

Here are the people and places that make up Telstra and the regulatory bodies that govern our operations.

staff and

Staff

Telstra is one of Australia's largest employers, with over 52,000 full-time employees as at June 1999. Our aim is to work smarter, to achieve cost and operational efficiencies by modernisation of our network and upgrading our systems and processes.

Workplace reform has made it easier for staff to meet customer expectations. ↓

In transforming our corporate culture to be more competitively orientated we are currently:

- Moving to systems which promote and reward customer focus and business success;
- Simplifying excessive workplace regulation to give our managers more discretion, by simplifying industrial awards that govern some of the terms and conditions of employment of many of our employees; and
- Moving to maximise the productivity benefits from the increased management and workforce flexibility provided in our Enterprise Agreement and Customer Field Workforce Agreement, both of which operate for two years from 21 December 1998. Examples of reforms we are implementing as a result of these agreements include the elimination of traditional demarcations between parts of our workforce, standardising hours of work and shift arrangements and removing restrictions and quotas on numbers and types of part-time staff.





← Our flexible billing system called **Flexcab**® offers our customers customised billing options and formats.

→ Just over 16,000 field staff maintain Telstra's telecommunications networks.



regulatory

Regulation

The Australian Competition and Consumer Commission (ACCC) and the Australian Communications Authority (ACA) oversee the overall telecommunications regulatory framework, and over the last two years they have increased their level of activity, including in some highly competitive markets. The open market in which we operate is still evolving, and we are uncertain exactly how future competition and regulatory decisions will affect our business. While this environment presents significant challenges, we believe it also provides new opportunities for us. For example, since July 1997 we have been able to develop product packages and pricing plans tailored to meet the specific needs of our customers.

The industry also self regulates through codes and standards, and a number of codes have already been developed.

During the year there were a number of regulatory issues facing Telstra, the more important of which were:

- The ACCC determined that we should make our local telecommunications



← Telstra takes health and safety seriously. Since 1997 we have more than halved the number of lost time injuries – injuries which lead to a full shift or more being lost by the worker.

infrastructure and services available to other telecommunication carriers on request;

- The ACCC also made a determination regarding the prices we charge wholesale customers for using our network; and
- The Universal Service Obligation (USO), which ensures all people, regardless of where they live, have reasonable access on an equitable basis to standard telephone services. Over the past 12 months there has been some debate about the recovery of costs associated with the USO. Notwithstanding this, Telstra remains committed to providing a high level of service to people in rural and remote communities and welcomes the consideration the Government is giving to tendering of the USO.

Taking care of you, the land and supporting Australians, Telstra is here.

community

Telstra is in an industry characterised by huge technology and competitive changes which present unique challenges and opportunities. They highlight our responsibility to ensure the community receive value from our products and services. We are committed to providing affordable, high quality communications, emergency services and ensuring rural and regional Australians have access to these services. We are developing a well-trained, professional work force and ensuring the highest ethical standards in all our dealings with customers.

Worldwide, there is a shortage of skilled IT&T professionals. To rectify this in Australia, Telstra and other organisations have set up a task force to identify how we can nurture these critically needed skills, benefiting individuals and Australia.

For 100 years, Telstra has been integral to the social fabric of rural and regional Australia. The growth of satellite, mobiles and wireless technologies gives increasing choice, lower prices and access to advanced telecommunications. Telstra's new national mobile network (CDMA), which will replace the old analogue (AMPS) network, will particularly benefit mobile users who work, live and travel in rural Australia.

In the biggest breakthrough since School of the Air, Telstra is investing \$17 million in **SkyConnect™ Tutor** – a 'virtual classroom' satellite solution to boost education and training in rural and remote Australia.

To support our customer service goals, Telstra has developed the Customer Service Charter, which spells out service commitments to our 10 million residential, small business and MobileNet customers.

Environment. Recognising the complexities of waste management, Telstra introduced a nationwide system to improve its regulatory compliance, monitoring of type and volume of waste. For example, a rechargeable battery collection and recycling program was introduced to avoid landfill disposal.

→
A major new program called 'Talking to Telstra' was rolled out in rural and regional Australia to better understand customer needs and improve service.





← Jody Broun's 'White Fellas Come to Talk Bout Land' was the overall winner of the Telstra presents the 15th National Aboriginal and Torres Strait Islander Art Award.

→ Telstra is committed to working with relevant authorities to minimise potential impacts on significant cultural remnants and local flora and fauna.



Team Millennium Olympic Partner

Sydney 2000

providing the combined telecommunications infrastructure

y

Our on-line services provide customers with paperless solutions, such as the White Pages directory listings on CD-rom and on the Internet. Through our **Book Muncher**® telephone directory collection program, more than 32 tonnes of used telephone directories, treated with fire retardant, will take their place in Olympic history as insulation in the new basketball/netball stadium for the Sydney 2000 Games.

Sponsorships, such as Clean Up Australia, allow us to demonstrate our commitment to sound environmental practice in daily operations and present opportunities for our unique network of voluntary staff, families and friends – Telstra Friends – to promote environmental activities.

The Telstra sponsorship program is helping to bring out the best in the nation through active partnerships and wide ranging support of the arts, business, education, community and sport.

Telstra's long term support of Lifeline ensures that all Australians have access to telephone guidance and counselling for the cost of a local call. Our new Telstra Lifeline Ambassador is swim star and Telstra Dolphin, Ian Thorpe.

For the first time, Telstra has become the most recognised corporate supporter of the arts in Australia through its involvement as principal sponsor of The Australian Ballet, the National Aboriginal and Torres Strait Islander Art Awards, the Macquarie Trio and the Telstra Adelaide Festival.

With the world's eyes on the Sydney 2000 Olympic and Paralympic Games, Telstra is strengthening its position as a global telecommunications provider by building and managing the **Millennium Network**™ and supporting our teams and athletes. Telstra is a strong supporter at all levels of Australian sport. A brief list includes swimming, weight lifting and women's hockey.



→ Telstra makes life easier for The Australian Ballet. As Principal Sponsor it plays a vital role in enabling the company to realise its artistic goals. This photo of Lynette Wills of The Australian Ballet was taken by Greg Barrett.

Board of Directors

Telstra is firmly on course as a full service 21st century electronic communications company. Our focus is on the future, with opportunities that offer significant value for our company, our customers and our shareholders.



David HOARE, Ziggy SWITKOWSKI, John RALPH, Anthony CLARK, Christopher ROBERTS, Elizabeth NOSWORTHY, John STOCKER,

Anthony J CLARK AM, FCA, FCPA, FAICD

Director since October 1996. Chartered Accountant; Formerly Managing Partner KPMG NSW 1992-1998; Chairman, Maritime Industry Finance Company Limited; Deputy Chairman, Australian Tourist Commission; Director, Amalgamated Holdings Limited Group and Ramsay Health Care Limited.

Christopher I ROBERTS BCom

Director since December 1991. Chairman, Email Limited; Director, Petaluma Limited, Amcor Limited, Transparency International Australia and Juvenile Diabetes Foundation Inc.

Elizabeth A NOSWORTHY BA, LLB, LLM

Director since December 1991. Chairman, Port of Brisbane Corporation; Deputy Chairman, Queensland Treasury Corporation; Director, David Jones Limited, Brisbane Airport Corporation Limited, GPT Management Ltd, City of Brisbane Arts and Environment Ltd and the Foundation for Development Cooperation Ltd; Councillor, National Competition Council and Member, Australian Greenhouse Office Experts Group on Emissions Trading.

John W STOCKER AO, MB, BS, BMedSc, PhD, FRACP, FTSE

Director since October 1996. Director, Cambridge Antibody Technology Group plc, Circadian Technology Ltd; Principal, Foursight Associates Pty Ltd, Fernz Corporation Limited; former Chief Scientist, Commonwealth of Australia; former Chairman, Australian Science Technology and Engineering Council; Chairman, Grape and Wine Research and Development Corporation, Chiron Technologies Ltd and Sigma Company Limited.

N Ross ADLER AO, BCom, MBA

Director since October 1996. Chief Executive Officer and Managing Director, Santos Ltd; Director, Santos Group Companies, Commonwealth Bank of Australia, QCT Resources Ltd and Australian Institute of Petroleum Ltd; Member, Business Council of Australia and Corporations & Securities Panel; Chairman of the Board of the Art Gallery of South Australia; Council Member, The University of Adelaide.

David M HOARE BEc, FCPA
Chairman

Director and Chairman since December 1991. Chairman, Pioneer International Limited, Bridon Australia Pty Ltd (formerly Birkmyre Pty Ltd) and Board of Partners, Mallesons Stephen Jaques; Director, Bankers Trust Australia Limited Group, Comalco Limited and Strand Lighting Pty Ltd; Fellow of the Senate, University of Sydney and Chairman, Australian Graduate School of Management.

Zygmunt E SWITKOWSKI BSc (Hons), PhD
Chief Executive Officer and Managing Director

Director and Chief Executive Officer since March 1999. Dr Switkowski has been Chief Executive Officer of Optus Communications Limited and Chairman and Managing Director of Kodak (Australasia) Pty Ltd. He is a Member of the Australian Information Economy Advisory Council and the Business Council of Australia.

John T RALPH AO, FCPA, FTSE, FAICD, FAIM, FAusIMM,
Hon LLD (Melb & Qld)
Deputy Chairman

Director and Deputy Chairman since October 1996. Chairman, Foster's Brewing Group Ltd and Pacific Dunlop Limited; Deputy Chairman, Commonwealth Bank of Australia; Director, BHP Limited and Pioneer International Ltd; Member, Board of Melbourne Business School; National Chairman, The Queen's Trust for Young Australians; Chairman of the Australian Foundation for Science.



Ross ADLER, Donald McGAUCHIE, Malcolm IRVING, Michael CODD, Cecilia MOAR, Stephen VIZARD

Donald G McGAUCHIE

Director since September 1998. Senior Partner, C&E McGauchie – Terrick West; Chairman, WoolStock Australia Limited; Director, Ridley Corporation Ltd, Australian Centre for International Agricultural Research, Vicgrain Ltd, Victorian Grain Services Ltd; Member, Foreign Affairs Council, Trade Policy Advisory Council, International Policy Council Agriculture Food and Trade; Immediate Past President National Farmers Federation.

Malcolm G IRVING AM,
BCom, Hon DLit

Director since July 1997. Chairman, Caltex Australia Limited and Australian Industry Development Corporation; Member, Merrill Lynch Australasian Board of Advice and Advisory Member of the Deloitte Touche Tohmatsu Board of Partners.

Michael H CODD AC, BEc (Hons)

Director since February 1992. Chancellor, Wollongong University; Director, Qantas Airways Limited, MLC Ltd, MLC Lifetime Ltd and Toogoolawa Consulting Pty Ltd; Director and Deputy Chair, Australian Nuclear Science and Technology Organisation (ANSTO) and Menzies Foundation; Member, Advisory Board, Spencer Stuart, Advisory Board, Blake Dawson Waldron and Board of Advisers, Constitutional Centenary Foundation; Senior Adviser, Asia-Australia Institute.

Cecilia A MOAR Dip T

Director since September 1998. Partner, cereal grower near Swan Hill in Victoria; Graduate of the Australian Rural Leadership Program; Chairperson, WARM Plan 2001 – Water & Resource Management and Planning for the Northern Mallee; Member, Mallee Catchment Management Authority, Understanding Rural Australia Advisory Committee and the Swan Hill Rural City Development & Marketing Board.

Stephen W VIZARD AM, LLB,
BA, FAICD

Director since October 1996. Chairman, Artist Services Group; Granada Media Australia; Board Member, Australian Commercial Television Production Fund, Victorian Multimedia Taskforce, State Library of Victoria Foundation; Member of the Committee, Melbourne Cricket Club; President, Council of Trustees for the National Gallery of Victoria; Governor, Sony Foundation.

Corporate Governance

The Telstra Board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place for the whole of the year ended 30 June 1999 and those that have been introduced more recently.

Our corporate governance practices continue to evolve as the company moves from a Commonwealth Government-owned business enterprise to a major publicly listed company with a wide shareholder base. While the Commonwealth owns more than 50% of the shares in Telstra, we will remain subject to various Ministerial and other controls to which other publicly listed companies are not subject. This includes a Ministerial power to give us written directions that the Communications Minister believes are in the public interest (Section 9 Telstra Corporation Act 1991). Within these constraints, the Board continues to strive to achieve best corporate governance practice.

The Board

The Board is accountable to shareholders for the business and affairs of Telstra and delegates responsibility for day-to-day management of the Telstra Entity to the Chief Executive Officer.

The Chief Executive Officer is an executive director and the Chairman, the deputy Chairman and other members are non-executive directors.

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

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

The tenure of the Chief Executive Officer is linked to his executive office while one third of all other directors are subject to re-election by rotation each year. A director, appointed by the directors, is subject to re-election at the next Annual General Meeting.

A Board committee, the Appointments and Compensation Committee, may negotiate the retirement or resignation of individual directors after consultation with the Board. However, the Board's general policy on Board membership for non-executive directors is:

- the maximum retirement age is 72 years; and
- the maximum tenure is 12 years (ie four terms of three years).

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

- two new non-executive directors, Mrs Cecilia A Moar and Mr Donald G McGauchie joined the Board in September 1998;
- Mr W Frank Blount retired from his role as Chief Executive Officer and Director in February 1999; and

- Dr Zygmunt E Switkowski was appointed as Chief Executive Officer and Director in March 1999.

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

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

Individual directors and Board committees are able to obtain professional advice independent of advice received from management or Telstra's professional advisers. This advice may be obtained, after consultation with the Chairman, at Telstra's cost and would be made available to all directors.

We have in place a share trading policy that prohibits directors and senior management (and their associates) from engaging in short-term trading of our securities. This policy also restricts the buying or selling of our securities to the three 'window' periods following the

release of annual results, half-yearly results, the close of our Annual General Meeting, and at such other times as the Board permits. In addition, directors and senior management must notify the Company Secretary before they or their close relatives buy or sell our securities.

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

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

Meetings and committees of the Board

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

The regular business considered by the Board includes:

- business investments and strategic matters;
- governance and compliance;
- Chief Executive Officer's report;
- financial reports; and
- on a rotational basis, business unit reviews.

Directors also liaise with senior management as required and may consult with other Telstra employees and advisers and seek additional information on request.

The Board often operates through committees that hold responsibility for particular areas. The two main Board committees, both of which have operated throughout the year, are:

- **Audit and Compliance Committee.** The role of this committee is to:
 - oversee our compliance with external and internal obligations and our risk management programs;
 - review our annual audit programme; and
 - provide advice to the Board on matters of due diligence, financial systems integrity and financial risk.
- **Appointments and Compensation Committee** reviews senior manager remuneration and appointments within Telstra. This includes:
 - recommending the appointment of the Chief Executive Officer to the Board; and
 - reviewing and reporting to the Board on the proposed remuneration strategy and package for the Chief Executive Officer and senior executives as well as the succession plans for senior executives.

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

Remuneration of Board members

The remuneration for:

- the Chief Executive Officer, as an executive director is shown on page 32 under the heading of senior executive emoluments; and
- non-executive directors is on page 30 under non-executive director emoluments.

External auditors

In accordance with the Telstra Corporation Act 1991, our Australian auditor is the Auditor-General. For the years ended 30 June 1993 to 30 June 1999, the Auditor-General sub-contracted a substantial part of the audit work initially to Price Waterhouse and then to PricewaterhouseCoopers who also acted as our auditor for the U.S. and other overseas filings for the years ended 30 June 1997 to 30 June 1999. In May 1999, the Auditor-General and Telstra announced that Ernst & Young had been selected to be the Australian sub-contractor to the Auditor-General and our U.S. auditor for the years ended 30 June 2000 to 30 June 2002 with an option for extension for a further two years at the discretion of Telstra and the Auditor-General. Ernst & Young was appointed following a rigorous selection process conducted jointly by the Auditor-General and Telstra.

Business risk

Telstra is committed to the management of risks throughout its operations to protect its employees, the environment, assets, markets, earnings, reputation and shareholder value. The Audit and Compliance Committee provides advice to the Board on the status of business risks to the organisation through an integrated risk management and assurance function whereby it oversees:

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

The risk management and assurance function has promoted the common language and approach used by business units in identifying, measuring and prioritising business risks. The Audit and Compliance Committee receives reports independently prepared by the risk management and assurance group, on significant business risks and the strategies to manage these risks.

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

A central treasury function manages the financial exposures to reduce the volatility of cash flows and asset values arising from interest rate and exchange rate movements in accordance with Board approved limits.

Recommendations on improving the effectiveness of audit committees

In September 1998, the New York Stock Exchange and the National Association of Securities Dealers established a Blue Ribbon

Committee in the U.S. to review and recommend ways in which the effectiveness of audit committees could be improved. The committee was established in response to concerns raised by the Chairman of the Securities and Exchange Commission who called for improved oversight of the financial reporting of public companies. The committee tabled its report in February 1999 with ten recommendations that covered:

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

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

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

Emoluments for Board members and senior executives

Remuneration strategy and relationship to company performance

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

improvement drivers and increased shareholder value.

Non-executive director remuneration

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

Emoluments for non-executive directors

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

⁽¹⁾ Other benefits include superannuation

⁽²⁾ Appointed on 8 September 1998

Senior executive remuneration

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

- aligning executives' rewards with shareholders' interests;

- supporting business plans and corporate strategies; and
- rewarding performance improvement.

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

Senior executive remuneration components

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

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

Rewards are based on the achievement of return on investment objectives over a three-year period and are derived from the strategic plan approved by the Board. The plan also includes an annual payment based on dividends declared in respect of earnings. At target, the long-term incentive comprises 13% to 22% of the total remuneration package, depending on the senior executive's role. Participation in the long-term incentive plan is at the discretion of the Chief Executive Officer.

Telstra Employee Share Ownership Plan

Senior executives employed on 20 September 1997 were eligible to participate in the Telstra Employee Share Ownership Plan in conjunction with the sale by the Commonwealth of 33% of its holding in Telstra. Telstra provided interest free financial support to enable employees to purchase up to 2,000 shares, in conjunction with a Commonwealth 'one for four offer'.

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

Senior manager equity participation plan

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

Senior executive emoluments

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

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

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

(3) W Frank Blount retired as Chief Executive Officer on 28 February 1999 and received a contract extension payment and a contract completion payment.

(4) Refers to 200 free shares issued under the 'one for ten loyalty offer' valued at the closing price of \$6.46 for listed shares on the date of issue, 17 November 1998. The value of the loyalty shares was \$1,292 and the benefit of the interest free loan from the Telstra Employee Share Ownership Plan was \$461. The balance of the loan for each executive still employed by Telstra, as at 30 June 1999 was \$6,177. No loan was outstanding as at 30 June 1999 for the former Chief Executive Officer, W Frank Blount.

Directors' Report

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

Chief Executive Officer

During the year Mr W Frank Blount retired as Chief Executive Officer and Director and the Board appointed Dr Zygmunt E Switkowski to this role. The Board acknowledges with appreciation the substantial progress and achievements of Telstra made under the direction of Mr Blount in a time of unprecedented change.

Principal activity

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

Results of operations

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

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

Review of operations

Telstra's operational results for the year ended 30 June 1999 reflected a strong performance.

Total revenue increased by \$916 million to \$18,218 million. Main growth areas were:

- Mobiles revenue increased by \$384 million or 17.8% from the continued expansion of the mobile services market and increased sales of mobile handsets as more customers move from the analogue network to the digital network.
- Lower revenue from the highly competitive fixed-to-fixed long distance services was more than offset by the continued growth in fixed-to-mobile calls so that overall our revenue from national long distance increased by \$181 million or 7%.
- Data, text and Internet revenue increased by \$286 million to \$2,483 million from increased customer demand for high capacity data transmission and increased penetration and use of the Internet.
- Inbound calling products revenue increased by \$63 million or 18.7%, due to the expansion of the range of products and increased market awareness of the services available.
- Basic access and local calls increased by \$148 million or 3.3% due to growth in basic access lines, increased use of the Internet and increased use of added features.

- Other sales and service revenue also increased by \$187 million mainly due to increased revenues from our international controlled entities, the expansion of our managed services business and international roaming.

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

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

- As Telstra's main superannuation fund is in surplus, Telstra ceased employer contributions to this fund. Based on current actuarial advice, no contributions will be required for at least another two years assuming the continued sound performance of the superannuation scheme. Due to the absence of superannuation payments, labour expense reduced by approximately \$250 million in the full year. The balance of the labour reductions were due to lower staff numbers offset in part by a 4% pay increase effective in the latter half of the financial year due to the new enterprise agreement finalised in December 1998.
- Direct cost of sales increased by \$420 million or 16.3% due to increased payments to other carriers to terminate international and domestic outgoing calls and international transit traffic (particularly in relation to the activities of our international controlled entities)

together with increased costs of mobile handset sales and subsidies.

- Depreciation and amortisation increased by \$180 million or 7.8% due to the capital expenditure on the network and increased software capitalisation in prior years.
- Other operating expenses decreased \$85 million or 2.3%, due to reduced bad and doubtful debts expense, and our continuing efforts to control operating costs, which were offset by increased information technology costs and contract service payments in part due to the year 2000 programme and other initiatives.

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

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

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

Dividends

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

The directors decided to return approximately \$2 billion to Telstra's existing shareholders by way of a special dividend for the year ended 30 June 1999. The directors considered that it was an appropriate time to make this special dividend and adjust Telstra's balance sheet as Telstra enters a new phase in the further privatisation of the company. A distribution by way of a special dividend was considered the most appropriate option for shareholders after consideration of tax advice, including discussions with the Australian Taxation Office.

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

This final dividend is similar to:

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

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

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

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

Under current legislation, it is unlikely that Telstra will be able to fully frank declared dividends out of earnings for the year ended 30 June 2000. At present, it is expected that Telstra will be able to fully frank declared ordinary dividends out of earnings for the year ended 30 June 2001.

However, the directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because it depends upon, among other factors, our earnings, Government legislation and our tax position.

Significant changes in the state of affairs

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

Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs other than on 5 July 1999, the Telstra (Further Dilution of Public Ownership) Act 1999 received Royal Assent. This Act amends the Telstra Corporation Act 1991 to permit the Commonwealth to sell a further 16.6% of Telstra's shares. The Commonwealth has commenced a sale process which is expected to involve a global offering of approximately 16.6% of Telstra's shares in the first half of the year ended 30 June 2000.

Likely developments

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

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

Details about directors

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

- names of directors and details of their qualifications, experience and special responsibilities are given on pages 24 and 25;
- number of Board and committee meetings and attendance by directors at these meetings is provided on page 37;
- details on directors' emoluments is given on page 30; and
- details on directors' shareholdings in Telstra are shown on page 38.

Directors' meetings

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

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

Column a: number of meetings held while a member

Column b: number of meetings attended

⁽¹⁾ Role of finance committee incorporated into the full Board in July 1998

⁽²⁾ Retired on 28 February 1999

⁽³⁾ Ex-officio member of all Board committees

⁽⁴⁾ Appointed on 1 March 1999 as Chief Executive Officer and Managing Director

⁽⁵⁾ Appointed on 8 September 1998

Shares in Telstra held by our directors as at 26 August 1999

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

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

Senior executive emoluments

This information is provided on pages 30 - 32 and forms part of this report.

Directors' and officers' indemnity

Constitution

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

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

These indemnities apply to the maximum extent permitted by law.

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

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

For the purposes of these provisions:

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

Deeds of indemnity in favour of directors, officers and employees

Telstra has executed deeds of indemnity in favour of:

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

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

Directors' and officers' insurance

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

Environmental regulation

Performance in relation to particular and significant environmental legislation

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

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

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

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

Year 2000 date change disclosure

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

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

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

Rounding of amounts

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

Signed in accordance with a resolution of the directors.



David M Hoare

Director

26 August 1999

Profit and Loss Statement

for the year ended 30 June 1999

	Telstra Group	
	Year ended 30 June	
	1999	1998
	\$m	\$m
Operating revenue		
Sales revenue	17,571	16,703
Other revenue	647	599
	18,218	17,302
Operating expenses		
Labour	3,270	3,665
Direct cost of sales	3,002	2,582
Depreciation and amortisation	2,502	2,322
Other operating expenses	3,546	3,631
Borrowing costs	578	634
	12,898	12,834
Operating profit before income tax expense	5,320	4,468
Income tax expense	1,832	1,468
Operating profit after income tax expense	3,488	3,000
Outside equity interests in operating (profit) / loss after income tax expense	(2)	4
Operating profit after income tax expense attributable to the Telstra Entity shareholders	3,486	3,004
Retained profits at the beginning of the financial year attributable to the Telstra Entity shareholders	4,570	3,368
Total available for appropriation	8,056	6,372
Dividends provided for or paid (Note 3)	4,247	1,802
Retained profits at the end of the financial year attributable to the Telstra Entity shareholders	3,809	4,570
	¢	¢
Basic earnings per share (cents)	27.1	23.3
Dividends per share (cents)		
Interim dividend	7.0	7.0
Final dividend		
- ordinary dividend	10.0	7.0
- special dividend	16.0	-
Total final dividend	26.0	7.0
Total dividend (Note 3)	33.0	14.0

The above profit and loss statement should be read in conjunction with the accompanying notes and discussion and analysis.

The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 1999'. This report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

Discussion and Analysis

Total revenue for the year increased by \$916 million or 5.3% to \$18,218 million. The growth was mainly in the following areas:

- mobile telecommunications services;
- fixed-to-mobile calls;
- data, text and Internet services;
- other sales and services, particularly revenue from controlled entities, facilities management and international roaming; and
- basic access and local calls driven by new products and services such as voicemail and call waiting.

The growth of operating revenues slowed in 1999 compared with 1998, mainly due to the disposal of the small business systems business to Plestel and by a 20.1% decline in international services revenue following fierce competition domestically.

Labour expense declined by 10.8% compared with 1998, mainly reflecting the reduction in the level of employees in recent years and the cessation of employer contributions to the Telstra Superannuation Scheme. This superannuation holiday will continue for at least the next two years assuming the continued sound performance of the superannuation scheme.

Approximately \$250 million of the reduction in labour expense was due to the cessation of superannuation contributions. The effect of the staff reductions was offset by a 4% pay increase to staff effective midway through the year.

Direct cost of sales increased by \$420 million, mainly due to increased payments to other domestic and international carriers, increased sales and subsidies of mobile phone handsets.

Depreciation and amortisation has increased by \$180 million as a result of growth in the communication plant asset base and capitalised software development.

Other operating expenses decreased by \$85 million mainly due to lower bad and doubtful debts expense, particularly in our wholesale business, and reduced losses from FOXTEL. These decreases were partly offset by increased information technology expenses, leasing costs relating to the leasing of our personal computers and contract service payments relating to increased billing volume, vendor support for data and Internet areas and year 2000 compliance costs.

Borrowing costs decreased mainly as a result of lower debt levels in the current year and an increase in interest capitalised due to the higher level of capital expenditure. Interest cover (operating profit before interest and income tax expense to net borrowing costs (before capitalised interest)) is 9.4 times compared with 7.6 times in 1998.

Balance Sheet

as at 30 June 1999

	Telstra Group	
	As at 30 June	
	1999	1998
	\$m	\$m
Current assets		
Cash	979	953
Receivables	3,245	3,178
Inventories	204	243
Other assets	125	136
Total current assets	4,553	4,510
Non current assets		
Receivables	293	241
Inventories	16	27
Investments	266	228
Property, plant and equipment	20,881	19,756
Future income tax benefit	366	787
Intangible assets	452	496
Other assets	855	425
Total non current assets	23,129	21,960
Total assets	27,682	26,470
Current liabilities		
Accounts payable	2,507	2,485
Borrowings	2,265	2,935
Provisions	4,727	2,460
Revenue received in advance	654	666
Total current liabilities	10,153	8,546
Non current liabilities		
Accounts payable	745	700
Borrowings	4,946	4,787
Provisions	1,089	1,356
Deferred income tax	455	2
Total non current liabilities	7,235	6,845
Total liabilities	17,388	15,391
Net assets	10,294	11,079
Shareholders' equity		
Telstra Entity		
Share capital	6,433	6,433
Reserves	14	30
Retained profits	3,809	4,570
Shareholders' equity attributable to the Telstra Entity shareholders	10,256	11,033
Outside equity interests		
Share capital	64	41
Reserves	(3)	25
Retained losses	(23)	(20)
Total outside equity interests	38	46
Total shareholders' equity	10,294	11,079

The above balance sheet should be read in conjunction with the accompanying notes and discussion and analysis.

The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 1999'. This report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

Discussion and Analysis

Property, plant and equipment comprises 75% of our total assets. Our expenditure on property, plant and equipment in 1999 was \$3,788 million (including \$81 million capitalised interest). The increase was mainly in improvements to our customer access network and the establishment of our new CDMA mobile network. We spent \$513 million (including \$11 million capitalised interest) on software development (included in Other assets) mainly for our e-commerce and Easymail platforms and supporting systems, the wholesale and CDMA billing platforms and customer segmentation and supporting software. These expenditures have resulted in increased depreciation and amortisation costs on the growing asset base.

In common with most telecommunication companies, our current liabilities are typically in excess of our current assets. We consider that our negative working capital position does not create a liquidity risk because we can delay the timing of our discretionary capital expenditures should cash inflows from customers from our diverse customer base be lower than anticipated at any point in time. Also, our standby bank facilities and commercial paper programmes provide us with additional sources of liquidity should the need arise.

At 30 June 1999 our gross debt was \$7,211 million with net debt being \$5,769 million after deducting cash, other interest bearing assets and loans to employees. Approximately 44% of total debt consisted of domestic borrowings with the balance sourced from a variety of offshore sources. Our gearing ratio (total borrowings as a percentage of total borrowings and shareholders' equity) as at 30 June 1999 was 41.2% after the recording of the special dividend of \$2 billion. The special dividend payable on 29 October 1999 will be funded partly by new borrowings using existing bank facilities which will replenish our working capital.

During the year the movements in our future income tax benefits and deferred income tax liabilities have resulted in a net deferred income tax balance of \$89 million compared with a net future income tax benefit of \$785 million in 1998. This has been caused by the differences in timing between when amounts are claimed as tax deductions and when an amount reduces the accounting profit for the year. We are now at the stage where, overall, tax deductions are being claimed in earlier years than when the amounts will be charged to profit and loss in the determination of accounting profit. Consequently, while this situation continues, our taxable income will be lower than our accounting profit and this will reduce income tax payable.

Statement of Cash Flows

for the year ended 30 June 1999

	Telstra Group	
	Year ended 30 June	
	1999	1998
	\$m	\$m
Cash flows from operating activities		
Receipts from trade and other debtors	17,603	16,709
Payments of accounts payable and to employees	(9,628)	(9,807)
Interest received	50	48
Interest paid	(549)	(559)
Finance charges on finance leases paid	(9)	(16)
Dividends received	23	29
Income taxes paid	(916)	(769)
Net cash provided by operating activities	6,574	5,635
Cash flows from investing activities		
Payments for:		
- property, plant and equipment	(3,707)	(3,286)
- capitalised software	(502)	(227)
- patents, trademarks and licences	(58)	(228)
- deferred expenditure	(7)	-
Capital expenditure (before investments)	(4,274)	(3,741)
- shares in listed corporations	(84)	-
- shares in other corporations	(4)	-
- satellite consortia investments	(2)	(24)
- investment in joint venture entities	(22)	(125)
Investment expenditure	(112)	(149)
Total capital expenditure	(4,386)	(3,890)
Proceeds from:		
- sale of property, plant and equipment	246	255
- sale of business	50	-
- sale of patents, trademarks and licences	-	11
- sale of listed securities	14	-
- sale of shares in controlled entities	1	-
- satellite consortia investments	11	7
- deferred expenditure	-	8
Net cash used in investing activities	(4,064)	(3,609)
Cash flows from financing activities		
Proceeds from borrowings	8,884	8,708
Repayment of:		
- Telecom/Telstra bonds	(359)	(192)
- borrowings	(9,038)	(8,834)
- principal under finance leases	(169)	(68)
Dividends paid	(1,802)	(1,422)
Net cash used in financing activities	(2,484)	(1,808)
Net increase/(decrease)	26	218
Cash at the beginning of the year	948	730
Cash at the end of the year	974	948

The above statement of cash flows should be read in conjunction with the accompanying discussion and analysis.

The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 1999'. This report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report.

Discussion and Analysis

Our primary source of liquidity is cash generated from our operations which increased by 16.7%, mainly due to growth in revenue, which improved cash flows from our customers. The revenue growth has meant that payments to suppliers has also increased, but this increase was offset by the cessation of employer contributions to the Telstra Superannuation Scheme and reduced employee numbers has resulted in reduced payments to staff.

Income tax payments have increased by \$147 million as a result of higher taxable income in 1998 compared with 1997 due to higher profits in 1998 and the timing of the taxation payments in the current year.

As well as expenditures on property, plant and equipment and software development we also spent \$112 million on investments during the year, with the major part of this expenditure being the acquisition of a 5% share in Computershare Limited for \$84 million and \$20 million additional investment in FOXTEL.

After our capital expenditure programme (net of proceeds from capital asset sales) our surplus cash from operations was \$2,510 million compared with \$2,026 million in 1998. This surplus cash was used in:

- the payment of dividends of \$1,802 million to our shareholders; and
- the net repayment of debt amounting to \$682 million.

We declared total final dividends of \$3,346 million which are payable on 29 October 1999 to holders of record on 10 September 1999. To replenish working capital after the payment of these dividends we intend to increase our borrowings.

Notes to the Concise Financial Statements

1. Accounting policies

The principal accounting policies adopted in preparing the concise financial report of Telstra Corporation Limited (referred to as the Telstra Entity) are included in the financial report which forms part of the detailed “Annual Report 1999”.

The financial report which forms part of the ‘Annual Report 1999’ complies with the requirements of the Corporations Law, Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and Australian generally accepted accounting principles. The financial statements and other disclosures included in this concise report have been derived from the financial report.

Accounting policies used during the year ended 30 June 1999 are consistent with those of the previous year.

2. Segment information

Industry segments

The Telstra Group operates predominantly in the telecommunications industry which comprises more than 90% of total

consolidated operating revenue, operating profit before income tax expense, and net assets.

Geographical segments

Although the Telstra Group’s business units are managed on a worldwide basis, they operate predominantly in one geographical location, being Australia. Overseas business operations do not form a material component of the consolidated operations.

Business segments

A new business structure was announced in the second half of the financial year. For reporting purposes, the former organisation structure remained in place until 30 June 1999 and was as follows:

- Commercial & Consumer:
 - provides telecommunications services to more than seven million residential and small business customers;
 - manages sales, customer service installation and repairs, billing, and managing information and connection services and payphone services; and
 - builds and maintains the customer access network on behalf of the Network Technology Group.

- Business & International is responsible for:
 - sales and services to larger businesses, the Commonwealth, State and Territory governments;
 - mobile telecommunications; and
 - managing satellite and radio services, global business services, international operations and international joint ventures.
- Network Technology & Multimedia's responsibilities include:
 - planning, design, construction and operation of our fixed and mobile networks in Australia;
 - the associated systems and processes required to deliver products, services and customer support;
 - research and development;
 - the management of our pay television and other multimedia joint venture interests; and
 - the management of our directory services subsidiary.
- Carrier Services: manages carriers, carriage service providers and suppliers in Australia and overseas.
- Products and Marketing: company-wide product management for access and local calling services, long distance and intelligent network services, mobile services, customer premises equipment, Internet, data and interconnect services.
- Corporate Centre: finance, administration, regulatory and external affairs, employee relations and other corporate services.

These business units are managed separately based on differences in type of customer or strategic objectives. Products and Marketing and the Corporate Centre have been aggregated in the 'Other' segment for reconciliation and disclosure purposes.

The following table details the major segments, based on the reporting structure at 30 June 1999.

Telstra Group

	Commercial & Consumer	Business & International	Network Technology & Multimedia	Carrier Services	Other	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<i>Year ended 30 June 1999</i>							
Segment revenue							
Sales revenue from external customers	5,955	8,490	1,213	1,878	1	34	17,571
Inter-segment revenue (a)	1,384	208	6,496	1,010	1,726	(143)	10,681
Earnings before interest, abnormals and tax	1,592	2,884	526	696	75	76	5,849
<i>As at 30 June 1999</i>							
Segment assets (b)	7,991	13,978	17,038	2,161	(13,098)	(388)	27,682

Notes to the Concise Financial Statements (continued)

Telstra Group

	Commercial & Consumer	Business & International	Network Technology & Multimedia	Carrier Services	Other	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Year ended 30 June 1998							
Segment revenue							
Sales revenue from external customers	5,838	7,730	1,213	1,897	(9)	34	16,703
Inter-segment revenue (a)	1,322	265	6,485	837	1,709	(243)	10,375
Earnings before interest, abnormals and tax	1,575	2,263	731	566	(277)	195	5,053
As at 30 June 1998							
Segment assets (b)	6,354	11,323	16,228	1,449	(8,609)	(275)	26,470

(a) Generally, most internal charges between business segments are charged on a direct cost recovery basis.

(b) The segment assets of the 'Other' segment include the cashflow funding requirements of the four disclosed operating business segments.

	Telstra Group	
	Year ended 30 June	
	1999	1998
	\$m	\$m
3. Dividends		
Interim dividend		
Interim dividend paid on 30 April 1999 (1998: 31 March 1998)	901	901
Final dividend		
1998 ordinary dividend paid on 30 October 1998	-	901
1999 ordinary dividend proposed (to be paid on 29 October 1999)	1,287	-
1999 special dividend proposed (to be paid on 29 October 1999)	2,059	-
Total final dividend	3,346	901
Dividends paid or payable to shareholders of the Telstra Entity	4,247	1,802

Interim dividends for both 1998 and 1999, and the 1998 final dividends, were fully franked with Class C (36%) franking credits. The 1999 final dividend of 26 cents per share (\$3,346 million) is franked to 38.46% at a tax rate of 36%. This is similar to:

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

4. Events occurring after balance date

On 5 July 1999 the Telstra (Further Dilution of Public Ownership) Act received Royal Assent. This Act amends the Telstra Corporation Act 1991 to permit the Commonwealth to sell a further 16.6% of Telstra's shares. The Commonwealth has commenced a sale process which is expected to involve a global offering of approximately 16.6% of Telstra's shares in the first half of the year ended 30 June 2000.

Independent Audit Report to the members of Telstra Corporation Limited

Scope

I have audited the concise financial report of Telstra Corporation Limited (the Company) and its controlled entities for the financial year ended 30 June 1999 as set out on pages 42 to 50, in order to express an opinion on it to the members of the Company. The Company's directors are responsible for the concise financial report.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, to provide reasonable assurance as to whether the concise financial report is free of material misstatement. I have also performed an independent audit of the full financial report of the Company for the financial year ended 30 June 1999. The audit report on the full financial report was signed on 26 August 1999, and was not subject to any qualification.

The procedures in respect of the audit of the concise financial report included testing that the information included in it is consistent with the full financial report, and examination, on a test basis, of evidence supporting the amounts, discussion and

analysis and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion as to whether the concise financial report complies with Accounting Standard AASB 1039: Concise Financial Reports in that, in all material respects, it is presented fairly in accordance with that standard.

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

Audit Opinion

In my opinion, the concise financial report of the Telstra Corporation Limited and its controlled entities complies with Accounting Standard AASB 1039: Concise Financial Reports.



PJ Barrett
Auditor-General

Melbourne
26 August 1999

Investor Information



Q. When is the next Telstra Annual General Meeting?

A. Telstra's 1999 Annual General Meeting will be held at 1.30 pm on Friday, 12 November 1999 at the Sydney Convention and Exhibition Centre. The meeting will be telecast into other venues around Australia, details of which will be mailed directly to shareholders during October.

Q. When can I expect to receive my dividend?

A. A final dividend of 26 cents per share and franked to 38.46% will be paid to shareholders on 29 October 1999. In effect, this is similar to the payment of a fully franked final ordinary dividend of 10 cents per share and an unfranked special dividend of 16 cents per share. Shareholders may have their dividends paid directly into their bank account within Australia by advising their details to the Telstra Share Registrar.

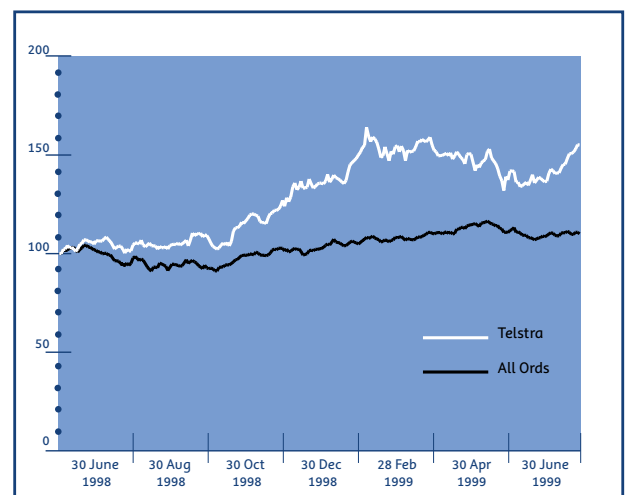
Q. What will be the total dividends for this financial year?

A. Telstra declared total dividends for this financial year of 33 cents per share. This comprises an interim fully franked dividend of 7 cents paid on 30 April 1999 plus the final dividend referred to above.

Q. Why will this year's final dividend and 1999/2000 dividends be only partially franked?

A. Prior to the partial privatisation of Telstra in 1997, a special dividend was paid to the Commonwealth. This special dividend was fully franked and depleted the balance of the company's franking account. In addition there are timing differences associated with some tax deductible expenses which were recognised in prior years for statutory accounting purposes, but not for tax purposes.

Note: Telstra's share price (adjusted for instalment receipt payment) and the All Ordinaries Index have been indexed at 100 as from 30 June 1998 to allow a meaningful comparison.



Telstra's share price compared to the All Ordinaries Index.

Investor Information



Because this year's final dividend includes a 'special dividend', Telstra does not have sufficient franking credits to fully frank the final dividend. Telstra also does not expect to fully frank dividends for the 1999/2000 financial year. At present, it is expected that Telstra will be able to pay fully franked ordinary dividends for the 2000/2001 financial year. However, no assurance can be given as to the level of franking of dividends. This is because it depends upon, amongst other factors, Telstra's earnings, Government legislation and the taxation position of Telstra.

Q. How does partial franking affect me?

A. Dividends are franked to take into account corporate tax paid by the Telstra Group. Resident individual shareholders who receive franked dividends may be entitled to a tax rebate for tax paid by the company. This rebate is not available if the dividend is unfranked. If the dividend is partially franked the rebate is reduced. Generally, resident individual shareholders will pay more tax on dividends that are not fully franked.

Shareholders should consult their financial adviser if they are unsure about the taxation treatment of their dividends.

Q. What happens if I don't supply my Tax File Number to the Telstra Share Registrar?

A. For those resident shareholders who have not provided the Telstra Share Registrar with their Tax File Number or their exemption category details, tax at the highest marginal tax rate (together with the medicare levy) will be deducted from their dividends to the extent they are not fully franked. If you would like to quote your Tax File Number, please contact the Telstra Share Registrar. You are not obliged to quote your Tax File Number.

Q. Telstra's profit was \$3.5 billion, why then is my ordinary dividend only 17 cents a share?

A. Subject to commercial considerations, the Board aims to pay at least 60% of Telstra's profit to shareholders in the form of ordinary dividends. The company usually retains the remaining 40% of profit to allow for future growth and expansion. Dividing 60% of the \$3.5 billion profit (\$2.1 billion) amongst 12.9 billion shares held by shareholders works out to be slightly less than 17 cents a share. Because this year's final dividend includes a 'special dividend', the company will pay out more than 60% of this year's profit to shareholders.

Investor Information



Q. Why doesn't Telstra operate a Dividend Reinvestment Plan?

A. The Telstra Corporation Act precludes any reduction in the Commonwealth's voting rights below a 50.1% interest in Telstra. We cannot, therefore, easily introduce a dividend reinvestment plan (DRP) or raise new equity without Commonwealth participation, and there is no assurance that the Commonwealth would be willing to subscribe for additional shares in Telstra.

Q. Why can't we have our dividends paid to somebody other than the registered shareholder?

A. Telstra does not allow the payment of dividends to a person who is not the registered holder of shares.

With 1.3 million shareholders and more expected after the Commonwealth sells a further 16.6% of Telstra shares, Telstra has the largest share register in Australia. Not only is it logistically more expedient to pay dividends to registered holders, it also protects shareholders by ensuring the correct person receives the dividend.

Q. What about foreign ownership restrictions?

A. The Telstra Corporation Act restricts foreign ownership. Foreign persons collectively cannot control more than 35% of the non-Commonwealth owned Telstra shares, and individual foreign persons cannot control more than 5% of them. Telstra will divest shares if an unacceptable foreign ownership situation arises. Telstra will also keep relevant stock exchanges advised of foreign ownership levels.

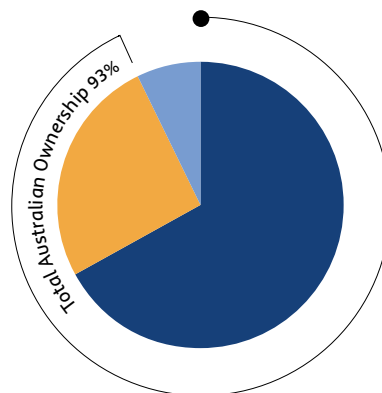
Q. I have changed my address, what do I do?

A. It is important to let the Share Registrar know in writing if there is any change to your registered address. For your protection you should quote your shareholders reference number (SRN) or holder identification number (HIN).

Q. How do I find out more about my shares?

A. For more information regarding your Telstra shares, please call the Telstra Share Registrar on **FREECALL™** 1800 06 06 08* or visit our website at www.investor.telstra.com.au

Overseas private 7% ●
Australian private 26% ●
Commonwealth of Australia 67% ●



Financial Calendar 1999-2000

Half-year end	31 December 1999
Half-year result announced	8 March 2000
Ex-dividend share trading starts	20 March 2000
Record date for interim dividend	24 March 2000
Interim dividend paid	28 April 2000
Full-year end	30 June 2000
Annual result announced	30 August 2000
Ex-dividend share trading starts	18 September 2000
Record date for final dividend	22 September 2000
Final dividend paid	27 October 2000
Annual General Meeting	17 November 2000

Note: Timing of events can be subject to change

Contact details

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Incorporated in the Australian
Capital Territory

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and USA (New York)

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Wayne Treeby
General Manager

The Telstra Share Registrar

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can also be found via Telstra's Investor
Relations home page at:
<http://www.investor.telstra.com.au>

*A free call unless from a mobile phone which
will be charged at the applicable rate.

Everyone, everywhere
needs to communicate,
everyday.

