Contents

Contents

Summary Overview

General

Telstra is Australia's leading telecommunications and information services company, with one of the best known brands in the country. We offer a full range of services and compete in all telecommunications markets throughout Australia, providing more than 10.3 million Australian fixed line and more than 6.5 million mobile services.

Our main activities include the provision of:

- basic access services to most homes and businesses in Australia;
- local and long distance telephone calls in Australia and international calls to and from Australia;
- mobile telecommunications services;
- a comprehensive range of data and internet services (including through Telstra BigPond™, Australia's leading ISP);
- management of business customers' IT and/or telecommunications services;
- wholesale services to other carriers and carriage service providers;
- advertising, directories and information services; and
- cable distribution services for FOXTEL's cable subscription television services.

Our international business includes Hong Kong CSL Limited, one of Hong Kong's leading mobile operators; TelstraClear Limited, the second largest full service carrier in New Zealand and Reach Ltd (REACH), one of the leading wholesale providers of combined voice, data and internet connectivity services in the Asia-Pacific region.

One of our major strengths in providing integrated telecommunications services is our vast geographical coverage through both our fixed and mobile network infrastructure. This network and systems infrastructure underpins the carriage and termination of the majority of Australia's domestic and international voice and data telephony traffic.

Telstra's vision is to be Australia's connection to the future and our mission is to develop, design and deliver great communications solutions to every customer. Our goal is profitable growth for the Company and shareholders and we will achieve this through terrific people and great teamwork, innovative products, operational excellence, outstanding customer service, smart investments and winning in the marketplace.

Key Information

Selected financial data

We recommend that the following information be read in conjunction with our financial statements, the accompanying notes to our financial statements and other information included in this annual report.

Our selected data is from the following sources:

- financial data is derived from our audited consolidated financial statements and accompanying notes to our financial statements, which were prepared in accordance with Australian GAAP. Where this differs in material respects from USGAAP, these differences are shown in note 30 to the financial statements; and
- statistical data represents management's best estimates.

Financial data

	Year ended 30 June					
	2003	**2003** (1)	2002	2001	2000	1999
	(in millions, except per share amounts)					
	A$	**US$**	A$	A$	A$	A$
Statement of Financial Performance Data						
***Amounts in accordance with Australian GAAP*:**						
Revenue from ordinary activities (2)	**21,700**	**14,539**	20,928	23,086	20,567	18,220
Expenses from ordinary activities (excluding depreciation, amortisation and interest expense) (2) (6)	**12,446**	**8,339**	11,319	13,149	11,942	9,820
Depreciation and amortisation	**3,447**	**2,309**	3,267	2,871	2,646	2,502
Profit before income tax expense	**4,928**	**3,302**	5,446	6,297	5,349	5,320
Net profit	**3,394**	**2,274**	3,650	4,061	3,673	3,488
Net profit available to Telstra Entity shareholders	**3,429**	**2,297**	3,661	4,058	3,677	3,486
Earnings per share (3)	**0.27**	**0.18**	0.29	0.32	0.29	0.27
Earnings per ADS (3)	**1.35**	**0.90**	1.42	1.58	1.43	1.35
Dividends provided for or paid (4)	**3,345**	**2,241**	2,830	2,445	2,316	4,247
Dividends per share (3)	**0.27**	**0.18**	0.22	0.19	0.18	0.33
Dividends per ADS (3)	**1.35**	**0.90**	1.10	0.95	0.90	1.65
Amounts in accordance with USGAAP:						
Operating revenue	**20,495**	**13,732**	20,196	19,456	19,343	17,571
Net income	**3,450**	**2,311**	3,898	3,576	4,093	3,416
Basic earnings per share (3)	**0.27**	**0.18**	0.31	0.28	0.32	0.27
Basic earnings per ADS (3)	**1.35**	**0.91**	1.55	1.41	1.59	1.33
Dividends per ADS (5)	**US$0.77**		US$0.58	US$0.46	US$1.07	US$0.45
Statement of Financial Position Data (at year end)						
Amounts in accordance with Australian GAAP:						
Total assets	**35,599**	**23,849**	38,219	37,473	30,339	27,682
Current interest-bearing liabilities	**1,323**	**886**	1,896	2,604	3,316	2,265
Non-current interest-bearing liabilities	**11,232**	**7,525**	12,481	11,386	6,505	4,946
Shareholders' equity/net assets	**15,422**	**10,333**	14,106	13,722	11,602	10,294
Amounts in accordance with USGAAP:						
Total assets	**40,422**	**27,082**	42,719	42,561	34,536	31,108
Current borrowings	**1,323**	**886**	1,866	2,604	3,316	2,265
Non-current borrowings	**11,580**	**7,758**	12,372	11,943	6,505	4,946
Shareholders' equity/net assets	**18,025**	**12,076**	18,402	17,795	16,528	16,199

Key Information

Financial data

	Year ended 30 June					
	2003	**2003** (1)	2002	2001	2000	1999
	(in millions, except per share amounts)					
	A$	**US$**	A$	A$	A$	A$
Revenue from ordinary activities comprises:						
Sales revenue	**20,495**	**13,732**	20,196	18,679	19,343	17,571
Interest received/receivable	**84**	**56**	126	103	62	49
Revenue from sale of assets/investments	**859**	**575**	302	3,303	842	330
Dividends revenue	**1.0**	**0.7**	1.0	16	12	13
Miscellaneous revenue	**261**	**175**	303	985	308	257
	21,700	**14,539**	20,928	23,086	20,567	18,220
Expenses from ordinary activities (excluding depreciation and amortisation, and interest expense) includes:						
Book value of assets/investments sold	**661**	**443**	307	2,164	503	308

(1) *Unless otherwise noted, all amounts have been translated at the noon buying rate on 30 June 2003 of A$1.00 = US$0.67.*

(2) *For a breakdown of operating revenue by product group and a breakdown of operating expenses by expense category, see "Operating and Financial Review and Prospects".*

(3) *Calculated based on 12,866,600,200 shares and, in the case of ADS calculations, based on a ratio of five shares per ADS. Basic earnings per share for each year was the same as diluted earnings per share.*

(4) *During the year ended 30 June 2003, we paid dividends of A$3,345 million (2002/2003 interim ordinary dividend, 2002/2003 special dividend and 2001/2002 final ordinary dividend).*

(5) *Calculated based on dividends paid during the year on a ratio of five shares per ADS, in US currency based on the exchange rates applicable at each payment date.*

(6) *Includes our share of equity accounted net losses of associates.*

Key Information

Statistical data

	Year ended 30 June		
	2003	2002	2001
Billable traffic data (in millions)			
Local calls (number of calls)	**9,794**	10,269	10,696
National long distance minutes [1]	**9,161**	9,170	9,082
Fixed-to-mobile minutes	**3,944**	3,691	3,268
International direct minutes	**740**	781	693
Mobile telephone minutes [2]	**6,335**	5,780	5,277
Inbound calling product minutes	**2,655**	3,345	3,871
Network and operations data (at year end)			
Basic access lines in service (in millions) [3]			
Residential	**6.15**	6.35	6.27
Business	**2.60**	2.72	2.83
Total retail customers	**8.75**	9.07	9.10
Domestic wholesale	**1.56**	1.33	1.36
Total basic access lines in service	**10.31**	10.40	10.46
FaxStream® services access lines (in thousands) [4]	**390**	400	413
ISDN access lines (basic line equivalents) (in thousands) [5]	**1,213**	1,268	1,235
Mobile services in operation (SIO) (in thousands) [6]			
GSM	**5,812**	5,346	4,712
CDMA	**757**	596	464
Total mobile services in operation	**6,569**	5,942	5,176
Online subscribers (thousands)			
Narrowband subscribers	**1,158**	1,056	864
Broadband subscribers [7]	**293**	166	78
xDSL in Intercarrier	**68**	3	-
Total online subscribers	**1,519**	1,225	942
FOXTEL subscribers (thousands)			
FOXTEL cable subscribers	**477** [8]	487	477
FOXTEL direct to home satellite subscribers	**358** [8]	313	268
Total FOXTEL subscribers	**835** [8]	800	745
Value-added services (thousands)			
Mobile MessageBank® customers	**5,499**	5,062	4,258
Easycall® call waiting customers	**5,605**	5,605	5,604
Fixed line MessageBank® customers	**1,444**	1,448	1,414
Calling number display customers	**994**	897	785
Employee data			
Domestic full-time staff [9]	**37,169**	40,427	44,874
Full-time staff and equivalents [10]	**42,064**	44,977	48,317

(1) *Includes national long distance minutes from our public switched telephone network (PSTN) and independently operated payphones to Australian fixed telephones. Excludes minutes related to calls from non-PSTN networks, such as ISDN and virtual private networks and FaxStream® services.*
(2) *Includes all calls made from mobile telephones including long distance, international and data calls, based on calling party pays billing. Excludes CSL.*
(3) *Excludes advanced access services, such as ISDN and FaxStream® services.*
(4) *Facsimile access product.*
(5) *Expressed in equivalent number of clear voice channels.*

Key Information

(6) Excludes CSL SIOs.
(7) Broadband subscribers include DSL layer 2 and 3S subscribers; retail products include cable, satellite, ISP, HyperConnect and ADSL, while wholesale products include Flexstream®, DSL layer 2 and DSL layer 3S.
(8) Includes FOXTEL's direct subscribers and subscribers receiving resold FOXTEL services via Telstra.
(9) Excludes offshore, casual and part time employees.
(10) Includes all domestic and offshore employees, including controlled entities.

Exchange rate information

Our consolidated financial statements are shown in Australian dollars (A$) except where another currency is specified. For convenience, this report has translations of certain A$ into US dollars (US$) at an exchange rate as at 30 June 2003 of A$1.00 = US$0.6713. These translations are indicative only and do not mean that the A$ amounts could be converted to US$ at the rate indicated.

The tables below show the rates of exchange at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

- at the latest practicable date before the publication of this annual report, being 17 September 2003: A$1.00 = US$0.6642;
- the high and low exchange rates for six months preceding the date of this annual report:

	High	Low
March 2003	0.6161	0.5905
April 2003	0.6262	0.5970
May 2003	0.6585	0.6298
June 2003	0.6729	0.6564
July 2003	0.6823	0.6454
August 2003	0.6593	0.6390

- for the five most recent fiscal years:

Year ended 30 June	At period end	Average rate (1)	High	Low
1999	0.6611	0.6248	0.6712	0.5550
2000	0.5971	0.6238	0.6703	0.5685
2001	0.5100	0.5372	0.5996	0.4828
2002	0.5628	0.5240	0.5748	0.4841
2003	0.6713	0.5884	0.6729	0.5280

(1) The average of the noon buying rates on the last day of each month during the year.

Fluctuations in the A$ to US$ exchange rate will affect:

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

Key Information

Risk factors

The following describes some of the significant risks that could affect us. Additionally, some risks may be unknown to us and other risks, currently believed to be immaterial, could turn out to be material. All of these could materially adversely affect our business, profits, assets, liquidity and capital resources. They should be considered in connection with any forward-looking statements in this annual report and the warning regarding forward-looking statements in this section of this annual report.

We are subject to extensive regulation that may negatively affect our business and profitability by constraining our ability to pursue certain business opportunities and activities and affecting the returns we can generate on our assets

We operate in a heavily regulated environment. Australia has generally applicable and established competition law. There is further telecommunications-specific legislation that regulates matters such as carrier and carriage service provider obligations, industry specific competition regulation and those of our services to which competitors can have access (and the terms and conditions under which we provide this access).

We are also subject to regulations that are specific to Telstra only and not applicable to our competitors. For example, under the Telstra Corporation Act 1991 (Cwth) (Telstra Act), the Communications Minister may direct us to act in particular ways that benefit the public interest even though those actions may not be in our best commercial interests.

In addition, in June 2003 the Commonwealth Government introduced draft legislation into Parliament providing a framework for the possible further sale of the Commonwealth's interest in Telstra. It is possible that as part of this process the Commonwealth Government may seek to alter the regulatory regime by changing the environment in which we operate.

Because of these numerous factors, there is a risk that we could be exposed to significant limitations, uncommercial imposts, penalties and compensation payments in relation to our current and future activities. This may make it prudent on some occasions for us to cease or choose not to engage in business activities in which we might otherwise engage or avoid, defer or abandon certain capital projects. The regulatory regime may also affect our plans or the plans of our subscription television interest, FOXTEL, to upgrade and expand our networks. These regulatory risks could therefore have an adverse effect on our ability to pursue certain business opportunities and activities and the returns we can generate on our assets. This may in turn adversely affect our financial performance.

In addition, the operations of our investments in other countries are also subject to extensive regulation which has a significant effect on their businesses. Changes in the administration of those regulations or changes in the policies of the Governments of these countries could have a significant negative effect on the performance of our investments and on our consolidated results.

For more information regarding our regulatory environment and our obligations and potential liabilities under Australian and overseas regulations, see "Competition and Regulation - Regulation".

Key Information

Competition in the Australian telecommunications market could cause us to continue to lose market share and reduce our prices and profits from current products and services

The Australian telecommunications market has become increasingly competitive since the Commonwealth Government introduced open competition on 1 July 1997. Although the overall market has experienced growth to date, we have lost substantial market share in some key markets. In response, we have lowered the prices of our products and services, particularly the prices for our local calls, national long distance calls and international telephone services and calls to and from mobile services. We expect that these trends will continue due to competitive activity, Government regulations requiring lower telephone call prices and regulatory facilitation of access to our networks, products and services.

We expect competitors to continue to engage in vigorous price competition. We also expect that our competitors will continue to market aggressively to those of our customers who purchase large volumes of telecommunications services from us. The continued loss of market share could have an adverse effect on our financial results in the market or markets in which this type of competition occurs.

For more information on our competitive environment, see "Competition and Regulation - Competition".

We are required to incur new debt in order to undertake expansion and develop our business and we may be unable to obtain future financing at favourable rates

Because the Telstra Act requires that the Commonwealth own at least 50.1% of our shares, we are not able to sell new shares in order to raise capital to fund acquisitions, expand and otherwise develop our business unless the Commonwealth Government increases its shareholding on an equivalent pro rata basis. Therefore, we usually need to obtain additional capital financing via debt or other non-equity instruments, principally by borrowing money from banks or selling bonds to investors. Incurring additional debt to raise capital increases the amount of interest we are required to pay and our future obligations to repay principal. This increases overall expenses which negatively affects our profits and eventually gives rise to a need to repay maturities, which places demands on our cash flow.

In addition, if we are unable to borrow the amounts we need at affordable rates, it may restrict our ability to pursue our business strategies and adversely affect our ability to finance our operations. Our ability to raise additional finance is also influenced by general conditions in financial markets, in particular as they relate to the telecommunications sector.

Fluctuations in currency exchange rates may adversely affect our revenues, operating results and the translation value of our overseas investments

Because we purchase some materials and supplies with prices dependent on foreign currencies and have substantial international investments denominated in foreign currencies, movements in the value of the A$ against other currencies can adversely affect our performance including revenues, operating results and balance sheet amounts.

While the majority of our foreign currency exposures associated with our borrowings are fully hedged to A$, we partially hedge exposures to purchases and translation risk associated with our investments, generally to around fifty percent of the value. We enter into hedge transactions of these exposures principally to reduce the volatility of exchange rate movements on our financial performance and results. These strategies do not fully remove foreign currency exposure and there is a risk that currency movements could negatively affect our operating results or financial position. For the fiscal year ended 30 June 2003, approximately 7% of our revenues, 72% of our borrowings and 5% of our total assets were denominated in currencies other than the A$ prior to hedging.

Key Information

More information on our exposure to risk from foreign currency exchange rate fluctuations is provided in “Quantitative and Qualitative Disclosures about Market Risk”.

If growth in mobiles and some of our other products slows, our revenues may not grow as rapidly as in the past and may even decrease, which in turn could adversely affect our profitability

In recent years, our revenues have grown in large part because of rapid expansion in some of our products such as mobile communications and data and internet products, mainly as a result of the expansion of those markets in Australia. We have seen some indications that some of our product markets are not likely to continue expanding at the same rate as has been the case in recent years. If these markets do not continue to expand, then in the absence of new products and services our revenue growth may slow, which in turn could affect our consolidated financial position and results of operations.

Rapid technological changes and the convergence of traditional telecommunications markets with data, internet and media markets exposes us to significant operational, competitive and technological risks

Rapid changes in telecommunications and IT are continuing to redefine the markets in which we operate, the products and services required by our customers and the ability of companies to compete in the telecommunications industry in Australia and elsewhere in the world. These changes broaden the range, reduce the costs and expand the capacities and functions of infrastructures capable of delivering these products and services.

As traditional telecommunications, data, internet and media markets converge, it is possible that further new competitors may enter the markets in which we have traditionally competed and we may confront established competitors in new markets we seek to enter. This could result in reduced market share, revenue and profitability in our traditional markets and could adversely affect our ability to win market share and operate profitably in these new markets.

Partially as a result of these changes and the entry of many new participants providing new generation data and internet services, the prices that can be charged for many products and services have also been falling which may affect our financial position and results of operations in these markets.

To address the converging telecommunications, data, internet and media markets, we may be required to devote considerable resources to enhancing our ability to deliver services required by these markets. There is a risk that competitors may deploy or develop technologies that provide them with lower costs or other operating advantages compared with us. This could give these competitors an advantage if we are unable to promptly and efficiently provide the services that they provide. We have invested substantial capital and other resources in the development and modernisation of our networks and systems. However, we may be required to incur significant capital expenditures in addition to those already planned in order to remain competitive. This may also render some previous capital investments ineffective.

The establishment of a link between adverse health effects and electromagnetic energy could expose us to liability or negatively affect our operations

Certain reports have suggested, but not proven, that electromagnetic energy (EME) emissions from mobile phone base stations and radio communications facilities (including handsets) may have adverse health consequences for users and the community.

The consensus of national and international scientific opinion is that there is no substantiated evidence of public health effects from the EME generated by radio frequency technology, including mobile phones and base stations, when used in accordance with applicable standards.

Key Information

In our operations, we comply with the EME levels permitted by legislation and applicable standards. While to date we have been able to insure these risks, the level of insurance cover available is reducing and premiums are rising to a point where the risks may not be economically insurable. However, there is a risk that an actual or perceived health risk associated with mobile telecommunications equipment and facilities could:

- lead to litigation against us;
- adversely affect us by reducing the number or the growth rate of mobile telecommunications services or lowering usage per customer; or
- hinder us in installing new mobile telecommunications equipment and facilities.

Any of these, or a combination of more than one, could have a negative effect on our results or financial position. For more information on EME, see "Information on the Company - Networks and systems - Electromagnetic energy".

Network and/or system failures could result in reduced user traffic, reduced revenue and harm to our reputation

Our technical infrastructure is vulnerable to damage or interruption from floods, wind storms, fires, power loss, telecommunication failures, cable cuts, intentional wrongdoing and similar events. The networks and systems that make up our infrastructure require regular maintenance and upgrade that may cause disruption. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other damage to or failure of our networks and/or systems could result in consequential interruptions in service across our integrated infrastructure. Network and/or system failures, hardware or software failures or computer viruses could also affect the quality of our services and cause temporary service interruptions. Any of these occurrences could result in customer dissatisfaction and damages or compensation claims as well as reduced revenue.

Our ability to pursue our strategy with respect to some investments in which we share control or do not own a controlling interest may be limited

Some of our domestic Australian and international activities are conducted through subsidiaries, joint venture entities and other equity investments. Under the governing documents for some of these entities, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions require the agreement of our co-participants. Our co-participants may have different approaches with respect to the investment and the markets in which they operate and on occasions we may be unable to reach agreement with them.

In some cases, strategic or venture participants may choose not to continue their participation. In addition, our arrangements with our co-participants may expose us to additional investment, capital expenditure or financing requirements. There are also circumstances where we do not participate in the control of, or do not own a controlling interest in, an investment and our co-participants may have the right to make decisions on certain key business matters with which we do not agree.

All of these factors could negatively affect our ability to pursue our business strategies with respect to the concerned entities and the markets in which they operate. For more information on some of our investments, see "Information on the Company - International investments".

Key Information

If our REACH joint venture does not perform as expected, we may not be able to utilise capacity prepurchases

In February 2001 we formed REACH, a 50:50 joint venture with PCCW Limited (PCCW) which merged our respective international infrastructure assets. REACH provides wholesale voice, data and internet connectivity services in the Asia-Pacific region. The financing arrangements of REACH are currently without recourse to our joint venture partner, PCCW, or to us. Depressed conditions in the global market for international internet capacity have adversely affected the performance of REACH and caused us to write down the carrying value of our investment in REACH to zero in the half-year period ended 31 December 2002. If these negative market conditions persist, REACH may continue to underperform and its operating cash flow may not grow as expected. Telstra and PCCW have capacity prepurchase arrangements in place with REACH of US$143 million each. Utilisation of these arrangements is dependant upon REACH peformance and cash flow capacity.

The value of our operations and investments may be adversely affected by political and economic developments in Australia or other countries

Our business is dependent on general economic conditions in Australia, including levels of GDP, interest rates and inflation. A significant deterioration in these conditions could adversely affect our business and results of operations.

We may also be adversely affected by developments in other countries where we have made equity investments or entered into ventures in the mobiles or telecommunications sectors including in Hong Kong, other countries in Asia and New Zealand. The level of acceptance of our services in these markets may limit our ability to expand our products and services there. Accordingly, we may be required to commit substantial resources to developing and marketing our products and services for selected international markets and to developing international sales and support channels. Some of these countries have political, economic, regulatory and legal systems that are different from those in Australia and may be less predictable. As a result, our international operations will be subject to numerous unique risks, including:

- multiple and conflicting regulations regarding communications, use of data and control of internet access;
- changes in regulatory requirements, import and export restrictions and tariffs;
- the burden of complying with the laws of a variety of jurisdictions;
- fluctuations in currency exchange rates and interest rates;
- changes in political and economic stability;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights in certain countries.

Any of these factors could materially and adversely affect our future revenues, operating results and financial condition.

The financial distress of our suppliers and competitors may have a negative impact on us

Due to the slow down in the industry internationally and the resultant overcapacity globally, a number of our suppliers and competitors are financially distressed. If major suppliers collapse it may make it more costly to manage the ongoing expansion of our networks, systems and products and more difficult to manage the operations and maintenance of our existing networks, systems and technology. This may have a negative impact on our financial position and operations. In addition, because of financial distress, some carriers and providers who have purchased wholesale telecommunications services from us may not be able

Key Information

to continue operating or may become insolvent. This may impact our revenue and/or bad debts, as we may not be able to collect amounts owing to us from these companies.

Cautionary statement regarding "forward-looking statements"

Some of the information contained in this annual report may constitute forward-looking statements that are subject to various risks and uncertainties. These statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "continue", "plan", "intend", "believe" or other similar words. These statements discuss future expectations concerning results of operations or of financial condition or provide other forward-looking information. Our actual results, performance or achievements could be significantly different from the results expressed in, or implied by, those forward-looking statements. Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this annual report are set forth above under the caption "Risk factors" and elsewhere in this annual report. Given these risks, uncertainties and other factors, you should not place an undue reliance on any forward- looking statement, which speaks only as of the date made.

Information on the Company

History and development of the Company

Our origins date back to 1901, when the Postmaster-General's Department was established by the Commonwealth Government to manage all domestic telephone, telegraph and postal services, and to 1946, when the Overseas Telecommunications Commission was established by the Commonwealth Government to manage international telecommunications services. Since then we have been transformed and renamed several times as follows:

- the Australian Telecommunications Commission, trading as Telecom Australia, in July 1975;
- the Australian Telecommunications Corporation, trading as Telecom Australia, in January 1989;
- the Australian and Overseas Telecommunications Corporation Limited in February 1992;
- Telstra Corporation Limited in April 1993, trading internationally as Telstra; and
- trading domestically as Telstra in 1995.

We were incorporated as an Australian public limited liability company in November 1991. Following the opening of Australia's telecommunications markets to full competition in July 1997, we underwent a partial privatisation in November 1997 under which the Commonwealth sold approximately 33.3% of our issued shares to the public. Following the initial privatisation, those of our shares that are not held by the Commonwealth are quoted on the Australian Stock Exchange and on the New Zealand Stock Exchange. American depositary shares, each representing five shares evidenced by American depositary receipts, have been issued by the Bank of New York as depositary (Depositary) and are listed on the New York Stock Exchange.

A further global offering by the Commonwealth of up to 16.6% of our issued shares was launched in September 1999. The shares sold by the Commonwealth were also listed on the Australian Stock Exchange, the New Zealand Stock Exchange and the New York Stock Exchange on 18 October 1999. The Commonwealth currently owns approximately 50.1% of our issued shares and it is required by legislation to own at least that much.

Organisational structure

In January 2003, our organisational structure changed. In particular, the three previous product focussed groups of Telstra Retail, Telstra Mobile and Telstra Country Wide were realigned to better serve customer needs for convenient and effective contact and service from Telstra.

From 1 January 2003, our organisational structure consisted of eight strategic business units and three corporate centre business units as outlined below.

Strategic business units

- **Telstra Consumer and Marketing** is responsible for serving metropolitan consumer and small business customers with our full range of products and services including fixed, wireless and data, the overall management of Telstra's brands, advertising and sponsorships, the management of fixed and mobile products and implementing our product bundling initiatives.

- **Telstra Business and Government** is responsible for serving our corporate, medium enterprise and Government customers with the full range of Telstra products and services of interest to this group of customers. This business unit also includes Customer Care and product management groups.

Information on the Company

- **Telstra Country Wide** is responsible for providing telecommunications services to customers in outer metropolitan, regional, rural and remote parts of Australia. This business unit was formed in June 2000 with the aim to establish a strong presence and grow our business in regional Australia. In January 2003, Telstra Country Wide assumed responsibility for an additional 10 communities in Queensland, the Australian Capital Territory, New South Wales and Victoria.
- **Telstra Broadband & Media**, a new business unit established in January 2003, is responsible for our broadband and online services business BigPond™, our advertising, directories and information services business Sensis and Telstra Media (including our FOXTEL investment).
- **Telstra Wholesale** provides wholesale products and services to the Australian domestic market. Telstra Wholesale provides a wide range of products and services including fixed, wireless, data and internet, transmission and IP, interconnection, access to our network facilities and retail/rebill products. The integration of Telstra's wholly owned subsidiary, Network Design and Construction Ltd (NDC), resulted in the NDC marketing and sales function serving external customers to Telstra joining Telstra Wholesale on 1 July 2003.
- **Telstra International** manages our international interests, including Hong Kong CSL Limited and our joint venture REACH in Hong Kong. It also directs our offshore growth strategy, with a current focus on enhancing the value of our existing investments and rationalising the investments that are non-core to Telstra.
- **Infrastructure Services** operates and maintains our telecommunications infrastructure. It supports our domestic retail and wholesale business units that in turn serve the end retail and wholesale market. Infrastructure Services is responsible for the provisioning, restoration, operation and management of our fixed, mobile, IP and data networks. This includes voice and data, product and application platforms and the online environment. As Telstra's primary service provider, Infrastructure Services is a fully integrated service business and aims to maximise the growth of our domestic retail and wholesale business while maintaining a competitive cost position.
- **Telstra Technology** (previously known as Networks and Technology Group) was established in August 2002 as the core product technology group in Telstra. It develops and supports products specified by our market facing business units. Underpinning the products is a range of technologies which are optimally designed and implemented to provide the best outcome for Telstra and our customers. Telstra Technology also undertakes substantial research and development to ensure that Telstra remains at the forefront of technology in Australia.

Corporate centre business units

- **Finance & Administration** is responsible for mergers and acquisitions and corporate policy and support functions including finance, risk management and assurance, shared services for processing functions, credit management, treasury, investor relations, acquisitions and divestments, productivity directorate, information technology and other corporate services. In addition, it is responsible for strategic planning and management of Telstra's investment portfolio and the financial management of the majority of our fixed assets, including network assets, through the Asset Accounting Group.
- **Legal & Office of the Company Secretary** provides legal and company secretarial services across Telstra. It is also responsible for corporate security and liaison with law enforcement agencies.

Information on the Company

- **Regulatory, Corporate & Human Relations** manages corporate communications and public affairs across Telstra including media relations, employee communications, corporate image and reputation and external relations including Government affairs. It also manages personnel, organisation effectiveness, health and safety, environment, remuneration, training and leadership development programs. In addition, it has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to industry regulators, as well as facilitation of regulatory compliance through the provision of advice and a regulatory compliance assurance program.

On 3 September 2003, we announced further changes to our organisational structure to continue aligning our structure with customer needs and our corporate strategy. A new group called Telstra Technology, Innovation and Products has been formed which brings together Telstra Technology with business unit product development areas, network technologies, IT systems and Telstra Research Laboratories. A further new group called Corporate Development has also been formed, with responsibility for investor relations, mergers and acquisitions, business development and corporate strategy. These organisational changes take effect from 1 October 2003.

Our organisational structure for financial reporting purposes has evolved over recent years to meet our business needs and has included the following:

- in fiscal 2001, the business unit reporting structure consisted of Telstra Retail (including Telstra Country Wide), Telstra OnAir, Telstra International and Infrastructure Services & Wholesale;
- in fiscal 2002, the business unit reporting structure consisted of Telstra Retail, Telstra Country Wide, Telstra Mobile (previously Telstra OnAir), Telstra International, Infrastructure Services (including Networks & Technology Group which was separated in August 2002) and Telstra Wholesale. We combined Telstra Retail and Telstra Country Wide as a single reportable business segment as they were considered substantially similar; and
- in fiscal 2003, Telstra Retail, Telstra Mobile and Telstra Country Wide were restructured. The scope of Telstra Country Wide was increased and two new groups were formed, being Telstra Consumer and Marketing and Telstra Business and Government. These three groups form their own reportable segments for financial reporting purposes. Telstra Broadband & Media, which was also established in fiscal 2003, does not form its own reportable segment and is included in "Other" in the segments contained in note 5 to our financial statements. Telstra International, Infrastructure Services (including Telstra Technology) and Telstra Wholesale have remained unchanged.

See "Operating and Financial Review and Prospects - Segment information" for a discussion of the financial performance of our reportable segments during the last three fiscal years. Note 5 to our financial statements also provides information on our reportable business segments.

A list of our controlled entities is provided in note 23 to our financial statements. Our joint venture entities and associated entities are listed in note 24 to our financial statements.

Marketing and customer service

From supplying Australia's largest public and private sector organisations, to supplying people who use our services at home, Telstra is Australia's leading fully integrated telecommunications company, providing more than 10.3 million Australian fixed line services and more than 6.5 million mobile services.

Using sophisticated customer analytics, we target our offers, advertising and customer contact based upon our customers' needs. This has helped us to understand their needs and consequently improve our relationships with our customers, which has become one of our key competitive advantages.

Information on the Company

Residential customers and small businesses

We segment our residential customers based upon their usage and lifestyle patterns. We segment our small business customers according to the type of business they operate and the way they interact with their customers. This information on customers by segment is then used to tailor our marketing campaigns.

We enable customers to interact with us online, through door-to-door sales representatives and telephone sales channels and face to face via Telstra Shops, Telstra licensed stores, Telstra Business Shops, Telstra kiosks and indirectly through more than 5,000 retail outlets nationwide in conjunction with our retail partners.

Medium and large businesses and Governments

To help identify businesses' key drivers and develop appropriate telecommunications packages, business customers have been segmented by size and industry: medium and large businesses and Australian Federal, State and the Australian Capital Territory Governments. We offer a range of targeted telecommunications solutions to all of our customer segments focussing on the unique communications needs of each customer group.

This year, Telstra Business and Government restructured its sales force to be more focussed and responsive to our customers' requirements. Significant focus has also been placed on education of our staff to equip them to better service the needs of a growth area of our business, data products and solutions. In particular, our account managers and communications consultants have received detailed training to improve their technical skills.

Regional, rural and remote customers

Telstra Country Wide was established to improve service levels, business performance and to strengthen relations with customers and communities in regional, rural and remote areas of Australia. Thirty-five regionally-based area general managers address the sales, marketing and service needs of our customers.

Wholesale customers

Our wholesale customers include licensed carriers, carriage service providers and internet service providers (ISPs). Telstra Wholesale provides products and services to more than 620 customers, including approximately 500 ISPs.

Wholesale customers typically buy products and services from Telstra Wholesale, add their own inputs and then sell to the retail market, but also include other wholesalers. Telstra Wholesale seeks to grow the industry by building strong commercial partnerships, providing appropriate product solutions and continually improving our customer services. We will continue to extend our wholesale product range and improve our online ordering, billing and assurance processes. We now provide our customers automated online services via our website, www.telstrawholesale.com.

Advertising customers

Sensis Pty Ltd (Sensis), our wholly owned subsidiary, is a leading Australian advertising directories and information services provider. Sensis provides print, voice, online and wireless products and services to more than 400,000 customers nationally, including small and medium enterprises, large corporates and Governments.

Sensis manages two of Australia's leading brands, Yellow Pages® and White Pages®, along with the CitySearch® *OnLine* city guide, the Whereis® mapping and guidance site and the GOeureka™ internet search engine.

Information on the Company

Global business solutions

We have business offices in the Asia Pacific region, Europe and the US to support local, regional and global telecommunications requirements for multinational corporate customers. Together with our partners and alliances, we have the network capabilities that offer customers access to more than 230 countries and territories across the globe. We provide total network solutions including dedicated consulting, planning, project management, system integration and customer support seven days a week.

Products and services

We offer a broad range of telecommunications and information products and services to a diverse customer base. The following table shows our operating revenue by major product and service category and as a percentage of total operating revenue for the last three fiscal years. See also "Operating and Financial Review and Prospects" for a discussion of the revenue performance of our products and services during the last three fiscal years.

Operating revenue by product and service category, including percentage of total operating revenue contributed by each product and sales category

	Year ended 30 June					
	2003		2002		2001	
	(in millions, except percentage of revenue)					
	A$	% (2)	A$	% (2)	A$	% (2)
Basic access	**3,091**	**14**	2,880	14	1,955	8
Local calls	**1,567**	**7**	1,643	8	1,915	8
PSTN value added services	**272**	**1**	261	1	263	1
National long distance	**1,162**	**5**	1,216	6	1,267	5
Fixed-to-mobile	**1,517**	**7**	1,419	7	1,287	6
International direct	**307**	**1**	336	1	338	1
Mobile services	**3,227**	**15**	3,242	16	2,906	13
Mobile handsets	**381**	**2**	226	1	213	1
Data	**1,053**	**5**	1,051	5	1,192	5
ISDN (access and calls)	**951**	**4**	1,037	5	1,094	5
Internet and IP Solutions	**802**	**4**	605	3	425	2
Sensis (advertising and directories)	**1,217**	**6**	1,135	5	909	4
Customer premises equipment	**202**	**1**	220	1	274	1
Intercarrier services	**1,170**	**6**	1,124	5	1,132	5
Inbound calling products	**494**	**2**	562	3	657	3
Solutions management	**487**	**2**	477	2	428	2
Various controlled entities	**1,836**	**9**	2,001	10	1,342	6
Payphones	**148**	**1**	154	1	166	1
Other sales and services	**611**	**3**	607	3	916	4
Sales revenue	**20,495**	**95**	20,196	97	18,679	81
Other revenue (1) (excluding interest income)	**1,121**	**5**	606	3	4,304	19
Total operating revenue (excluding interest income)	**21,616**	**100**	20,802	100	22,983	100

(1) *Other revenue includes revenue from sale of assets/investments, dividends received/receivable and miscellaneous revenue. Interest received/receivable is included in net interest.*

(2) *Represents percentage of total operating revenue contributed by each product and service category.*

Information on the Company

Revenues are derived from domestic and international sales as follows:

	Year ended 30 June		
	2003	2002	2001
		(in %)	
Australia	91.0	90.1	92.8
Hong Kong	4.4	5.3	2.6
New Zealand	2.7	1.5	-
Other International	1.9	3.1	4.6

No individual country makes a material contribution to revenue other than Australia, Hong Kong and New Zealand.

Basic access

We provide basic access services to most homes and businesses in Australia. We also sell access services to carriage service providers who then sell these services to their customers. Our basic access service consists of installing, renting and maintaining connections between our customers' premises and our PSTN to provide basic voice, facsimile (including services marketed under our FaxStream® brand name) and internet services. Our basic access service does not include enhanced products like ISDN access and ADSL services. These are recorded under "Data and internet services".

We charge our customers fees for connecting new lines and reconnecting existing lines. We charge all our residential customers approximately the same rates for basic access service even though it is more expensive for us to provide basic access service in rural areas.

Housing growth and customer requirements for additional basic access lines drives demand for residential basic access lines. The number of basic access lines in service has decreased in recent years but this has been offset, to some extent, by our success in encouraging customers to adopt alternative access services that have more capabilities, such as ISDN services and new internet access products using ADSL technology. Growth in the number of home offices and increasing demand for integrated voice and data services has caused some of our customers to switch to these alternative access services.

We market additional lines in areas where we have capacity available and in other areas we augment our network capacity with a range of technologies, including ADSL. We continue to target and selectively upgrade our customer access network as part of a network plant lifecycle maintenance program to reduce the number of faults and thereby improve our service levels. This upgrade has also assisted us to meet the demands for service in a more timely way and provide our network with additional capacity for further growth in the volume of lines.

Local calls

We provide local call services to most residential and business customers in Australia and we generally charge for local calls on an untimed call fee basis. We also provide local call services to carriage service providers at a commercially negotiated or regulated rate. These carriage service providers resell local call services and bill their customers directly.

National long distance calls

We are the leading provider of national long distance services in Australia. This comprises national long distance calls made from our PSTN network by residential and business customers to a fixed network. We also provide national long distance services to other carriers for resale.

Information on the Company

We charge for national long distance calls on a timed basis after a call connection fee. Charges usually depend on the duration, destination, time of day and day of the week of the call but are also offered on a capped price basis. We offer a suite of calling options to allow customers to choose the package most suitable for their individual needs. In addition, we offer a variety of specials to increase the use of our network in low demand periods.

Fixed-to-mobile calls

Fixed-to-mobile calls are calls made from our PSTN network to a mobile network. We charge for fixed-to-mobile calls on a timed basis after a call connection fee. Charges usually depend on the duration and time of day or day of the week of the call and whether or not the mobile called is a Telstra mobile service. We also offer capped calls on some of our package options during certain times and on specified days of the week for calls made to Telstra mobile services.

International telephone services

We are the leading provider of international telephone services in Australia offering customers international telephone services to more than 230 countries and territories. In addition, through REACH we offer international outbound telephone services on a wholesale basis.

We generally charge for international telephone calls on a per second basis after a call connection fee. The charge usually depends on the duration of the call and the destination of the call.

REACH now provides the connections we use to supply international services to our wholesale and retail customers. Prior to the creation of REACH, inbound and outbound traffic on the international network was delivered largely under bilateral contracts with major overseas carriers. We now have services agreements with REACH to cover these arrangements. REACH pays us for international traffic that terminates in Australia. These termination charges are based on the cost of delivering traffic to destinations in Australia using the domestic network. For more information regarding our arrangements with REACH, refer to "Operating and Financial Review and Prospects - international business ventures".

Mobile goods and services

We continue to be the leading provider of mobile telecommunications services in Australia in terms of mobile revenue, the number of customers and the geographical coverage area of our network.

The mobile telecommunications market in Australia is characterised by a significant degree of penetration and we estimate that market penetration as at 30 June 2003 was approximately 72%. With our evolution into mobile data products, we also provide our customers with a range of messaging, information, transaction and entertainment services. We are increasingly offering our business customers a variety of wireless data applications that enhance productivity.

The Australian mobiles market is highly competitive. To compete in this market, we rely on:

- our innovative marketing plans;
- our network coverage and quality;
- using a number of different distribution methods to deliver our products and services to our customers; and
- our well-known and trusted brand name.

Information on the Company

Our mobile telecommunications services include:

- digital cellular services;
- sales of mobile handsets; and
- a wide range of added features and functions for communication via voice or data.

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

- MessageBank®;
- Call Waiting;
- Call Forwarding;
- Calling Number Display;
- mobile facsimile and data services;
- Memo;
- Call Connect;
- International Roaming;
- Short Messaging Services (SMS) including PocketNews®;
- Multi Media Messaging (MMS);
- Wireless Application Protocol (WAP) services, including content such as financial information, sports, e-mail, weather, flights and directories;
- packet data services using GPRS and One Times Radio Transmission Technology (1xRTT); and
- other entertainment and information services available through telstra.com® and communic8®.

Our wholly owned subsidiary Hong Kong CSL Limited (CSL) is also a leading provider of mobile services in Hong Kong. CSL's history of technical innovation in areas such as MMS provides great learning opportunities for us and will produce opportunities in the Australian and international markets. For further information on CSL, see "Information on the Company - International investments".

GSM digital service

Our digital GSM network covers more than 96% of the Australian population. We have continued to expand our digital GSM coverage into regional centres and along highways that link regional centres. We have also focussed on improving depth of coverage in major cities, particularly in-building and underground coverage. We offer international roaming in more than 120 countries.

We offer our GSM customers a wide selection of products and services giving them maximum flexibility and choice. Customers are rewarded for their usage and loyalty through prices that reduce the more time they spend on calls and through monthly loyalty bonuses (on member plans) that may be used towards the cost of a handset or to reduce their monthly bill.

CDMA digital service

Our CDMA network offers the largest cellular mobile phone coverage area in Australia, reaching more than 1.4 million square kilometres using an external antenna and covering more than 98% of the Australian population. CDMA has a number of advantages over GSM in some applications for users who require wider service coverage and faster data speed than circuit-switched GSM. Customers are increasingly connecting to our CDMA network and it is one of the fastest growing areas of the mobile business.

Information on the Company

Telstra Mobile Satellite

In fiscal 2002, we launched Telstra Mobile Satellite which is a hand-held mobile satellite voice and data service for people living, working or travelling in rural and remote Australia. The service operates off the Iridium^ Low Earth Orbit satellite system which provides global mobile satellite phone coverage. We have signed a service partner agreement to sell the Iridium^ service including handsets, antennas and airtime.

3G wireless service

In December 2002, we launched Australia's first commercial third generation (3G) mobile service which is based on 1xRTT on our CDMA network. 1xRTT is a 3G development of CDMA technology for high speed packet switched data. In March 2003, we launched Telstra Mobile Loop® on 1xRTT to customers which features downloadable games and ringtones, e-mail access and picture messaging.

As at June 2003, 1xRTT was available in Melbourne, Sydney, Canberra, Brisbane, the Gold Coast and Sale, Victoria. By September 2003, it is planned to extend coverage to Perth, Adelaide, Hobart, Launceston, Darwin, the Sunshine Coast and along the Hume Highway between Melbourne and Albury. By September 2003, we expect every capital city and some high population corridors adjacent to those capital cities to have 1xRTT capability.

Data and internet services

We provide new generation data and internet services such as:

- broadband and narrowband services for consumers and small businesses through Telstra's ISP, BigPond™;
- business grade internet solutions;
- IP Solutions; and
- domestic and international frame relay and ATM products.

We also provide data and specialised services such as ISDN, digital data services, voice grade dedicated lines, transaction/EFTPOS services and video and audio network services.

Our retail strategy for data and internet services is to:

- enhance and improve service delivery of existing data services;
- develop innovative new generation IP and internet services, including DSL services for business;
- work with customers as they require migration from existing data services to new generation data and internet services;
- enhance our hosting, storage, security and application services; and
- expand our range of managed solutions.

In relation to internet services, one of our key focuses is on broadband and our goal is to provide broadband services through our retail and wholesale channels to 1 million broadband SIOs by December 2005 and to achieve $1 billion in broadband revenue by December 2006.

Our retail focus through BigPond™ is to:

- increase customers by offering products and services that provide compelling and customer friendly solutions;
- excite, educate and convert customers to broadband through focused marketing campaigns; and
- convert sales opportunities for broadband through existing channels and explore new sales channels.

Information on the Company

We offer a range of internet products and packages under our BigPond™ brand. Telstra BigPond™ Home and Business offer dial-up modem and ISDN internet services to residential and business customers across Australia. Telstra BigPond™ Broadband provides broadband internet services to consumer and business customers via hybrid fibre coaxial cable, satellite or ADSL access technologies. In addition, Telstra Internet Direct provides business customers with high quality dedicated internet access within Australia at transmission rates up to 1 Gbps.

We also provide wholesale internet access products for use by ISPs and carriage service providers. Our wholesale focus through Telstra Wholesale is to:

- foster broadband take up;
- enhance the product range to meet service provider needs;
- develop innovative solutions that enable new broadband services to be offered; and
- drive network enhancements to support uptake.

Other data services

We offer other data services, in some cases with business partners, including:

- games-based entertainment, children's education and online music services;
- conferencing services that provide audio, video and internet conferencing (including the Conferlink® product range); and
- administration and support services to funds managers for their back office administration and asset management operations.

Online services

In March 2000, we announced the availability of our online communications hub, telstra.com®. Since this launch, the communications hub has grown substantially, from around 565,000 subscribers in June 2000 to more than 1,300,000 subscribers as at 30 June 2003.

telstra.com® provides access to a number of services and features including:

- information about our products and services;
- current Telstra corporate and investor relations information;
- access to online messaging applications such as web-based e-mail and online SMS;
- the ability to view and pay Telstra accounts online, as well as order Telstra products and services; and
- acting as a springboard to our ISP business – Telstra BigPond™.

Extensive work has been undertaken in fiscal 2003 to further develop telstra.com® to enhance it as an effective channel to market our products and services.

Advertising, Directories and Information services

We are a leading provider of advertising, directories and information services to consumers, small and medium enterprises, corporations and Governments through our advertising business and wholly owned subsidiary Sensis. Sensis was formerly known as Pacific Access Pty Ltd and was rebranded Sensis on 19 August 2002.

Sensis delivers targeted, multi-channel solutions incorporating directories advertising, non-directories advertising and information services.

Directories advertising incorporates the White Pages® (available in print and online) and Yellow Pages® directories (available in print, online and voice) and provides a vast array of advertising formats to meet the varying needs of businesses and Governments.

Information on the Company

Non-directories advertising incorporates the CitySearch® city guide, Sensis WebWorks™ web site development and management service and Sensis MediaSmart™:

- the CitySearch® site is an online city guide and is positioned as the premier provider of local information on topics ranging from restaurants and shopping to travel and professional services;
- the Sensis WebWorks™ product offers small and medium enterprises a simple template-based online solution with which to build their business website; and
- Sensis MediaSmart™ is a core non-directory online advertising business, managing online advertising campaigns across all Sensis online sites and leading external sites such as AFL.com.au, travel.com.au and asx.com.au.

The information services portfolio leverages our advertising and content management capabilities to create specific solutions for Governments and the corporate sector. These solutions include the Whereis® portfolio of location and navigation products which delivers detailed street directory and geo-mapping functionality via a range of electronic channels, the MacroMatch® service which uses White Pages® data to help companies 'cleanse' their databases of incorrect contact information and the *Electronic* White Pages® solution which delivers high speed access to White Pages® information.

Our commitment to customers has led to the development and launch this year of the Sensis Customer Charter. Sensis is, in fact, the world's first directory company to make this commitment to its customers and the implementation of the charter is already driving substantial improvement in our customer service and delivery processes.

Our print operations, which have driven client value for over 100 years, are now being successfully enhanced and extended through the development of a growing portfolio of new media offerings. Sensis will continue to achieve solid, sustainable growth through our ongoing focus on product innovation, enhancing our go-to-market capabilities and sales excellence.

Customer Premises Equipment

We provide telephone, data and other telecommunications equipment for rental or sale to our customers. In fiscal 2003, Telstra and Commander Australia Ltd (Commander) finalised an agreement that changed the relationship between the parties. As a result of this, Telstra will no longer be limited in dealing with key telephone systems exclusively with Commander. Telstra will offer a wider choice of equipment to better address customer requirements. These new arrangements will enable Telstra to enhance its position in the business market.

Intercarrier services

We provide telecommunications services to other carriers and carriage service providers. Many new competitors have entered the Australian telecommunications market and as the Australian telecommunications market expands, demand for our intercarrier services may increase. The prices we charge other carriers and carriage service providers are mostly regulated.

Inbound and contact centre solutions

We offer inbound call services including:

- Freecall™ 1800, a reverse charge call service used widely by large and small businesses to extend their market reach and attract sales;
- Priority® One3, a shared cost service offering a 6 digit national number used by larger businesses as a front door to their contact centres and franchise operations for service calls;

Information on the Company

- Priority® 1300 services, a shared cost service offering a 10 digit number, similar to the Priority® One3 service, used when a short number format is not required;
- Contact centre enablement services, including network-based interactive voice response (IVR), computer telephony integration (CTI), call routing services and online customer selection menus; and
- InfoCall® 190, a telephone premium rate service where we bill the calling customers for both content and carriage on our bill and undertake a revenue share arrangement with the service provider.

We also supply a range of products to our consumer and business customers that offer alternative billing options including prepaid cards, automated reverse charging and calling cards.

Services solutions

We provide management of all or part of a business customer's IT and telecommunications services including management of each of the following:

- managed voice services: our network based enhanced voice and data switching products, IP products and the provision of related professional services;
- managed data services: our core data products including IP-based network solutions, ATM, frame relay, ISDN, ADSL and dedicated data network, equipment and the provision of professional services;
- managed contact services: a customer's call or contact centre including network services, equipment and third party hardware/applications and professional services;
- managed mobility services: fleet management of mobile phone networks and new wireless based technologies such as wireless Local Area Networks (LANs);
- managed IT services: IT based products and services including firewalls, desktops, peripheral services and application service products; and
- whole of business solutions: complex once off or whole of business solutions incorporating a range of the above services.

Other sales and services

Our other sales and services mainly include payphones, domestic information and connection services, video and teleconferencing and audio and video services.

We provide information and connection services through a number of call centres in Australia and through the White Pages® *OnLine* and Yellow Pages® *OnLine* sites. We provide voice recognition technology to allow the automation of more than 2,400 of the most frequently requested numbers. In fiscal 2003, we responded to over 248 million calls with the majority of these basic operator services being provided without charge to the customer. For the last four years we have charged for directory assistance services provided to mobiles and business customers. We cannot charge or amend charges for our directory assistance services without the approval of the Communications Minister.

Payphones

We are the leading provider of payphones in Australia. As at 30 June 2003, we operated approximately 33,400 public payphones. Other private operators have approximately 34,200 payphones that are connected to a payphone access line provided by us. Our Universal Service Obligation requires us to make payphone services reasonably accessible throughout Australia including in non-metropolitan and rural areas. Approximately half of our public payphones are in these areas.

Information on the Company

Wholesale services

In addition to providing products for resale, we provide a range of other products specifically tailored for wholesale customers. These include:

- interconnection services, including originating and terminating access to our fixed and mobile networks, preselection services and access to our network facilities such as ducts, towers and exchange space;
- domestic and international transmission services, including leased lines;
- broadband, IP backbone and traditional data services;
- mobile telecommunications services; and
- network design and construction services.

Both GSM and CDMA mobile products and services are offered to our wholesale customers.

We also manage and deliver a wide range of customer processes for wholesale customers. These include product and service provisioning, ordering and activation, billing, fault reporting and end user and product transfer.

Subscription television

We own 50% of FOXTEL, with Publishing & Broadcasting Ltd (PBL) and The News Corporation Limited (News Corporation) each owning 25%. The FOXTEL partners have committed, with very limited exceptions, to confine their involvement in the provision of subscription television services in Australia to participation in FOXTEL. PBL and News Corporation have made long term programming commitments to FOXTEL.

FOXTEL has entered into various program supply arrangements, including some with minimum subscriber fee commitments. Refer to "Operating and Financial Review and Prospects – Contractual obligations and commercial commitments" for further details regarding our exposure to these commitments.

We are the exclusive long-term supplier of cable distribution services for FOXTEL's cable subscription television services in our cabled areas and we receive a share of FOXTEL's cable subscription television revenues. We can independently, or through partnerships and alliances, provide a broad range of communications, data and information services to other parties using our broadband network.

Under arrangement with the FOXTEL partners, FOXTEL may provide, in addition to subscription television services, a range of information and other services.

In fiscal 1999, FOXTEL introduced a commercial satellite service which enables subscription television to be delivered to approximately two million homes not passed by our broadband cable, excluding homes in areas serviced by the Australian subscription television provider Austar United Communications Limited (Austar). FOXTEL has licensed movie programming to Austar for delivery in most areas serviced by Austar on an exclusive basis, with the effect that FOXTEL may not provide a service containing this programming in those areas.

FOXTEL has the exclusive subscription television rights to the Australian Football League (AFL) matches. The AFL is a major component of sports viewing in Australia. Under the terms of the agreement negotiated with the AFL in 2001, FOXTEL has acquired the exclusive subscription television rights to all AFL matches for a term of five years commencing in 2002. The agreement also obliges FOXTEL to offer some form of AFL to the other subscription television operators, namely Austar and Optus Vision. However, FOXTEL is free to set the charge for such a service.

On 1 December 2002, Telstra commenced bundling FOXTEL's subscription television service with telephone and internet services and charging customers for them on a single Telstra bill.

Information on the Company

Also on 1 December 2002, SingTel Optus commenced reselling FOXTEL subscription television channels on the Optus Vision cable network. Under this agreement, FOXTEL assumed some of Optus' rights and financial obligations under its movie and other content arrangements. FOXTEL also supplies some Optus Vision content over the FOXTEL platforms. This arrangement will run until 2010.

In March 2003, Telstra entered into an agreement with Austar to resell Austar subscription television services (subject to certain approvals). These arrangements (together with our FOXTEL arrangements) will allow Telstra to provide a residential subscription television package to most areas in Australia regardless of geography. Subject to approval from the Australian Competition and Consumer Commission (ACCC), we intend to commence reselling Austar subscription television on 1 October 2003.

A discussion of competition in the subscription television services market is contained in "Competition and Regulation – Subscription television".

International investments

Our major international investments include:

- CSL, our wholly owned subsidiary that is one of Hong Kong's leading mobile operators with over one million customers and a market share of around 17%. CSL focuses on attracting and retaining high value customers and through its mobile brands, 1O1O and One2Free, CSL continues to offer its customers a highly targeted range of innovative mobile services;
- TelstraClear Limited (TelstraClear), the second largest full service carrier in New Zealand that provides innovative voice, data, internet, mobile, managed services and cable television products and services to more than 12% of the New Zealand market. On 9 April 2003, we moved to full ownership of TelstraClear by acquiring the remaining 42% shareholding from Austar. New Zealand is a strategically important market for our trans-Tasman customers and this investment enables these important customers to receive the same end-to-end services that we provide in a seamless way; and
- REACH, a 50:50 joint venture with PCCW and one of the leading wholesale providers of combined voice, data and internet connectivity services in the Asia-Pacific region. REACH has an interest in over fifty submarine cable systems, as well as landing rights, backhaul, operating licenses and bilateral agreements in most major international markets.

We also have a number of smaller offshore investments and joint ventures which include:

- a 35% equity interest in the satellite communications operator, Xantic B.V. (formerly Station 12 B.V.) that is headquartered in the Netherlands;
- a 39.9% equity interest in Australia-Japan Cable Holdings Limited, a network cable provider based in Bermuda; and
- a 20.4% equity interest in Mitra Global Telekomunikasi Indonesia (MGTI), a fixed line operator in central Java, Indonesia.

We are also evaluating business opportunities in the Asian region where we have established presence and operational experience. In particular, we continue to explore opportunities in China and we have entered into an agreement with the Beijing Organising Committee for the Games of the XXIX Olympiad to act as the adviser for the provision of telecommunications consultancy services for the 2008 Beijing Olympic Games.

Capital Expenditures and Divestitures

For a discussion of the significant capital expenditures and divestitures we made in the preceding three year period, refer to "Operating and Financial Review and Prospects – Liquidity and capital resources".

Information on the Company

Networks and systems

One of our major strengths in providing integrated telecommunications services is our vast geographical coverage through both our fixed and mobile network infrastructure. This network and systems infrastructure underpins the carriage and termination of the majority of Australia's domestic and international voice and data telephony traffic. This large, diverse network is monitored and supported through a largely centralised global operations centre, which has a fully tested recovery plan that enables network management to be transferred to an alternate location in the event of an unforeseen disaster.

Ongoing substantial investment of both capital and resources is required to ensure that we maintain this leading position from both a technology and industry position. An example of how this requirement has been effectively met through fiscal 2003 is Telstra's investment in the Voice on Packet Core technology. In mid 2002, Telstra commenced work on a new IP-based telephony product called Telstra IP Telephony, targeting enterprise customers. The new product and underlying "softswitch" platform will provide hosted PBX-style call features (including both traditional telephony features and new multimedia features) to business users over their existing IP LANs and Wide Area Networks (WANs).

Research and development

Telstra reviews its project expenditure at the end of each financial year to determine actual spend on research and development and our reviews show that we spent an estimated $187 million in fiscal 2003, A$170 million in fiscal 2002 and A$217 million in fiscal 2001 on research and development. For a detailed discussion of our research and development refer to "Operating and Financial Review and Prospects – Research and development".

Transmission infrastructure

Our national transmission infrastructure consists of both terrestrial and non-terrestrial transmission systems. Our domestic terrestrial systems are almost exclusively digital and use approximately 3.5 million kilometres of optical fibre and more than 2,100 digital radio systems. Our major transmission routes incorporate Synchronous Digital Hierarchy technology. In fiscal 2003, we completed construction of an extensive Dense Wave Division Multiplexing (DWDM) network from South Hedland through Perth, Adelaide, Melbourne, Sydney, Brisbane and onto Cairns with links to Darwin and Tasmania as well.

In addition, we have selected suppliers for the provision of 10G/Bit DWDM systems in our network. We are examining proposals to implement this technology on the Perth to Adelaide, Adelaide to Melbourne, Melbourne to Sydney and Sydney to Brisbane routes when required. We are also examining potential lease options for these routes as an alternative to building our own capacity.

During fiscal 2003, we completed the installation of a second optical fibre cable from Victoria to Tasmania which will provide additional transmission capacity and further mitigate the risk of communications failure on key communications links to and from Tasmania.

Our international switching and transmission requirements are provided by REACH which owns international gateway switches in Sydney and an expanding network of switches across Asia, North America and Europe to augment its state-of-the-art global data/IP system. REACH operates the largest and most highly meshed IP backbone network in Asia and has investment interests in more than 50 submarine cable systems worldwide.

REACH uses satellite communication systems to supplement international traffic capacity where undersea cables are not feasible and to provide route diversity and circuit redundancy, as well as specialist satellite-based applications. REACH owns satellite earth stations in Australia and Hong Kong, including the largest satellite teleport in Asia.

Information on the Company

Public Switched Telephone Network (PSTN)

Australia's geographic characteristics provide unique challenges for the provision of nationwide digital PSTN coverage. These challenges are being overcome by innovative application of a range of modern technologies. Over 300 major digital switching nodes are interconnected by state-of-the-art transmission systems and handle traffic from customers connected to more than 10,000 access sites. A combination of copper, fibre optic, radio and satellite technologies are used to achieve end-to-end connections. Access to the world is achieved through REACH's international gateway switches and our intelligent network platforms provide advanced services including toll-free and calling card products.

A trial of CDMA-based wireless local loop equipment is now complete and Telstra has begun the deployment of this technology in regional Australia as part of its contract with the Commonwealth Government to improve communications in extended zones. This technology will soon be more widely used to provide telephony access for customers to whom traditional copper pair access is unavailable or impracticable. The application of such technologies is aimed at providing economic solutions to previously difficult situations while meeting service standards.

The PSTN supports voice, facsimile and data products and the rapid growth in popularity of the internet has changed PSTN usage, influencing capacity considerations. The Telstra PSTN now handles more minutes of data and internet traffic than voice traffic. The combination of new broadband access services and growth in dial-up internet usage, messaging services and mobile telephony is leading to convergence of voice and data in the longer term. This will provide a solid base for seamless transition to future convergent service provision.

Our network supports a range of switch features which facilitate voice calls. These could include products like Homeline™ Features such as Call Waiting, Call Return, Abbreviated Dialling and Virtual Private Networks (VPN). New types of telephones and customer premises equipment which make these features more accessible and easy to use are continually entering the market.

The PSTN also supports many operator assisted service products such as directory assistance and CallConnect. We are seeking to enhance these services by automating them with new voice recognition technology.

Integrated Services Digital Network (ISDN)

ISDN is a flexible, switched digital network. The integrated nature of this network refers to the fact that ISDN can support many applications at the same time while using a single access point to the network. The ISDN network supports traditional telephony as well as various data applications such as videoconferencing, internet access and EFTPOS.

The ISDN network is available to approximately 96% of the Australian population. ISDN provides an end to end digital connection that allows Telstra to deliver minimum 64kbps connections to customers.

Intelligent network (IN) platforms

We operate a number of IN platforms that support a range of advanced services including:

- inbound services such as Freecall™ 1800, Priority® One3, Priority® 1300 and InfoCall® 190;
- calling cards (Telecard™);
- prepaid cards (Phoneaway®, Say G'Day™);
- information services numbers;

Information on the Company

- number portability;
- advanced network routing; and
- screening functions.

Our inbound services are important to our major business customers because they support their call centre and customer service operations.

We also operate two additional IN platforms that provide the full range of enhanced features which support our mobile products.

Data networks

We operate a number of data networks including a:

- Switched Data Network (SDN);
- National Transaction Switching Network;
- Digital Data Network (DDN);
- Dial IP Platform; and
- Multi Protocol Label Switching (MPLS) Network.

Our SDN is comprised of approximately 575 switches linked to access multiplexers at more than 120 sites around Australia. The SDN provides:

- public packet switching data services suitable for a wide range of data applications;
- site-to-site and multi-site WAN connectivity;
- national coverage for frame-relay data services from 64kbps up to 45Mbps (subject to available transmission capacity); and
- national coverage for ATM data services, supporting access rates from 2Mbps to 622Mbps (subject to available transmission capacity).

SDN is also the backbone for the IP WAN services, supporting a range of access types from the fixed ATM and frame services for domestic and global use to Dynamic Dial, ADSL, wireless services and value-added features including firewalls, hosting, Messenger, IP Voice and IP Video.

Our retail customers use ATM and frame relay data services on the SDN to build wide-area corporate data networks. Our ATM point to point connections currently range from 64kbps to 152Mbps. Our wholesale customers use the SDN as a key element of their own retail offerings.

Our National Transaction Switching Network is suitable for electronic funds transfer and inventory applications. This network provides dedicated and dial-up access in a secure environment, suitable for transmitting transactions.

Our DDN, with its fully integrated management system, provides dedicated secure site to site transmission at speeds ranging from 1200bps up to 2Mbps. This network has extensive coverage, with more than 2,500 points of presence nationally across Australia for both Telstra retail DDS and Telstra Wholesale Data Access Radial (DAR) products.

In addition, the DDN is the underlying access infrastructure for Telstra's Accelerated Frame Relay product using its large network reach over multiple access technologies such as G.Shdsl, HDSL and optic fibre to enable the customer access into the SDN core network. DDN also supports the declared wholesale product of Data Access Radial which supplies the access for carriers to enable their customers to connect to their own retail offerings.

Information on the Company

Our Dial IP platform supports dial-up access from the ISDN or public switched telephone networks to LANs, WANs and online data applications.

The new Wireless IP product provides easy mobile access to Telstra's IP Solutions via a GPRS capable device such as a mobile phone or a personal digital assistant (PDA) to streamline business for business that is on the move.

Internet Protocol (IP) networks

We operate a national internet backbone network. It is a fully IP-routed network which provides the backbone for all our Telstra Internet Direct services and all Telstra BigPond™ internet offerings, as well as Telstra Wholesale's internet products.

Our internet backbone network connects to the rest of the internet via the international links provided by REACH and connects domestically via peering links with its peer ISPs.

We operate two major internet data centres, one in Melbourne and one in Sydney. The computer server infrastructure in these centres controls access to the network and provides applications including e-mail, news, chat, web hosting and games. The server infrastructure supports real time activation of customers and also provides billing functionality, service monitoring and surveillance. Caching servers are deployed to store and serve often requested internet content so that customers receive faster web page delivery and we are able to contain our internet traffic costs.

We have a platform supporting Telstra Wholesale and Telstra internet services. This has been used to provide a Telstra BigPond™ Home product with universal local call access across Australia. Telstra BigPond™ Home is now available throughout Australia with dial-up access at the cost of a local call.

We deliver our IP Metropolitan Area Network (MAN) and Telstra Ethernet MAN services through an MPLS network that has ethernet switches located in customer buildings and interconnected by a high speed network. IP MAN plus IP WAN together form the network to deploy our IP Solutions products. Telstra is offering a Government IP solution which provides a fibre based IP network for use by Government agencies in metropolitan and regional locations, as well as accelerating the provision of fibre based wideband services by non-Government customers.

We have also extended the core, carrier grade IP network known as the Routed Data Network to sites in metropolitan and some regional areas.

Broadband network

Telstra delivers broadband capability through a variety of technologies using cable modem, ADSL and satellite services.

Our hybrid fibre co-axial cable (HFC) broadband network passes approximately 2.5 million homes and approximately 70% of the network is underground. The optic fibre component of this broadband network consists of two forward and one return path fibres, with nodes capable of serving up to 1,200 customers each.

Information on the Company

The cable network is designed to provide two way transmission for interactive services and high speed data transfer up to 10Mbps. ADSL is a broadband access technology using existing PSTN access infrastructure with speeds up to 1.5Mbps (download) and up to 512kbps (upload). We have three very fast broadband service options available to customers in ADSL enabled areas in Australia:

- an internet service for residential customers that allows customers to use the internet through their existing telephone lines without tying up the phone line or needing an additional line;
- an internet service for companies to provide their staff, offices or branches with remote access capability to the corporate network; and
- a service for ISPs to provide their customers with ADSL internet access.

Since August 2000, we have been rolling out our broadband services and we achieved our target coverage for fiscal 2003 of 955 ADSL enabled exchanges. We also offer satellite broadband services via both a two way satellite service and a satellite download/dialup backchannel in areas of Australia for customers who are unable to access broadband via cable or ADSL.

Mobile telecommunications networks

We own and operate a number of networks for the provision of mobile telephone services that together cover more than 98% of the Australian population. We serve more than 6.5 million SIOs with these networks. Through CSL we also operate mobile services in Hong Kong.

In Australia, our GSM digital network operates in the 900MHz and 1800MHz spectrum band. As at 30 June 2003, our GSM digital network in Australia had approximately 57 mobile switches and base station controllers and in the order of 3,800 base stations nationally. We are continuing to expand the capacity of the GSM network, with more than 200 new base stations established in fiscal 2003 to provide additional capacity and enhance depth of coverage.

The GPRS service is available in the vast majority of our GSM network and provides "always on" data access to WAP and internet information services, as well as access to corporate customers' LANs and intranets.

Our second digital mobile telecommunications network in Australia is based on CDMA technology, with coverage around double the area of the GSM network. It operates in the 800MHz band that our closed analogue network used previously. As at 30 June 2003, our CDMA digital network in Australia had approximately 26 mobile switches and base station controllers and there were in the order of 2,500 CDMA base stations nationally.

Electromagnetic energy (EME)

Certain reports have suggested that EME emissions from mobile phone base stations and radio communications facilities (including handsets) may have adverse health consequences for users and the community.

We are committed to being open and transparent on all issues relating to EME emissions. We comply with all relevant radio frequency standards and have comprehensive policies and procedures to ensure the health and safety of the community and our employees.

We rely on the expert advice of national and international health authorities such as the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) and the World Health Organisation (WHO) for overall assessments of health and safety impacts. The consensus is that there is no substantiated scientific evidence of health effects from the EME generated by radio frequency technology, including mobile phones and base stations, when used in accordance with applicable standards.

Information on the Company

Telstra Research Laboratories ensure that we have accurate and scientifically substantiated information and contribute to the national and international EME research program. In the last 10 years we have invested more than A$10 million in this program.

An area of industry leadership is the development of base station EME software that calculates environmental emission levels in a matter of seconds. Our widely acclaimed RF-MAP™ software enables operators, local authorities and community groups to assess the environmental impacts of mobile phone base stations and confirm compliance with safety standards. We have given copies of our RF-MAP™ software to national and international health authorities as well as community and Government organisations, reflecting our commitment to sharing expertise and providing the community with easy to use solutions.

Australian carriers, through the Mobile Carriers Forum, have adopted a strategy incorporating the Telstra developed EME site management process to help ensure compliance with the ACA electromagnetic radiation framework and the Australian Communications Industry Forum (ACIF) code of practice for radiocommunications infrastructure deployment.

Information processes and systems

We have a range of information processes and systems to support our delivery of products and services. We intend to increase the benefits of our offerings to customers by:

- introducing new products to the market faster;
- further integrating our customer access technology and systems across channels; and
- reducing our overall IT costs.

We have recently invested and will continue to invest in many new systems and processes in the following seven principal areas:

- sales and marketing;
- customer ordering and provisioning;
- online access for customers;
- billing and credit management;
- service assurance;
- workforce management; and
- back office processes.

We are focused on rationalising and simplifying the delivery processes across Telstra. Together with our IT service providers, we will focus on driving efficiency and adaptability across our delivery systems.

Information technology alliances

We have outsourced our data centre mainframe operations and a proportion of our midrange operations and applications maintenance and enhancement activities to IBM Global Services Australia Limited (IBM GSA) for a 10 year period from July 1997. In March 2001, we entered into major IT applications development outsourcing agreements with EDS (Australia) Pty Limited in relation to billing activities and shared databases and with Deloitte Consulting in relation to our enterprise resource planning stream which encompasses finance, personnel and administrative IT systems. In August 2002, we entered into a strategic relationship with Sun Microsystems Australia Pty Ltd for the supply of core online platforms and systems to create a single online operating environment.

On 28 August 2003, we entered into an agreement with IBM to sell our 22.6% equity interest in IBM GSA for $153.5 million. The transaction was completed on 5 September 2003.

Information on the Company

Property, plant and equipment

Overview

A large part of our network is constructed on land occupied under our statutory powers and immunities. We also own and occupy land that includes strategic sites, such as the properties on which our telephone exchanges are located. We own more than 5,300 freehold sites and occupy more than 6,600 sites on a leasehold or other basis. Most of our sites are related directly to our telecommunications operations and are used for housing network equipment of various types, such as telephone exchanges, transmission stations, microwave radio equipment and mobile radio repeater equipment. Some of our operational sites are on leased land or land that we have access to by statutory right or other formal or informal arrangement. In addition to our operational sites, we own or lease a range of properties used for office accommodation, storage and other miscellaneous purposes which is discussed in "Operating and Financial Review and Prospects - Contractual obligations and commercial commitments".

In August 2002, as a part of our comprehensive property strategy review, we sold seven office properties for A$570 million. We have entered into long term operating leases in relation to these properties.

Land access powers

The land access powers conferred on carriers by the Telecommunications Act 1997 (Cwth) (Telecommunications Act) are limited to those inspections, maintenance and installation activities that will have a low impact on the surrounding environment. For activities not covered by the land access powers, we must obtain all necessary consents, including the consent of the relevant town planning authority as well as from the owner of the land, before network construction activities may commence. Where the construction activities are to occur on land where native title exists, the native title claimants and holders may also need to be involved. Obtaining these consents may cause delay to the commencement of construction.

In some circumstances where we rely on the land access powers conferred by the Telecommunications Act to carry out construction activities, or where native title exists, compensation may be claimed against us.

Environmental issues

Environmental aspects covering the handling and storage of dangerous goods, noise from fixed plant, visual amenity and disposal of waste (including obsolete and decommissioned equipment) are required to be managed as part of operating and maintaining plant and equipment on occupied sites. We minimise the potential risks associated with these environmental aspects through various control procedures. Incident processes are in place to mitigate the potential for significant impacts. Each decommissioned plant is screened for hazardous substances such as polychlorinatedbiphenyls (PCBs) and chloroflurocarbons (CFCs) prior to recycling and hazardous materials are disposed of in compliance with regulatory requirements. Sites to be divested undergo environmental screening prior to sale and, if appropriate, remediation.

There are no current significant environmental issues that impede the utilisation or integrity of our network operation.

Competition and Regulation

Competition

Overview

Competition in Australia's telecommunications market began in 1989 when competitors began to provide a limited number of services. In 1991, competition increased with the decision to establish a carrier duopoly and open resale of Telstra's services, particularly national long distance and international telephone services. Competition intensified in 1992 when Optus, now SingTel Optus Pty Limited (Optus), won the second carrier licence enabling it to offer unrestricted local, national long distance, analogue mobile and international telephone services. We started offering digital mobile telephone services over our own network in 1993. In the same year, Optus and Vodafone Holdings (Australia) Pty Limited (Vodafone) began offering those services over their own networks.

On 1 July 1997, the Commonwealth Government introduced the current regulatory regime which provides for open competition in Australia's telecommunications industry. Since then, there has been a significant increase in the number of carriage service providers that have entered the Australian telecommunications market. As at 30 June 2003, we supplied services to more than 620 wholesale customers that compete in the retail telecommunications market.

From a position of originally being the sole provider of telecommunications products and services in Australia, inevitably, competition has reduced our market share. However, competition has also contributed to growth in the overall telecommunication services market. We expect both these trends to continue but at lesser rates.

As at 30 June 2003, we estimate our retail market shares in the products and services we provide to be as follows: basic access services: 78%; local calls: 76%; domestic long distance minutes: 66%; international long distance minutes: 53%; mobile services: 46%; internet services (narrowband): 27%; internet services (broadband): 50%; data revenue: 63% (excluding ISDN); and subscription television services (FOXTEL): 57%.

We are permitted to compete in all telecommunications markets throughout Australia. Our competitors are also permitted to compete in all these markets. As convergence becomes more prominent, our competitors may seek to take advantage of their position in one market to enter or improve their position in another market.

Access and local calls

We currently face infrastructure competition in basic access and local call services in the central business districts of the major capital cities and major metropolitan areas. Our main facilities-based competitors are Optus (fixed and mobile), Vodafone (mobile), AAPT Limited (AAPT) (fixed) and Primus Telecommunications (Australia) Pty Limited (Primus) (fixed). These carriers and others have established dedicated connections with large business customers, mainly in central business districts. Dedicated connections allow a competitor to direct a business' telecommunications traffic to their own networks including local, long distance and international calls and data transmission. The availability of local number portability has contributed to the development of facilities-based competition in these markets.

National long distance and international telephone services

Competition has significantly eroded our market share for national long distance and international telephone services. A number of our competitors own their own switches, lease access and transmission capacity and resell services mainly from Optus and us. Smaller competitors usually only resell complete services.

Competition and Regulation

Carriage service providers must provide their customers with call-by-call selection or "override" dialling and default choice or "preselection" in respect of national long distance, international calls and fixed-to-mobile calls, all of which further assist other carriage service providers to compete. See "Competition and Regulation - Regulation" for a discussion of regulatory requirements for preselection.

Wholesale originating and terminating access and transmission services are important for facilities-based provision of national long distance and international telephony services. The pricing of these services influences the development of some of the retail offerings of our competitors.

Competition already exists in the wholesale provision of transmission services on major domestic and international routes. The pricing of these services is dictated by commercial negotiation and is falling as new competitors enter the wholesale market. The regulatory processes also provide a framework to determine terms, conditions and pricing of transmission services, particularly on routes that are not fully competitive.

Mobile telecommunications services

The mobile telecommunications market is one of the most competitive telecommunications markets in Australia and we estimate that market penetration as at 30 June 2003 was approximately 72%. As this level of market saturation increases, we expect the rate of further market penetration to slow for all carriers.

The composition of new subscribers is also changing as growth in subscriber acquisitions is driven more by pre-paid services, rather than the traditional post-paid contract customers. Increasingly, mobile service providers are looking to future growth in revenue from data usage by existing subscribers. There is evidence of strong growth in data usage which is currently driven by the popularity of SMS. Agreement between carriers for inter-carrier SMS between GSM and CDMA networks has facilitated this growth.

Over the past year, 3G commercial services were also launched by both Telstra and Hutchison 3G.

Data services

We offer a complete portfolio of traditional data services (such as Digital Data Service (DDS), ISDN and leased lines) as well as growth services such as frame relay and IP Solutions. The Australian data market is intensely competitive, with approximately 27 competitors.

Customers are increasingly substituting the more traditional data services with DSL or IP-based solutions and competition is most intense in these growth areas. Several DSL network providers are offering VPN over DSL services as an alternative to frame relay or leased line data connections . Others are also offering or trialling Voice over DSL (VoDSL), with a view to offering integrated voice and data bundles.

We work on engineering our data products and our customer support processes to establish a value proposition that will ensure Telstra's data products hold their own under these competitive conditions.

Internet access services

For internet access services, competition is generally based on quality of service, price, speed and availability of local call access and associated information or transaction services. The internet service provider market in Australia is diverse and highly competitive, with approximately 600 competing retail service providers. There has been some consolidation in this market over the past year and we would expect this trend to continue going forward.

Competition and Regulation

We provide both dial-up and broadband internet access services. Broadband services are provided to end users by Telstra BigPond™ using ADSL, cable and satellite platforms. Telstra Wholesale provides industry participants with a variety of broadband offerings including DSL Layer 3, DSL Layer 2 and Virtual ISP Broadband. We also offer an ISDN internet access service as an alternative to standard PSTN dial-up to deliver faster internet speeds and recently released a new pricing plan for this product for both retail and wholesale customers.

Online services

Our online, content and web hosting services are subject to a high level of competition from domestic and international competitors. We seek to differentiate ourselves through a variety of factors including brand recognition and the entertainment, educational and commercial value of our content. We are meeting customer demand by offering our own content and forging alliances with content providers.

We provide services under a range of brands including telstra.com®, Yellow Pages®, White Pages®, GOeureka™, Whereis® and CitySearch®.

Wholesale services

Telstra Wholesale currently has more than 620 customers including approximately 500 ISPs and 50 wholesale competitors. Telstra Wholesale is focused on the delivery of communication services to intermediaries operating in Australia and offers around 30 wholesale-only products for our customers such as PSTN interconnection, DAR, Telstra Wholesale Safe Internet and a number of ADSL products.

Since June 2001, we have moved from around 20 arbitrations before the ACCC to only two subscription television arbitrations. These involve C7 and TARBS. As at 30 June 2003, there was no litigation or regulatory arbitrations concerning Telstra Wholesale. This is a demonstration of the significant progress we have made in negotiating wholesale deals commercially and expeditiously during recent years.

Subscription television

The subscription television services market is competitive. FOXTEL (of which we own 50%) is the leading subscription television provider in Australia, with approximately 835,000 subscribers (aggregating FOXTEL's direct subscribers and subscribers receiving resold FOXTEL services via Telstra) as at 30 June 2003. In addition, FOXTEL also supplies its programming to Optus on a wholesale basis, who supplies that programming to over 200,000 subscribers. Collectively, FOXTEL is now seen in over 1 million households.

FOXTEL is well positioned to compete on the basis of its brand and diverse program offerings delivered over both cable (via Telstra) and satellite. In fiscal 2003, FOXTEL continued its consistent history of annual growth with 4.4% growth in subscribers (aggregating FOXTEL's direct subscribers and subscribers receiving resold FOXTEL services via Telstra) and 32% growth when Optus wholesale subscribers are included. FOXTEL and Optus Vision are the main providers of subscription television services over cable in largely overlapping areas. FOXTEL also provides satellite services to homes not passed by our cable network.

Austar distributes subscription television through wireless and satellite systems in regional areas and has similar programming to FOXTEL. FOXTEL and Austar compete only in limited areas. While there are no restrictions on FOXTEL entering the Austar territory, many of the program rights held by FOXTEL do not permit it to broadcast that content into the Austar territory. Also, FOXTEL has licensed some programming to Austar on an exclusive basis in relation to most of the Austar territory. Other subscription television operators offer limited services.

Competition and Regulation

Subscription television providers compete with free-to-air television operators and are prevented by law from holding exclusive broadcast rights to most major sports programs. Competition is currently based on a number of factors including programming, brand, price, marketing, service support and geographic scope of service delivery.

In September 1999, the ACCC declared an analogue cable subscription television broadcast carriage service. Two potential subscription television competitors have sought access under the declaration and we continue to be engaged in arbitration with these access seekers. The ACCC has not declared a digital service. See "Competition and Regulation - Regulation - Access".

In March 2002, FOXTEL concluded a series of agreements, including one with Optus Vision to provide FOXTEL programming to Optus for transmission on its service. Under this agreement, FOXTEL took over responsibility for paying certain program content obligations of Optus. The agreement commenced operation on 1 December 2002. These agreements were approved by the ACCC in November 2002 subject to conditions that have been met by undertakings which cover the supply of FOXTEL services to third parties, third party access to Telstra and FOXTEL's analogue and digital platforms and requirements for Austar to provide its subscription television services to infrastructure owners.

The undertakings lodged by Telstra and FOXTEL in November 2002 in relation to analogue subscription television access cover price and non price terms and conditions for third party access seekers and we are awaiting a decision from the ACCC in respect of these undertakings.

The obligation to provide a digital subscription television access service is subject to either Telstra launching such a service commercially or the ACCC granting Telstra and FOXTEL exemptions from the operation of Part XIC of the Trade Practices Act 1974 (Cwth) (TPA) in relation to that service. In December 2002, Telstra and FOXTEL lodged exemption applications in relation to the digital subscription television access service and we are awaiting a decision from the ACCC in this regard.

Also in March 2002, FOXTEL agreed to supply its service to Telstra in order for Telstra to resell the service as part of our bundled offerings along with our consumer telecommunications products. We obtained subscription television broadcasting licences via a wholly owned subsidiary and notified the ACCC of a technical third line force in relation to Telstra reselling the FOXTEL subscription television service as part of a bundle with our services. The ACCC approved the arrangements and on 1 December 2002, Telstra commenced bundling the FOXTEL subscription television services with our telecommunications products.

The impact of the March 2002 agreements and the subsequent undertakings will considerably expand the number of companies offering a retail subscription television product (including Telstra) and much of this will be the FOXTEL product, either as a resale product or as content supplied from FOXTEL to other infrastructure operators. We expect this to increase the appeal of FOXTEL and the general penetration of subscription television.

In March 2003, Telstra also entered into an agreement with Austar to allow Telstra to resell Austar subscription television services to Telstra customers in regional Australia as part of our bundled offerings along with our consumer telecommunications products. In May 2003, Telstra lodged third line forcing notifications with the ACCC in relation to Telstra bundling its services with Austar services and the ACCC is currently considering these notifications.

The ACCC released a report in June 2003 on emerging market structures in the telecommunications sector. This report included a recommendation that Telstra should be forced to divest its investment in FOXTEL to increase competition in telecommunications markets. The Commonwealth Government has rejected this recommendation.

Competition and Regulation

Advertising, Directories and Information Services

Our White Pages® and Yellow Pages® directories and related products (both print and online) are key advertising and contact information channels for Governments and businesses, in particular small and medium enterprises across Australia. As such, we operate within the highly competitive Australian advertising market, competing with a range of other domestic and international advertising businesses, local newspapers and direct marketing companies which also target a similar customer base.

Competing directory providers have access to carriage service provider subscribers contact details from the Integrated Public Number Database which we maintain as a requirement of our carrier licence.

Payphones

In our payphones business, we expect increasing competition due to new market entrants and indirect competition from increased mobile telephone use.

Regulation

Overview

Some of the major features of the Australian telecommunications regulatory regime are:

- industry specific competition regulation;
- any to any connectivity;
- extensive industry specific consumer protection regulation;
- industry codes and standards under a self-regulatory regime;
- no limits on the number of carriers;
- carriage service providers with many of the same access rights and obligations as carriers; and
- limited carrier land access rights and statutory immunities.

Reviews were undertaken in fiscal 2001 and 2002 on some specific telecommunications regulations, with the most significant having been the Productivity Commission's review of telecommunications competition regulation.

Principal industry regulators

The Communications Minister is primarily responsible for telecommunications industry policy and legislation.

The Communications Minister can make rules in connection with the implementation and operation of certain aspects of the regulatory regime and, at his discretion, impose or vary the conditions of a carrier licence. In addition, the Communications Minister has the power under section 159 of the Telecommunications (Consumer Protection and Service Standards) Act 1999 (Cwth) to give binding directions to us to take specified action towards ensuring that we comply with that Act. This Ministerial direction power applies in addition to the Ministerial power in Part 3 of the Telstra Act to give such directions in relation to the exercise of powers by us as appear to the Minister to be necessary in the public interest.

The ACCC administers the TPA which regulates competition generally and includes specific provisions governing the telecommunications industry. The ACCC administers the telecommunications access regime, provisions for controlling anti-competitive conduct and Telstra retail price control arrangements.

Competition and Regulation

The Australian Communications Authority (ACA) is responsible for regulating the non- competition aspects of the telecommunications industry under the Telecommunications Act and the Telecommunications (Consumer Protection and Service Standards) Act including:

- carrier licensing;
- technical regulation;
- quality of service;
- the customer service guarantee;
- priority assistance;
- network reliability framework;
- preselection, numbering and number portability;
- the universal service obligation;
- the digital data service obligation;
- spectrum management; and
- industry codes and standards.

The ACA may give written directions to carriers, carriage service providers and content service providers requiring them to comply with various provisions of the Telecommunications Act, the Telecommunications (Consumer Protection and Service Standards) Act, their licence conditions and registered industry codes. Breach of such a direction is subject to a penalty of up to A$10 million.

Both the ACCC and the ACA are independent statutory agencies. The ACCC is not generally subject to the control or direction of the Communications Minister or the Commonwealth. The Communications Minister has a power of direction in relation to the ACA. However, both the ACCC and the ACA can take action regarding the regulation of the telecommunications industry without the prior approval or knowledge of the Communications Minister or the Commonwealth.

The industry also self-regulates through codes and standards

Bodies that represent one or more sections of the industry, such as the ACIF, may develop industry codes governing activities of carriers, carriage service providers and other industry participants. These activities mainly relate to matters affecting:

- consumers;
- inter-carrier operations;
- interconnection and performance of networks;
- radio;
- environmental issues; and
- customer equipment and cabling.

The ACA may register such codes under the Telecommunications Act, direct industry participants to comply with a registered code and, in the absence of a registered code, set mandatory industry standards. If a carrier or carriage service provider does not comply, it may be subject to a penalty of up to A$250,000. The ACIF also has compliance mechanisms for breach by an industry participant of an ACIF code to which the participant has agreed, which include non-monetary "public censure" sanctions.

The codes registered under Part 6 of the Telecommunications Act with the ACA as at 30 June 2003 relate to:

- the handling of life threatening and unwelcome calls;
- call charging and billing accuracy;
- end-to-end network performance;
- preselection;

Competition and Regulation

- commercial churn;
- calling number display;
- complaint handling;
- customer information on prices, terms and conditions;
- billing;
- credit management;
- customer transfer;
- local and mobile number portability;
- unconditioned local loop service network deployment rules;
- integrated public number database, data provider, data user and IPND manager;
- emergency call services;
- deployment of radiocommunications infrastructure; and
- SMS.

The Telecommunications Industry Ombudsman (TIO) is an industry-funded body established to investigate and resolve retail customer complaints about telecommunications services and carrier land access disputes. Participation is mandatory for all carriers and most carriage service providers unless exempted by the ACA.

Carriers, carriage service providers and content service providers

We are a carrier, carriage service provider and a content service provider.

A carrier is any person holding a carrier licence. In general, the owner of network infrastructure must not use the infrastructure to supply telecommunications services to the public unless it holds a carrier licence.

A carriage service provider is a person who supplies a telecommunications service to the public using network infrastructure owned by a carrier.

A content service provider is a person who uses a telecommunications service to supply to the public a content service, such as a broadcasting service or an online information or entertainment service.

Competition regulation

Competition rule

In addition to the general requirements of trade practices law, a carrier or carriage service provider must not engage in anti-competitive conduct in breach of the competition rule. A carrier or carriage service provider may breach the competition rule if it:

- contravenes general trade practices rules relating to anti-competitive conduct in respect of a telecommunications market; or
- has a substantial degree of market power and takes advantage of that power with the effect or likely effect of substantially lessening competition in any telecommunications market, taking into account other conduct if necessary.

The ACCC can issue a Part A competition notice if it has reason to believe that a carrier or carriage service provider has contravened the competition rule. A Part A competition notice need not describe conduct in very specific terms but may instead describe the general kind of conduct which the ACCC believes is in breach of the competition rule. Any repetition of the conduct while the competition notice is in force can lead to penalties or damages being awarded against the carrier or carriage service provider.

Competition and Regulation

The ACCC can also issue a Part B competition notice. This Part B notice, which the ACCC may issue simultaneously with or after a Part A notice, will be more detailed than the Part A notice. The sole function of a Part B notice is its evidentiary effect. It is presumptive evidence of the information in it and can be used in court proceedings against the carrier or carriage service provider for penalties or damages.

To issue a competition notice (Part A or Part B), the ACCC need only have a reason to believe that there is a breach of the competition rules rather than being affirmatively satisfied of a breach of the competition rule after full investigation.

Any person (including a carrier's or carriage service provider's competitors) may apply at any time to the Federal Court for an injunction to restrain anti-competitive conduct, whether or not a competition notice has been issued.

A carrier or carriage service provider may be liable to pay penalties of up to A$10 million plus A$1 million per day of contravention, and for compensatory damages to affected third parties, if:

- it continues to engage in conduct the subject of a competition notice after the notice comes into effect; and
- the Federal Court finds that the conduct is in breach of the competition rule.

No final decision in relation to a competition notice has yet been handed down by a court.

If the ACCC issues a competition notice, it may also give a carrier or carriage service provider a written notice advising it of the action the ACCC believes should be taken to ensure that the carrier or carriage service provider does not continue to engage in the kind of conduct dealt with in a Part A competition notice. An advisory notice can be issued at any time. While such a written notice from the ACCC is of an advisory nature only, in practical terms there may be significant pressure on a carrier or carriage service provider to comply with the notice given the potential breadth and ambiguity of a Part A competition notice and the ability of the ACCC to revoke a Part A competition notice if the carrier or carriage service provider complies with the advisory notice. Also, a court may have regard to the ACCC's opinion in determining whether a carrier or carriage service provider is liable for penalties or damages if the court finds it to have been in breach of the competition rule.

No competition notices remain in force against Telstra, nor were any issued in fiscal 2003.

Information gathering powers

The ACCC may seek information from carriers or carriage service providers with substantial market power in the telecommunications industry concerning charges for products and services, including in Telstra's case only, charges for basic carriage services, subject to a right of appeal to the Australian Competition Tribunal. The ACCC may publish information concerning charges and services if it is satisfied that there would be a net public benefit in doing so and has a further general power to obtain information in relation to designated telecommunications matters.

Record-keeping rules

The ACCC has in place financial record-keeping rules. These accounting rules require detailed six-monthly reporting to the ACCC of non-public cost and revenue information in relation to our wholesale and retail services.

The ACCC will be able to refer to this information on our costs and revenues in its market conduct and access investigations. Similar accounting rules apply to both Optus and Vodafone. AAPT and Primus are required to comply with the same rules but only in relation to retail services.

Competition and Regulation

2000 Productivity Commission review

The Productivity Commission commenced a review of the industry specific competition regulation in the TPA in June 2000 and submitted its final report to the Minister (the Treasurer) in late calendar 2001. In its final report, the Productivity Commission recommended the retention of the telecommunications-specific competition regulation only on the basis that a review of the ACCC's decision to issue a competition notice was subject to merits review. In addition, the Productivity Commission recommended certain changes to the telecommunications access regime under Part XIC, much of which was designed to encourage the speedy resolution of arbitration decisions.

Telecommunications (Competition) Act 2002

The Commonwealth Government's response to the Productivity Commission's report resulted in amendments to the TPA introduced through the Telecommunications (Competition) Act 2002 which came into effect in December 2002. The key changes were:

- the removal of merits review of ACCC decisions in arbitrations about the terms upon which carriers supply declared services. ACCC decisions in relation to final arbitral determinations were previously subject to appeal on merits to the Australian Competition Tribunal. Appeal rights on ACCC decisions on access undertakings were, however, retained;
- the introduction of pre-investment or "safe harbour" provisions to provide certainty to carriers over regulatory risk associated with new infrastucture investment. We have sought to utilise these provisions in respect of the digitisation of our subscription television cable network; and
- the ACCC was required to publish model price and non-price terms of supply of the core services which carriers supply of PSTN interconnect, local call resale and unconditioned local loop services.

In response to these changes, in January 2003 we lodged access undertakings with the ACCC setting out the prices upon which we are willing to supply these core PSTN services to other carriers until fiscal 2006. The ACCC has yet to decide whether to accept or reject our undertakings. If the ACCC rejects our undertakings, we have the right to seek merits review of that decision by appeal to the Australian Competition Tribunal.

In June 2003, the ACCC published a draft determination of its model price and non-price terms of supply of the core PSTN services. The draft model prices are significantly below the "rack rate" prices we lodged in our access undertakings in January 2003. The ACCC has yet to publish its final determination of its model price and non-price terms, however if the final determination reflects the prices contained in the draft determination then this would indicate that the ACCC is likely to reject our access undertakings. Were the prices in the draft determination to prevail in the wholesale market, there would be likely to be downward pressure on our wholesale revenues from these core services and on our retail revenues from local call, long distance and international services due to increased price competition at the retail level.

Accounting Separation

On 24 April 2002, the Communications Minister announced that a series of additional regulatory measures would be introduced in response to the Productivity Commission's report. The Minister stated that the Commonwealth Government will be requiring accounting separation of our wholesale and retail arrangements in order to ensure our wholesale arm treats all retail providers in an equitable fashion.

Competition and Regulation

On 19 June 2003, the Minister for Communications issued his final Accounting Separation Direction to the ACCC requiring it to issue record keeping rules giving effect to that direction. We are currently reviewing the ACCC Record Keeping Rules. Included in this work is the requirement upon Telstra to update our regulatory accounting records from historic to current cost, which will impose some resource costs on us. Preparation of the regulatory accounts for the core PSTN services of PSTN interconnection, local call resale and the unconditioned local loop will provide a basis for comparison in relation to any existing regulated prices for these products. It will, however, be several years before completely accurate current cost accounts can be produced. The interim reports to be published from late calendar 2003 will be based upon a large number of assumptions, will need to be treated with caution as to their exact meaning and may be open to interpretation.

An additional requirement under the accounting separation rules will be for Telstra to publish imputation test results for various PSTN services including basic access, locals calls, national long distance, international long distance and fixed to mobile services. An imputation test measures whether an efficient competitor of Telstra can compete against our retail product offering, based on our retail price and an assessment of the efficient wholesale and retail costs to the competitor of providing the service. In the context of the Accounting Separation obligations, these costs will be determined by the information in our regulatory accounts.

A further requirement relating to the Accounting Separation obligations will be for the ACCC to publish a series of metrics that compare our performance in terms of new service connections and fault rectification for both wholesale and retail customers. We are required by law to provide equivalent service and believe that these metrics will demonstrate our compliance. However, because wholesale customers represent a small and non-random sample of the Telstra customer base, statistical anomalies are possible and could be subject to misinterpretation.

It is possible that, as a result, we could be subjected to increased regulatory intervention.

Another requirement relating to the Accounting Separation obligations will be for the ACCC to publish information about the state of competition in relation to services for business customers. It is not yet clear what information might be in these reports.

Retail price restrictions

The Commonwealth Government has set retail price controls on some of our services and groups of services that apply from 1 July 2002 to 30 June 2005.

CPI-X or CPI+X price restrictions

We cannot increase the weighted average price of local calls, national long distance and international calls and fixed-to-mobile calls by more than the CPI less 4.5%. If the CPI is less than 4.5%, we are required to reduce our prices accordingly. Previously this cap was set at CPI less 5.5% and the group of services was much broader and included connections, line rental, mobile calls and leased line charges.

We have scope to increase line rental charges by up to CPI+4%. This cap recognises that basic access lines are currently priced at considerably less than the cost to provide the service and that we should be permitted to increase the line rental charge to cover costs, while at the same time reducing call prices which have, in the past, subsidised the below cost line rental.

Connection services continue to be capped so that the charge for them increases by no more than the CPI.

The ACCC has powers to monitor and report on our compliance with price controls.

Competition and Regulation

Local call charges

We and other carriage service providers must offer untimed local calls to:

- residential and charity customers for all local calls; and
- business customers for local voice calls.

We are not permitted to charge more than 40 cents (including GST) for a local call from a public payphone. We are not permitted to charge more than 22 cents (including GST) for a local call from any other service except where the higher call price is offered as part of a package that offers a lower line rental than the standard line rental. We offer reduced rates for local calls with some of our service plans.

We continue to be obliged to ensure that:

- our average price for untimed local calls provided to residential/charity customers in non-metropolitan areas in a fiscal year does not exceed the average price charged by us to residential or charity customers in metropolitan areas in the previous fiscal year; and
- our average price for untimed local calls provided to business customers in non-metropolitan areas in a fiscal year does not exceed the average price charged by us to business customers in metropolitan areas in the previous fiscal year.

Directory assistance service charges

We cannot impose or alter a charge for our directory assistance services without the approval of the Communications Minister. In October 1999, we commenced charging business and mobile customers for national and long distance directory assistance services after approval of the Minister. Our residential customers continue to receive these directory services without charge.

Access

The ACCC has broad powers to determine those of our services to which competitors will have access and the terms and conditions under which we provide this access.

Declaration of services

The TPA creates an access regime specific to the telecommunications industry. The ACCC may declare telecommunications services or other services that facilitate the supply of a telecommunications service to be “declared services”. Carriers and carriage service providers have a qualified right to acquire declared services from other carriers and carriage service providers.

Carriers and carriage service providers must comply with “standard access obligations”

Unless exempted by the ACCC, carriers and carriage service providers who supply declared services to themselves or anyone else must comply with “standard access obligations”. They must provide the declared services to carriers, carriage service providers or content service providers who require them in order to provide telecommunications services or content services to end users.

Services not declared are not subject to regulation under this access regime. Therefore, access to non-declared services is a commercial matter, subject only to the general trade practices law.

Competition and Regulation

Current declared services

The services which have been listed as declared by the ACCC include:

- originating and terminating access for domestic PSTN and ISDN, GSM and CDMA mobile telecommunications networks;
- transmission capacity on all routes (except links between mainland capital cities) on bandwidths of 2, 4, 6, 8, 34/45, 140/155 or higher Mbps;
- digital data access service (domestic carriage of data between exchange or other network facilities and customer premises);
- an unconditioned local loop service using unconditioned copper wire in our customer access network;
- local PSTN originating and terminating services (which in our view is not materially different from the domestic PSTN originating and terminating access described above);
- local carriage services (in effect, this is local call resale);
- analogue cable subscription television broadcast carriage service; and
- the spectrum sharing service (also known as “line sharing”).

Terms and conditions of access

A carrier or carriage service provider may give the ACCC access undertakings which set forth the terms and conditions on which it will offer to supply declared services. An undertaking only becomes operative if it is accepted by the ACCC. The terms and conditions (including price) of standard access obligations are to be resolved by commercial negotiations. If negotiations fail but an access undertaking (including the relevant terms and conditions) has been provided by the access provider and has been accepted by the ACCC, the access undertaking will apply. If there is no such undertaking, the ACCC may arbitrate the terms and conditions on which the standard access obligation will be met.

Access arbitrations

There is a detailed regime for ACCC arbitration of access disputes. At present, however, there are no arbitrations involving Telstra’s supply of its telephony services. The only two arbitrations in which we are currently involved concern analogue subscription television services. However, it may be that in the future some of our wholesale customers will seek an arbitrated decision from the ACCC in relation to the terms and conditions of a declared service.

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

ACCC decisions in relation to undertakings are currently subject to appeal on the merits to the Australian Competition Tribunal. However, in December 2002 the Commonwealth Government removed merits appeal rights from the ACCC’s final decisions in arbitrations (although transitional arrangements preserved merits appeal rights in relation to the two subscription television arbitrations).

Access pricing

The Communications Minister may make a pricing determination setting out compulsory principles for establishing access prices that must be followed by the ACCC. To date no ministerial pricing determination has been issued.

Competition and Regulation

The ACCC has published general Access Pricing Principles setting out how the ACCC proposes to approach price issues when considering access undertakings and determining access disputes. In general, the ACCC proposes that the prices of declared services should be cost-based. In particular, it proposes to require access prices for such services to be based on the total service long run incremental cost (TSLRIC) of providing the service.

In January 2003, we lodged access undertakings with the ACCC setting out the prices upon which we are willing to supply the core PSTN services of PSTN interconnect, local call resale and unconditioned local loop services. The ACCC's decision on whether to accept or reject the undertakings is not expected until late 2003.

In June 2003, the ACCC published its draft determination of its model price and non-price terms of supply of these core services. The ACCC is not expected to publish its final determination until late September or October 2003.

In September 2003, we lodged an access undertaking with the ACCC setting out the price at which we are willing to supply the spectrum sharing service. This undertaking will be assessed by the ACCC in due course.

Local call resale

The ACCC has stated that for local call resale, it is likely to adopt pricing on the basis of our retail price less "average retail" (or avoidable) costs in any access dispute. Future pricing of local call resale is likely to be determined through the current access undertakings process.

PSTN originating/terminating access

The ACCC has issued final pricing principles for PSTN originating and terminating services based on TSLRIC principles. Future pricing of PSTN access is also likely to be determined through the current access undertakings process.

Mobile terminating access

The prevailing regulatory pricing methodology for mobile terminating access services is still the retail benchmarking method. Under this approach, each mobile carrier's access prices are linked to its own retail price movements and it was envisaged that retail price competition would lead to wholesale prices falling at the same rate as retail prices for mobile services provided by a mobile carrier.

The ACCC recently announced the commencement of an inquiry into the regulation of mobile services and released a broad discussion paper covering the declared mobile access services, as well as domestic and international intercarrier roaming and 3G services. The main issue relates to the regulation of mobile terminating access services. The public consultation process is currently underway. In its discussion paper, the ACCC indicated that a draft report would be issued in September 2003, to be followed by the final report in late 2003.

PSTN termination to non-dominant carriers

The ACCC has issued final pricing principles for PSTN termination to non-dominant carriers. The ACCC determined that the charges for termination of the non-dominant PSTN networks should be based upon our de-averaged TSLRIC and that no access deficit contribution should be included in the TSLRIC of non-dominant networks. The ACCC also found that where a non- dominant PSTN network has costs significantly lower than those of Telstra's TSLRIC, the ACCC may assess whether an argument exists for looking specifically at the TSLRIC of the particular services of the non-dominant PSTN network.

Competition and Regulation

Unconditioned local loop (ULL)

The ACCC has issued final pricing principles for the declared ULL service based on TSLRIC principles. Future pricing of ULL services is also likely to be determined through the current access undertakings process.

Spectrum Sharing Services

The ACCC announced its decision to declare the Spectrum Sharing Service (or "line sharing") on 30 August 2002. We are unaware of the approach that will be used by the ACCC in determining the appropriate price for the service.

Carrier-to-carrier access obligations

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

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

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

Carriers must also comply with the Facilities Access Code issued by the ACCC in relation to access to underground facilities and certain towers and sites.

Carrier licences

Carrier licences are issued by the ACA. The annual charge for a carrier licence is currently A$10,000 plus a pro rata revenue-based contribution to industry regulatory costs.

All carriers must, as a condition of their carrier licence, comply with the Telecommunications Act, the Telecommunications (Consumer Protection and Service Standards) Act and the standard access obligations. Any breach of licence conditions is subject to a penalty of up to A$10 million.

The Communications Minister may impose conditions on any carrier licence. The Communications Minister must consult with the carrier before doing so. Our carrier licence currently requires us to:

- provide operator and directory assistance services;
- annually produce, publish and provide an alphabetical telephone directory;
- establish and maintain an integrated public number database and provide access to the database to all carriage service providers;
- ensure reductions in connection and annual charges for certain basic telecommunications services of at least specified amounts if a customer does not rent a handset from us for use with that service;
- have in place and report against an approved industry development plan and comply with the plan to the extent it relates to research and development;
- provide resale (for a limited time) of and/or roaming on our analogue service to the operators of proposed new digital mobile networks on commercially negotiated or arbitrated terms and conditions;

Competition and Regulation

- extend an equivalent mobile service to those areas previously served by the analogue network (we are providing this through our CDMA network);
- develop, implement and maintain a priority assistance policy and have processes, systems and practices in place to ensure that those customers with a life threatening medical condition can be identified and provided with priority assistance; and
- monitor and publicly report on the reliability of Telstra's network in designated geographical areas of Australia and, where necessary, take appropriate action to remediate a customer's service.

Carriage service provider obligations

A carriage service provider that provides certain basic telecommunications services must provide or arrange for the provision of:

- itemised billing services;
- operator services; and
- directory assistance services to end users.

We must provide operator and directory assistance services to carriage service providers on request, on terms and conditions commercially negotiated or arbitrated terms and conditions. A carriage service provider must supply information for the integrated public number database.

Powers and immunities

A carrier may enter onto land and exercise any of the following powers:

- inspect the land to determine whether the land is suitable for the carrier's purposes;
- install a facility on the land; and
- maintain a facility that is situated on the land.

A carrier may only exercise the power to install a facility if:

- the carrier holds a facility installation permit, which the ACA may only issue subject to stringent conditions;
- the facility has been determined to be a "low impact facility" by the Communications Minister (for example, specified types of underground conduit and cable); or
- the facility is a temporary defence facility.

If we engage in these activities, we must take reasonable steps to restore the relevant land and may be liable to pay compensation to land owners for financial loss or damage suffered by them as a result of our activities. We are also subject to a Telecommunications Code of Practice providing for notice and objection mechanisms. The Secretary to the Commonwealth Department of the Environment may impose conditions on some facilities installation activities.

Facilities other than those described above may only be installed with the permission of the relevant landowner and in compliance with all relevant State, Territory and local laws.

No limitation of tort liability

The ACA has power to impose a cap on our liability in tort for damages claims but has decided not to do so.

Number portability

Number portability allows customers to switch certain services to another carriage service provider but keep the same telephone number.

Competition and Regulation

The ACA numbering plan mandates number portability for some services

The ACA has put in place a numbering plan for Australia. Pursuant to a direction by the ACCC, the plan sets out the following rules:

- local number portability was operational on a trial basis from November 1999 and fully operational by 1 January 2000 as mandated by the ACA. There are a limited number of specific cases where an exemption has been granted;
- inbound number portability affecting all 1800, 1300 and One3 numbers became operational on 30 November 2000;
- mobile number portability became available from 25 September 2001; and
- the ACCC has directed the ACA to implement premium rate number portability. Telstra will work with industry to progress this.

Terms and conditions of supply are negotiated or arbitrated

The terms and conditions on which carriage service providers supply number portability are set by commercial negotiation or arbitration.

The Communications Minister may make a number portability pricing principles determination that would govern any arbitration. However, no such determination has been made to date. In June 1999, the ACCC issued a paper setting out the local number portability pricing principles that it would be inclined to apply if it were required to arbitrate in relation to terms and conditions for the provision of local number portability. These principles state that each carrier or carriage service provider should bear the costs it incurs in its own network to meet the obligation under the numbering plan to provide local number portability.

Mobile number portability

The ACCC's final report on mobile number portability pricing principles only allows us to recover from other carriers or carriage service providers our efficiently incurred transit costs of providing mobile number portability from other carriers or carriage service providers.

Preselection and override codes

Preselection allows customers, while connected to a carriage service provider, to specify another carriage service provider to provide some telecommunications services. Override codes allow a customer to select a different carriage service provider on a call-by-call basis.

Currently, carriage service providers must provide for the preselection of one carriage service provider for the following voice calls:

- national long distance calls;
- fixed-to-mobile calls;
- international calls; and
- some operator services.

An override function for these voice calls must also be provided.

The terms and conditions for provision of preselection are as agreed between the carriage service providers. In the absence of agreement, there is provision for arbitration by an agreed arbitrator or the ACCC.

Competition and Regulation

Interception

Carriers are required by law to cooperate with law enforcement agencies in Australia. They must also, unless exempted by the Communications Minister, ensure that telecommunications services passing over their networks can be intercepted by agencies that hold an interception warrant. This requirement can lead to delay in the launch of particular carriage services until the services are capable of being intercepted. Moreover, carriers are required to bear the capital and ongoing costs of implementing interception capability in their networks.

Universal service and digital data service obligations

As the primary universal service provider, we have an obligation to fulfill the universal service obligation (USO) throughout the whole of Australia. This means that we must ensure that standard telephone services, payphones and any prescribed carriage service (of which none have been prescribed) are reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business.

As part of this obligation, we must make special customer equipment available to people with disabilities and offer interim telephone services in certain circumstances where there will be an extended delay in connecting or repairing a fault with a standard telephone service.

We are also a digital data service provider and have an obligation to fulfill the digital data service obligation (DDSO) throughout the whole of Australia. This requires us to ensure that all people in Australia have reasonable access to a digital data service with a data speed broadly equilavent to 64kbps. We fulfill the DDSO through the supply of ISDN services, to which at least 96% of the Australian population have access, and through the supply of BigPond™ satellite 1 way services for the remainder of the population.

In our roles as the primary universal service provider and digital data service provider, we are required to submit plans to the ACA and the Communications Minister for their approval which set out how we will progressively fulfil the USO and DDSO throughout Australia. Telstra's approved USO Policy Statement, USO Standard Marketing Plan and Digital Data Service Plans are available from our web site at www.telstra.com.au/universalservice and www.telstra.com.au/corporate/ddsp.htm.

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

The net losses that result from supplying loss-making services and from facilitating the satellite subsidy in the course of fulfilling the USO and DDSO are required to be shared among all carriers. The Telecommunications (Consumer Protection and Service Standards) Act 1999 (Cwth) provides that a universal service provider's net universal service cost, as assessed by the ACA, is to be shared amongst the universal service provider and other participating carriers on a basis proportional to the eligible revenue of each carrier.

For this purpose, the ACA assesses levy debits (required contributions to recognised USO costs) of other participating carriers, thereby requiring them to make payments into a universal service reserve from which payments are ultimately made to the universal service provider equal to the amount of its corresponding levy credit.

However, current legislation does not ensure that the costs we incur in providing the USO are fully recognised and properly funded by all industry participants. In accordance with the current legislation, the Telecommunications Laws Amendment (Universal Service Cap) Act 1999 (Cwth), the Communications Minister determines the net USO costs. These amounts are usually significantly less than our own assessment of the USO costs. The other participating carriers are required to pay us contributions based on the ACA assessments of their eligible annual revenue. The Communications Minister has also exercised the

Competition and Regulation

power to determine the cost of the USO for up to three years in advance - he has determined costs for fiscal 2003 as A$234.1 million, fiscal 2004 as A$231.7 million and fiscal 2005 as A$211.3 million.

As the primary universal service provider, we receive no contribution from other carriers for any non-recognised USO costs.

Customer service guarantee (CSG)

At the direction of the Communications Minister, the ACA has made mandatory standards for carriage service providers (including Telstra) in relation to the provision and repair of standard telephone services and the keeping of customer appointments associated with these activities.

These customer service standards have been in effect since 1 January 1998. A revised CSG Standard came into effect in July 2000 which clarified that the new standard only applied to eligible customers with five or less standard telephone services and tightened some connection and restoration timeframes.

In accordance with the CSG Standard:

- we will connect a new standard telephone service within timeframes that range between two working days (where a telephone service has recently been working at the new premises and can be automatically re-connected) and a maximum of 20 working days (where new Telstra network infrastructure has to be provided). The actual timeframe may also be dependant upon whether the CSG customer is located in an urban, rural or remote location; and
- we will repair a CSG service in set timeframes according to the customer's location, which is either one, two or three full working days for customers located in urban, rural and remote areas respectively.

As from 1 January 2003, we reduced our connection timeframes in minor rural and remote locations where Telstra infrastructure does not exist from 6 months to 20 working days.

The damages payable under the CSG Standard include:

- for a missed appointment, A$12 for a residential or charity customer and A$20 for a business customer; and
- for a delayed connection or repair, A$12 for residential customers and A$20 for business customers for each working day of delay up to five working days and A$40 per working day of delay after that.

Damages cannot exceed A$25,000 per customer for each contravention.

If we have reason to believe that an event has occurred that is reasonably likely to result in us being liable to pay damages to a customer for a breach of the CSG Standard, we will notify the customer and pay those damages, whether by account credit or otherwise, within a prescribed period. This is the case irrespective of whether the customer has claimed those damages.

The Minister issued a draft direction in June 2003 to amend the CSG Standard and sought comments from industry and Telstra has provided a response to this draft direction.

Priority Assistance

The Communications Minister made an amendment to our carrier licence conditions in May 2002 requiring Telstra to implement arrangements for maximising service continuity to priority customers. As part of these arrangements, we must develop, implement and maintain a documented priority assistance policy and have processes, systems and practices in place to ensure that priority customers can be identified and provided with priority assistance in accordance with Telstra's priority assistance for individuals policy.

Competition and Regulation

The Communications Minister approved Telstra's policy on 17 June 2002. The policy aims to provide eligible residential customers, who have a diagnosed life-threatening medical condition with a high risk of rapid deterioration and whose life may be at risk without access to a fully operational phone service, with the highest level of service practicably available at the time on the connection and repair of standard telephone services.

Telstra customers need to substantiate their eligibility or the eligibility of someone else residing at their premises, with certification from a medical practitioner or an authorised person.

Priority customers are entitled, unless circumstances make it unreasonable, to have a first standard telephone service connected and a fault with a nominated standard telephone service repaired within 24 hours in urban and rural areas and within 48 hours in remote areas. In addition, priority customers receive 24 hour, 7 days a week service for fault management, handling and repair. Where these timeframes cannot be met, we will offer eligible priority customers the choice between an interim priority service and an alternative service, for example call diversion to another telephone number of their choice.

As part of our licence condition, we must undertake a communications strategy to generate public awareness and advise customers of priority assistance. As at June 2003, we had recorded approximately 140,000 priority customers.

Network Reliability Framework

The Network Reliability Framework (NRF) is an outcome of the Telecommunications Service Inquiry (Besley Inquiry) which was conducted during 2000. The Inquiry recommended to the Communications Minister that the ACA be required to monitor fault rates in our network in order to identify reliability problems.

The NRF was introduced through an amendment to our carrier licence conditions, which took effect from 1 January 2003, and embraces CSG telephone services only –generally, those telephone services that are provided to customers with five or less standard telephone services.

The NRF is a compliance and reporting framework that aims to improve the reliability of our network at three different levels:

- Level 1 - 44 geographical areas throughout Australia, which are based on Telstra's work regions. We are required to provide a monthly report to the ACA on the percentage of CSG services with no faults and the average percentage of service availability for each geographical area. This information is also made publicly available on our web site at www.telstra.com.au/servicereports;
- Level 2 - the exchange service area (ESA) level, of which there are approximately 5,000 throughout Australia. We are required to provide monthly reports to the ACA of those ESAs where a pre-determined number of CSG services (which is dependent upon the total number of CSG services in the ESA) have had one or more faults in each of the two preceding calendar months. The ACA can request further information from us regarding the performance of a particular ESA and may seek to have remedial action undertaken to reduce the incidence of faults in a particular ESA; and
- Level 3 - the individual service level. We are required to take reasonable action to prevent a CSG service from experiencing four or more faults in a rolling 60 day period or experiencing five or more faults in a year. Where either of these thresholds is breached, we are required to investigate the reason for the breach, undertake such remediation as is necessary and report the contravention to the ACA.

The NRF adds to the range of consumer safeguards already in place, for example the USO, CSG Standard and priority assistance.

Competition and Regulation

Supply terms and conditions

Under a determination made by the ACA, since March 2000 carriage service providers that formulate a standard form of agreement relating to the supply to an ordinary customer of designated goods and services have been required to provide customers with concise summaries of the terms and conditions on which customers acquire their goods and services. We provide these summaries to existing and new customers.

Hong Kong Telecommunications Regulatory Information

We own 50% of REACH which, through its wholly owned subsidiaries including REACH Networks Hong Kong Ltd (REACH Networks), conducts a wholesale connectivity business from Hong Kong. REACH Networks operates a network for the carriage of traffic to and from Hong Kong.

We also own CSL which conducts a cellular mobile business in Hong Kong. CSL holds a Public Radiocommunication Service licence which covers the establishment, maintenance and operation of a cellular network in Hong Kong. CSL also holds a third generation mobile services licence.

Below is a brief outline of the Hong Kong telecommunications regulatory regime and the key regulatory requirements with which REACH Networks and CSL must comply.

Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong)

The legislative framework governing the provision of telecommunication services and facilities in Hong Kong is principally contained in the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong).

The Telecommunications Ordinance regulates the licensing and control of telecommunications services and telecommunications apparatus and equipment, including fixed wireline and wireless services, public mobile telephone services and certain aspects of internet services.

The Telecommunications Authority (TA) is the principal telecommunications regulator in Hong Kong and is responsible for administering the Telecommunications Ordinance. The Office of the Telecommunications Authority (OFTA) was established in 1993 as an independent Government department and its key functions are to assist the TA in administering and enforcing the provisions of the Telecommunications Ordinance. The TA's powers include:

- issuing licences;
- making rules and determinations in relation to the provision of telecommunications network services by licensees, including setting interconnection charges on particular routes;
- requiring a licensee to comply with the terms of its licence and any applicable legislation; and
- to suspend or revoke licences as enforcement measures or for the protection of the public interest.

Competition provisions

The telecommunications market in Hong Kong is almost fully liberalised and is now one of the most competitive markets in the world. Unlike many countries, Hong Kong does not have a general competition law. Anti-competitive behaviour is regulated through industry specific legislation as well as in various licence conditions.

On 9 July 2003, the Telecommunications (Amendment) Bill 2002 was passed by the Legislative Council of the Hong Kong Special Administrative Region. The purpose of the Bill is to regulate merger activity in some aspects of the telecommunications industry through empowering the TA to issue binding directions to carrier licensees when certain changes in the ownership of, or the control of, a carrier licensee occur which, in the TA's opinion, have or are likely to have the effect of substantially lessening competition in a telecommunications market.

Competition and Regulation

New Zealand Telecommunications Regulatory Information

On 9 April 2003, Telstra acquired full ownership of TelstraClear Limited, the second largest full service carrier in New Zealand. Below is a brief outline of the New Zealand telecommunications regulatory regime.

Telecommunications Act 2001

Throughout the 1990s, the telecommunications sector in New Zealand was subject to a "light- handed" regulatory regime. Unlike most other OECD countries, no industry-specific regulatory authority was established in New Zealand to regulate and monitor telecommunications competition and to promote the entry of new competitors into the market on an efficient and sustainable basis. That approach finally changed with the introduction of the Telecommunications Act 2001.

The Telecommunications Act 2001 provides the principal framework for the regulation of telecommunications in New Zealand. The Act introduces a number of functions for the New Zealand Commerce Commission (Commission) to perform an expanded telecommunications sector-specific regulatory role. In summary, these functions are to:

- make determinations on disputes between the access seeker and the access provider over access obligations of designated and specified services and also on price in the case of designated services;
- determine the net cost and apportionment (amongst industry players) of Telecommunications Service Obligations and monitor the Telecommunications Service Provider's (Telecom) compliance with its Telecommunications Service Obligations (broadly, a USO);
- recommend to the Minister the desirability of regulating additional services where considered necessary; and
- propose and approve telecommunications access codes relating to designated and specified services for the telecommunications industry.

Determinations by the Commission under the Telecommunications Act 2001

To date the Commission has made two interim determinations under the Telecommunications Act 2001. They are for interconnection between Telecom and TelstraClear's PSTN network and for wholesale (resale) of a range of Telecom's business retail services. Telecom and TelstraClear have both sought price review determinations as a follow-on to those interim determinations and these are proceeding.

The Commission is in the process of making a draft determination on residential resale (for TelstraClear) and wholesaling (for CallPlus). The Commission has also decided to determine the apportionment of costs in implementing local and mobile number portability in response to a joint application (from TelstraClear, WorldxChange, CallPlus, Compass and iHug).

Licensing Regime

New Zealand has no licensing regime for telecommunications carrier. The Telecommunications Act of 1987 and 2001 enable a registered network operator to enjoy certain rights of access to public land to install telecommunications equipment. Registration is not mandatory.

Competition Provisions

The Commerce Act 1986 is New Zealand's generic competition legislation outlawing anti-competitive conduct in all industries and is enforceable by the Commission and by market participants.