

## Telstra Corporation Limited and controlled entities

Australian Business Number (ABN): 33 051 775 556

### Financial Report

as at 30 June 2003

Page  
Number

#### Financial Statements

|  |     |
|--|-----|
| Statement of Financial Performance . . . . . | 176 |
| Statement of Financial Position . . . . .    | 177 |
| Statement of Cash Flows. . . . .             | 178 |

|  |     |
|--|-----|
| Statement of Changes in Shareholders' Equity . . . . . | 185 |
|--|-----|

#### Notes to the Financial Statements

|         |  |     |
|---------|--|-----|
| Note 1  | - Summary of accounting policies . . . . .                                     | 188 |
| Note 2  | - Revenue . . . . .  | 204 |
| Note 3  | - Profit from ordinary activities . . . . .                                    | 205 |
| Note 4  | - Income tax expense . . . . .   | 212 |
| Note 5  | - Segment information . . . . .  | 214 |
| Note 6  | - Earnings per share . . . . .   | 222 |
| Note 7  | - Dividends . . . . .  | 223 |
| Note 8  | - Cash assets . . . . .  | 225 |
| Note 9  | - Receivables . . . . .  | 226 |
| Note 10 | - Inventories . . . . .  | 227 |
| Note 11 | - Investments . . . . .  | 228 |
| Note 12 | - Property, plant and equipment . . . . .                                      | 230 |
| Note 13 | - Intangible assets . . . . .  | 235 |
| Note 14 | - Other assets . . . . .   | 236 |
| Note 15 | - Payables . . . . .   | 237 |
| Note 16 | - Interest-bearing liabilities . . . . .                                       | 238 |
| Note 17 | - Provisions . . . . .   | 243 |
| Note 18 | - Contributed equity . . . . .   | 246 |
| Note 19 | - Employee share plans . . . . .   | 247 |
| Note 20 | - Expenditure commitments . . . . .  | 260 |
| Note 21 | - Contingent liabilities and contingent assets . . . . .                       | 264 |
| Note 22 | - Superannuation commitments . . . . .   | 266 |
| Note 23 | - Investments in controlled entities . . . . .                                 | 269 |
| Note 24 | - Investments in joint venture entities and associated entities. . . . .       | 277 |
| Note 25 | - Directors' remuneration - salaries and other benefits . . . . .              | 285 |
| Note 26 | - Executives' remuneration - salaries and other benefits . . . . .             | 286 |
| Note 27 | - Related entity transactions . . . . .  | 289 |
| Note 28 | - Events after balance date. . . . .   | 294 |
| Note 29 | - Additional financial instruments disclosures . . . . .                       | 295 |
| Note 30 | - United States generally accepted accounting principles disclosures . . . . . | 304 |

|                                  |     |
|----------------------------------|-----|
| Directors' Declaration . . . . . | 327 |
|----------------------------------|-----|

This financial report combines the disclosure requirements for both Australian and United States generally accepted accounting principles.

|                                     |     |
|-------------------------------------|-----|
| Independent Audit Reports . . . . . | 328 |
|-------------------------------------|-----|

## Statement of Financial Performance

for the year ended 30 June 2003

| Note   | Telstra Group      |               |               |             | Telstra Entity     |               |        |
|--|--------------------|---------------|---------------|-------------|--------------------|---------------|--------|
|  | Year ended 30 June |               |               |             | Year ended 30 June |               |        |
|  | 2003<br>\$m        | 2003<br>US\$m | 2002<br>\$m   | 2001<br>\$m | 2003<br>\$m        | 2002<br>\$m   |        |
| <b>Ordinary activities</b>   |                    |               |               |             |                    |               |        |
| <b>Revenue</b>   |                    |               |               |             |                    |               |        |
| Sales revenue. . . . .   | 2,3                | 20,495        | 13,732        | 20,196      | 18,679             | 18,628        | 18,217 |
| Other revenue (excluding interest revenue) . . . . .   | 2,3                | 1,121         | 751           | 606         | 4,304              | 952           | 487    |
|  |                    | <b>21,616</b> | <b>14,483</b> | 20,802      | 22,983             | <b>19,580</b> | 18,704 |
| <b>Expenses</b>  |                    |               |               |             |                    |               |        |
| Labour . . . . .   | 3                  | 3,204         | 2,147         | 3,240       | 3,122              | 2,681         | 2,575  |
| Goods and services purchased (1.27) . . . . .  | 3                  | 3,615         | 2,422         | 3,933       | 3,083              | 2,730         | 2,971  |
| Other expenses. . . . .  | 3                  | 4,602         | 3,083         | 4,065       | 6,761              | 6,634         | 5,088  |
|  |                    | <b>11,421</b> | <b>7,652</b>  | 11,238      | 12,966             | <b>12,045</b> | 10,634 |
| <b>Share of net losses of associates and joint venture entities</b> . . . . .  |                    |               |               |             |                    |               |        |
|  | 24                 | 1,025         | 687           | 81          | 183                | -             | -      |
|  |                    | <b>12,446</b> | <b>8,339</b>  | 11,319      | 13,149             | <b>12,045</b> | 10,634 |
| Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) (1.27) . . . . .                            |                    |               |               |             |                    |               |        |
|  |                    | 9,170         | 6,144         | 9,483       | 9,834              | 7,535         | 8,070  |
| Depreciation and amortisation . . . . .  |                    |               |               |             |                    |               |        |
|  | 3                  | 3,447         | 2,309         | 3,267       | 2,871              | 2,993         | 2,782  |
| Earnings before interest and income tax expense (EBIT) (1.27)  |                    |               |               |             |                    |               |        |
|  |                    | <b>5,723</b>  | <b>3,835</b>  | 6,216       | 6,963              | <b>4,542</b>  | 5,288  |
| Interest revenue . . . . .   |                    |               |               |             |                    |               |        |
|  | 2                  | 84            | 56            | 126         | 103                | 202           | 183    |
| Borrowing costs . . . . .  |                    |               |               |             |                    |               |        |
|  | 3                  | 879           | 589           | 896         | 769                | 935           | 913    |
| Net borrowing costs. . . . .   |                    |               |               |             |                    |               |        |
|  |                    | <b>795</b>    | <b>533</b>    | 770         | 666                | <b>733</b>    | 730    |
| <b>Profit before income tax expense</b> . . . . .  |                    |               |               |             |                    |               |        |
|  |                    | <b>4,928</b>  | <b>3,302</b>  | 5,446       | 6,297              | <b>3,809</b>  | 4,558  |
| Income tax expense . . . . .   |                    |               |               |             |                    |               |        |
|  | 4                  | 1,534         | 1,028         | 1,796       | 2,292              | 1,558         | 1,833  |
| Effect of decrease in tax rates on deferred tax balances. . . . .  |                    |               |               |             |                    |               |        |
|  | 4                  | -             | -             | -           | (56)               | -             | -      |
| Total income tax expense . . . . .   |                    |               |               |             |                    |               |        |
|  |                    | <b>1,534</b>  | <b>1,028</b>  | 1,796       | 2,236              | <b>1,558</b>  | 1,833  |
| <b>Net profit</b> . . . . .  |                    |               |               |             |                    |               |        |
|  |                    | <b>3,394</b>  | <b>2,274</b>  | 3,650       | 4,061              | <b>2,251</b>  | 2,725  |
| Outside equity interests in net (profit)/loss . . . . .  |                    |               |               |             |                    |               |        |
|  |                    | 35            | 23            | 11          | (3)                | -             | -      |
| <b>Net profit available to Telstra Entity shareholders</b> . . . . .   |                    |               |               |             |                    |               |        |
|  |                    | <b>3,429</b>  | <b>2,297</b>  | 3,661       | 4,058              | <b>2,251</b>  | 2,725  |
| <b>Other valuation adjustments to equity</b>   |                    |               |               |             |                    |               |        |
| Net exchange differences on translation of non-Australian controlled entities' financial statements . . . . .                    |                    |               |               |             |                    |               |        |
|  |                    | (161)         | (108)         | (87)        | 61                 | -             | -      |
| Reserves recognised on equity accounting our interest in joint ventures and associates . . . . .                                 |                    |               |               |             |                    |               |        |
|  |                    | (18)          | (12)          | 41          | (33)               | -             | -      |
| Fair value reserve recognised on acquisition of controlling interest in joint venture entity . . . . .                           |                    |               |               |             |                    |               |        |
|  |                    | -             | -             | 54          | -                  | -             | -      |
| Adjustment to opening retained profits due to a change in an accounting standard (1.2) . . . . .                                 |                    |               |               |             |                    |               |        |
|  |                    | 1,415         | 948           | -           | -                  | -             | -      |
| <b>Valuation adjustments available to Telstra Entity shareholders and recognised directly in equity</b> . . . . .                |                    |               |               |             |                    |               |        |
|  |                    | <b>1,236</b>  | <b>828</b>    | 8           | 28                 | -             | -      |
| <b>Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners</b> . . . . . |                    |               |               |             |                    |               |        |
|  |                    | <b>4,665</b>  | <b>3,125</b>  | 3,669       | 4,086              | <b>2,251</b>  | 2,725  |
| Basic and diluted earnings per share (cents per share) . . . . .   |                    |               |               |             |                    |               |        |
|  | 6                  | 26.6          | 18.0          | 28.5        | 31.5               |               |        |
| Total ordinary dividends per share (cents per share) . . . . .   |                    |               |               |             |                    |               |        |
|  | 7,28               | 27.0          | 18.0          | 22.0        | 19.0               |               |        |

The notes following the financial statements form part of the financial report.

## Statement of Financial Position

as at 30 June 2003

|   | Note | Telstra Group |               |               | Telstra Entity |               |
|---|------|---------------|---------------|---------------|----------------|---------------|
|   |      | As at 30 June |               |               | As at 30 June  |               |
|   |      | 2003<br>\$m   | 2003<br>US\$m | 2002<br>\$m   | 2003<br>\$m    | 2002<br>\$m   |
| <b>Current assets</b>   |      |               |               |               |                |               |
| Cash assets . . . . .   | 8    | 1,300         | 871           | 1,070         | 1,152          | 489           |
| Receivables . . . . .   | 9    | 3,619         | 2,425         | 4,063         | 3,374          | 5,522         |
| Inventories . . . . .   | 10   | 260           | 174           | 204           | 225            | 160           |
| Other assets. . . . .   | 14   | 578           | 387           | 1,038         | 466            | 947           |
| Total current assets . . . . .  |      | 5,757         | 3,857         | 6,375         | 5,217          | 7,118         |
| <b>Non current assets</b>   |      |               |               |               |                |               |
| Receivables . . . . .   | 9    | 877           | 587           | 1,005         | 1,319          | 1,121         |
| Inventories . . . . .   | 10   | 14            | 9             | 20            | 14             | 7             |
| Investments - accounted for using the equity method . . . . .           | 11   | 159           | 106           | 1,197         | 10             | 34            |
| Investments - other . . . . .   | 11   | 96            | 64            | 105           | 4,204          | 4,762         |
| Property, plant and equipment. . . . .                                  | 12   | 23,012        | 15,418        | 23,421        | 21,794         | 21,852        |
| Future income tax benefit . . . . .                                     | 4    | -             | -             | 132           | -              | -             |
| Intangibles - goodwill . . . . .  | 13   | 2,018         | 1,352         | 2,063         | 4              | 5             |
| Intangibles - other. . . . .  | 13   | 1,146         | 768           | 1,358         | 236            | 269           |
| Other assets. . . . .   | 14   | 2,520         | 1,688         | 2,543         | 2,371          | 2,399         |
| Total non current assets . . . . .                                      |      | 29,842        | 19,992        | 31,844        | 29,952         | 30,449        |
| <b>Total assets</b> . . . . .   |      | <b>35,599</b> | <b>23,849</b> | <b>38,219</b> | <b>35,169</b>  | <b>37,567</b> |
| <b>Current liabilities</b>  |      |               |               |               |                |               |
| Payables. . . . .   | 15   | 2,525         | 1,692         | 2,762         | 2,030          | 2,202         |
| Interest-bearing liabilities . . . . .                                  | 16   | 1,323         | 886           | 1,896         | 3,327          | 3,068         |
| Income tax payable . . . . .  | 4    | 660           | 442           | 632           | 614            | 572           |
| Provisions . . . . .  | 17   | 353           | 236           | 1,903         | 284            | 1,723         |
| Revenue received in advance . . . . .                                   |      | 973           | 652           | 1,037         | 798            | 859           |
| Total current liabilities . . . . .                                     |      | 5,834         | 3,908         | 8,230         | 7,053          | 8,424         |
| <b>Non current liabilities</b>  |      |               |               |               |                |               |
| Payables. . . . .   | 15   | 51            | 34            | 129           | 48             | 68            |
| Interest-bearing liabilities . . . . .                                  | 16   | 11,232        | 7,525         | 12,481        | 11,232         | 12,450        |
| Provision for deferred income tax . . . . .                             |      | 1,814         | 1,215         | 1,987         | 1,753          | 1,831         |
| Provisions . . . . .  | 17   | 814           | 545           | 848           | 727            | 757           |
| Revenue received in advance . . . . .                                   |      | 432           | 289           | 438           | 418            | 420           |
| Total non current liabilities . . . . .                                 |      | 14,343        | 9,608         | 15,883        | 14,178         | 15,526        |
| <b>Total liabilities</b> . . . . .                                      |      | <b>20,177</b> | <b>13,516</b> | <b>24,113</b> | <b>21,231</b>  | <b>23,950</b> |
| <b>Net assets</b> . . . . .   |      | <b>15,422</b> | <b>10,333</b> | <b>14,106</b> | <b>13,938</b>  | <b>13,617</b> |
| <b>Shareholders' equity</b>   |      |               |               |               |                |               |
| <b>Telstra Entity</b>   |      |               |               |               |                |               |
| Contributed equity . . . . .  | 18   | 6,433         | 4,310         | 6,433         | 6,433          | 6,433         |
| Reserves . . . . .  |      | (150)         | (101)         | 14            | 277            | 277           |
| Retained profits . . . . .  |      | 9,137         | 6,122         | 7,661         | 7,228          | 6,907         |
| Shareholders' equity available to Telstra Entity shareholders . . . . . |      | 15,420        | 10,331        | 14,108        | 13,938         | 13,617        |
| <b>Outside equity interests</b>   |      |               |               |               |                |               |
| Contributed equity . . . . .  |      | 1             | 1             | 212           | -              | -             |
| Reserves . . . . .  |      | -             | -             | 34            | -              | -             |
| Retained profits/(accumulated losses) . . . . .                         |      | 1             | 1             | (248)         | -              | -             |
| Total outside equity interests . . . . .                                |      | 2             | 2             | (2)           | -              | -             |
| <b>Total shareholders' equity</b> . . . . .                             |      | <b>15,422</b> | <b>10,333</b> | <b>14,106</b> | <b>13,938</b>  | <b>13,617</b> |

Expenditure commitments, contingent liabilities and assets . . . . .20,21

The notes following the financial statements form part of the financial report.

## Statement of Cash Flows

for the year ended 30 June 2003

| Note   | Telstra Group      |                |                |                | Telstra Entity     |                |
|--|--------------------|----------------|----------------|----------------|--------------------|----------------|
|  | Year ended 30 June |                |                |                | Year ended 30 June |                |
|  | 2003<br>\$m        | 2003<br>US\$m  | 2002<br>\$m    | 2001<br>\$m    | 2003<br>\$m        | 2002<br>\$m    |
| <b>Cash flows from operating activities</b>  |                    |                |                |                |                    |                |
| Receipts from trade and other receivables (inclusive of goods and services tax (GST)) (c) (1.21) | 22,511             | 15,082         | 22,291         | 20,912         | 20,327             | 20,034         |
| Payments of accounts payable and to employees (inclusive of GST) (c) (1.21)                      | (11,920)           | (7,985)        | (11,837)       | (11,136)       | (9,841)            | (9,715)        |
| Interest received  | 70                 | 47             | 52             | 70             | 140                | 92             |
| Borrowing costs paid   | (999)              | (669)          | (897)          | (813)          | (1,060)            | (943)          |
| Dividends received   | 7                  | 5              | 10             | 16             | 2                  | 1              |
| Income taxes paid  | (1,536)            | (1,029)        | (1,503)        | (1,455)        | (1,487)            | (1,479)        |
| GST remitted to the Australian Taxation Office (ATO)   | (1,076)            | (721)          | (1,018)        | (995)          | (1,019)            | (945)          |
| <b>Net cash provided by operating activities (a)</b>   | <b>7,057</b>       | <b>4,730</b>   | <b>7,098</b>   | <b>6,599</b>   | <b>7,062</b>       | <b>7,045</b>   |
| <b>Cash flows from investing activities</b>  |                    |                |                |                |                    |                |
| (Payments)/receipts for:   |                    |                |                |                |                    |                |
| - property, plant and equipment  | (2,704)            | (1,812)        | (2,958)        | (3,259)        | (2,662)            | (2,778)        |
| - internal use software assets   | (555)              | (372)          | (527)          | (706)          | (606)              | (536)          |
| - patents, trademarks and licences   | (2)                | (1)            | -              | (332)          | -                  | -              |
| - deferred expenditure   | -                  | -              | (6)            | (71)           | -                  | (3)            |
| Capital expenditure (before investments)   | (3,261)            | (2,185)        | (3,491)        | (4,368)        | (3,268)            | (3,317)        |
| - shares in controlled entities  | (25)               | (17)           | (50)           | (3,056)        | (25)               | (118)          |
| - investment in joint venture and associated entities  | (45)               | (30)           | (107)          | (142)          | 5                  | -              |
| - shares in listed securities and other investments  | (1)                | (1)            | (14)           | (38)           | -                  | (13)           |
| Investment expenditure   | (71)               | (48)           | (171)          | (3,236)        | (20)               | (131)          |
| Total capital expenditure  | (3,332)            | (2,233)        | (3,662)        | (7,604)        | (3,288)            | (3,448)        |
| Proceeds from:   |                    |                |                |                |                    |                |
| - sale of property, plant and equipment  | 797                | 534            | 194            | 288            | 794                | 189            |
| - sale of patents, trademarks and licences   | -                  | -              | 1              | 14             | -                  | -              |
| - sale of shares in controlled entities  | 12                 | 8              | -              | 4              | -                  | -              |
| - sale of joint venture entities and operations  | 3                  | 2              | -              | 3              | -                  | -              |
| - sale of associated entities  | 17                 | 11             | -              | -              | 1                  | -              |
| - sale of listed securities and other investments  | 7                  | 5              | 176            | 397            | -                  | 5              |
| - sale of business   | 4                  | 3              | 33             | 528            | 2                  | 29             |
| <b>Net cash used in investing activities</b>   | <b>(2,492)</b>     | <b>(1,670)</b> | <b>(3,258)</b> | <b>(6,370)</b> | <b>(2,491)</b>     | <b>(3,225)</b> |
| <b>Cash flows from financing activities</b>  |                    |                |                |                |                    |                |
| Proceeds from:   |                    |                |                |                |                    |                |
| - borrowings   | 5,914              | 3,962          | 13,487         | 23,521         | 6,521              | 13,667         |
| - Telstra bonds  | -                  | -              | 987            | -              | -                  | 987            |
| Repayment of:  |                    |                |                |                |                    |                |
| - borrowings   | (6,315)            | (4,231)        | (15,441)       | (19,193)       | (6,527)            | (15,941)       |
| - Telstra bonds  | (582)              | (390)          | (41)           | (565)          | (582)              | (41)           |
| - finance leases principal amount  | (22)               | (15)           | (18)           | (14)           | (8)                | (7)            |
| Payments for convertible note  | -                  | -              | -              | (1,366)        | -                  | -              |
| Employee share loans (net)   | 33                 | 22             | 40             | 27             | 33                 | 40             |
| Dividends paid   | (3,345)            | (2,241)        | (2,831)        | (2,316)        | (3,345)            | (2,831)        |
| <b>Net cash (used in)/provided by financing activities</b>                                       | <b>(4,317)</b>     | <b>(2,893)</b> | <b>(3,817)</b> | <b>94</b>      | <b>(3,908)</b>     | <b>(4,126)</b> |
| <b>Net increase/(decrease) in cash</b>   | <b>248</b>         | <b>167</b>     | <b>23</b>      | <b>323</b>     | <b>663</b>         | <b>(306)</b>   |
| <b>Foreign currency conversion</b>   | <b>(18)</b>        | <b>(12)</b>    | <b>(20)</b>    | <b>-</b>       | <b>-</b>           | <b>-</b>       |
| <b>Cash at the beginning of the year</b>   | <b>1,070</b>       | <b>716</b>     | <b>1,067</b>   | <b>744</b>     | <b>489</b>         | <b>795</b>     |
| <b>Cash at the end of the year (b)</b>   | <b>1,300</b>       | <b>871</b>     | <b>1,070</b>   | <b>1,067</b>   | <b>1,152</b>       | <b>489</b>     |

The notes following the financial statements form part of the financial report.

**Statement of Cash Flows (continued)**

for the year ended 30 June 2003

| Note  | Telstra Group      |               |              |              | Telstra Entity     |              |
|---|--------------------|---------------|--------------|--------------|--------------------|--------------|
|   | Year ended 30 June |               |              |              | Year ended 30 June |              |
|   | 2003<br>\$m        | 2003<br>US\$m | 2002<br>\$m  | 2001<br>\$m  | 2003<br>\$m        | 2002<br>\$m  |
| <b>Cash flow notes</b>  |                    |               |              |              |                    |              |
| <b>(a) Reconciliation of net profit to net cash provided by operating activities</b>  |                    |               |              |              |                    |              |
| Net profit . . . . .  | 3,394              | 2,274         | 3,650        | 4,061        | 2,251              | 2,725        |
| <b>Add/(subtract) the following transactions</b>  |                    |               |              |              |                    |              |
| Depreciation and amortisation . . . . . 3   | 3,447              | 2,309         | 3,267        | 2,871        | 2,993              | 2,782        |
| Accrued interest on notes issued by PCCW . . . . .  | (15)               | (10)          | (85)         | (29)         | (15)               | (85)         |
| Dividends received from associated entities . . . . . 24  | 6                  | 4             | 9            | 1            | -                  | -            |
| (Profit)/loss on sale of property, plant and equipment . . . 3  | (173)              | (115)         | 4            | (7)          | (160)              | 4            |
| (Profit) on sale of patents, trademarks and licences . . . . . 3  | -                  | -             | (1)          | (8)          | -                  | -            |
| (Profit)/loss on sale of controlled entities. . . . . 3   | (5)                | (3)           | (3)          | (4)          | -                  | -            |
| (Profit)/loss on sale of joint venture and associated entities 3  | (12)               | (8)           | -            | (2)          | 1                  | -            |
| (Profit)/loss on sale of listed securities and other corporations . . . . . 3   | 2                  | 1             | 5            | (266)        | -                  | (1)          |
| (Profit) on sale of business . . . . . 3  | (10)               | (7)           | -            | (852)        | (8)                | -            |
| Borrowing costs included in the cost of constructed assets . . . . . 3  | (105)              | (70)          | (115)        | (108)        | (105)              | (115)        |
| Share of joint venture entities' net losses. . . . . 24   | 1,015              | 681           | 79           | 128          | -                  | -            |
| Share of associated entities' net losses . . . . . 24   | 10                 | 7             | 2            | 55           | -                  | -            |
| Provision for reduction in value of investments. . . . . 3  | 26                 | 17            | 26           | 1,065        | 3,056              | 445          |
| Provision for reduction in value of convertible note . . . . . 3  | -                  | -             | 96           | -            | -                  | 96           |
| Provision for reduction in value of controlled entity receivables . . . . . 3   | -                  | -             | -            | -            | (587)              | 830          |
| Reduction in value of capitalised software. . . . . 3   | 2                  | 1             | -            | 31           | 2                  | -            |
| Net foreign currency conversion differences. . . . .  | (37)               | (25)          | (14)         | 14           | -                  | -            |
| Writeback of TSS additional contributions. . . . . 2  | -                  | -             | -            | (725)        | -                  | -            |
| (Increase)/decrease in non cash revenue received in advance   | -                  | -             | 225          | 779          | -                  | (62)         |
| Increase/(decrease) in non cash operating deferred expenditure  | (8)                | (5)           | (7)          | (560)        | (11)               | 29           |
| Other . . . . .   | 53                 | 35            | 31           | -            | (26)               | 2            |
| <b>Movements in operating assets and liabilities</b>  |                    |               |              |              |                    |              |
| (Increase)/decrease in trade debtors and other debtors . . . . .  | 4                  | 3             | 233          | (464)        | (99)               | 67           |
| (Increase)/decrease in inventories . . . . .  | (52)               | (35)          | 94           | 25           | (71)               | 37           |
| (Increase)/decrease in deferred expenditure and prepayments   | 48                 | 32            | (45)         | 7            | 77                 | (15)         |
| (Increase)/decrease in deferred mobile phone handset subsidies  | (42)               | (28)          | 52           | (79)         | (42)               | 52           |
| Increase/(decrease) in accounts payable and other creditors . . . . .   | (271)              | (181)         | (219)        | 457          | (156)              | 70           |
| Increase/(decrease) in revenue received in advance . . . . .  | (66)               | (44)          | (338)        | (15)         | (50)               | 4            |
| Increase in net taxes payable . . . . .   | 9                  | 6             | 293          | 781          | 70                 | 354          |
| Increase/(decrease) in provisions. . . . .  | (161)              | (108)         | (176)        | (583)        | (58)               | (174)        |
| Movement in foreign currency conversion reserve . . . . .   | (2)                | (1)           | 35           | 26           | -                  | -            |
| <b>Net cash provided by operating activities . . . . .</b>  | <b>7,057</b>       | <b>4,730</b>  | <b>7,098</b> | <b>6,599</b> | <b>7,062</b>       | <b>7,045</b> |
| <b>(b) Reconciliation of cash</b>   |                    |               |              |              |                    |              |
| Cash at the end of the year as shown in the statement of cash flows agrees to the net amount of the following items in the notes to the financial statements: |                    |               |              |              |                    |              |
| Cash assets . . . . . 8   | 1,300              | 871           | 1,070        | 1,077        | 1,152              | 489          |
| Bank overdraft . . . . .  | -                  | -             | -            | (10)         | -                  | -            |
|   | <b>1,300</b>       | <b>871</b>    | <b>1,070</b> | <b>1,067</b> | <b>1,152</b>       | <b>489</b>   |

## Statement of Cash Flows (continued)

for the year ended 30 June 2003

### Cash flow notes (continued)

#### (c) Goods and Services Tax (GST)

Our receipts from trade and other receivables includes estimated GST of \$2,072 million (2002: \$1,975 million; 2001: \$1,888 million) collected by us as agent for the ATO. Our payments of accounts payable and to employees include estimated GST payments made by us for goods and services obtained in undertaking both operating and investing activities. GST paid associated with operating activities amounted to \$639 million (2002: \$615 million; 2001: \$553 million) and GST paid relating to investing activities amounted to \$356 million (2002: \$342 million; 2001: \$340 million).

#### (d) Significant financing and investing activities that involve components of non cash

##### Property, plant and equipment

Our property, plant and equipment includes borrowing costs of \$77 million (2002: \$83 million; 2001: \$77 million) which have been included in the cost of constructed assets. These amounts are included in borrowing costs paid in our statement of cash flows.

We acquired plant and equipment with a fair value of \$2 million using finance leases during fiscal 2003 (2002: \$9 million; 2001: \$14 million). As these acquisitions did not involve cash, they are not reported in the statement of cash flows. Our finance lease liability also includes \$nil (2002: \$1 million; 2001: \$3 million) relating to non cash, foreign currency revaluations.

##### Sale and leaseback transactions

During fiscal 2003, we entered into a sale and leaseback on a portfolio of seven office properties for \$570 million. We entered into operating leases totalling \$518 million in relation to these properties on normal commercial terms of between five and twelve years. The profit on the sale of this property, plant and equipment was \$131 million before tax. The cash inflow from this sale is recognised in our proceeds from the sale of property, plant and equipment (refer note 3 for further information).

There were no significant sale and leaseback transactions entered into during fiscal 2002.

During fiscal 2001, we entered into a sale and leaseback of non communications plant, server and mid range IT equipment totalling \$110 million. The leaseback entered into is classified as an operating lease, and the revenue received from the sale directly offset the retirement expense. The cash inflow from this sale was recognised in our proceeds from the sale of property, plant and equipment. During fiscal 2002, there was an additional \$23 million sale and leaseback recognised relating to this same transaction.

##### Software assets (internal use software assets)

Our software assets include borrowing costs of \$28 million (2002: \$32 million; 2001: \$31 million) which have been included in the cost of constructed assets. These amounts are included in borrowing costs paid in our statement of cash flows.

#### (e) Financing facilities

Details of credit standby arrangements and loan facilities are shown in note 16.

#### (f) Acquisitions

On 9 April 2003, we acquired an additional 41.6% interest in TelstraClear Limited (TelstraClear) giving us 100% ownership of this company and its controlled entities.

Cash consideration for this additional acquisition was \$25 million (NZD\$26.9 million). As we controlled TelstraClear prior to this transaction, we were already consolidating their results, financial position and cash flows in to the Telstra Group.

#### (g) Disposals and entities deconsolidated

There were no significant disposals of investments during fiscal 2003.

During fiscal 2002 and fiscal 2001 we had the following significant acquisitions and disposals of businesses:

#### (h) Acquisition of TelstraClear, CitySearch and the Telstra CSL Group (formerly known as RWC)

On 12 December 2001, we increased our holding in our joint venture entity TelstraClear Limited (TelstraClear) by 8.4% to 58.4%. We consequently ceased equity accounting and consolidated the financial position, financial performance and cash flows of the TelstraClear Group from 1 December 2001.

Cash consideration for this acquisition was \$40 million (NZD\$50 million) for which we received an additional 52,500,000 shares in TelstraClear.

On 23 May 2002, we acquired 100% of the share capital in CitySearch Australia Pty Ltd (CitySearch). Cash consideration for this acquisition was \$17 million.

## Statement of Cash Flows (continued)

for the year ended 30 June 2003

### Cash flow notes (continued)

#### (h) Acquisition of TelstraClear, CitySearch and the Telstra CSL Group (formerly known as RWC) (continued)

The amount of cash, other assets and liabilities acquired as a result of obtaining our increased interest in TelstraClear and our shareholding in CitySearch was as follows:

|  | Year ended<br>30 June<br>2002<br>\$m |
|--|--------------------------------------|
| <b>Acquisition of controlled entities</b>  |                                      |
| <b>Consideration for acquisitions</b>  |                                      |
| Cash . . . . .   | 56                                   |
| Costs of acquisition . . . . .   | 1                                    |
|  | <u>57</u>                            |
| <b>Fair value of assets and liabilities<br/>acquired by major class</b>  |                                      |
| Net overdraft held on acquiring control . . .  | (5)                                  |
| Receivables . . . . .  | 64                                   |
| Inventories . . . . .  | 17                                   |
| Property, plant and equipment. . . . .   | 777                                  |
| Identifiable intangible assets . . . . .   | 249                                  |
| Other assets. . . . .  | 8                                    |
| Payables. . . . .  | (55)                                 |
| Borrowings . . . . .   | (406)                                |
| Amounts owed to Telstra Corporation Ltd (a)  | (367)                                |
| Provisions . . . . .   | (72)                                 |
| Finance lease liability . . . . .  | (10)                                 |
| Other liabilities. . . . .   | (80)                                 |
| Fair value of net assets on gaining control. .   | 120                                  |
| Outside equity interest relating to<br>TelstraClear. . . . .   | (47)                                 |
| Original 50% interest in fair value of<br>TelstraClear's net assets prior to obtaining<br>increased shareholding . . . . . | (56)                                 |
| Net assets acquired . . . . .  | 17                                   |
| Goodwill on acquisition (b) . . . . .  | 40                                   |
|  | <u>57</u>                            |
| <b>Outflow of cash on acquisitions</b>   |                                      |
| Consideration for acquisition . . . . .  | (56)                                 |
| Net overdraft held by TelstraClear on gaining<br>control. . . . .  | (5)                                  |
| Costs of acquisition . . . . .   | (1)                                  |
|  | <u>(62)</u>                          |

(a) Included in our repayment of borrowings line in the statement of cash flows is a \$367 million loan provided to TelstraClear. This funding was used to facilitate the purchase of the Clear Communications Limited Group.

(b) Included in our goodwill on acquisition is \$31 million relating to TelstraClear. Goodwill recognised from the original acquisition of our 50% interest in TelstraClear was \$49 million as at 1 December 2001. Upon acquisition of our additional 8.4% controlling interest, the total goodwill relating to TelstraClear was \$80 million.

#### Telstra CSL Group

On 28 June 2002, we acquired an additional 40% interest in the Telstra CSL Group giving us 100% ownership of this company and its controlled entities. As consideration for this acquisition, PCCW Limited (PCCW) redeemed the US\$750 million convertible note and issued a new US\$190 million mandatorily converting note. The fair value of consideration for this acquisition amounted to \$992 million. As no cash was involved, this transaction is not reflected in our statement of cash flows. In addition, as we controlled the Telstra CSL Group prior to this transaction, we were already consolidating their results, financial position and cash flows in to the Telstra Group. Refer to section (j) for information on the acquisition of our original 60% interest in the Telstra CSL Group in fiscal 2001.

## Statement of Cash Flows (continued)

for the year ended 30 June 2003

### Cash flow notes (continued)

#### (i) Disposals and entities deconsolidated

During fiscal 2002, we deconsolidated our interests in Keycorp Limited (Keycorp) and Telstra Vishesh Communications Private Limited (Telstra VComm).

We signed a deed poll effective 28 June 2002, which gave up our rights to appoint a majority of the directors to the board of Keycorp. As a result, we no longer have the capacity to control the company and have deconsolidated its statement of financial position as at that date. Refer to section (k) for information on the original acquisition of our interest in Keycorp.

On 13 May 2002, we sold our ordinary shareholding in Telstra VComm and acquired non voting preference shares for \$11 million on the same date. As a result of this transaction, we no longer control this company and have deconsolidated its statement of financial position.

The cash, other assets and liabilities deconsolidated as a result of these transactions were as follows:

| <b>Assets and liabilities<br/>deconsolidated by major class</b>                 | <b>Year ended<br/>30 June<br/>2002<br/>\$m</b> |
|---|--|
| <b>Carrying amounts of assets and liabilities deconsolidated by major class</b> |  |
| Net overdrafts held on deconsolidation . . . . .                                | (12)   |
| Receivables . . . . .   | 17   |
| Inventories . . . . .   | 24   |
| Property, plant and equipment. . . . .  | 11   |
| Intangible assets. . . . .  | 18   |
| Other assets. . . . .   | 1  |
| Payables. . . . .   | (27)   |
| Borrowings . . . . .  | (47)   |
| Provisions . . . . .  | (3)  |
| Net assets deconsolidated. . . . .  | <u>(18)</u>                                    |
| <b>Inflow of cash on deconsolidation</b>  |  |
| Net overdrafts held . . . . .   | <u>(12)</u>                                    |

The inflow of cash relating to overdrafts held on deconsolidation has been offset against our payments for shares in controlled entities in the statement of cash flows.

#### (j) Telstra's Asian Ventures

In fiscal 2001, we completed our strategic alliance with PCCW. Under these arrangements, the following acquisitions and disposals took place with effect from 1 February 2001:

##### • Reach Ltd

Reach Ltd (REACH) was formed through the combination of our international wholesale businesses and certain wholesale assets, together with certain PCCW assets. In return for the businesses and assets we contributed, we received net cash of \$680 million and a 50% equity interest initially recognised at \$1,727 million, including capitalised acquisition costs. REACH operates as a provider of voice, data and internet connectivity services in the Asia Pacific region.

The businesses we contributed included the global wholesale division of Telstra Corporation Limited and a number of controlled entities as listed below:

##### Global wholesale divisions

- Global Connect (part thereof)
- Global Wholesale - Australian Point of Presence (PoP)
- Telstra Inc. (part thereof)

##### Controlled entities

- Telstra Global Networks Limited
- Telstra Japan KK
- Telstra Korea Limited
- Telstra Germany GmbH
- Telstra France SA
- Telstra Singapore Pte Ltd
- Telstra International (HK) Holdings Limited
- Telstra Wholesale Trading Inc.
- Telstra (UK) Limited
- Telstra Global Wholesale (NZ) Limited
- Telstra (Malaysia Holdings) Sdn. Bhd.
- Australian Network Company Pty Ltd



## Statement of Cash Flows (continued)

for the year ended 30 June 2003

### Cash flow notes (continued)

#### (j) Telstra's Asian Ventures (continued)

The carrying amounts of cash, other assets and liabilities contributed is presented in the following table:

| Assets and liabilities contributed by major class  | Year ended<br>30 June<br>2001<br>\$m |
|--|--------------------------------------|
| <b>Proceeds on disposal</b>  |                                      |
| Cash . . . . .   | 680                                  |
| Issue of shares (excluding associated costs) . . . . .   | 1,692                                |
|  | <u>2,372</u>                         |
| Cash . . . . .   | 64                                   |
| Receivables . . . . .  | 142                                  |
| Property, plant and equipment . . . . .  | 647                                  |
| Other assets . . . . .   | 87                                   |
| Payables . . . . .   | (403)                                |
| Borrowings . . . . .   | (16)                                 |
| Carrying amount of assets contributed . . . . .  | 521                                  |
| Other items . . . . .  | 47                                   |
| Other associated costs (including stamp duty) contributed to REACH and associated costs (note 3) . . . . . | 100                                  |
|  | <u>668</u>                           |
| Net outflow of cash on contribution . . . . .  | (64)                                 |
| Net inflow of cash as consideration . . . . .  | 680                                  |
|  | <u>616</u>                           |

Refer note 24 for further details on our investment in REACH.

#### • Telstra CSL Group

We acquired a 60% controlling interest in the Telstra CSL Group. Consideration for this acquisition totalled \$3,085 million (including capitalised acquisition costs). The Telstra CSL Group operates as a provider of wireless connectivity services in the Asia Pacific region.

The fair value of cash, other assets and liabilities consolidated as a result of the acquisition is presented in the following table:

| Assets and liabilities acquired by major class               | Year ended<br>30 June<br>2001<br>\$m |
|--|--------------------------------------|
| Cash . . . . .   | 40                                   |
| Receivables . . . . .  | 50                                   |
| Inventories . . . . .  | 14                                   |
| Property, plant and equipment . . . . .                      | 430                                  |
| Identifiable intangible assets . . . . .                     | 759                                  |
| Other assets . . . . .                                       | 49                                   |
| Payables . . . . .   | (198)                                |
| Provisions . . . . .   | (103)                                |
| Fair value of net assets acquired . . . . .                  | <u>1,041</u>                         |
| Telstra share of fair value of net assets acquired . . . . . | 625                                  |
| Goodwill on acquisition . . . . .                            | 1,461                                |
| Write off of acquisition costs . . . . .                     | 999                                  |
|  | <u>3,085</u>                         |
| Inflow of cash on acquisition . . . . .                      | 40                                   |
| Outflow of cash on acquisition . . . . .                     | <u>3,085</u>                         |

Refer note 23 for further details on our investment in the Telstra CSL Group.

#### (k) Other acquisitions of businesses

During fiscal 2001, we acquired a 50.9% controlling interest in Keycorp Limited (Keycorp). As consideration, we sold our EFTPOS payments carriage, installation and maintenance business to Keycorp for \$426 million.

## Statement of Cash Flows (continued)

for the year ended 30 June 2003

Cash flow notes (continued)

(k) Other acquisitions of businesses (continued)

The amount of cash, other assets and liabilities we acquired as a result of obtaining our interest in Keycorp is presented in the following table:

|   | Year ended<br>30 June<br>2001 |
|---|-------------------------------|
| Acquisition of controlled entities and<br>businesses                              | \$m                           |
| <b>Consideration for acquisition</b>  |                               |
| Sale of EFTPOS payments carriage, installation and maintenance business . . . . . | 426                           |
| Costs of acquisition . . . . .  | 12                            |
|   | <u>438</u>                    |
| Less elimination of goodwill (intercompany transaction) . . . . .                 | 426                           |
|   | 12                            |
| Outside equity interest (49.1%) . . . . .   | 17                            |
|   | <u>29</u>                     |
| <b>Fair value of assets and liabilities acquired by major class</b>               |                               |
| Cash . . . . .  | 1                             |
| Receivables . . . . .   | 40                            |
| Inventories . . . . .   | 29                            |
| Investments . . . . .   | 20                            |
| Property, plant and equipment. . . . .  | 5                             |
| Identifiable intangible assets . . . . .  | 19                            |
| Other assets. . . . .   | 7                             |
| Payables. . . . .   | (37)                          |
| Borrowings . . . . .  | (47)                          |
| Provisions . . . . .  | (3)                           |
| Fair value of net assets acquired . . . . .                                       | <u>34</u>                     |
| Less discount on acquisition. . . . .   | (5)                           |
|   | <u>29</u>                     |
| <b>Inflow of cash on acquisition</b>  |                               |
| Cash held by Keycorp on acquisition . . . . .                                     | <u>1</u>                      |

## Statement of Changes in Shareholders' Equity

for the year ended 30 June 2003

### Telstra Group

|  | Reserves                            |                                     |  |                        |  |                            |                                       | Total<br>\$m |
|--|-------------------------------------|-------------------------------------|--|------------------------|--|----------------------------|---------------------------------------|--------------|
|  | Contributed<br>equity<br>(i)<br>\$m | Asset<br>revaluation<br>(ii)<br>\$m | Foreign<br>currency<br>translation<br>(iii)<br>\$m | General<br>(iv)<br>\$m | Consolid-<br>ation<br>fair value<br>(v)<br>\$m | Retained<br>profits<br>\$m | Outside<br>equity<br>interests<br>\$m |              |
| <b>Balance at 30 June 2000.</b> . . . . .  | 6,433                               | 32                                  | (41)   | 1                      | -  | 5,170                      | 7                                     | 11,602       |
| - change in outside equity interests<br>capital, reserves and accumulated losses<br>(apart from interests in net profits) . .  | -                                   | -                                   | -  | -                      | -  | -                          | 473                                   | 473          |
| - net profit. . . . .  | -                                   | -                                   | -  | -                      | -  | 4,058                      | 3                                     | 4,061        |
| - reserves recognised on equity accounting<br>our interest in joint venture entities and<br>associates . . . . .               | -                                   | -                                   | (33)   | 3                      | -  | -                          | -                                     | (30)         |
| - adjustment on translation of non-<br>Australian controlled entities' financial<br>statements . . . . .                       | -                                   | -                                   | 61   | -                      | -  | -                          | -                                     | 61           |
| - transfer of foreign currency translation<br>reserve on sale of controlled entities . .                                       | -                                   | -                                   | (12)   | -                      | -  | 12                         | -                                     | -            |
| - dividends (note 7) . . . . .   | -                                   | -                                   | -  | -                      | -  | (2,445)                    | -                                     | (2,445)      |
| <b>Balance at 30 June 2001.</b> . . . . .  | 6,433                               | 32                                  | (25)   | 4                      | -  | 6,795                      | 483                                   | 13,722       |
| - change in outside equity interests<br>capital, reserves and accumulated losses<br>(apart from interests in net profit) . . . | -                                   | -                                   | -  | -                      | -  | -                          | (445)                                 | (445)        |
| - net profit/(loss). . . . .   | -                                   | -                                   | -  | -                      | -  | 3,661                      | (11)                                  | 3,650        |
| - reserves recognised on equity accounting<br>our interest in joint venture entities and<br>associates . . . . .               | -                                   | -                                   | 62   | (21)                   | -  | -                          | -                                     | 41           |
| - adjustment on conversion of non-<br>Australian controlled entities' financial<br>statements . . . . .                        | -                                   | -                                   | (87)   | -                      | -  | -                          | -                                     | (87)         |
| - dilution of outside equity interest on<br>acquisition of controlled entity through<br>additional share issue . . . . .       | -                                   | -                                   | -  | -                      | -  | 29                         | (29)                                  | -            |
| - fair value adjustment on acquisition of<br>controlling interest in joint venture entity                                      | -                                   | -                                   | -  | -                      | 54   | 1                          | -                                     | 55           |
| - transfer of foreign currency translation<br>reserve on sale of controlled entities . .                                       | -                                   | -                                   | (5)  | -                      | -  | 5                          | -                                     | -            |
| - dividends (note 7) . . . . .   | -                                   | -                                   | -  | -                      | -  | (2,830)                    | -                                     | (2,830)      |
| <b>Balance at 30 June 2002.</b> . . . . .  | 6,433                               | 32                                  | (55)   | (17)                   | 54   | 7,661                      | (2)                                   | 14,106       |

(continued over page)

The notes following the financial statements form part of the financial report.

## Statement of Changes in Shareholders' Equity (continued)

### Telstra Group

|  | Reserves                            |                                     |  |                        |  |                            |                                       | Total<br>\$m  |
|--|-------------------------------------|-------------------------------------|--|------------------------|--|----------------------------|---------------------------------------|---------------|
|  | Contributed<br>equity<br>(i)<br>\$m | Asset<br>revaluation<br>(ii)<br>\$m | Foreign<br>currency<br>translation<br>(iii)<br>\$m | General<br>(iv)<br>\$m | Consolid-<br>ation<br>fair value<br>(v)<br>\$m | Retained<br>profits<br>\$m | Outside<br>equity<br>interests<br>\$m |               |
| <b>Balance at 30 June 2002</b> . . . . .   | 6,433                               | 32                                  | (55)   | (17)                   | 54   | 7,661                      | (2)                                   | 14,106        |
| - adjustment to opening retained profits<br>due to change in accounting standards (vi)   | -                                   | -                                   | -  | -                      | -  | 1,415                      | -                                     | 1,415         |
| - change in outside equity interests<br>capital, reserves and accumulated losses<br>(apart from interests in net profit) . . .   | -                                   | -                                   | -  | -                      | -  | (8)                        | 39                                    | 31            |
| - net profit/(loss) . . . . .  | -                                   | -                                   | -  | -                      | -  | 3,429                      | (35)                                  | 3,394         |
| - reserves recognised on equity accounting<br>our interest in joint venture entities and<br>associates . . . . .                 | -                                   | -                                   | (21)   | 3                      | -  | -                          | -                                     | (18)          |
| - adjustment on conversion of non-<br>Australian controlled entities' financial<br>statements . . . . .                          | -                                   | -                                   | (161)  | -                      | -  | -                          | -                                     | (161)         |
| - fair value adjustment on acquisition of<br>controlling interest in joint venture entity  | -                                   | -                                   | -  | -                      | (4)  | 4                          | -                                     | -             |
| - transfer of foreign currency translation<br>reserve and general reserve on sale of<br>controlled entities and associates . . . | -                                   | -                                   | (3)  | 22                     | -  | (19)                       | -                                     | -             |
| - dividends (note 7) . . . . .   | -                                   | -                                   | -  | -                      | -  | (3,345)                    | -                                     | (3,345)       |
| <b>Balance at 30 June 2003</b> . . . . .   | <b>6,433</b>                        | <b>32</b>                           | <b>(240)</b>                                       | <b>8</b>               | <b>50</b>                                      | <b>9,137</b>               | <b>2</b>                              | <b>15,422</b> |
| <b>Balance at 30 June 2003 US\$m</b> . . . . .   | <b>4,310</b>                        | <b>21</b>                           | <b>(161)</b>                                       | <b>5</b>               | <b>34</b>                                      | <b>6,122</b>               | <b>2</b>                              | <b>10,333</b> |

(i) Refer to note 18 for details of the Telstra Group's contributed equity.

(ii) The asset revaluation reserve was previously used to record revaluations in the value of non current assets. From 1 July 2000, as allowed under AASB 1041: "Revaluation of Non-Current Assets", we have deemed the carrying value of our property, plant and equipment assets (refer to note 12) to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the statement of financial performance (refer note 1.12).

As a consequence of implementing AASB 1041, we have also discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve is no longer able to be used for distribution to shareholders or for offsetting revaluation decrements due to legal and accounting restrictions.

(iii) The foreign currency translation reserve is used to record exchange differences arising from the conversion of our self sustaining non-Australian operations' financial statements into Australian dollars. Conversion of operations where entities operate on their own are taken to the foreign currency translation reserve, while conversion for those entities that operate with us are taken to the statement of financial performance (refer note 1.5).

This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in associates and joint venture entities. The foreign currency translation reserve applicable to joint venture entities and associated entities is shown in note 24.

(iv) The general reserve represents our share of the capital reserve of joint venture entities and associated entities as a result of equity accounting. The amount of reserves applicable to these investments is shown in note 24.

(v) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets (average 18 years).

(vi) Due to the first time application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", we have adjusted the opening balance of retained profits by the amount of the dividend provided at 30 June 2002. Refer to note 1.2 for additional information on this change.

## Statement of Changes in Shareholders' Equity (continued)

for the year ended 30 June 2003

### Telstra Entity

|  | Reserves                                     |             |                            | Total<br>\$m   |
|--|--|-------------|----------------------------|----------------|
|  | Asset  |             | Retained<br>profits<br>\$m |                |
|  | Contributed revaluation<br>equity (i)<br>\$m | (ii)<br>\$m |                            |                |
| <b>Balance at 30 June 2000.</b> . . . . .  | 6,433  | 277         | 4,886                      | 11,596         |
| - net profit. . . . .  | -  | -           | 4,571                      | 4,571          |
| - dividends (note 7) . . . . .   | -  | -           | (2,445)                    | (2,445)        |
| <b>Balance at 30 June 2001.</b> . . . . .  | 6,433  | 277         | 7,012                      | 13,722         |
| - net profit. . . . .  | -  | -           | 2,725                      | 2,725          |
| - dividends (note 7) . . . . .   | -  | -           | (2,830)                    | (2,830)        |
| <b>Balance at 30 June 2002.</b> . . . . .  | 6,433  | 277         | 6,907                      | 13,617         |
| - adjustment to opening retained profits due to change in accounting standards (iii) . . . . . | -  | -           | <b>1,415</b>               | <b>1,415</b>   |
| - net profit. . . . .  | -  | -           | <b>2,251</b>               | <b>2,251</b>   |
| - dividends (note 7) . . . . .   | -  | -           | <b>(3,345)</b>             | <b>(3,345)</b> |
| <b>Balance at 30 June 2003.</b> . . . . .  | <b>6,433</b>                                 | <b>277</b>  | <b>7,228</b>               | <b>13,938</b>  |

(i) Refer to note 18 for details of the Telstra Entity's contributed equity.

(ii) The asset revaluation reserve was previously used to record revaluations in the value of non current assets. From 1 July 2000, as allowed under AASB 1041: "Revaluation of Non-Current Assets", we have deemed the carrying value of our property, plant and equipment assets (refer to note 12) to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the statement of financial performance (refer note 1.12).

As a consequence of implementing AASB 1041, we have also discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve is no longer able to be used for distribution to shareholders or for offsetting revaluation decrements due to legal and accounting restrictions.

(iii) Due to the first time application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", we have adjusted the opening balance of retained profits by the amount of the dividend provided for at 30 June 2002. Refer to note 1.2 for additional information on this change.

## Notes to the Financial Statements

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### 1. Summary of accounting policies

In this financial report, we, us, our, Telstra and the Telstra Group - all mean Telstra Corporation Limited, an Australian corporation and its controlled entities as a whole. Telstra Entity is the legal entity, Telstra Corporation Limited.

Our financial or fiscal year ends on 30 June. Unless we state differently, the following applies:

- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2003 means fiscal 2003 and similarly for other fiscal years.

The main accounting policies we used in preparing the financial report of the Telstra Entity and the Telstra Group are listed below. These are presented to assist your understanding of the financial reports. These accounting policies are consistent with those adopted in previous periods, unless a change in accounting policy has been made and brought to your attention.

#### 1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with:

- the Australian Corporations Act 2001;
- Accounting Standards applicable in Australia;
- other authoritative pronouncements of the Australian Accounting Standards Board;
- Urgent Issues Group Consensus Views; and
- Australian generally accepted accounting principles (AGAAP).

This financial report is prepared in accordance with historical cost, except for some categories of investments that are equity accounted. Cost is the fair value of the consideration given in exchange for net assets acquired.

In preparing this financial report, we have been required to make estimates and assumptions that affect:

- the reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities; and
- revenues and expenses for the period.

Actual results could differ from those estimates.

Note 30 contains a reconciliation of the major differences between our financial report prepared under Australian generally accepted accounting principles (AGAAP) and those applicable under United States generally accepted accounting principles (USGAAP).

#### United States dollar conversions

This financial report has been prepared using Australian dollars (A\$). For the convenience of readers outside Australia we have converted our statement of financial performance, statement of financial position, statement of cash flows and USGAAP disclosures from A\$ to US\$ for fiscal 2003.

These conversions appear under columns headed "US\$m" and represent rounded millions of US dollars. The conversion has been made using the noon buying rate in New York City for cable transfers in non-US currencies. This rate is certified for custom purposes by the Federal Reserve Bank of New York. The rate on 30 June 2003 was A\$1.00 = US\$0.67.

These conversions are indicative only and do not mean that the A\$ amounts could be converted to US\$ at the rate indicated.

#### 1.2 Change in accounting policies

The following accounting policy changes occurred during fiscal 2003.

##### Provision for dividends

In previous financial years, our accounting policy was to provide for dividends in the statement of financial position when that dividend was declared after reporting date but before the completion of the financial report. Due to the first time application of accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", a provision can no longer be raised at balance date if the dividend is declared after that date.

As a result, we have changed our accounting policy to reflect this position and we now provide for a dividend in the period in which it is declared. When the declaration date is after balance date but before completion of the financial report, we disclose the dividend as an event occurring after balance date.

The transitional provisions of this standard require a write-back of the provision raised as at 30 June 2002 to opening retained profits in the current financial year. The effect of the revised policy has been to increase consolidated retained profits and decrease provisions at the beginning of the year by \$1,415 million. No adjustment has been made to the prior year statement of financial performance, statement of financial position or cash flows.

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.2 Change in accounting policies (continued)

##### Provision for dividends (continued)

The restatement of our retained profits and provisions is disclosed as follows to show the information as if the new accounting policy had always been applied:

|   | Telstra Group               |         | Telstra Entity              |         |
|---|-----------------------------|---------|-----------------------------|---------|
|   | As at 30 June<br>(Restated) |         | As at 30 June<br>(Restated) |         |
|   | 2003                        | 2002    | 2003                        | 2002    |
|   | \$m                         | \$m     | \$m                         | \$m     |
| <b>Restatement of retained profits</b>  |                             |         |                             |         |
| Previously reported retained profits at beginning of year . . . .                               | 7,661                       | 6,795   | 6,907                       | 7,012   |
| Reversal of prior year dividend provided for . .  | 1,415                       | 1,416   | 1,415                       | 1,416   |
| Profit after income tax expense . . . . .   | 3,429                       | 3,661   | 2,251                       | 2,725   |
| Other movements in retained profits. . . . .  | (23)                        | 35      | -                           | -       |
| Dividends - interim dividend and prior year final ordinary dividend paid (refer note 7) . . . . | (3,345)                     | (2,831) | (3,345)                     | (2,831) |
| Restated retained profits at end of year . . . . .  | 9,137                       | 9,076   | 7,228                       | 8,322   |
| <b>Restatement of current provisions</b>  |                             |         |                             |         |
| Current provisions at end of year (refer note 17) . .   | 353                         | 1,903   | 284                         | 1,723   |
| Adjustment for change in accounting policy . .  | -                           | (1,415) | -                           | (1,415) |
| Restated current provisions at end of year  | 353                         | 488     | 284                         | 308     |

##### Cross currency swaps

In accordance with AASB 1012: "Foreign Currency Translation" we revalue the principal of our cross currency swaps to take into account movements in foreign currency. As these cross currency swaps are designated as hedges, we had previously included the swap balances with the underlying borrowings in the statement of financial position.

To give affect to a change to AASB 1012 in relation to the disclosure of our financial instruments, we have now separated these foreign currency swaps and recorded them as separate financial assets and liabilities.

This reflects the fact that the swap contracts, although specifically hedging our borrowings, are made with different counterparties and as such are separate financial assets and liabilities in their own right.

On a similar basis, we have reviewed the treatment of our interest rate swaps to ensure that interest receivable and payable are set off only where our dealings are with the same counterparty and we have a legally recognised right to do so. Adjustments required for our interest rate swaps have not had a significant effect on our statement of financial position.

To appropriately assess our price risk from foreign currency borrowings, hedge receivables and hedge payables arising from cross currency swaps and accruals arising from interest rate swaps should continue to be viewed in the context of movements in the underlying borrowings being hedged.

This change in accounting policy has had no impact on our statement of financial performance or our net assets in the statement of financial position. It has however resulted in an increase to both total assets and total liabilities. We have restated our comparative figures to reflect the disclosure in the current year. Refer note 29 for additional details on our financial instruments (including derivatives).

The balances relating to cross currency swaps in our asset and liability classes are as follows:

|  | Telstra Group |      |
|--|---------------|------|
|  | As at 30 June |      |
|  | 2003          | 2002 |
|  | \$m           | \$m  |
| Receivables - current . . . . .  | 10            | 29   |
| Receivables - non current . . . . .  | 273           | 622  |
|  | 283           | 651  |
| Interest-bearing liabilities -non current  | 426           | 114  |
| Net cross currency swaps separated out from interest-bearing liabilities . . . . . | (143)         | 537  |

The net position of our other loans after including all cross currency swaps is included in our note 16 disclosures.

##### Employee benefits

Revised accounting standard AASB 1028: "Employee Benefits" became applicable from 1 July 2002. The main changes surrounding this standard were specific recognition criteria for wages and salaries (including non-monetary benefits), compensated absences, profit sharing and bonus plans, termination benefits and some post employment benefits.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.2 Change in accounting policies (continued)

##### Employee benefits (continued)

Previously, we measured the provision for employee benefits at remuneration rates current at balance date. From fiscal 2003, we now measure the provision for employee benefits on the remuneration rates expected to be current when the liability is settled. We have assessed the changes in this accounting standard and determined that there has been no significant impact on our statement of financial performance or statement of financial position. As a result, there has been no adjustment required to our opening retained earnings.

There were no accounting policy changes made during fiscal 2002.

The following accounting policy change occurred during fiscal 2001.

##### Revenue recognition

It is our policy to prepare our financial statements to satisfy both AGAAP and USGAAP and, in cases where there is no conflict between the two, we ensure that we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements.

The US Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB101) had application to us for our USGAAP accounts from 1 July 2000.

SAB101 gives the SEC staff's interpretation of existing accounting principles on the timing of recognition of revenues and associated expenses in the financial statements. As the underlying accounting principles of revenue recognition are the same for both AGAAP and USGAAP, we have applied the more detailed SAB101 guidance to the timing of revenue recognition to both AGAAP and USGAAP financial statements. We accounted for the adoption of SAB101 as a change in accounting principle effective 1 July 2000.

The major revenue and associated expense items impacted were:

- basic access installation and connection fees for in place and new services;
- up-front mobile phone connection fees;
- commission revenue for our printed directories; and
- on line directories and voice services.

##### Installation and connection fees

Consistent with industry practice, certain installation and connection fees were previously recognised on connection of the service. Under SAB101, these installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Any costs in excess of the revenue deferred are recognised immediately.

##### Commission revenue for printed directories

Previously, commission revenue for printed directories earned for sale of directory advertising space was recognised on signing of the advertising agreements with customers, while the balance of the revenue was deferred until the directories were published and delivered to customers' premises. Under SAB101 we have deferred the recognition of all revenue earned for a directory until the directory is published and delivered to customers' premises.

##### On line directories and voice services

Previously, revenue for our on line directories and voice services was recognised when agreements for the service were made with the customer. Revenue for these services is now deferred over the life of the service agreements, which is on average one year.

Refer to note 3 for details on items recognised in our statement of financial performance requiring specific disclosure.



## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.2 Change in accounting policies (continued)

##### Revenue recognition (continued)

As a result of the change in revenue recognition accounting policy, our net profit for fiscal 2001 decreased as follows:

|   | <b>Telstra Group</b> |
|---|----------------------|
|   | <b>Year ended</b>    |
|   | <b>30 June</b>       |
|   | <b>2001</b>          |
|   | <b>\$m</b>           |
| <b>Sales revenue</b>  |                      |
| Cumulative impact of deferring revenue as at 30 June 2000 . . . . .                   | 777                  |
| Deferral of additional revenues under new policy for year ended 30 June 2001. . . . . | 410                  |
| Part release of cumulative impact for the year ended 30 June 2001 . . . . .           | (408)                |
| Total impact on sales revenue . . . . .   | <u>779</u>           |
| <b>Goods and services purchased</b>   |                      |
| Cumulative impact of deferring expenses as at 30 June 2000 . . . . .                  | (573)                |
| Deferral of additional expenses under new policy for year ended 30 June 2001. . . . . | (191)                |
| Part release of cumulative impact for the year ended 30 June 2001 . . . . .           | 204                  |
| Total impact on goods and services purchased . . . . .                                | <u>(560)</u>         |
| Reduction in profit before income tax expense . . . . .                               | (219)                |
| Income tax benefit at 34% . . . . .   | 74                   |
| Reduction in net profit after tax for the year ended 30 June 2001 . . . . .           | <u>(145)</u>         |

#### 1.3 Recently issued accounting standards to be applied in Australia in future periods

The following revised Australian accounting standard and the adoption of international accounting standards will apply in future financial reports. The impact of this Australian accounting standard has not yet been determined.

**AASB 1020: "Income taxes"** is applicable for financial years beginning on or after 1 January 2005. The revised standard introduces a fundamental shift in the method of accounting for income taxes. The new method is known as the balance sheet liability method, while the previous method was known as the income statement liability method.

The balance sheet method places emphasis upon the determination of tax assets and liabilities with income tax expense a residual of the process. In implementing the new method the revised standard:

- introduces new terminology;
- is formula based;
- defines tax assets and liabilities as the product of temporary differences that arise between the carrying amount and the tax base of items recognised in the statement of financial position; and
- increases the level of disclosures about income taxation.

##### Adoption of International Financial Reporting Standards

The Australian Financial Reporting Council (FRC) has determined that Australian entities must adopt International Financial Reporting Standards (IFRS) from 1 January 2005. This will involve completing a first time set of financial statements under IFRS for the half-year ended 31 December 2005 and for the financial year ended 30 June 2006.

Comparatives will also be remeasured under IFRS for the half-year ending 31 December 2004 and the financial years ending 30 June 2005 and 30 June 2004.

It is expected that there will be continuing developments in IFRS up to their application date of 1 January 2005, and consequently there is still uncertainty about the impact of IFRS. We are currently evaluating the potential impact of applying IFRS on our statement of financial position and performance.

#### 1.4 Principles of consolidation

Our consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the financial year and the consolidated results and cash flows for the financial year. The effect of all intergroup transactions and balances are removed in full from our consolidated financial report.

Our consolidated financial report includes the assets and liabilities of the Telstra Entity and its controlled entities as a whole as at the end of the financial year and the consolidated results and cash flows for the financial year. The effect of all intergroup transactions and balances are removed in full from our consolidated financial report.

Where we do not control an entity for the whole year, results and cash flows for those entities are only included from the date on which control commences, or up until the date on which there is a loss of control.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.4 Principles of consolidation (continued)

Our consolidated retained profits include controlled entities' retained profits/accumulated losses from the time they became a controlled entity until control ceases. Outside equity interests in the results and equity of controlled entities are shown separately in our consolidated statement of financial performance and consolidated statement of financial position.

The financial statements of controlled entities are prepared for the same reporting period as the Telstra Entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies.

An entity is considered to be a controlled entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable it to operate with us in achieving our objectives. Our controlled entities are listed in note 23.

Investments in associated entities and joint ventures are accounted for as set out in note 1.10.

#### 1.5 Foreign currency translation

##### (a) Transactions

Foreign currency transactions are converted into Australian currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at market exchange rates at balance date. Any currency translation gains and losses that arise are included in our net profit or loss for the year.

Where we enter into a hedge for a specific expenditure commitment or for the construction of a qualifying asset, currency translation gains and losses and hedging costs on forward foreign currency contracts are deferred and included with the expenditure commitment or cost of the asset.

Where we enter into a hedge for general expenditure commitments or for the construction of a non-qualifying asset, currency translation gains and losses are recorded in the statement of financial performance in the same period as the currency translation differences on the underlying transaction being hedged. Costs on such contracts are amortised over the life of the hedge contract.

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

##### (b) Translation of financial reports of foreign operations

###### Non-Australian entities that operate with us ("integrated" entities)

Where our non-Australian operations, either directly or indirectly, rely on us financially and operationally, we translate their financial reports to Australian dollars using a method known as the temporal method of accounting.

Under this method:

- monetary statement of financial position items, such as cash and receivables, are translated into Australian dollars using market exchange rates at balance date;
- non monetary statement of financial position items (including equity at the date of investment) are translated at market exchange rates applicable at the date of the transactions (or at the date of revaluation);
- statements of financial performance are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in the statement of financial performance.

###### Non-Australian entities that operate on their own ("self-sustaining" entities)

Where our non-Australian operations operate independently of us both financially and operationally, we translate their financial reports to Australian dollars using the current rate method of accounting.

Under this method:

- assets and liabilities are translated into Australian dollars using market exchange rates at balance date;
- shareholders' equity at the date of investment is translated into Australian dollars at the exchange rate current at that date. Movements post-acquisition (other than retained profits/accumulated losses) are translated at the exchange rates current at the dates of those movements;
- statements of financial performance are translated into Australian dollars at average exchange rates for the year, unless there are significant identifiable transactions, which are translated at the exchange rate that existed on the date of the transaction; and
- currency translation gains and losses are recorded in the foreign currency translation reserve.

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.5 Foreign currency translation (continued)

##### Non-Australian entities that operate on their own ("self sustaining" entities) (continued)

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self sustaining foreign entity, together with hedges of such monetary items and related tax effects, are eliminated against the foreign currency translation reserve on consolidation of the foreign entity's financial report.

Upon disposal or partial disposal of a self sustaining entity, the balance of the foreign currency translation reserve relating to the entity, or the part disposed of, is transferred to retained profits.

#### 1.6 Cash and cash equivalents (note 8)

**Cash** includes cash at bank and on hand, bank deposits, bills of exchange and commercial paper with an original maturity date not greater than three months.

**Bank deposits** (including those with an original maturity in excess of three months, which are classified as receivables) are recorded at amounts to be received and interest revenue is recognised on an effective yield to maturity basis.

**Bills of exchange and commercial paper** (including those with an original maturity in excess of three months, which are classified as receivables) are valued at amortised cost with interest revenue recognised on an effective yield to maturity basis.

**Statement of cash flows** discloses cash net of outstanding bank overdrafts. At balance date in 2003 and 2002, there were no bank overdrafts.

#### 1.7 Receivables (note 9)

Trade debtors are recorded at amounts to be received. A provision for doubtful debts is raised based on a general and specific review of outstanding amounts at balance date. Bad debts which have been specifically provided for in previous years are recorded against the provision for doubtful debts (the provision is reduced). In all other cases, bad debts are written off as an expense directly in the statement of financial performance.

Employee share loans are carried at the amount advanced to each employee, less after tax dividend repayments and loan repayments. The outstanding principal on these loans is mainly interest free. The current portion of the loan receivable is calculated using estimated loan repayments expected to be received from tax adjusted dividend payments and estimated loan repayments as a result of staff exiting the employee share plans described in note 19.

#### 1.8 Inventories (note 10)

Our finished goods include goods available for sale, and material and spare parts to be used in constructing and maintaining the telecommunications network. We value inventories at the lower of cost and net realisable value.

We allocate cost to the majority of inventory items on hand at balance date using the weighted average cost basis. For the remaining quantities on hand, actual cost is used.

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

Non current inventories are items which will be consumed into the telecommunications network after one year.

#### 1.9 Construction contracts (note 10)

##### (a) Valuation

We record construction contracts in progress at cost (net of any provision for foreseeable losses) less progress billings where profits are yet to be recognised.

Cost includes:

- both variable and fixed costs directly related to specific contracts;
- amounts which can be allocated to contract activity in general and which can be allocated to specific contracts on a reasonable basis; and
- costs expected to be incurred under penalty clauses, warranty provisions and other variances.

Where a significant loss is estimated to be made on completion, a provision for foreseeable losses is brought to account and recorded against the gross amount of construction work in progress.

##### (b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion (refer to note 1.19(d)).

Profits are recognised when:

- the stage of contract completion can be reliably determined;
- costs to date can be clearly identified; and
- total contract revenues to be received and costs to complete can be reliably estimated.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.9 Construction contracts (note 10) (continued)

##### (c) Disclosure

The construction work in progress balance is recorded in current inventories after deducting progress billings (refer note 10). Where progress billings exceed the balance of construction work in progress the net amount is shown as a current liability within other creditors.

#### 1.10 Investments (note 11)

##### (a) Controlled entities

Our investments in controlled entities are valued at cost less any amount provided for permanent reduction in the investment value.

##### (b) Joint venture entities and associated entities

###### (i) Joint venture entities

A joint venture entity is a contractual arrangement (in the form of an entity) whereby two or more parties take on an economic activity which is governed by joint control. Joint control involves the contractually agreed sharing of control over an entity where two or more parties must consent to all major decisions. Our interests in joint venture entities that are:

- partnerships are accounted for using the equity method of accounting in the Telstra Group and Telstra Entity financial statements; and
- not partnerships are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

###### (ii) Associated entities

Where we hold an interest in the equity of an entity and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. Associated entities are accounted for using the equity method of accounting in the Telstra Group financial statements and the cost method in the Telstra Entity financial statements.

Under the equity method of accounting we adjust the initial recorded amount of the investment for our share of:

- net profits or losses after tax since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses and adjustments to asset values;
- notional goodwill amortisation;
- dividends or distributions received; and
- deferred profit brought to account.

Our share of all of these items, apart from dividends or distributions received and reserves, is recorded in the statement of financial performance.

Notional goodwill on acquisition of an interest in a joint venture entity or associated entity is amortised over the expected period of benefit, limited to a maximum of 20 years from the date of acquisition. This amortisation is recorded in the share of net profits or losses of associates and joint venture entities line in the statement of financial performance.

Where we contribute or sell businesses or assets to a joint venture entity or associate in which we retain an ownership interest, a portion of the profit arising on contribution or sale is deferred. The amount deferred is determined with reference to our ownership percentage in the joint venture entity or associate. The deferred amount is released to the statement of financial performance through the equity accounted results over a period consistent with the utilisation of the underlying assets.

We also assess the recoverable amount of our equity accounted investments and reduce the equity accounted carrying amount to recoverable amount where the carrying amount exceeds recoverable amount. Where the equity accounted amount of an investment has been reduced to recoverable amount, we only reverse reductions to the extent the new recoverable amount at balance date exceeds the carrying amount at that date.

Where the equity accounted amount of our investment in an entity falls below zero, we suspend the equity method of accounting and record the investment at zero. When this occurs, the equity method of accounting does not start again until our share of profits and reserves exceeds the cumulative prior year share of losses and reserve reductions.

##### (c) Joint venture operations

A joint venture operation means a contractual arrangement (that is not a joint venture entity) whereby two or more parties undertake an economic activity that is governed by joint control. This usually involves the shared use of assets. Joint control involves the contractually agreed sharing of control where two or more parties must consent to all major decisions. Where the investment is significant, we record assets and liabilities relating to our share in each asset and liability used in the joint venture operation. We record expenses based on our percentage ownership interest in the joint venture. We record revenue from the sale or use of our share of the output as described in our revenue policy (refer note 1.19).

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.10 Investments (note 11) (continued)

##### (d) Listed securities and investments in other corporations

Listed securities and investments in other corporations are valued at cost less any amount provided for permanent reduction in their value.

Net fair values of our investments are calculated on the following bases:

- for listed securities traded in an organised financial market we use the current quoted market bid price at balance date; and
- for investments in unlisted securities not traded in an organised financial market, fair value is determined by reference to the net assets of the unlisted security.

#### 1.11 Recoverable amount of non current assets

Non current assets measured using the cost basis are written down to recoverable amount where their carrying value exceeds this recoverable amount.

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. Any decrement in the carrying value is recognised as an expense in the statement of financial performance in the reporting period in which the recoverable amount write down occurs.

The expected net cash flows included in determining recoverable amounts of non current assets are discounted to their present values using a market determined, risk adjusted, discount rate.

#### 1.12 Property, plant and equipment (note 12)

##### (a) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as described in note 1.12(c). The cost of our constructed property, plant and equipment includes:

- the cost of material and direct labour;
- an appropriate proportion of direct and indirect overheads; and
- borrowing costs up to the date the asset is installed ready for use.

Our weighted average capitalisation interest rate for borrowing costs for fiscal 2003 was 7.5% (2002: 7.2%; 2001: 7.9%). Interest revenue is not deducted in the calculation of borrowing costs included in the cost of constructed assets when those borrowings are not for a specific asset.

##### (b) Revaluation

We obtain valuations of all our land and buildings at least once every three years, or more frequently if necessary, to accord with the note disclosure requirements in AASB 1040: "Statement of Financial Position". From 1 July 2000, we applied AASB 1041: "Revaluation of Non-Current Assets" which has seen us discontinue our policy of revaluing our property, plant and equipment upwards. Any notional increase in book value as a result of the triennial valuation will therefore be disclosed in a note to the financial statements but not booked.

As part of the application of AASB 1041, we have also elected to:

- apply the cost basis of recording property, plant and equipment in our financial statements; and
- deem all our revalued property, plant and equipment carrying amounts as at 30 June 2000 to be their cost going forward. This means that the asset revaluation reserve of \$32 million is fixed as at 1 July 2000 and writedowns of previously revalued assets may no longer be made through the asset revaluation reserve.

We reduce the value of our property, plant and equipment to its recoverable amount where our carrying amount is greater than recoverable amount. Any writedown of this type is charged to the statement of financial performance.

The profit or loss on disposal of assets written down to recoverable amount is calculated as the difference between the carrying amount of the asset at the time of disposal, and the revenue received on disposal. This is included in the statement of financial performance in the year of disposal.

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

##### (c) Depreciation and amortisation

Items of property, plant and equipment, including buildings and leasehold property, but excluding freehold land, are depreciated or amortised on a straight line basis over their estimated service lives to us. We start depreciating or amortising assets when they are installed and ready for use.

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.12 Property, plant and equipment (note 12) (continued)

##### (c) Depreciation and amortisation (continued)

The service lives of our significant items of property, plant and equipment are listed as follows:

| Property, plant and equipment                          | Telstra Group           |                         |
|--|-------------------------|-------------------------|
|  | As at 30 June           |                         |
|  | 2003                    | 2002                    |
|  | Service life<br>(years) | Service life<br>(years) |
| <b>Buildings - building shell . . . . .</b>            | <b>55</b>               | 55                      |
| - general purpose . . . . .                            | 8 - 40                  | 8 - 40                  |
| - fitout . . . . .                                     | 10 - 20                 | 10 - 20                 |
| <b>Communication assets</b>                            |                         |                         |
| Buildings - building shell . . . . .                   | 55                      | 55                      |
| - network . . . . .                                    | 8 - 40                  | 8 - 40                  |
| - fitout . . . . .                                     | 10 - 20                 | 10 - 20                 |
| Customer premises equipment . . .                      | 3 - 8                   | 3 - 8                   |
| Transmission equipment . . . . .                       | 4 - 20                  | 5 - 16                  |
| Switching equipment . . . . .                          | 2 - 10                  | 3 - 10                  |
| Cables . . . . .                                       | 8 - 25                  | 8 - 25                  |
| Ducts and pipes - main cables . . .                    | 40                      | 40                      |
| - distribution . . . . .                               | 30                      | 30                      |
| Other communications plant . . . .                     | 3 - 16                  | 4 - 18                  |
| <b>Other assets</b>                                    |                         |                         |
| Leasehold plant and equipment . .                      | 7 - 15                  | 7 - 15                  |
| Other plant, equipment and motor<br>vehicles . . . . . | 3 - 15                  | 3 - 15                  |

We apply a unit method of accounting to assets where it is practical and feasible and in line with commercial practice.

A group method of accounting is adopted for certain communication assets. Group assets are automatically removed from our financial statements on reaching the group life. Therefore, any individual asset may be physically retired before or after the group life is attained.

The service lives and residual values (where applicable) of all assets are reviewed each year.

Our major repairs and maintenance expenses relate to maintaining our exchange equipment and the customer access network (CAN). We charge the cost of repairs and maintenance, including the cost of replacing minor items, which are not substantial improvements, to operating expenses.

#### 1.13 Leased plant and equipment (note 12)

We account for leases in accordance with AASB 1008: "Leases". We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits.

Where we acquire non current assets by using a finance lease, the present value of future minimum lease payments is disclosed as equipment under finance lease at the beginning of the lease term. Capitalised lease payments are amortised on a straight line basis over the shorter of the lease term or the expected useful life of the assets. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred. Operating lease rental expense is disclosed in note 3.

Where we lease properties, costs of improvements to these properties are capitalised and are disclosed as leasehold improvements and amortised over the shorter of the useful life of the improvements or the term of the lease.

#### 1.14 Intangible assets (note 13)

Intangible assets are assets that have value but do not have physical characteristics.

##### (a) Goodwill

On acquisition of investments, when we pay an amount greater than the fair value of the net identifiable assets of an entity, this excess is recorded as goodwill. We calculate the amount of goodwill as at the date of purchasing our ownership interest in the entity.

When we purchase an entity that we will control, the amount of goodwill is recorded in intangible assets. Goodwill is amortised on a straight line basis over the period of expected benefit. This period is subject to a maximum of 20 years from the date of gaining control. The carrying amount of goodwill is reviewed every six months and adjusted to the extent that future benefits are not considered probable. The weighted average goodwill amortisation period for fiscal 2003 was 20 years (2002: 19 years).

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.14 Intangible assets (note 13) (continued)

##### (a) Goodwill (continued)

We continually assess whether changes have occurred that would require revision of the remaining estimated useful life of goodwill, or whether changes will render the goodwill not recoverable. If such circumstances arise, the recoverable amount of goodwill is determined based on estimates of the discounted value of expected future cash flows of the business. Market interest rates and discount rates are considered when calculating discounted cashflows.

We also calculate goodwill when we acquire joint venture entities and associated entities. However, for these entities the goodwill amount is included as part of the cost of the investment and not shown separately as an intangible asset. The amortisation of this notional goodwill is included in the share of net profit/(loss) of associates and joint venture entities line in the statement of financial performance. Refer to note 1.10 for information regarding goodwill for associates and joint venture entities.

##### (b) Identifiable intangible assets

Identifiable intangible assets include patents, trademarks and licences (including network and business software and spectrum licences), brandnames and customer bases. Where the costs of such assets have a benefit or relationship to more than one accounting period, these costs are deferred and amortised on a straight line basis over the period of expected benefit, which averages 15 years for fiscal 2003 (2002: 13 years). The recoverable amounts of identifiable intangible assets are reviewed every six months and the carrying amount is adjusted down where it exceeds recoverable amount. Recoverable amount of identifiable intangible assets is determined based on estimates of the discounted value of expected future cash flows to be derived from the use of those assets.

#### 1.15 Other assets (note 14)

##### (a) Research and development costs

Research costs are recorded as an expense as incurred. Development costs are recorded as an expense as incurred, unless future economic benefits are attainable from the expenditure, in which case they are capitalised (refer to note 1.15(d) for policy on software assets developed for internal use).

##### (b) Deferred mobile handset subsidies

Where mobile handsets are sold as part of service contracts lasting two years or greater, the cost of any associated subsidy is deferred and written off over the contract term. The provision of any subsidy is contingent upon delivery of the contracted services and is therefore considered a cost of entering into the contract with the customer.

As a result, the expense is recognised over the life of the contract, consistent with the timing of revenue earned.

##### (c) Deferred expenditure

Deferred expenditure mainly includes upfront payments for basic access installation and connection fees for in place and new services, and loan flotation costs.

Significant items of expenditure:

- are deferred to the extent that they are recoverable from future revenue and will contribute to our future earning capacity; and
- cannot be deferred if they only relate to revenue which has already been recorded.

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. This period is a weighted average of 5 years for fiscal 2003 (2002: 5 years). Each year we also review expenditure deferred in previous periods to determine the amount (if any) that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is written off as an expense in the statement of financial performance.

##### (d) Software assets developed for internal use

We record direct costs associated with the development of network and business software for internal use as software assets. These amounts are recorded as software assets where project success is regarded as probable.

Costs included in software assets developed for internal use are:

- external direct costs of materials and services consumed;
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project; and
- borrowing costs incurred while developing the software.

Software assets developed for internal use are amortised on a straight line basis over their useful lives to us. This period is a weighted average of 6 years for fiscal 2003 (2002: 5 years). Amortisation starts once the software is ready for use.

The carrying values of these assets are reviewed regularly and at each reporting date, to ensure they are recoverable. Where such costs are no longer considered recoverable, they are written off to the statement of financial performance.

#### 1.16 Payables (note 15)

Accounts payable, including accruals, are recorded when we are required to make future payments as a result of a purchase of assets or services.

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.17 Interest-bearing liabilities (note 16)

**Bills of exchange and commercial paper** are recorded as borrowings when issued, at the amount of the net proceeds received. They are carried at amortised cost until the liabilities are fully settled. Interest is recorded as an expense on a yield to maturity basis.

**Bank loans** are carried at cost.

**Telstra bonds** are carried at cost or adjusted cost. Adjusted cost is the face value of debt adjusted for any unamortised premium or discount. Interest is calculated on a yield to maturity basis. Bonds repurchased are cancelled against the original liability and any gains or losses are recorded in the statement of financial performance as borrowing costs.

**Other loans** are carried at cost or adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Our other loans include both Australian dollar loans and foreign currency loans. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the statement of financial performance.

#### 1.18 Provisions (note 17)

Provisions are recognised when the group has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits as a result of past transactions or events, it is probable that a future sacrifice of economic benefits will arise and a reliable estimate can be made of the amount of the obligation.

##### (a) Employee benefits

We accrue liabilities for employee benefits to wages and salaries, annual leave and other current employee benefits at their nominal amounts. These are calculated on the remuneration rates expected to be current at the date of settlement and include related on costs.

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to long service leave of three months (or more depending on the actual length of employment), which is included in other employee benefits.

We accrue liabilities for other employee benefits not expected to be paid or settled within twelve months of balance date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of ten years.

We calculate present values using rates based on government guaranteed securities with similar due dates to our liabilities.

Liabilities for redundancies are recognised when a detailed plan for the redundancies has been developed and a valid expectation has been created that the redundancies will be carried out with those employees affected. The liabilities for redundancies are recognised in payables unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

##### (b) Workers' compensation

The Telstra Entity and certain controlled entities self insure their workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on government guaranteed securities with similar due dates. The majority of our controlled entities do not self insure, but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

##### (c) Restoration Costs

We provide for our future obligations in relation to the fitout of our general purpose leased buildings when we have a legal, equitable or constructive responsibility. These costs include our obligations relating to the dismantling, removal, restoration and other expenditure associated with these fitouts. Our estimates are based upon a review of lease contracts, legal requirements, historical information and expected future costs. Any changes to these estimates are adjusted on a progressive basis as required. Restoration costs associated with mobile tower communication assets that are situated on land held under operating leases are expensed in the statement of financial performance when they become payable as they are insignificant to our financial report.

#### 1.19 Revenue (note 2)

##### Sales revenue

Our categories of sales revenue listed in note 2 are recorded after deducting sales returns, trade allowances, duties and taxes. Refer to note 1.2 for details of changes in our revenue recognition policies in fiscal 2001.

##### (a) Delivery of services

Revenue from the provision of our telecommunications services includes:

- telephone calls; and
- other services and facilities provided such as internet and data.



## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.19 Revenue (note 2) (continued)

##### Sales revenue (continued)

##### (a) Delivery of services (continued)

We record revenue earned from:

- telephone calls on completion of the call; and
- other services generally at completion, or over the period of service provided.

Installation and connection fee revenues are deferred and recognised over the average estimated customer contract life. For basic access installation and connections this is an average of five years. For mobile phone connections, this is an average of two years. Incremental costs directly related to these revenues are also deferred and amortised over the customer contract life. Any costs in excess of the revenue deferred are recognised immediately.

##### (b) Sale of goods

Our revenue from the sale of goods includes revenue from the sale of customer equipment and similar goods. This revenue is recorded on delivery of the goods sold.

##### (c) Rent of network facilities

We earn rent mainly from access to retail and wholesale fixed and mobile networks and from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities. The revenue of providing access to the network is recorded on an accrual basis over the rental period.

##### (d) Construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract (refer note 1.9 for further information).

Our construction contracts are classified according to their type. There are three types of construction contracts, these being material intensive, labour intensive and short duration. Revenue is recognised on a percentage of completion basis using the appropriate measures as follows:

- $(\text{actual costs} / \text{planned costs}) \times \text{planned revenue}$  - for material intensive projects;
- $(\text{actual labour hours} / \text{planned labour hours}) \times \text{planned revenue}$  - for labour intensive projects; and

- short duration projects are those that are expected to be completed within a month and revenues and costs are recognised on completion.

##### (e) Directory services

All of our Yellow Pages and White Pages directory advertising revenues are recognised on delivery of the published directories using the delivery method. We consider our directories delivered when they have been published and delivered to customers' premises. Revenue from online directories is recognised over the life of service agreements, which is on average one year. Voice directory revenues are recognised at the time of providing the service to customers.

##### Other revenue

##### (f) Dividend revenue

We record dividend revenue in the statement of financial performance from the following entities when declared by them:

- controlled entities;
- joint venture entities and associated entities (when received by the Telstra Entity); and
- listed investments and other investments.

We record distributions from trusts when the distribution is receivable.

For our consolidated financial statements, dividends and distributions received from joint venture entities and associated entities are recorded as a reduction of the balance in the investment account and not as dividend revenue of the Telstra Group.

##### (g) Revenue from the sale of non current assets

Revenue from the sale of our non current assets is recorded when all conditions required to complete the sale have been settled and finalised.

##### (h) Interest revenue

We record interest revenue on an accruals basis. For financial assets, interest revenue is determined by the effective yield on the instrument (total return).

##### Revenue received in advance

Revenue received in advance consists mainly of revenue from providing access to the fixed and mobile network and directories advertising revenue. This revenue is initially recorded as a liability and then transferred to earned revenue in line with the revenue policies described above.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.19 Revenue (note 2) (continued)

##### Accrued revenue

Accrued revenue represents revenue earned that has not been billed to the customer. This revenue is recorded in accordance with the revenue policies described.

#### 1.20 Share of net profits/(losses) of associates and joint venture entities (note 24)

We record our share of the net profits/(losses) of associates and joint venture entities by taking the profit/(loss) after tax, multiplied by our ownership interest after adjusting for:

- amortisation of notional goodwill;
- deferral and subsequent amortisation of unrealised profits after tax arising from transactions and the sale of assets from us to our associates; and
- deferral and subsequent amortisation of unrealised profits after tax arising from trading and the sale of assets from our associates to us.

Refer to note 1.10(b) for information regarding deferral of unrealised profits and amortisation of notional goodwill in relation to associates and joint venture entities.

#### 1.21 Taxation (note 4)

##### Income Tax

We apply tax-effect accounting using the liability method to calculate income tax. Income tax is calculated on accounting profit after allowing for permanent differences and is recorded as an expense.

Permanent differences are:

- items of revenue or expense that are included in taxable income but will never be included in accounting profit; or
- items of revenue and expense that are included in accounting profit but will never be included in taxable income.

To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax.

The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised.

During fiscal 2003, the Telstra Entity has elected for its resident wholly owned controlled entities to join it in a tax consolidation group. The Telstra Entity will recognise all current and deferred tax amounts in relation to its resident wholly owned controlled entities in its own financial statements in addition to its current and deferred tax balances arising from its own transactions and events (refer note 4 for further information).

##### Goods and Services Tax (GST) (including other value added taxes)

We record our revenue, expenses and assets net of any applicable goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables balances include GST where we have either included GST in our price charged to customers or a supplier has included GST in their price charged to us. The net amount of GST due, but not paid, to the ATO is included under payables.

We do not include any estimate for GST in either accrued revenue or accrued expense balances. Our accruals refer to a combination of items some of which will be supported by the issue or receipt of a tax invoice at a later time depending on the nature of the item. In general, no tax invoice has been received or issued at the time the accrual is recorded.

To accord with Urgent Issues Group Abstract 31 - Accounting for Goods and Services Tax (GST), which requires cash flows to be determined on a gross basis, we have completed our cash flow statement in the following manner:

- we have derived from our accounting records the amounts which we have shown in our statement of financial performance and statement of financial position, which are on a net GST basis where the GST is recoverable from the ATO; and
- we have estimated the amount of GST that is required to be added to various line items in the cash flow statement by reference to our business activity statements prepared for the ATO.

Our commitments are recorded net of GST, except where there is non-recoverable GST (refer note 20).

#### 1.22 Earnings per share (note 6)

##### Basic earnings per share

Basic earnings per share (EPS) is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year.

## Notes to the Financial Statements (continued)

### 1. Summary of accounting policies (continued)

#### 1.22 Earnings per share (note 6) (continued)

##### Diluted earnings per share

Where an entity has on issue potential ordinary shares which are dilutive, diluted EPS must be calculated. As we do not have any ordinary shares which are considered dilutive, diluted EPS is the same as basic EPS.

#### 1.23 Superannuation (note 22)

##### Defined benefit funds

For funding purposes actuarial valuations are required to be performed at least every three years. In prior years, if there has been a shortfall in the net market value of scheme assets when compared to members' vested entitlements, we have provided for the amount to the extent that a present obligation exists to rectify the financial position of the schemes.

##### Accumulation schemes

Our commitment to accumulation type benefits is limited to making the contributions specified in the trust deed in accordance with our minimum statutory requirements.

##### All superannuation schemes

Contributions to employee superannuation schemes are recorded as an expense in the statement of financial performance as the contributions become payable.

#### 1.24 Employee share plans (note 19)

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd, the corporate trustee for the Telstra Employee Share Ownership Plan Trust (TESOP97) and Telstra Employee Share Ownership Plan Trust II (TESOP99). We do not control or significantly influence these trusts as beneficial ownership and control remains with the employees who participate in the share plans administered by the trustee on their behalf. As a result, we do not consolidate the operations of the trust into the Telstra Group.

Telstra incurs expenses on behalf of both the TESOP97 and the TESOP99. These expenses are in relation to administration costs of the trusts and are recorded in the statement of financial performance as incurred.

Telstra is precluded from issuing options that gives rise to the issue of new shares by the Telstra Corporation Act 1991 (Cth). The Telstra Growthshare Trust was established to allocate options, restricted shares, performance rights, deferred shares, directshares and ownshares. Options, performance rights, and restricted shares are subject to performance hurdles. Deferred shares are subject to a specified period of service.

We own 100% of the equity of Telstra Growthshare Pty Ltd, the corporate trustee for the Telstra Growthshare Trust (Growthshare). We do not control or significantly influence the trust as beneficial ownership and control remains with the employees who participate in the share plans administered by the trustee on their behalf.

An option, restricted share, performance right or deferred share represents a right to acquire a share in Telstra.

Telstra provides loans to the Growthshare trustee to enable it to purchase shares on market to underpin options issued. When exercised, the eligible employee pays for the shares at the exercise price and the loan is repaid to us. On the basis that the loan is fully repaid by the employee, there is no expense associated with the allocation of options. Telstra receives interest on the loans to the trust. From 1 July 2002, the company has suspended its option plan.

Restricted shares, performance rights and deferred shares are recorded as an expense to Telstra when we provide funding to the trust to purchase the shares. The expense recorded in the statement of financial performance represents the market price of the shares at the time of purchase on market.

Directshare enables non-executive directors to receive up to 20% of their fees in Telstra shares. Ownshare enables eligible employees to be provided part of their remuneration in Telstra shares. Telstra purchases shares to meet the requirements of directshare and ownshare and expenses these costs as part of the participant's remuneration.

We have also provided funding to the trustee to enable it to meet its other obligations under the trust deed.

#### 1.25 Derivative financial instruments (note 29)

As we only use derivative financial instruments for our hedging activities, the gains and losses on our derivatives are accounted for on the same basis as the underlying physical transactions. Therefore, hedge gains and losses are recorded in the statement of financial performance when the gains or losses arising from the related physical exposures are recorded in the statement of financial performance.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.25 Derivative financial instruments (note 29) (continued)

Foreign exchange gains and losses on the principal value of our cross currency swaps are recorded in the statement of financial performance and determined through reference to the change in spot rates over the relevant reporting period. These foreign exchange gains and losses offset the gains and losses recorded on the underlying hedged transaction.

We account for our interest rate swaps and cross currency swaps that hedge an underlying physical exposure using the accrual method of accounting.

Interest receivable and payable under the terms of the interest rate swaps and cross currency swaps are accrued over the period to which the payments or receipts relate. The interest receivable and payable under the swaps is also recorded as part of our borrowing costs. Changes to the underlying market value of the remaining interest rate swap and cross currency swap payments and receipts are not recorded in the financial statements.

We do not include the principal amounts of our cross currency swaps and interest rate swaps in our statement of financial position. Where we have a legally recognised right to set off the financial asset and financial liability and we intend to settle on a net basis or simultaneously, we record this position on a net basis in our statement of financial position. Where we enter into master netting arrangements relating to a number of financial instruments, have a legal right of set off, and intend to do so, we also include this position on a net basis in our statement of financial position.

The net position in relation to our cross currency swaps refers to the revalued component of our foreign currency receivable or payable under the swap contract. We record this component as a hedge receivable or hedge payable in our statement of financial position. We do not offset the hedge receivable or hedge payable with the underlying financial asset or financial liability being hedged as the transactions are with different counterparties and are generally not settled on a net basis.

Forward foreign exchange contracts are accounted for as outlined in note 1.5(a). Gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions are deferred and recognised when the anticipated future transaction occurs.

Net fair values of interest rate swaps, cross currency swaps and forward exchange contracts are calculated at prices based on amounts quoted on Reuters to close out existing contracts (both favourable and unfavourable). Net fair values of interest rate futures are determined at a price equal to the mid point between the last bid and the last offer price quoted on the Sydney Futures Exchange at 30 June.

#### 1.26 Insurance

We specifically carry the following types of insurance:

- property;
- travel/personal accident;
- third party liability;
- directors' and officers' liability;
- company reimbursement; and
- other insurance from time to time.

For risks not covered by insurance, any losses are charged to the statement of financial performance in the year in which the loss is reported.

The Telstra Entity and certain controlled entities are self insured for workers' compensation. Further details are provided in note 1.18(b).

#### 1.27 Further clarification of terminology used in our statement of financial performance

Under the requirements of AASB 1018: "Statement of Financial Performance" we must classify all of our expenses (apart from any borrowing costs and shares of net losses of associates and joint venture entities) according to either the nature (type) of the expense or the function (activity to which the expense relates). We have chosen to classify our expenses using the nature classification as it more accurately reflects the type of operations we undertake.

Our expense categories represent an aggregation of expenses classified by nature (type). These categories do not include any indirect or fixed costs and therefore are not identical to their functional expense category. Specifically this includes:

- our goods and services purchased; and
- our marketing expenses and general and administration expenses included within the reconciliation of other expenses (refer note 3).

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of interest revenue, borrowing costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the company's operating profit. Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the company's operating performance before financing costs, income tax and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for income taxes, debt service and capital expenditure.

## Notes to the Financial Statements (continued)

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### 1. Summary of accounting policies (continued)

#### 1.27 Further clarification of terminology used in our statement of financial performance (continued)

EBITDA is not a USGAAP measure of income or cash flow from operations and should not be considered as an alternative to net income as an indication of our financial performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the effect of depreciation and amortisation.

When a specific revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance for the reporting period, its nature and amount have been disclosed separately in note 3. For comparative purposes, amounts classified as unusual in fiscal 2001 have been restated as specific in accordance with the format of the fiscal 2003 and fiscal 2002 financial statements.

#### 1.28 Rounding

All dollar amounts in this financial report (except where indicated) have been rounded to the nearest million dollars (\$m or A\$m) for presentation. This has been done in accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/100, dated 10 July 1998 and issued under section 341(1) of the Corporations Act 2001.

#### 1.29 Comparative figures

Where necessary, we adjust comparative figures to align with changes in presentation in the current year.

In addition, we have quantified the effect on comparatives of any changes in accounting policies (refer note 1.2).

## Notes to the Financial Statements (continued)

|  | Note  | Telstra Group      |               |               | Telstra Entity     |               |
|--|-------|--------------------|---------------|---------------|--------------------|---------------|
|  |       | Year ended 30 June |               |               | Year ended 30 June |               |
|  |       | 2003               | 2002          | 2001          | 2003               | 2002          |
|  |       | \$m                | \$m           | \$m           | \$m                | \$m           |
| <b>2. Revenue</b>  |       |                    |               |               |                    |               |
| Our revenue from ordinary operating activities (including specific items) is made up of revenue from the following activities: |       |                    |               |               |                    |               |
| <b>Sales revenue</b>   |       |                    |               |               |                    |               |
| Delivery of services (1.19(a)) (i)   | .3(c) | 12,451             | 12,725        | 11,860        | 11,275             | 11,436        |
| Sale of goods (1.19(b))  |       | 573                | 441           | 417           | 431                | 262           |
| Rent of network facilities (1.19(c)) (i)   |       | 6,108              | 5,667         | 5,161         | 6,086              | 5,683         |
| Construction contracts (1.19(d))   |       | 201                | 236           | 332           | 42                 | 61            |
| Directory services (1.19(e))   |       | 1,162              | 1,127         | 909           | 794                | 775           |
|  |       | <b>20,495</b>      | <b>20,196</b> | <b>18,679</b> | <b>18,628</b>      | <b>18,217</b> |
| <b>Other revenue (excluding interest revenue)</b>  |       |                    |               |               |                    |               |
| <b>Dividend revenue (1.19(f))</b>  |       |                    |               |               |                    |               |
| - other entities   |       | 1                  | 1             | 16            | 1                  | 1             |
|  |       | <b>1</b>           | <b>1</b>      | <b>16</b>     | <b>1</b>           | <b>1</b>      |
| <b>Revenue from the sale of non current assets (1.19(g))</b>   |       |                    |               |               |                    |               |
| - property, plant and equipment  | .3(c) | 811                | 246           | 288           | 792                | 241           |
| - investments in controlled entities   | .3(c) | 17                 | -             | 120           | -                  | -             |
| - investments in joint venture entities  |       | 3                  | -             | 5             | -                  | -             |
| - investments in associated entities   |       | 17                 | -             | -             | 1                  | -             |
| - investments in listed securities and other corporations  | .3(c) | 7                  | 22            | 603           | -                  | 5             |
| - patents, trademarks and licences   |       | -                  | 1             | 14            | -                  | -             |
| - businesses   | .3(c) | 4                  | 33            | 2,273         | 2                  | 29            |
|  |       | <b>859</b>         | <b>302</b>    | <b>3,303</b>  | <b>795</b>         | <b>275</b>    |
| <b>Other sources of revenue</b>  |       |                    |               |               |                    |               |
| Rent from property and motor vehicles (1.19(c))  |       | 33                 | 44            | 39            | 33                 | 44            |
| Writeback of Telstra Superannuation Scheme additional contribution liability   | .3(c) | -                  | -             | 725           | -                  | -             |
| Other revenue  |       | 228                | 259           | 221           | 123                | 167           |
|  |       | <b>261</b>         | <b>303</b>    | <b>985</b>    | <b>156</b>         | <b>211</b>    |
|  |       | <b>1,121</b>       | <b>606</b>    | <b>4,304</b>  | <b>952</b>         | <b>487</b>    |
| Revenue from ordinary activities (excluding interest revenue)  |       | <b>21,616</b>      | <b>20,802</b> | <b>22,983</b> | <b>19,580</b>      | <b>18,704</b> |
| <b>Interest revenue (1.19(h))</b>  |       |                    |               |               |                    |               |
| - controlled entities  | 27    | -                  | -             | -             | 124                | 67            |
| - joint ventures and associated entities   | 27    | 2                  | 2             | 2             | 2                  | 2             |
| - other entities   |       | 82                 | 124           | 101           | 76                 | 114           |
|  |       | <b>84</b>          | <b>126</b>    | <b>103</b>    | <b>202</b>         | <b>183</b>    |
| <b>Total revenue from ordinary activities</b>  |       | <b>21,700</b>      | <b>20,928</b> | <b>23,086</b> | <b>19,782</b>      | <b>18,887</b> |

(i) A reassessment of the basic access product has resulted in a reclassification of basic access revenue of \$1,496 million (2002: \$1,587 million; 2001: \$1,740 million) from delivery of services to rent of network facilities. As a result, we have also reclassified the comparative data presented to ensure consistency of presentation. This reclassification has not affected the total revenue recorded.

## Notes to the Financial Statements (continued)

|   | Note | Telstra Group      |              |              | Telstra Entity     |              |
|---|------|--------------------|--------------|--------------|--------------------|--------------|
|   |      | Year ended 30 June |              |              | Year ended 30 June |              |
|   |      | 2003               | 2002         | 2001         | 2003               | 2002         |
|   |      | \$m                | \$m          | \$m          | \$m                |              |
| <b>3. Profit from ordinary activities</b>   |      |                    |              |              |                    |              |
| <b>(a) Our profit before income tax expense (including items requiring specific disclosure) has been calculated after charging/(crediting) the following items:</b> |      |                    |              |              |                    |              |
| <b>Labour</b>   |      |                    |              |              |                    |              |
| Included in our labour expenses are the following:  |      |                    |              |              |                    |              |
| Ownership based remuneration schemes . . . . .  |      | 23                 | 9            | 5            | 23                 | 9            |
| Employee redundancy . . . . .   |      | 281                | 289          | 44           | 205                | 130          |
| <b>Goods and services purchased</b>   |      |                    |              |              |                    |              |
| Included in our goods and services purchased and relating to sale of goods is:  |      |                    |              |              |                    |              |
| Cost of goods sold . . . . .  |      | 556                | 503          | 510          | 432                | 304          |
| <b>Other expenses</b>   |      |                    |              |              |                    |              |
| Net book value of assets we have sold:  |      |                    |              |              |                    |              |
| - property, plant and equipment . . . . . 3(c)  |      | 638                | 250          | 281          | 632                | 246          |
| - investments in controlled entities . . . . . 3(c)   |      | 12                 | (3)          | 116          | -                  | -            |
| - investments in joint venture entities . . . . .   |      | -                  | -            | 3            | -                  | -            |
| - investments in associates . . . . .   |      | 8                  | -            | -            | 2                  | -            |
| - investments in listed securities and other corporations . . . . . 3(c)  |      | 9                  | 27           | 337          | -                  | 4            |
| - patents, trademarks and licences . . . . .  |      | -                  | -            | 6            | -                  | -            |
| - businesses . . . . . 3(c)   |      | (6)                | 33           | 1,421        | (6)                | 29           |
|   |      | <b>661</b>         | <b>307</b>   | <b>2,164</b> | <b>628</b>         | <b>279</b>   |
| Rental expense on operating leases . . . . .  |      | 584                | 597          | 496          | 404                | 440          |
| Bad debts written off - trade debtors . . . . .   |      | 172                | 185          | 159          | 154                | 186          |
| Movement in provisions - increase/(decrease):   |      |                    |              |              |                    |              |
| - doubtful debts - trade debtors . . . . .  |      | 21                 | 28           | (9)          | 2                  | -            |
| - reduction in value of inventories (finished goods) . . . . .  |      | 5                  | 1            | (21)         | 5                  | 2            |
| - reduction in value of investments . . . . . 3(c)  |      | 26                 | 26           | 1,065        | 3,056              | 445          |
| - reduction in value of convertible note issued by PCCW . . . . .   |      | -                  | 96           | -            | -                  | 96           |
| - reduction in value of amounts owed by controlled entities . . . . . 3(c), 27  |      | -                  | -            | -            | (587)              | 830          |
| - reduction in value of capitalised software . . . . .  |      | 2                  | -            | 31           | 2                  | -            |
| Net foreign currency conversion losses/(gains) (1.5) . . . . .  |      | (17)               | 17           | (25)         | (14)               | 6            |
| Auditors' fees . . . . . 3(b)   |      | 6                  | 5            | 4            | 5                  | 4            |
| Service contracts and other agreements . . . . .  |      | 1,706              | 1,400        | 1,400        | 1,606              | 1,406        |
| Marketing . . . . .   |      | 316                | 284          | 308          | 255                | 218          |
| General and administration . . . . .  |      | 790                | 679          | 742          | 584                | 486          |
| Other operating expenses . . . . .  |      | 330                | 440          | 447          | 534                | 690          |
|   |      | <b>4,602</b>       | <b>4,065</b> | <b>6,761</b> | <b>6,634</b>       | <b>5,088</b> |

## Notes to the Financial Statements (continued)

|   | Note | Telstra Group      |              |              | Telstra Entity     |              |
|---|------|--------------------|--------------|--------------|--------------------|--------------|
|   |      | Year ended 30 June |              |              | Year ended 30 June |              |
|   |      | 2003<br>\$m        | 2002<br>\$m  | 2001<br>\$m  | 2003<br>\$m        | 2002<br>\$m  |
| <b>3. Profit from ordinary activities (continued)</b>   |      |                    |              |              |                    |              |
| <b>(a) Our profit before income tax expense (including items requiring specific disclosure) has been calculated after charging/(crediting) the following items:</b> |      |                    |              |              |                    |              |
| <b>Depreciation and amortisation</b>  |      |                    |              |              |                    |              |
| Depreciation of:  |      |                    |              |              |                    |              |
| - general purpose buildings . . . . .   | 12   | 31                 | 45           | 41           | 15                 | 42           |
| - communication assets . . . . .  | 12   | 2,518              | 2,452        | 2,205        | 2,364              | 2,209        |
| - other plant, equipment and motor vehicles . . . . .   | 12   | 154                | 115          | 156          | 106                | 85           |
|   |      | <b>2,703</b>       | <b>2,612</b> | <b>2,402</b> | <b>2,485</b>       | <b>2,336</b> |
| Amortisation of:  |      |                    |              |              |                    |              |
| - equipment under finance lease . . . . .   | 12   | 7                  | 2            | 8            | 2                  | -            |
| - leasehold improvements . . . . .  | 12   | 44                 | 39           | 15           | 42                 | 37           |
| - goodwill . . . . .  | 13   | 116                | 87           | 43           | 1                  | 1            |
| - patents, trademarks and licences . . . . .  |      | 38                 | 40           | 55           | 32                 | 26           |
| - brandnames . . . . .  |      | 12                 | 12           | 5            | -                  | -            |
| - customer bases . . . . .  |      | 82                 | 86           | 34           | -                  | -            |
| - deferred expenditure . . . . .  |      | 1                  | 1            | 12           | 1                  | 1            |
| - software assets . . . . .   |      | 444                | 388          | 297          | 430                | 381          |
|   |      | <b>744</b>         | <b>655</b>   | <b>469</b>   | <b>508</b>         | <b>446</b>   |
|   |      | <b>3,447</b>       | <b>3,267</b> | <b>2,871</b> | <b>2,993</b>       | <b>2,782</b> |
| <b>Borrowing costs</b>  |      |                    |              |              |                    |              |
| - controlled entities . . . . .   | 27   | -                  | -            | -            | 80                 | 58           |
| - other entities . . . . .  |      | 983                | 1,009        | 875          | 960                | 970          |
| - finance charges relating to finance leases . . . . .  |      | 1                  | 2            | 2            | -                  | -            |
|   |      | <b>984</b>         | <b>1,011</b> | <b>877</b>   | <b>1,040</b>       | <b>1,028</b> |
| - borrowing costs included in the cost of constructed assets . . . . .  |      | (105)              | (115)        | (108)        | (105)              | (115)        |
|   |      | <b>879</b>         | <b>896</b>   | <b>769</b>   | <b>935</b>         | <b>913</b>   |
| <b>Other disclosures</b>  |      |                    |              |              |                    |              |
| Research and development expenses (before crediting any grants) (1.15(a))   |      | 41                 | 28           | 29           | 41                 | 27           |
| Net profit/(loss) on the sale of:   |      |                    |              |              |                    |              |
| - property, plant and equipment . . . . .   | 3(c) | 173                | (4)          | 7            | 160                | (4)          |
| - investments in controlled entities . . . . .  | 3(c) | 5                  | 3            | 4            | -                  | -            |
| - investments in joint venture entities . . . . .   |      | 3                  | -            | 2            | -                  | -            |
| - investments in associated entities . . . . .  |      | 9                  | -            | -            | (1)                | -            |
| - investments in listed securities and other corporations . . . . .   | 3(c) | (2)                | (5)          | 266          | -                  | 1            |
| - patents, trademarks and licences . . . . .  |      | -                  | 1            | 8            | -                  | -            |
| - businesses . . . . .  | 3(c) | 10                 | -            | 852          | 8                  | -            |
|   |      | <b>198</b>         | <b>(5)</b>   | <b>1,139</b> | <b>167</b>         | <b>(3)</b>   |



## Notes to the Financial Statements (continued)

|   | Note | Telstra Group      |       |       | Telstra Entity     |       |
|---|------|--------------------|-------|-------|--------------------|-------|
|   |      | Year ended 30 June |       |       | Year ended 30 June |       |
|   |      | 2003               | 2002  | 2001  | 2003               | 2002  |
|   |      | \$m                | \$m   | \$m   | \$m                | \$m   |
| <b>3. Profit from ordinary activities (continued)</b>   |      |                    |       |       |                    |       |
| <b>(b) Auditors' fees</b>   |      |                    |       |       |                    |       |
| The Australian statutory auditor of the Telstra Entity has charged the following amounts for:                                       |      |                    |       |       |                    |       |
| Auditing and reviewing the financial reports (a) . . . . .  |      | 4.445              | 3.753 | 3.257 | 3.974              | 3.207 |
| Other services (a) . . . . .  |      | -                  | -     | 0.101 | -                  | -     |
| Auditors other than the Australian statutory auditor have charged the following amounts for:  |      |                    |       |       |                    |       |
| Auditing and reviewing the financial reports . . . . .  |      | 1.440              | 1.553 | 1.041 | 0.528              | 0.591 |
| Total auditors' fees . . . . .3(a)  |      | 5.885              | 5.306 | 4.399 | 4.502              | 3.798 |
| In addition to auditing and assurance activities, other services have been provided by Ernst & Young in their own right as follows: |      |                    |       |       |                    |       |
| Other services (b) . . . . .  |      | 5.334              | 5.714 | 4.820 |                    |       |

(a) Our Australian statutory auditor is the Australian National Audit Office (ANAO). The audit and other services provided by the ANAO have been subcontracted to Ernst & Young (EY) from fiscal 2000.

(b) We have processes in place to maintain the independence of the external auditor, including the level of expenditure on other services. Fees earned by EY for non audit work are capped at a maximum of 1.0 times total audit fees. In addition to the establishment of this cap, there is a requirement for the Audit Committee to pre-approve all proposals involving the provision of services by EY. As part of the approval process, an assessment is made by the Audit Committee on the appropriateness of the services from an independence stand point. Monthly meetings are held between EY and the Director of Finance to monitor the process.

EY also has specific internal processes in place to ensure auditor independence.

## Notes to the Financial Statements (continued)

|   | Telstra Group      |             |             | Telstra Entity     |             |             |
|---|--------------------|-------------|-------------|--------------------|-------------|-------------|
|   | Year ended 30 June |             |             | Year ended 30 June |             |             |
|   | Note               | 2003<br>\$m | 2002<br>\$m | 2001<br>\$m        | 2003<br>\$m | 2002<br>\$m |
| <b>3. Profit from ordinary activities (continued)</b>   |                    |             |             |                    |             |             |
| <b>(c) Items requiring specific disclosure</b>  |                    |             |             |                    |             |             |
| The following items form part of the ordinary operations of our business and whose disclosure is relevant in explaining the financial performance of the group. |                    |             |             |                    |             |             |
| Our net profit has been calculated after charging/(crediting) specific revenue and expense items from our ordinary activities as follows:                       |                    |             |             |                    |             |             |
| <b>Items included in revenue:</b>   |                    |             |             |                    |             |             |
| Sales revenue   |                    |             |             |                    |             |             |
| - revenue recognition accounting policy change (1.2) . . . . .  |                    | -           | -           | (779)              | -           | -           |
|   |                    | -           | -           | (779)              | -           | -           |
| Other revenue (excluding interest revenue)  |                    |             |             |                    |             |             |
| - proceeds on sale of properties (i) . . . . .  |                    | 570         | -           | -                  | 570         | -           |
| - sale of global wholesale business and controlled entities to Reach Ltd (vii)  |                    | -           | -           | 2,372              | -           | -           |
| - writeback of Telstra Superannuation Scheme additional contribution liability (viii) . . . . .   |                    | -           | -           | 725                | -           | -           |
| - sale of our investment in Computershare Limited (ix) . . . . .  |                    | -           | -           | 546                | -           | -           |
|   |                    | 570         | -           | 3,643              | 570         | -           |
| Total specific revenue items . . . . .  |                    | 570         | -           | 2,864              | 570         | -           |
| <b>Items included in expenses:</b>  |                    |             |             |                    |             |             |
| Goods and services purchased  |                    |             |             |                    |             |             |
| - revenue recognition accounting policy change (1.2) . . . . .  |                    | -           | -           | 560                | -           | -           |
|   |                    | -           | -           | 560                | -           | -           |
| Other expenses  |                    |             |             |                    |             |             |
| - book value on sale of properties (i) . . . . .  |                    | (439)       | -           | -                  | (439)       | -           |
| - book value of our global wholesale business and controlled entities sold to Reach Ltd (vii) . . . . .   |                    | -           | -           | (668)              | -           | -           |
| - deferral of unrealised profit arising on sale of businesses and controlled entities to Reach Ltd (vii) . . . . .  |                    | -           | -           | (852)              | -           | -           |
| - book value on sale of our investment in Computershare Limited (ix) . . .  |                    | -           | -           | (301)              | -           | -           |
| - write off of Telstra CSL Group acquisition costs (vii) . . . . .  |                    | -           | -           | (999)              | -           | -           |
| - movement in provision for reduction in value of our controlled entities (iv)  |                    | -           | -           | -                  | (2,981)     | -           |
| - movement in provision for amounts owed by controlled entities (v) (vi)27  |                    | -           | -           | -                  | 570         | (855)       |
|   |                    | (439)       | -           | (2,820)            | (2,850)     | (855)       |
| Total specific expense items . . . . .  |                    | (439)       | -           | (2,260)            | (2,850)     | (855)       |
| In our share of net losses of associates and joint venture entities is:   |                    |             |             |                    |             |             |
| - write off of the carrying value of our investment in Reach Ltd (ii) . . . . .   |                    | (965)       | -           | -                  | -           | -           |
| Net specific items . . . . .  |                    | (834)       | -           | 604                | (2,280)     | (855)       |
| Income tax expense attributable to those items requiring specific disclosure  |                    | (41)        | -           | (209)              | (41)        | -           |
| Effect of reset tax values on entering tax consolidation (iii) . . . . .  |                    | 201         | -           | -                  | 201         | -           |
| Net specific items after income tax expense . . . . .   |                    | (674)       | -           | 395                | (2,120)     | (855)       |

## Notes to the Financial Statements (continued)

### 3. Profit from ordinary activities (continued)

#### (c) Items requiring specific disclosure (continued)

During fiscal 2003, we recognised the following transactions as requiring specific disclosure:

##### (i) Sale of office properties

On 1 August 2002, we sold a portfolio of seven office properties for \$570 million. The carrying value of these properties was \$439 million at the time of sale. We entered into operating leases totalling \$518 million in relation to these properties on normal commercial terms of between five and twelve years, most of which commenced on 19 August 2002.

The profit on the sale of these properties was \$131 million before income tax expense, as shown in the following table:

|   | Year ended<br>30 June<br>2003<br>\$m |
|---|--------------------------------------|
| <b>Other revenue</b>                              |                                      |
| Proceeds on sale of office properties . . . . .   | 570                                  |
| <b>Other expenses</b>                             |                                      |
| Book value on sale of office properties . . . . . | (439)                                |
|   | 131                                  |
| Income tax expense . . . . .                      | (41)                                 |
|   | 90                                   |

##### (ii) Write off of investment in Reach Ltd

We have written off the carrying amount of the investment in our 50% owned joint venture, Reach Ltd (REACH). The write off occurred due to the depressed conditions in the global market for international data and internet capacity resulting in high levels of excess capacity, intense price competition and lower than expected revenues. This has resulted in a reduction of our investments accounted for using the equity method in our statement of financial position and an increase to our share of net losses of associates and joint venture entities in the statement of financial performance, amounting to \$965 million (refer note 24 for further information).

##### (iii) Effect of reset tax values on entering tax consolidation

During fiscal 2003, legislation was enacted which enables the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity (or head entity) elected to form a tax consolidated group from 1 July 2002 (refer to note 4 for further details).

On formation of a tax consolidated group, the head entity has an option to bring the assets of each subsidiary member into the tax consolidated group by choosing between two alternative methods, the Allocable Cost Amount (ACA) method or Transitional Method. We have chosen the ACA method for a number of our subsidiaries. Under this method, the tax values of a subsidiary's assets are reset according to certain allocation rules, which consequently impacts future tax deductions and our deferred tax balances. The once-off benefit of \$201 million reflects the increase in future tax deductions arising from these reset tax values.

##### (iv) Movement in provision for reduction in value of our controlled entities - Telstra Entity

Included in our profit before income tax expense for the Telstra Entity was a movement of \$2,981 million relating to a provision for reduction in value of our investments in two controlled entities. This balance is eliminated on consolidation for Telstra Group reporting purposes.

##### (v) Movement in provision for amounts owed by controlled entities - Telstra Entity

In fiscal 2002, we raised a provision of \$855 million in the Telstra Entity for amounts owed by a controlled entity. During fiscal 2003 the controlled entity issued additional capital, with the reduction in the amount owed by that entity representing the consideration. As a result, the \$855 million provision was reversed in the current year statement of financial performance. In addition, we also raised a provision of \$285 million in relation to further funding provided to this controlled entity.

As a result of the above, the profit before income tax expense of the Telstra Entity includes a \$570 million net gain in relation to the provision for amounts owed by the controlled entity. This balance is eliminated on consolidation for Telstra Group reporting purposes (refer note 27 for further information).

During fiscal 2002, we recognised the following transaction as requiring specific disclosure:

##### (vi) Provision raised for amounts owed by controlled entities - Telstra Entity

Included in the profit before income tax expense of the Telstra Entity was a specific charge of \$855 million in relation to a provision for amounts owed by a controlled entity. This balance is eliminated on consolidation for Telstra Group reporting purposes.

## Notes to the Financial Statements (continued)

### 3. Profit from ordinary activities (continued)

#### (c) Items requiring specific disclosure (continued)

During fiscal 2001, we recognised the following transactions as requiring specific disclosure:

##### (vii) Asian Ventures

As detailed in the accompanying notes to our statement of cash flows, on 7 February 2001 we completed our strategic alliance with PCCW. Under these arrangements, the following items were recognised in the statement of financial performance:

##### Reach Ltd (REACH)

|   | Year ended<br>30 June<br>2001<br>\$m |
|---|--------------------------------------|
| <b>Other revenue</b>  |                                      |
| Sale of global wholesale business and controlled entities to REACH . . . . .                  | 2,372                                |
| <b>Other expenses</b>   |                                      |
| Book value of businesses and controlled entities sold to REACH and associated costs . . . . . | (668)                                |
|   | 1,704                                |
| Deferral of unrealised profit before tax . . . . .  | (852)                                |
|   | <u>852</u>                           |

The other revenue and other expense items represent the fair value of the total consideration received and book value respectively, relating to the divisions and controlled entities that we have sold to REACH. The book value also includes any costs associated with undertaking this transaction.

The deferral of unrealised profit arises to the extent that we retain an ownership interest in REACH. The amount deferred is brought to account in the statement of financial performance (through the share of net losses of associates and joint venture entities) on a straight line basis over a period of 20 years. The deferral of unrealised profit is combined with the net book value of businesses we have sold for the other expenses disclosure in note 3(a).

##### Telstra CSL Group

The \$999 million that was written off the Telstra CSL Group acquisition costs related to our acquisition of 60% of Telstra CSL Limited. This item was recognised as at the date of acquisition and formed part of the reduction in value of investments in note 3(a).

#### Net effect of entering our Asian Ventures

The net once-off specific item recognised as a result of our Asian ventures was a \$147 million loss before income tax expense.

(viii) On 29 August 2000 the trustee of the Telstra Superannuation Scheme (Telstra Super) and the Commonwealth (who guaranteed our payments) released us from our obligation to contribute \$121 million per annum to Telstra Super to 30 June 2011. As part of the terms of the release, we agreed to provide such future employer contributions to Telstra Super as may be required to maintain the vested benefits index (VBI - the ratio of fund assets to members vested benefits) in the range of 100-110%.

The removal of our obligation reduced the assets of Telstra Super and resulted in the VBI of the defined benefit divisions reducing from approximately 167% at 30 June 2000 to approximately 147% as at 30 June 2001.

The Trustee agreed to the release of the obligation based on actuarial advice that the removal of these additional contributions, coupled with the employer contribution commitment from us, will maintain the solvency level of Telstra Super at a satisfactory level.

The net present value of our commitment to Telstra Super was shown as a liability on our statement of financial position as at 30 June 2000. This liability was written back to the statement of financial performance in the year ended 30 June 2001 and increased our result as follows:

|  | Year ended<br>30 June<br>2001<br>\$m |
|--|--------------------------------------|
| <b>Other revenue</b>   |                                      |
| Writeback of the Telstra Super additional contribution liability . . . . . | 725                                  |
| Tax effect at 34% . . . . .  | (247)                                |
|  | <u>478</u>                           |

## Notes to the Financial Statements (continued)

### 3. Profit from ordinary activities (continued)

#### (c) Items requiring specific disclosure (continued)

(ix) During fiscal 2001, we sold our investment in Computershare Limited (Computershare) in two tranches. On 13 July 2000, our controlled entity, Telstra CB.Com Limited, sold 53.3 million ordinary shares in Computershare at \$7.25 per share, representing 10% of the issued capital. Revenue received from this sale was approximately \$386 million.

On 26 June 2001, Telstra CB.Com Limited sold the remaining balance of 26.6 million shares at \$6 per share resulting in revenue of \$160 million.

The profit on the sale of this investment was \$245 million before tax, as shown in the following table:

|  | Year ended<br>30 June<br>2001<br>\$m |
|--|--------------------------------------|
| <b>Other revenue</b>                                     |                                      |
| Revenue from sale of Computershare . . . . .             | 546                                  |
| <b>Other expenses</b>                                    |                                      |
| Book value of investment in Computershare sold . . . . . | (301)                                |
|  | 245                                  |
| Tax effect at 34% . . . . .                              | (83)                                 |
|  | <u>162</u>                           |

## Notes to the Financial Statements (continued)

|   | Telstra Group      |       |       | Telstra Entity     |       |
|---|--------------------|-------|-------|--------------------|-------|
|   | Year ended 30 June |       |       | Year ended 30 June |       |
|   | 2003               | 2002  | 2001  | 2003               | 2002  |
|   | \$m                | \$m   | \$m   | \$m                | \$m   |
| <b>4. Income tax expense</b>  |                    |       |       |                    |       |
| <b>Notional income tax expense on profit differs from actual income tax expense recorded as follows:</b>  |                    |       |       |                    |       |
| Profit before income tax expense . . . . .  | 4,928              | 5,446 | 6,297 | 3,809              | 4,558 |
| Profit/(loss) before income tax expense of subsidiary companies that form part of the Telstra Corporation Limited tax consolidation group (i) . . . . . |                    |       |       | (856)              | -     |
| Profit before income tax expense for the tax consolidated group . . . . .   |                    |       |       | 2,953              | -     |
| Australian statutory rate of taxation (ii) . . . . .  | 30%                | 30%   | 34%   | 30%                | 30%   |
| Notional income tax expense on profit calculated at 30% (2002: 30%, 2001: 34%) . . . . .  | 1,478              | 1,634 | 2,141 | 886                | 1,367 |
| <b>Which is adjusted by the tax effect of (iii):</b>  |                    |       |       |                    |       |
| Effect of lower rates of tax on overseas income . . . . .   | (30)               | (13)  | (23)  | -                  | -     |
| Research and development concessions . . . . .  | (6)                | (6)   | (12)  | (6)                | (4)   |
| Share of net losses of associates and joint venture entities . . . . .  | 296                | 9     | 49    | 2                  | -     |
| (Profit)/loss on sale of non current assets. . . . .  | (34)               | (8)   | (355) | 52                 | (8)   |
| Non deductible depreciation and amortisation. . . . .   | 58                 | (4)   | 16    | 10                 | 2     |
| Reduction in the value of investments and intercompany receivables. . . . .   | -                  | 4     | 362   | 810                | 390   |
| Rebateable dividends (non taxed dividends) . . . . .  | (2)                | -     | -     | (2)                | -     |
| Assessable foreign source income not included in accounting profit. . . . .   | 43                 | 22    | 29    | 43                 | -     |
| Under/(over) provision of tax in prior years . . . . .  | (28)               | 16    | 6     | (23)               | 15    |
| Effect of reset tax values on entering tax consolidation (iv) . . . . .   | (201)              | -     | -     | (201)              | -     |
| Other adjustments . . . . .   | (40)               | 142   | 79    | (13)               | 71    |
| Income tax expense on profit . . . . .  | 1,534              | 1,796 | 2,292 | 1,558              | 1,833 |
| Effect of decrease in tax rates on deferred tax balances (ii) . . . . .   | -                  | -     | (56)  | -                  | -     |
| Income tax expense. . . . .   | 1,534              | 1,796 | 2,236 | 1,558              | 1,833 |
| <b>Our income tax expense contains the following items:</b>   |                    |       |       |                    |       |
| Current taxation provision. . . . .   | 1,567              | 1,608 | 1,475 | 1,560              | 1,466 |
| Movement in future income tax benefit . . . . .   | 16                 | (240) | (3)   | -                  | -     |
| Movement in deferred income tax liability. . . . .  | (21)               | 412   | 758   | 21                 | 352   |
| Under/(over) provision of tax in prior years . . . . .  | (28)               | 16    | 6     | (23)               | 15    |
|   | 1,534              | 1,796 | 2,236 | 1,558              | 1,833 |
| <b>Future income tax benefits as at 30 June not recorded in the statement of financial position for:</b>  |                    |       |       |                    |       |
| Income tax losses (v) . . . . .   | 187                | 116   | 1     | -                  | -     |
|   | 187                | 116   | 1     | -                  | -     |

(i) Net of consolidation entries and other applicable adjustments.

(ii) During fiscal 2000, the Commonwealth lowered the income tax rates applicable to companies from 36% to 30% in two stages. From 1 July 2000, the income tax rates were lowered from 36% to 34%. From 1 July 2001, the income tax rate was lowered from 34% to 30%.

As a result we restated our deferred tax balance to the rates applicable when the timing differences are expected to reverse. This had the effect of lowering our deferred tax balances by \$56 million for the group in fiscal 2001.

## Notes to the Financial Statements (continued)

### 4. Income tax expense (continued)

(iii) For the Telstra Entity, adjustments include those for the tax consolidation group.

(iv) On formation of a tax consolidated group (refer below for further details), the head entity in the group may elect to reset the tax values of a subsidiary member under certain allocation rules. This once-off benefit reflects the increase in future tax deductions available from these reset values (refer to note 3 for further information).

(v) Our benefit for tax losses may be used in future years if the following criteria are met:

- our controlled entities have sufficient future assessable income to enable the tax losses to be offset against that assessable income;
- our controlled entities continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and
- there are no future changes in tax legislation that will adversely affect us in using the benefit of the tax losses.

Our future income tax benefit in the statement of financial position contains the following tax losses carried forward:

|   | Telstra Group |      |      |
|---|---------------|------|------|
|   | As at 30 June |      |      |
|   | 2003          | 2002 | 2001 |
|   | \$m           | \$m  | \$m  |
| Future income tax benefit balance . . . . .   | -             | 132  | 114  |
| Amount of future income tax benefit related to tax losses carried forward . . . . . | -             | 1    | 2    |

|                                   | Telstra Group |      | Telstra Entity |      |
|-----------------------------------|---------------|------|----------------|------|
|                                   | As at 30 June |      | As at 30 June  |      |
|                                   | 2003          | 2002 | 2003           | 2002 |
|                                   | \$m           | \$m  | \$m            | \$m  |
| Income tax payable                |               |      |                |      |
| Current                           |               |      |                |      |
| Income tax payable (vi) . . . . . | 660           | 632  | 614            | 572  |

(vi) Under the Pay-As-You-Go (PAYG) transitional rules, we opted to pay part of the final instalment of income tax for fiscal 2000 over 10 equal quarterly instalments. The final instalment was made on 21 April 2003.

#### Tax consolidation

During fiscal 2003, legislation was enacted which enables the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity has elected to form a tax consolidated group from 1 July 2002. As a result, the Telstra Entity, as the head entity in the tax consolidated group, will recognise tax entries for all entities in the tax consolidated group in addition to its own.

The entities within the tax consolidated group have entered into a tax sharing agreement. The terms of this agreement specify the methods of allocating any tax liability in the event of default by the Telstra Entity on its group payment obligations and the treatment where a subsidiary member exits the group. The tax liability of the group otherwise remains with the Telstra Entity.

Agreements which formalise the transition of subsidiaries into the tax consolidated group have also been entered into by group members. These agreements cover the transfer of deferred tax balances to the Telstra Entity as at 1 July 2002 and the treatment of any PAYG instalments made in relation to the current year.

The election to tax consolidate on 1 July 2002 has not had a significant impact on the assets and liabilities of the Telstra Group, apart from the resetting of certain tax values (refer to item (iv) above and note 3 for further details regarding this impact).

## Notes to the Financial Statements (continued)

### 5. Segment information

We report our segment information on the basis of business segments as our risks and returns are affected predominantly by differences in the products and services we provide through those segments.

#### Business segments

During the year, three pre-existing business units of Telstra Retail, Telstra Mobile and Telstra Country Wide were restructured. The scope of Telstra Country Wide was increased as a result of the restructure and two new groups were formed, namely Telstra Consumer and Marketing and Telstra Business and Government. A separate group was established which comprises Telstra's broadband and online activities, as well as Telstra's directories business, Sensis Pty Ltd, and Telstra's media activities. This business is now known as Bigpond, Media Services and Sensis. Those segments not impacted by the restructure are consistent in their structure to previous years.

Due to this extensive restructure of the customer base, it was impracticable to restate our comparative information to reflect the position as if the new business segments and segment accounting policies existed in prior years. In accordance with applicable accounting standards, for both AGAAP and USGAAP, we have provided comparatives as they were under the previous organisational structure, as well as restating those lines that could be restated under the new structure.

The Telstra Group is now organised along the following segments:

- **Telstra Consumer and Marketing** is responsible for:
  - serving consumer customers with fixed, wireless and data products;
  - management of Telstra brands, advertising and sponsorship; and
  - implementing our bundling initiatives.
- **Telstra Country Wide** is responsible for:
  - addressing the telecommunication needs of consumer and business customers that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory; and
  - the specific needs of customers which are not as readily accessible as customers in metropolitan areas.
- **Telstra Business and Government** is responsible for:
  - the provision of the full range of products and services to corporate, small to medium enterprises and government customers; and
  - manages our interests in our North American, Japanese and European retail operations.
- **Telstra International** manages our interests in:
  - the Asia-Pacific region, including our operations in Hong Kong, India, China and New Zealand.
- **Infrastructure Services** responsibilities include:
  - management and delivery of telecommunications infrastructure and related services;
  - operational service and delivery of the entire fixed and mobile networks, along with online products and platforms; and
  - Network, Design and Construction's capability for end-to-end project management, planning, design, construction, integration, operations and maintenance of communications networks and systems for Telstra and other telecommunications companies.
- **Telstra Wholesale** is responsible for:
  - the provision of domestic wholesale products and services to other carriers and carriage service providers.
- **Telstra Technology** is responsible for:
  - the overall planning, design and construction management of our domestic fixed communication networks and associated systems to deliver technology solutions to support our products, services and customer support.
- **Bigpond, Media Services and Sensis** is responsible for:
  - management and growth of Telstra's internet products, services and content, for both broadband and narrowband delivery;
  - management of Telstra's broadband cable network;
  - management of Telstra's interest in the FOXTEL partnership; and
  - management and growth of the information, advertising and directories business, including print, voice and online products and services.
- **Corporate areas** include:
  - Legal & Regulatory - provides legal services and has responsibility for regulatory positioning and negotiation;
  - Corporate Relations - responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, industry, community groups and staff;
  - Human Resources - responsibilities include recruitment, learning and development, and human resources management; and



## Notes to the Financial Statements (continued)

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### 5. Segment information (continued)

- Finance & Administration - encompasses the functions of finance, treasury, productivity, risk management and assurance, acquisitions, investments and strategic development, investor relations, corporate services, and the office of the Telstra Chief Information Officer. It also includes the financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group. Telstra Technology manages the annual capital expenditure of these assets on behalf of our other business segments.

The Corporate areas, Telstra Technology and Bigpond, Media Services and Sensis groups are not reportable segments and have been aggregated in the "Other" segment.

#### Inter-segment transfers

During the year, all transfer pricing was eliminated and is no longer used within the group. As such, the current year inter-segment line purely relates to intercompany revenue.

In the prior year, segment revenues, segment expenses and segment results included demand driven transfers between business segments. Generally most internal charges between business segments were made on a direct cost recovery basis. As the basis for transfers change from year to year depending on the business structure, we restated our comparatives to reflect the current basis. Certain regulatory, compliance and strategic functions are not charged to the reportable segments. We account for all international transactions between Australian and non-Australian businesses at market value. All internal telecommunications usage of our own products is also accounted for at market value.

The Asset Accounting Group does not allocate depreciation expense related to the use of assets owned at the Corporate level to other business segments.

#### Segment assets and liabilities

Segment assets and segment liabilities form part of the operating activities of a segment and can be allocated directly to that segment.

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. These assets are accounted for at the Corporate level (aggregated in the "Other" segment) and not allocated across segments.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Telstra Group

|   | Telstra<br>Consumer<br>& Market-<br>ing (a)<br>\$m | Telstra<br>Country<br>Wide (a)<br>\$m | Telstra<br>Business &<br>Govern-<br>ment (a)<br>\$m | Telstra<br>Internat-<br>ional<br>(b)<br>\$m | Infrastruc-<br>ture<br>Services<br>\$m | Telstra<br>Wholesale<br>\$m | Other<br>(c) (d)<br>\$m | Elimina-<br>tions<br>\$m | Total<br>all<br>segments<br>\$m |
|---|--|---------------------------------------|---|---|--|-----------------------------|-------------------------|--------------------------|---------------------------------|
| <b>Year ended 30 June 2003</b>  |  |                                       |   |   |  |                             |                         |                          |                                 |
| Sales revenue from external customers . . . . .   | 5,514  | 5,031                                 | 4,520   | 1,471                                       | 256                                    | 2,370                       | 1,333                   | -                        | 20,495                          |
| Other revenue from external customers . . . . .   | 7  | 136                                   | 33  | 54  | 11                                     | -                           | 880                     | -                        | 1,121                           |
| <b>Total revenue from external customers (excluding interest revenue) . . . . .</b>                   | <b>5,521</b>                                       | <b>5,167</b>                          | <b>4,553</b>  | <b>1,525</b>                                | <b>267</b>                             | <b>2,370</b>                | <b>2,213</b>            | <b>-</b>                 | <b>21,616</b>                   |
| Less sale of investment/<br>dividend revenue . . . . .  | 1  | -                                     | 19  | 29  | -                                      | -                           | -                       | -                        | 49                              |
| <b>Segment revenue from external customers . . . . .</b>  | <b>5,520</b>                                       | <b>5,167</b>                          | <b>4,534</b>  | <b>1,496</b>                                | <b>267</b>                             | <b>2,370</b>                | <b>2,213</b>            | <b>-</b>                 | <b>21,567</b>                   |
| Add inter-segment revenue   | -  | -                                     | 55  | 33  | 754                                    | 258                         | 86                      | (1,186)                  | -                               |
| <b>Total segment revenue . . . . .</b>  | <b>5,520</b>                                       | <b>5,167</b>                          | <b>4,589</b>  | <b>1,529</b>                                | <b>1,021</b>                           | <b>2,628</b>                | <b>2,299</b>            | <b>(1,186)</b>           | <b>21,567</b>                   |
| <b>Segment result under AGAAP</b>   | <b>3,093</b>                                       | <b>4,931</b>                          | <b>3,429</b>  | <b>12</b>                                   | <b>(1,220)</b>                         | <b>1,628</b>                | <b>(3,356)</b>          | <b>(1,794)</b>           | <b>6,723</b>                    |
| Less share of equity<br>accounted net losses/(profits)  | (2)  | -                                     | 6   | 974   | -                                      | -                           | 47                      | -                        | 1,025                           |
| Less net book value of<br>investments sold. . . . .   | -  | -                                     | 2   | 22  | -                                      | -                           | -                       | -                        | 24                              |
| Add sale of investment/<br>dividend revenue . . . . .   | 1  | -                                     | 19  | 29  | -                                      | -                           | -                       | -                        | 49                              |
| <b>Earnings before interest and income tax expense (EBIT) - segment result under USGAAP . . . . .</b> | <b>3,096</b>                                       | <b>4,931</b>                          | <b>3,440</b>  | <b>(955)</b>                                | <b>(1,220)</b>                         | <b>1,628</b>                | <b>(3,403)</b>          | <b>(1,794)</b>           | <b>5,723</b>                    |
| <b>Earnings has been calculated after charging/ (crediting) the following:</b>                        |  |                                       |   |   |  |                             |                         |                          |                                 |
| Depreciation and<br>amortisation . . . . .  | -  | -                                     | 19  | 388   | -                                      | -                           | 3,043                   | (3)                      | 3,447                           |
| Non cash expenses excluding<br>depreciation and<br>amortisation . . . . .                             | (52)   | -                                     | 11  | 52  | -                                      | -                           | 640                     | -                        | 651                             |
| <b>Non current assets acquired (excluding those acquired on investment) . . . . .</b>                 | <b>11</b>  | <b>(2)</b>                            | <b>18</b>   | <b>188</b>                                  | <b>1,125</b>                           | <b>46</b>                   | <b>1,946</b>            | <b>-</b>                 | <b>3,332</b>                    |
| <b>As at 30 June 2003</b>   |  |                                       |   |   |  |                             |                         |                          |                                 |
| <b>Segment assets (e) . . . . .</b>   | <b>2,015</b>                                       | <b>665</b>                            | <b>877</b>  | <b>4,255</b>                                | <b>641</b>                             | <b>380</b>                  | <b>27,920</b>           | <b>(1,154)</b>           | <b>35,599</b>                   |
| <b>Segment assets include:</b>  |  |                                       |   |   |  |                             |                         |                          |                                 |
| Investment in joint venture<br>entities. . . . .  | 11   | -                                     | -   | 74  | -                                      | -                           | 44                      | -                        | 129                             |
| Investment in associated<br>entities. . . . .   | -  | -                                     | 5   | 25  | -                                      | -                           | -                       | -                        | 30                              |
| Goodwill (net) . . . . .  | -  | -                                     | 43  | 1,930                                       | -                                      | -                           | 46                      | (1)                      | 2,018                           |
| <b>Segment liabilities . . . . .</b>  | <b>1,033</b>                                       | <b>213</b>                            | <b>452</b>  | <b>818</b>                                  | <b>974</b>                             | <b>242</b>                  | <b>18,976</b>           | <b>(2,531)</b>           | <b>20,177</b>                   |

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

(a) These segment results do not reflect actual segment results achieved due to the majority of costs of goods and services associated with sales revenues for all three of these segments being allocated totally to the Telstra Consumer and Marketing segment. This allocation reflects management's accountability framework and internal reporting system and accordingly no reasonable basis for allocation to the three segments exist.

(b) Included in the share of equity accounted net losses/(profits) is the write off of our investment in our 50% owned joint venture, Reach Ltd. Refer note 3 for further information.

(c) Included in other revenue from external customers is the sale of the seven office properties for \$570 million. Refer note 3 for further information.

(d) Sales revenue for the other segment relates primarily to revenue earned by our subsidiary Sensis Pty Ltd. Telstra Technology and the Asset Accounting Group are the main contributors to the segment result for this segment.

(e) Segment assets for the other segment includes Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

#### Prior year comparatives

Due to the extensive restructure of the customer base, it was impracticable to restate our comparative information as if the new business segments and segment accounting policies had existed in prior years. In accordance with applicable accounting standards, both AGAAP and USGAAP, the restatement of those lines that could be restated under the new structure for both 2002 and 2001 is presented below.

#### Telstra Group

|   | Telstra<br>Consumer<br>& Market-<br>ing<br>\$m | Telstra<br>Country<br>Wide<br>\$m | Telstra<br>Business &<br>Govern-<br>ment<br>\$m | Telstra<br>Interna-<br>tional<br>\$m | Infrastruc-<br>ture<br>Services<br>\$m | Telstra<br>Wholesale<br>\$m | Other<br>\$m  | Elimina-<br>tions<br>\$m | Total<br>all<br>segments<br>\$m |
|---|--|-----------------------------------|---|--------------------------------------|--|-----------------------------|---------------|--------------------------|---------------------------------|
| <b>Year ended 30 June</b>   |  |                                   |   |                                      |  |                             |               |                          |                                 |
| <b>2002</b>   |  |                                   |   |                                      |  |                             |               |                          |                                 |
| Depreciation and<br>amortisation . . . . .  | -  | -                                 | 27  | 421                                  | -                                      | -                           | 2,823         | (4)                      | 3,267                           |
| Non cash expenses excluding<br>depreciation and<br>amortisation . . . . .                     | 66   | -                                 | 36  | 28                                   | -                                      | -                           | 1,336         | (1,018)                  | 448                             |
| <b>Non current assets acquired<br/>(excluding those acquired on<br/>investment) . . . . .</b> | <b>14</b>                                      | <b>6</b>                          | <b>15</b>                                       | <b>352</b>                           | <b>928</b>                             | <b>50</b>                   | <b>2,297</b>  | <b>-</b>                 | <b>3,662</b>                    |
| <b>As at 30 June 2002</b>   |  |                                   |   |                                      |  |                             |               |                          |                                 |
| <b>Segment assets . . . . .</b>   | <b>1,982</b>                                   | <b>613</b>                        | <b>1,001</b>                                    | <b>6,076</b>                         | <b>679</b>                             | <b>414</b>                  | <b>28,946</b> | <b>(1,492)</b>           | <b>38,219</b>                   |
| <b>Segment assets<br/>include:</b>  |  |                                   |   |                                      |  |                             |               |                          |                                 |
| Investment in joint venture<br>entities . . . . .   | 9  | -                                 | -   | 1,059                                | -                                      | -                           | 42            | -                        | 1,110                           |
| Investment in associated<br>entities . . . . .  | -  | -                                 | 26  | 61                                   | -                                      | -                           | -             | -                        | 87                              |
| Goodwill (net) . . . . .  | -  | -                                 | 50  | 1,963                                | -                                      | -                           | 50            | -                        | 2,063                           |
| <b>Segment liabilities . . . . .</b>  | <b>1,274</b>                                   | <b>174</b>                        | <b>521</b>                                      | <b>1,648</b>                         | <b>1,030</b>                           | <b>250</b>                  | <b>21,865</b> | <b>(2,649)</b>           | <b>24,113</b>                   |

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Telstra Group

|   | Telstra<br>Consumer<br>& Market-<br>ing<br>\$m | Telstra<br>Country<br>Wide<br>\$m | Telstra<br>Business &<br>Govern-<br>ment<br>\$m | Telstra<br>Internat-<br>ional<br>\$m | Infrastruc-<br>ture<br>Services<br>\$m | Telstra<br>Wholesale<br>\$m | Other<br>\$m | Elimina-<br>tions<br>\$m | Total<br>all<br>segments<br>\$m |
|---|--|-----------------------------------|---|--------------------------------------|--|-----------------------------|--------------|--------------------------|---------------------------------|
| <b>Year ended 30 June</b>   |  |                                   |   |                                      |  |                             |              |                          |                                 |
| <b>2001</b>   |  |                                   |   |                                      |  |                             |              |                          |                                 |
| Depreciation and<br>amortisation . . . . .                                | 2  | -                                 | 19  | 188                                  | -                                      | -                           | 2,666        | (4)                      | 2,871                           |
| Non cash expenses excluding<br>depreciation and<br>amortisation . . . . . | (591)  | -                                 | 361   | 2,528                                | 3                                      | -                           | 319          | 1                        | 2,621                           |
| <b>As at 30 June 2001</b>   |  |                                   |   |                                      |  |                             |              |                          |                                 |
| Investment in joint venture<br>entities . . . . .                         | 5  | -                                 | -   | 1,140                                | -                                      | -                           | 47           | -                        | 1,192                           |
| Investment in associated<br>entities . . . . .                            | -  | -                                 | 53  | 14                                   | -                                      | -                           | -            | -                        | 67                              |
| Goodwill (net) . . . . .  | -  | -                                 | 75  | 1,431                                | 1                                      | -                           | 42           | (1)                      | 1,548                           |

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

Due to the extensive restructure of the customer base, it was impracticable to restate our comparative information as if the new business segments and segment accounting policies existed in prior years. Following are the comparatives for the 2002 and 2001 years under the structure that existed as at 30 June 2002.

#### Telstra Group

|   | Telstra<br>Retail<br>(a)<br>\$m | Telstra<br>Mobile<br>\$m | Telstra<br>Intern-<br>ational<br>\$m | Infrastruc-<br>ture<br>Services<br>\$m | Telstra<br>Wholesale<br>\$m | Other<br>(b)<br>\$m | Elimina-<br>tions<br>(c)<br>\$m | Total<br>all<br>segments<br>\$m |
|---|---------------------------------|--------------------------|--------------------------------------|--|-----------------------------|---------------------|---------------------------------|---------------------------------|
| <b>Year ended 30 June 2002</b>  |                                 |                          |                                      |  |                             |                     |                                 |                                 |
| Sales revenue from external customers   | 12,560                          | 3,501                    | 1,497                                | 253                                    | 2,334                       | 67                  | (16)                            | 20,196                          |
| Other revenue from external customers   | 227                             | -                        | 34                                   | 29                                     | 11                          | 305                 | -                               | 606                             |
| <b>Total revenue from external customers<br/>(excluding interest revenue)</b> . . . . .                       | <b>12,787</b>                   | <b>3,501</b>             | <b>1,531</b>                         | <b>282</b>                             | <b>2,345</b>                | <b>372</b>          | <b>(16)</b>                     | <b>20,802</b>                   |
| Less sale of investment/dividend revenue  | 42                              | -                        | 14                                   | -                                      | -                           | -                   | -                               | 56                              |
| <b>Segment revenue from external<br/>customers</b> . . . . .  | <b>12,745</b>                   | <b>3,501</b>             | <b>1,517</b>                         | <b>282</b>                             | <b>2,345</b>                | <b>372</b>          | <b>(16)</b>                     | <b>20,746</b>                   |
| Add inter-segment revenue . . . . .   | 447                             | 39                       | 1                                    | 1,853                                  | 1,001                       | 957                 | (4,298)                         | -                               |
| <b>Total segment revenue</b> . . . . .  | <b>13,192</b>                   | <b>3,540</b>             | <b>1,518</b>                         | <b>2,135</b>                           | <b>3,346</b>                | <b>1,329</b>        | <b>(4,314)</b>                  | <b>20,746</b>                   |
| <b>Segment result under AGAAP</b> . . . . .   | <b>7,318</b>                    | <b>1,542</b>             | <b>(22)</b>                          | <b>(1,371)</b>                         | <b>2,076</b>                | <b>(4,267)</b>      | <b>1,022</b>                    | <b>6,298</b>                    |
| Less share of equity accounted net losses   | 42                              | -                        | 39                                   | -                                      | -                           | -                   | -                               | 81                              |
| Less net book value of investments sold   | 40                              | -                        | 9                                    | -                                      | -                           | 8                   | -                               | 57                              |
| Add sale of investment/dividend revenue   | 42                              | -                        | 14                                   | -                                      | -                           | -                   | -                               | 56                              |
| <b>Earnings before interest and income tax<br/>expense (EBIT) - segment result under<br/>USGAAP</b> . . . . . | <b>7,278</b>                    | <b>1,542</b>             | <b>(56)</b>                          | <b>(1,371)</b>                         | <b>2,076</b>                | <b>(4,275)</b>      | <b>1,022</b>                    | <b>6,216</b>                    |
| <b>Earnings has been calculated after<br/>charging/(crediting) the following:</b>                             |                                 |                          |                                      |  |                             |                     |                                 |                                 |
| Depreciation and amortisation . . . . .   | 85                              | -                        | 421                                  | -                                      | -                           | 2,765               | (4)                             | 3,267                           |
| Non cash expenses excluding depreciation<br>and amortisation . . . . .  | 36                              | 45                       | 25                                   | -                                      | -                           | 1,360               | (1,018)                         | 448                             |
| <b>Non current assets acquired (excluding<br/>those acquired on investment)</b> . . . . .                     | <b>335</b>                      | <b>110</b>               | <b>352</b>                           | <b>2,740</b>                           | <b>50</b>                   | <b>75</b>           | <b>-</b>                        | <b>3,662</b>                    |
| <b>As at 30 June 2002</b>   |                                 |                          |                                      |  |                             |                     |                                 |                                 |
| <b>Segment assets (d)</b> . . . . .   | <b>4,291</b>                    | <b>1,098</b>             | <b>6,095</b>                         | <b>1,436</b>                           | <b>414</b>                  | <b>26,358</b>       | <b>(1,473)</b>                  | <b>38,219</b>                   |
| <b>Segment assets include:</b>  |                                 |                          |                                      |  |                             |                     |                                 |                                 |
| Investment in joint venture entities . . . . .  | 51                              | -                        | 1,059                                | -                                      | -                           | -                   | -                               | 1,110                           |
| Investment in associated entities . . . . .   | 26                              | -                        | 61                                   | -                                      | -                           | -                   | -                               | 87                              |
| <b>Segment liabilities</b> . . . . .  | <b>2,763</b>                    | <b>234</b>               | <b>1,671</b>                         | <b>1,530</b>                           | <b>252</b>                  | <b>20,313</b>       | <b>(2,650)</b>                  | <b>24,113</b>                   |

(a) Telstra Retail segment revenue from external customers includes \$2,406 million relating to Telstra Country Wide.

(b) Included in the other segment result is a specific charge of \$855 million relating to a provision for amounts owed by a controlled entity (refer note 27).

(c) Included in segment result is an elimination for the specific charge of \$855 million relating to a provision for amounts owed by a controlled entity (refer note 27).

(d) Segment assets for the other segment includes Telstra Entity fixed assets (including network assets) managed through the centralised Asset Accounting Group.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

#### Telstra Group

|   | Telstra<br>Retail<br>(a) (b)<br>\$m | Telstra<br>Mobile<br>(c)<br>\$m | Telstra<br>International<br>(d)<br>\$m | Infrastruc-<br>ture<br>Services<br>\$m | Telstra<br>Wholesale<br>\$m | Other<br>(e)<br>\$m | Elimina-<br>tions<br>\$m | Total<br>all<br>segments<br>\$m |
|---|-------------------------------------|---------------------------------|--|--|-----------------------------|---------------------|--------------------------|---------------------------------|
| <b>Year ended 30 June 2001</b>  |                                     |                                 |  |  |                             |                     |                          |                                 |
| Sales revenue from external customers   | 11,620                              | 3,144                           | 1,208                                  | 282                                    | 2,410                       | 67                  | (52)                     | 18,679                          |
| Other revenue from external customers   | 616                                 | 13                              | 2,495                                  | 51                                     | 22                          | 1,108               | (1)                      | 4,304                           |
| <b>Total revenue from external customers<br/>(excluding interest revenue)</b> . . . . .                       | <b>12,236</b>                       | <b>3,157</b>                    | <b>3,703</b>                           | <b>333</b>                             | <b>2,432</b>                | <b>1,175</b>        | <b>(53)</b>              | <b>22,983</b>                   |
| Less sale of investment/dividend revenue  | 551                                 | -                               | 2,466                                  | -                                      | -                           | -                   | -                        | 3,017                           |
| <b>Segment revenue from external<br/>customers</b> . . . . .  | <b>11,685</b>                       | <b>3,157</b>                    | <b>1,237</b>                           | <b>333</b>                             | <b>2,432</b>                | <b>1,175</b>        | <b>(53)</b>              | <b>19,966</b>                   |
| Add inter-segment revenue . . . . .   | 328                                 | 38                              | 281                                    | 2,124                                  | 801                         | 1,020               | (4,592)                  | -                               |
| <b>Total segment revenue</b> . . . . .  | <b>12,013</b>                       | <b>3,195</b>                    | <b>1,518</b>                           | <b>2,457</b>                           | <b>3,233</b>                | <b>2,195</b>        | <b>(4,645)</b>           | <b>19,966</b>                   |
| <b>Segment result under AGAAP</b> . . . . .   | <b>6,582</b>                        | <b>1,329</b>                    | <b>(773)</b>                           | <b>(1,205)</b>                         | <b>2,119</b>                | <b>(2,765)</b>      | <b>719</b>               | <b>6,006</b>                    |
| Less share of equity accounted net losses   | 89                                  | -                               | 94                                     | -                                      | -                           | -                   | -                        | 183                             |
| Less net book value of investments sold   | 297                                 | -                               | 1,574                                  | 4                                      | -                           | -                   | 2                        | 1,877                           |
| Add sale of investment/dividend revenue   | 551                                 | -                               | 2,466                                  | -                                      | -                           | -                   | -                        | 3,017                           |
| <b>Earnings before interest and income tax<br/>expense (EBIT) - segment result under<br/>USGAAP</b> . . . . . | <b>6,747</b>                        | <b>1,329</b>                    | <b>25</b>                              | <b>(1,209)</b>                         | <b>2,119</b>                | <b>(2,765)</b>      | <b>717</b>               | <b>6,963</b>                    |
| <b>Earnings has been calculated after<br/>charging/(crediting) the following:</b>                             |                                     |                                 |  |  |                             |                     |                          |                                 |
| Depreciation and amortisation . . . . .   | 84                                  | -                               | 188                                    | 19                                     | -                           | 2,584               | (4)                      | 2,871                           |
| Non cash expenses excluding depreciation<br>and amortisation . . . . .  | (138)                               | (99)                            | 2,559                                  | 144                                    | -                           | 873                 | (718)                    | 2,621                           |
| <b>Non current assets acquired (excluding<br/>those acquired on investment)</b> . . . . .                     | <b>311</b>                          | <b>150</b>                      | <b>3,214</b>                           | <b>3,732</b>                           | <b>58</b>                   | <b>139</b>          | <b>-</b>                 | <b>7,604</b>                    |
| <b>As at 30 June 2001</b>   |                                     |                                 |  |  |                             |                     |                          |                                 |
| <b>Segment assets</b> . . . . .   | <b>4,290</b>                        | <b>1,160</b>                    | <b>4,437</b>                           | <b>1,499</b>                           | <b>479</b>                  | <b>30,095</b>       | <b>(3,957)</b>           | <b>38,003</b>                   |
| <b>Segment assets include:</b>  |                                     |                                 |  |  |                             |                     |                          |                                 |
| Investment in joint venture entities . . . . .  | 52                                  | -                               | 1,140                                  | -                                      | -                           | -                   | -                        | 1,192                           |
| Investment in associated entities . . . . .   | 53                                  | -                               | 14                                     | -                                      | -                           | -                   | -                        | 67                              |
| <b>Segment liabilities</b> . . . . .  | <b>2,829</b>                        | <b>227</b>                      | <b>567</b>                             | <b>1,644</b>                           | <b>247</b>                  | <b>23,834</b>       | <b>(5,067)</b>           | <b>24,281</b>                   |

(a) Specific revenue of \$546 million from the sale of Computershare Limited (refer note 3) is included in Telstra Retail revenue. This increased profit by \$245 million.

(b) Telstra Retail segment revenue was reduced by \$745 million relating to the specific SAB101 cumulative adjustment (refer note 3). This specific item decreased the segment result by \$205 million.

(c) Telstra Mobile segment revenue was reduced by \$34 million relating to the specific SAB101 cumulative adjustment (refer note 3). This specific item decreased the segment result by \$14 million.

(d) Telstra International total revenue includes a specific item of \$2,372 million from the sale of our global wholesale business to Reach Ltd. Profit includes specific expenses relating to the book value of our global wholesale business and controlled entities sold of \$1,520 million and the Telstra CSL Group write off of acquisition costs of \$999 million (refer note 3).

(e) Specific revenue of \$725 million from the write back of the Telstra Superannuation Scheme (Telstra Super or TSS) additional contribution liability (refer note 3) is included in other segment revenue. This increased the other segment result by \$725 million.

## Notes to the Financial Statements (continued)

### 5. Segment information (continued)

|      |   | Telstra Group            |        |        |
|------|---|--------------------------|--------|--------|
|      |   | Year ended/As at 30 June |        |        |
|      |   | 2003                     | 2002   | 2001   |
|      |   | \$m                      | \$m    | \$m    |
| Note |   |                          |        |        |
|      | <b>Total segment revenue</b>  | <b>21,567</b>            | 20,746 | 19,966 |
|      | Add sale of investment/dividend revenue   | 49                       | 56     | 3,017  |
|      | <b>Total revenue from external customers (excluding interest revenue)</b>   | <b>21,616</b>            | 20,802 | 22,983 |
|      | Add interest revenue  | 84                       | 126    | 103    |
|      | <b>Total revenue from ordinary activities</b>   | <b>21,700</b>            | 20,928 | 23,086 |
|      | <b>Earnings before interest and income tax expense (EBIT)</b>   | <b>5,723</b>             | 6,216  | 6,963  |
|      | Add interest revenue  | 84                       | 126    | 103    |
|      | Less borrowing costs  | 879                      | 896    | 769    |
|      | <b>Profit before income tax expense</b>   | <b>4,928</b>             | 5,446  | 6,297  |
|      | Less income tax expense   | 1,534                    | 1,796  | 2,236  |
|      | <b>Net profit</b>   | <b>3,394</b>             | 3,650  | 4,061  |
|      | <b>Information about our products and services</b>  |                          |        |        |
|      | <b>Sales revenue from</b>   |                          |        |        |
|      | Basic access (i)  | 3,091                    | 2,880  | 1,955  |
|      | Local calls   | 1,567                    | 1,643  | 1,915  |
|      | PSTN value added services   | 272                      | 261    | 263    |
|      | National long distance calls  | 1,162                    | 1,216  | 1,267  |
|      | Fixed to mobile   | 1,517                    | 1,419  | 1,287  |
|      | International direct  | 307                      | 336    | 338    |
|      | Mobile goods and services (i)   | 3,608                    | 3,468  | 3,119  |
|      | Data and Internet services  | 2,806                    | 2,693  | 2,711  |
|      | Sensis (advertising and directories) (i)  | 1,217                    | 1,135  | 909    |
|      | Customer premise equipment  | 202                      | 220    | 274    |
|      | Payphone  | 148                      | 154    | 166    |
|      | Intercarrier services   | 1,170                    | 1,124  | 1,132  |
|      | Inbound calling products  | 494                      | 562    | 657    |
|      | Solutions management  | 487                      | 477    | 428    |
|      | Various controlled entities   | 1,836                    | 2,001  | 1,342  |
|      | Other sales and service   | 611                      | 607    | 916    |
| 2    |   | <b>20,495</b>            | 20,196 | 18,679 |
|      | (i) Sales revenue for year ended 30 June 2001 includes a specific debit accounting adjustment of \$779 million for SAB101. This adjustment has been allocated across our sales revenue as follows: \$540 million (basic access), \$205 million (directory services), and \$34 million (mobile goods and services) (refer note 3). |                          |        |        |
|      | <b>Information about our geographic operations</b>  |                          |        |        |
|      | <b>Sales revenue from</b>   |                          |        |        |
|      | Customers in Australia  | 19,024                   | 18,699 | 17,471 |
|      | Customers in non Australian countries   | 1,471                    | 1,497  | 1,208  |
| 2    |   | <b>20,495</b>            | 20,196 | 18,679 |
|      | <b>Carrying amount of segment assets</b>  |                          |        |        |
|      | Customers in Australia  | 32,632                   | 32,124 | 33,036 |
|      | Customers in non Australian countries   | 2,967                    | 6,095  | 4,437  |
|      |   | <b>35,599</b>            | 38,219 | 37,473 |
|      | <b>Non current assets acquired (excluding those acquired on investment)</b>   |                          |        |        |
|      | Located in Australia  | 3,144                    | 3,310  | 4,390  |
|      | Located in non Australian countries   | 188                      | 352    | 3,214  |
|      |   | <b>3,332</b>             | 3,662  | 7,604  |

## Notes to the Financial Statements (continued)

|   | Telstra Group      |                   |              |
|---|--------------------|-------------------|--------------|
|   | Year ended 30 June |                   |              |
|   | 2003               | 2002              | 2001         |
|   | ¢                  | ¢                 | ¢            |
| <b>6. Earnings per share</b>  |                    |                   |              |
| Basic and diluted earnings per share (cents) (a)  | 26.6               | 28.5              | 31.5         |
|   | \$m                | \$m               | \$m          |
| The following reflects the earnings and share information used in determining our basic and diluted earnings per share (see note 1.22): |                    |                   |              |
| Net profit . . . . .  | 3,394              | 3,650             | 4,061        |
| <b>Adjustments:</b>   |                    |                   |              |
| Outside equity interests in net (profit)/loss . . . . .   | 35                 | 11                | (3)          |
| Earnings used in the calculation of basic and diluted earnings per share . . . . .  | <b>3,429</b>       | <b>3,661</b>      | <b>4,058</b> |
|   |                    | <b>Number of</b>  |              |
|   |                    | <b>shares</b>     |              |
|   |                    | <b>(millions)</b> |              |
| Weighted average number of issued ordinary shares used in the calculation of basic and diluted earnings per share (b)(c). . . . .       | <b>12,867</b>      | 12,867            | 12,867       |

### (a) Change in accounting policy

The change in accounting policy for the introduction of SAB101 during fiscal 2001 is described in note 1.2. This change had the effect of decreasing the earnings per share calculation by 1.1 cents to 31.5 cents in fiscal 2001.

(b) The number of issued and paid up ordinary shares for the last 3 years has been 12,866,600,200.

(c) There are no potential ordinary shares or dilutive ordinary shares. We are precluded from issuing instruments that gives rise to the issue of new shares by the Telstra Corporation Act 1991 (Cth). The Telstra Growthshare Trust was established to allocate options, restricted shares, performance rights, deferred shares, directshares and ownshares to executives and employees. The Growthshare trustee purchases shares on market to underpin the various instruments issued.



## Notes to the Financial Statements (continued)

|   | Note | Telstra Group      |       |       | Telstra Entity     |       |
|---|------|--------------------|-------|-------|--------------------|-------|
|   |      | Year ended 30 June |       |       | Year ended 30 June |       |
|   |      | 2003               | 2002  | 2001  | 2003               | 2002  |
|   |      | \$m                | \$m   | \$m   | \$m                | \$m   |
| <b>7. Dividends</b>                                     |      |                    |       |       |                    |       |
| <b>Ordinary shares</b>                                  |      |                    |       |       |                    |       |
| Interim dividend paid . . . . .                         |      | 1,544              | 1,415 | 1,029 | 1,544              | 1,415 |
| Interim special dividend paid . . . . .                 |      | 386                | -     | -     | 386                | -     |
| Final ordinary dividend provided for (i) . . . . .      | 17   | -                  | 1,415 | 1,416 | -                  | 1,415 |
| Total dividend provided for or paid . . . . .           |      | 1,930              | 2,830 | 2,445 | 1,930              | 2,830 |
| <b>Dividends per share (cents) provided for or paid</b> |      |                    |       |       |                    |       |
|   |      | ¢                  | ¢     | ¢     |                    |       |
| Interim dividend . . . . .                              |      | 12.0               | 11.0  | 8.0   |                    |       |
| Interim special dividend . . . . .                      |      | 3.0                | -     | -     |                    |       |
| Final ordinary dividend (i) . . . . .                   |      | -                  | 11.0  | 11.0  |                    |       |
| Total dividend . . . . .                                |      | 15.0               | 22.0  | 19.0  |                    |       |

Our dividends provided for or paid are fully franked, in aggregate and per share, to the same amount in the relevant tables above.

(i) Due to the first time application of the new accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", a difference has arisen between reporting periods regarding the timing and the recognition of dividends declared in our statement of financial performance and statement of financial position. There has been no change in the timing of the dividends declared by the directors.

Under this new accounting standard, the provision for final ordinary dividend raised at 30 June 2002 has been reversed to opening retained profits in the current period statement of financial position (refer to statement of changes in shareholders equity).

As the final ordinary dividend in fiscal 2003 has not been declared, determined or publicly recommended as at 30 June 2003, no provision has been raised in the statement of financial position. The final ordinary dividend is now reported as an event after balance date (refer note 28) and the provision for final ordinary dividend is raised at the declaration date.

We have paid dividends as listed in the table below:

|  | Telstra Group      |       |       |
|--|--------------------|-------|-------|
|  | Year ended 30 June |       |       |
|  | 2003               | 2002  | 2001  |
|  | \$m                | \$m   | \$m   |
| <b>Dividends paid</b>  |                    |       |       |
| Previous year final ordinary dividend paid in the current year . . . . . | 1,415              | 1,416 | 1,287 |
| Interim dividend paid . . . . .  | 1,544              | 1,415 | 1,029 |
| Special interim dividend paid . . . . .                                  | 386                | -     | -     |
| Total dividends paid . . . . .   | 3,345              | 2,831 | 2,316 |

Our dividends have been franked as listed in the table below:

|  | Telstra Group      |      |      |
|--|--------------------|------|------|
|  | Year ended 30 June |      |      |
|  | 2003               | 2002 | 2001 |
|  | %                  | %    | %    |
| <b>C class franking credit percentages</b> |                    |      |      |
| Interim dividend . . . . .                 | 100                | 100  | 100  |
| Interim special dividend . . . . .         | 100                | -    | -    |
| Final ordinary dividend (i) . . . . .      | -                  | 100  | 100  |

The interim dividend and interim special dividend were franked at a tax rate of 30% (2002: 30%; 2001: 34%). Our final ordinary dividends were franked at a tax rate of 30% for both fiscal 2002 and fiscal 2001.

## Notes to the Financial Statements (continued)

### 7. Dividends (continued)

|  | Telstra Group      |            |            | Telstra Entity     |            |
|--|--------------------|------------|------------|--------------------|------------|
|  | Year ended 30 June |            |            | Year ended 30 June |            |
|  | 2003               | 2002       | 2001       | 2003               | 2002       |
|  | \$m                | \$m        | \$m        | \$m                | \$m        |
| <b>The combined amount of exempting and franking credits available to us for the next fiscal year are:</b>         |                    |            |            |                    |            |
| Combined exempting and franking account balance as at 30 June (i) . . .  | 585                | 530        | 645        | 585                | 457        |
| Franking credits that will arise from the payment of income tax payable as at 30 June (ii) . . . . .               | 614                | 632        | 1,620      | 614                | 572        |
| Franking debits when we pay our final dividend provided for as at 30 June (iii) . . . . .                          | -                  | (606)      | (1,416)    | -                  | (606)      |
| Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year. . . . . | (1)                | (15)       | (153)      | (1)                | -          |
|  | <b>1,198</b>       | <b>541</b> | <b>696</b> | <b>1,198</b>       | <b>423</b> |

(i) In fiscal 2002, with the introduction of the Business Tax Reform's Simplified Imputation System that became effective from 1 July 2002, the Telstra Entity's and Telstra Group's franking balances as at 30 June 2002 were converted to reflect the credit balances on a tax paid basis rather than on an after tax distributable profits basis. The tax paid balances basically represent the imputation tax credits that are available for distribution.

During fiscal 2003, legislation has been enacted which enables the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity elected to form a tax consolidated group from 1 July 2002. On entry into tax consolidation, the franking credits held in the franking accounts and exempt franking accounts of the subsidiary members were transferred to the Telstra Entity. Therefore, one franking account and one exempt franking account is maintained by the Telstra Entity for the tax consolidated group. We have not restated our comparatives to reflect this change.

As at 30 June 2003, the Telstra Entity had a combined exempting and franking account balance of \$585 million (2002: \$457 million). This balance represents the tax paid amount and equates to a fully franked distributable dividend of \$1,365 million (2002: \$1,067 million).

(ii) Franking credits that arise from the payment of income tax in fiscal 2004 and fiscal 2003 are expressed at the 30% tax rate on a tax paid basis. Franking credits that arise from the payment of income tax in fiscal 2002 are also expressed at the 30% tax rate, but on an after tax distributable profit basis.

(iii) The franking debits that arise when we pay our final ordinary dividend have been expressed as the amount of imputation tax credits that will be attached to a fully franked distribution.

Due to the first time application of the new accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", a provision for dividend can no longer be raised at balance date if the dividend is declared after that date. As the final ordinary dividend in fiscal 2003 has not been declared, determined or publicly recommended as at 30 June 2003, no franking debits arise prior to that date in the franking account. The franking credits that arose in fiscal 2002 from our final ordinary dividend provided for amounted to \$606 million.

As at 30 June 2003, the Telstra Entity had a surplus in its C class franking account of \$584 million (2002: \$457 million; 2001: \$466 million) and a surplus of \$0.6 million (2002: \$0.1 million; 2001: \$0.2 million) in its C class exempting credit account restated on a tax paid basis.

Additional franking credits will arise when the Telstra Entity pays tax instalments during fiscal 2004, relating to the fiscal 2003 and 2004 income tax years.

## Notes to the Financial Statements (continued)

|   | Telstra Group |       | Telstra Entity |      |
|---|---------------|-------|----------------|------|
|   | As at 30 June |       | As at 30 June  |      |
|   | 2003          | 2002  | 2003           | 2002 |
|   | \$m           | \$m   | \$m            | \$m  |
| <b>8. Cash assets</b>   |               |       |                |      |
| Cash at bank and on hand . . . . .                                  | 199           | 311   | 102            | 132  |
| Bank deposits, bills of exchange and commercial paper (a) . . . . . | 1,101         | 759   | 1,050          | 357  |
|   | <b>1,300</b>  | 1,070 | <b>1,152</b>   | 489  |

(a) Bank deposits are held in the short term money market. The carrying amount of bank deposits, bills of exchange and commercial paper is approximately equal to net fair value due to their short term to maturity.

## Notes to the Financial Statements (continued)

|  | Note           | Telstra Group |              | Telstra Entity |              |
|--|----------------|---------------|--------------|----------------|--------------|
|  |                | As at 30 June |              | As at 30 June  |              |
|  |                | 2003<br>\$m   | 2002<br>\$m  | 2003<br>\$m    | 2002<br>\$m  |
| <b>9. Receivables</b>  |                |               |              |                |              |
| <b>Current</b>   |                |               |              |                |              |
| Trade debtors (a)  |                | 2,436         | 2,535        | 1,849          | 1,736        |
| Provision for doubtful debts   |                | (199)         | (221)        | (157)          | (162)        |
|  |                | <b>2,237</b>  | <b>2,314</b> | <b>1,692</b>   | <b>1,574</b> |
| Amounts owed by controlled entities (other than trade debtors)               | . . . . .27    | -             | -            | 689            | 3,148        |
| Provision for amounts owed by controlled entities (other than trade debtors) | . . . . .27    | -             | -            | (285)          | (855)        |
|  |                | -             | -            | <b>404</b>     | <b>2,293</b> |
| Accrued revenue  |                | 1,068         | 1,124        | 1,036          | 1,059        |
| Bank deposits, bills of exchange and commercial paper (b)                    |                | -             | 388          | -              | 388          |
| Share loans to employees (c)   | . . . . .19,27 | 24            | 25           | 24             | 25           |
| Loans to joint venture entities and associated entities                      | . . . . .27    | 33            | 16           | 33             | 16           |
| Cross currency swap hedge receivable (1.2)                                   | . . . . .29    | 10            | 29           | 10             | 29           |
| Other receivables  |                | 247           | 167          | 175            | 138          |
|  |                | <b>3,619</b>  | <b>4,063</b> | <b>3,374</b>   | <b>5,522</b> |
| <b>Non current</b>   |                |               |              |                |              |
| Amounts owed by controlled entities (other than trade debtors)               | . . . . .27    | -             | -            | 511            | 202          |
| Provision for amounts owed by controlled entities (other than trade debtors) | . . . . .27    | -             | -            | (69)           | (86)         |
|  |                | -             | -            | <b>442</b>     | <b>116</b>   |
| Share loans to employees (c)   | . . . . .19,27 | 174           | 205          | 174            | 205          |
| Loans to joint venture entities and associated entities                      | . . . . .27    | 29            | 46           | 29             | 46           |
| Reach capacity prepayment (e)  |                | 214           | -            | 214            | -            |
| Cross currency swap hedge receivable (1.2)                                   | . . . . .29    | 273           | 622          | 273            | 622          |
| Other receivables (d)  |                | 187           | 132          | 187            | 132          |
|  |                | <b>877</b>    | <b>1,005</b> | <b>1,319</b>   | <b>1,121</b> |

(a) Our policy requires trade debtors to pay us within 14 days. We have no significant exposure to any individual customer, geographical location or industry category. All credit and recovery risk associated with trade debtors has been provided for in the financial statements.

(b) In fiscal 2002, bank deposits, bills of exchange and commercial paper included \$6 million Japanese yen deposits. These related to our Japanese finance lease liabilities and were held to satisfy our requirements under the leases which were payable in July 2002.

(c) Share loans to employees represent amounts receivable from employees under all employee share plans. Refer to note 19 for details regarding the share plans. The loan balance is considered fully recoverable over the period of the employee share schemes.

(d) Included in our other non current receivables is an amount of \$88 million (2002: \$115 million) from Telstra Growthshare (the senior executive equity participation scheme). Refer to note 19 for further information on Telstra Growthshare.

(e) On 25 April 2003, we entered a capacity prepayment agreement with our 50% owned joint venture entity, Reach Ltd. Our prepayment amounted to \$230 million (US\$143 million) and was funded by the partial redemption of our converting note in PCCW Limited (PCCW). The prepayment earns compounding interest equivalent to the 3 month US LIBOR rate plus an additional 2.50%, and provides the right to receive future carriage and related services capacity equivalent to the amount of the payment and accrued interest. We have classified the capacity prepayment as non current as no draw down is expected until fiscal 2007. The prepayment is considered fully recoverable.

## Notes to the Financial Statements (continued)

|   | Telstra Group |            | Telstra Entity |            |
|---|---------------|------------|----------------|------------|
|   | As at 30 June |            | As at 30 June  |            |
|   | 2003          | 2002       | 2003           | 2002       |
|   | \$m           | \$m        | \$m            | \$m        |
| <b>10. Inventories</b>  |               |            |                |            |
| <b>Current</b>  |               |            |                |            |
| Raw materials and stores recorded at cost . . . . .                 | 21            | 7          | 21             | 7          |
| Construction contracts (a) (1.9) . . . . .                          | 18            | 35         | -              | -          |
| Finished goods recorded at cost . . . . .                           | 235           | 161        | 202            | 135        |
| Finished goods recorded at net realisable value . . . . .           | 12            | 27         | 12             | 22         |
| Total finished goods . . . . .                                      | 247           | 188        | 214            | 157        |
| Provision for stock obsolescence . . . . .                          | (26)          | (26)       | (10)           | (4)        |
|   | <b>260</b>    | <b>204</b> | <b>225</b>     | <b>160</b> |
| <b>Non current</b>  |               |            |                |            |
| Finished goods recorded at cost . . . . .                           | 14            | 18         | 14             | 5          |
| Finished goods recorded at net realisable value . . . . .           | 9             | 14         | 9              | 14         |
|   | 23            | 32         | 23             | 19         |
| Provision for stock obsolescence . . . . .                          | (9)           | (12)       | (9)            | (12)       |
|   | <b>14</b>     | <b>20</b>  | <b>14</b>      | <b>7</b>   |
| (a) Construction contract disclosures are shown in the table below. |               |            |                |            |
| Gross amount of construction work in progress . . . . .             | 92            | 126        | -              | -          |
| Profits recognised to date . . . . .                                | 18            | 15         | -              | -          |
|   | 110           | 141        | -              | -          |
| Progress billings and advances received . . . . .                   | (92)          | (106)      | -              | -          |
|   | <b>18</b>     | <b>35</b>  | <b>-</b>       | <b>-</b>   |

## Notes to the Financial Statements (continued)

|  | Note   | Telstra Group |              | Telstra Entity |              |
|--|--------|---------------|--------------|----------------|--------------|
|  |        | As at 30 June |              | As at 30 June  |              |
|  |        | 2003          | 2002         | 2003           | 2002         |
|  |        | \$m           | \$m          | \$m            | \$m          |
| <b>11. Investments</b>   |        |               |              |                |              |
| <b>Investments - accounted for using the equity method (1.10)</b>              |        |               |              |                |              |
| Carrying amount of investments in joint venture entities . . . . .             | 24     | 129           | 1,110        | 3              | 3            |
| Investment in associated entities . . . . .                                    |        | 56            | 101          | 26             | 57           |
| Provision for reduction in value. . . . .                                      |        | (26)          | (14)         | (19)           | (26)         |
| Carrying amount of investments in associated entities (a). . . . .             | 24     | 30            | 87           | 7              | 31           |
|  |        | <b>159</b>    | <b>1,197</b> | <b>10</b>      | <b>34</b>    |
| <b>Investments - other non current (1.10)</b>                                  |        |               |              |                |              |
| <b>Listed securities</b>   |        |               |              |                |              |
| Investment in listed corporations (at cost). . . . .                           |        | 46            | 58           | 41             | 38           |
| Provision for reduction in value. . . . .                                      |        | (14)          | (17)         | (14)           | (14)         |
| Total listed securities excluding investments in associated entities . . . . . | 11(i)  | 32            | 41           | 27             | 24           |
| <b>Unlisted securities and other investments</b>                               |        |               |              |                |              |
| Investment in controlled entities (at cost) . . . . .                          | 23     | -             | -            | 12,028         | 9,553        |
| Provision for reduction in value. . . . .                                      |        | -             | -            | (7,912)        | (4,875)      |
| Total unlisted securities and other investments . . . . .                      |        | -             | -            | 4,116          | 4,678        |
| Investment in other corporations (at cost). . . . .                            |        | 66            | 79           | 62             | 73           |
| Provision for reduction in value. . . . .                                      |        | (2)           | (15)         | (1)            | (13)         |
| Total investment in other corporations. . . . .                                | 11(ii) | 64            | 64           | 61             | 60           |
|  |        | <b>96</b>     | <b>105</b>   | <b>4,204</b>   | <b>4,762</b> |

(a) During fiscal 2003, we sold our remaining shareholding in our listed associated entity Solution 6 Holdings Limited. Its equity accounted value at 30 June 2002 was \$14 million and was recorded as part of the carrying amount of investments in associated entities. Its net fair value was \$18 million as at 30 June 2002.

## Notes to the Financial Statements (continued)

### 11. Investments (continued)

Listed securities and investments in other corporations are as follows:

| Name of investment                            | Principal activities                                | Ownership interest |      | Telstra Group's recorded amount of investment (*) |           | Telstra Entity's recorded amount of investment (*) |           |
|---|---|--------------------|------|---|-----------|--|-----------|
|   |   | As at 30 June      |      | As at 30 June                                     |           | As at 30 June                                      |           |
|   |   | 2003               | 2002 | 2003  | 2002      | 2003   | 2002      |
|   |   | %                  | %    | \$m   | \$m       | \$m  | \$m       |
| <b>(i) Listed securities</b>                  |   |                    |      |   |           |  |           |
| Infonet Services Corporation                  | International communications and computing services | 5.3                | 5.3  | 11  | 11        | 11   | 11        |
| Commander Communications Limited (a)          | Voice and data transmission services                | 16.4               | 16.6 | 16  | 16        | 16   | 13        |
| New Skies Satellites, N.V.(b)                 | Provision of satellite capacity                     | -                  | 0.8  | -   | 9         | -  | -         |
| Other listed investments . . .                |   |                    |      | 5   | 5         | -  | -         |
|   |   |                    |      | <b>32</b>   | <b>41</b> | <b>27</b>  | <b>24</b> |
| <b>(ii) Investments in other corporations</b> |   |                    |      |   |           |  |           |
| Intelsat Limited . . . . .                    | Provision of satellite capacity                     | 1.7                | 1.7  | 60  | 60        | 60   | 60        |
| Other investments. . . . .                    |   |                    |      | 4   | 4         | 1  | -         |
|   |   |                    |      | <b>64</b>   | <b>64</b> | <b>61</b>  | <b>60</b> |

(\*) Amounts shown net of provision for reduction in value.

(a) Our investment in Commander Communications Limited has decreased from 16.6% to 16.4% due to a dilution in our shareholding. Subsequent to 30 June 2003, we disposed of our investment in this entity for \$24 million.

(b) During fiscal 2003, we sold our shareholding in New Skies Satellites N.V. for \$5.9 million.

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment

| Telstra Group | (a)                       | (b)                                      | (c)                                  | (d)                               | (e)                              | (f)                                |       |
|---------------|---------------------------|--|--------------------------------------|-----------------------------------|----------------------------------|------------------------------------|-------|
|               | Land<br>& site<br>imp'mnt | Buildings<br>(incl<br>l'hold<br>imp'mnt) | CA's<br>(incl.<br>l'hold<br>imp'mnt) | CA's<br>under<br>finance<br>lease | Other<br>plant,<br>equip &<br>MV | Equip<br>under<br>finance<br>lease | Total |
| Note          | \$m                       | \$m                                      | \$m                                  | \$m                               | \$m                              | \$m                                | \$m   |

#### 30 June 2003

##### Carrying amount at cost (1.12)

|  |      |       |        |     |       |    |        |
|--|------|-------|--------|-----|-------|----|--------|
| Balance at 30 June 2002  | 81   | 778   | 37,272 | 858 | 1,757 | 47 | 40,793 |
| - additions  | 1    | 43    | 2,486  | -   | 72    | -  | 2,602  |
| - disposals  | (33) | (103) | (286)  | -   | (232) | -  | (654)  |
| - net foreign currency exchange differences on translation of financial statements of self-sustaining operations | -    | (5)   | (72)   | -   | (10)  | -  | (87)   |
| - other  | -    | (15)  | 92     | -   | (138) | 5  | (56)   |
| Balance at 30 June 2003  | 49   | 698   | 39,492 | 858 | 1,449 | 52 | 42,598 |

##### Accumulated depreciation/amortisation

|  |   |       |          |       |         |      |          |
|--|---|-------|----------|-------|---------|------|----------|
| Balance at 30 June 2002  | - | (265) | (15,786) | (195) | (1,106) | (20) | (17,372) |
| - disposals  | - | 42    | 197      | -     | 188     | -    | 427      |
| - depreciation and amortisation expense (i)  | - | (75)  | (2,436)  | (82)  | (154)   | (7)  | (2,754)  |
| - net foreign currency exchange differences on translation of financial statements of self-sustaining operations | - | 1     | 58       | -     | 6       | -    | 65       |
| - other  | - | 18    | (4)      | -     | 47      | (13) | 48       |
| Balance at 30 June 2003  | - | (279) | (17,971) | (277) | (1,019) | (40) | (19,586) |

##### Net book value

|                    |    |     |        |     |     |    |        |
|--------------------|----|-----|--------|-----|-----|----|--------|
| As at 30 June 2003 | 49 | 419 | 21,521 | 581 | 430 | 12 | 23,012 |
|--------------------|----|-----|--------|-----|-----|----|--------|

##### General purpose land and buildings

- (a) Land and site improvements
- (b) Buildings (including leasehold improvements)

##### Communication assets

- (c) Communication assets (including leasehold improvements)
- (d) Communication assets under finance lease

##### Other plant and equipment

- (e) Other plant, equipment and motor vehicles
- (f) Equipment under finance lease

(i) The depreciation and amortisation expense on buildings (including leasehold improvements) is split between depreciation of general purpose buildings and amortisation of leasehold improvements in our note 3 disclosures. The depreciation and amortisation expense of communication assets (including leasehold improvements) and communication assets under finance lease is aggregated to depreciation of communication assets in our note 3 disclosures.



## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

| Telstra Group  | (a)                              | (b)   | (c)   | (d)                                      | (e)                                     | (f)                                       |                 |
|--|----------------------------------|---|---|--|---|---|-----------------|
| Note   | Land<br>& site<br>imp'mnt<br>\$m | Buildings<br>(incl<br>l'hold<br>imp'mnt)<br>\$m | CA's<br>(incl.<br>l'hold<br>imp'mnt)<br>\$m | CA's<br>under<br>finance<br>lease<br>\$m | Other<br>plant,<br>equip &<br>MV<br>\$m | Equip<br>under<br>finance<br>lease<br>\$m | Total<br>\$m    |
| <b>30 June 2002</b>  |                                  |   |   |  |   |   |                 |
| <b>Carrying amount at cost (1.12)</b>  |                                  |   |   |  |   |   |                 |
| <b>Balance at 30 June 2001</b> . . . . .   | 160                              | 1,339   | 34,149                                      | 906                                      | 1,817                                   | 65  | 38,436          |
| - additions . . . . .  | -                                | 46  | 2,792                                       | -  | 128                                     | -   | 2,966           |
| - disposals . . . . .  | (33)                             | (32)  | (738)                                       | -  | (276)                                   | (24)                                      | (1,103)         |
| - acquisitions of businesses . . . . .   | 1                                | 17  | 671   | -  | 82                                      | 6   | 777             |
| - net foreign currency exchange differences on translation of financial statements of self-sustaining operations . . . . . | -                                | (3)   | (19)  | -  | (1)                                     | -   | (23)            |
| - other . . . . .  | (47)                             | (589)   | 417   | (48)                                     | 7                                       | -   | (260)           |
| <b>Balance at 30 June 2002</b> . . . . .   | <b>81</b>                        | <b>778</b>                                      | <b>37,272</b>                               | <b>858</b>                               | <b>1,757</b>                            | <b>47</b>                                 | <b>40,793</b>   |
| <b>Accumulated depreciation/amortisation</b>   |                                  |   |   |  |   |   |                 |
| <b>Balance at 30 June 2001</b> . . . . .   | -                                | (408)   | (13,883)                                    | (164)                                    | (1,140)                                 | (38)                                      | (15,633)        |
| - disposals . . . . .  | -                                | 15  | 670   | -  | 155                                     | 24  | 864             |
| - depreciation and amortisation expense (i) . . . . . 3  | -                                | (84)  | (2,373)                                     | (79)                                     | (115)                                   | (2)                                       | (2,653)         |
| - net foreign currency exchange differences on translation of financial statements of self-sustaining operations . . . . . | -                                | -   | 3   | -  | -                                       | -   | 3               |
| - other . . . . .  | -                                | 212   | (203)                                       | 48                                       | (6)                                     | (4)                                       | 47              |
| <b>Balance at 30 June 2002</b> . . . . .   | <b>-</b>                         | <b>(265)</b>                                    | <b>(15,786)</b>                             | <b>(195)</b>                             | <b>(1,106)</b>                          | <b>(20)</b>                               | <b>(17,372)</b> |
| <b>Net book value</b>  |                                  |   |   |  |   |   |                 |
| <b>As at 30 June 2002</b> . . . . .  | <b>81</b>                        | <b>513</b>                                      | <b>21,486</b>                               | <b>663</b>                               | <b>651</b>                              | <b>27</b>                                 | <b>23,421</b>   |

#### General purpose land and buildings

- (a) Land and site improvements  
(b) Buildings (including leasehold improvements)

#### Communication assets

- (c) Communication assets (including leasehold improvements)  
(d) Communication assets under finance lease

#### Other plant and equipment

- (e) Other plant, equipment and motor vehicles  
(f) Equipment under finance lease

(i) The depreciation and amortisation expense on buildings (including leasehold improvements) is split between depreciation of general purpose buildings and amortisation of leasehold improvements in our note 3 disclosures. The depreciation and amortisation expense of communication assets (including leasehold improvements) and communication assets under finance lease is aggregated to depreciation of communication assets in our note 3 disclosures.

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

| Telstra Entity                               | (a)                       | (b)                                      | (c)                                  | (d)                               | (e)                              | (f)                                |          |
|--|---------------------------|--|--------------------------------------|-----------------------------------|----------------------------------|------------------------------------|----------|
|  | Land<br>& site<br>imp'mnt | Buildings<br>(incl<br>l'hold<br>imp'mnt) | CA's<br>(incl.<br>l'hold<br>imp'mnt) | CA's<br>under<br>finance<br>lease | Other<br>plant,<br>equip &<br>MV | Equip<br>under<br>finance<br>lease | Total    |
| Note   | \$m                       | \$m                                      | \$m                                  | \$m                               | \$m                              | \$m                                | \$m      |
| <b>30 June 2003</b>                          |                           |  |                                      |                                   |                                  |                                    |          |
| <b>Carrying amount at cost (1.12)</b>        |                           |  |                                      |                                   |                                  |                                    |          |
| Balance at 30 June 2002                      | 80                        | 710                                      | 35,635                               | 858                               | 1,296                            | -                                  | 38,579   |
| - additions                                  | 1                         | 38                                       | 2,525                                | -                                 | 17                               | -                                  | 2,581    |
| - disposals                                  | (33)                      | (96)                                     | (152)                                | -                                 | (195)                            | -                                  | (476)    |
| - acquisition of businesses                  | -                         | -  | -                                    | -                                 | -                                | 9                                  | 9        |
| - other                                      | -                         | 1  | 78                                   | -                                 | (54)                             | -                                  | 25       |
| Balance at 30 June 2003                      | 48                        | 653                                      | 38,086                               | 858                               | 1,064                            | 9                                  | 40,718   |
| <b>Accumulated depreciation/amortisation</b> |                           |  |                                      |                                   |                                  |                                    |          |
| Balance at 30 June 2002                      | -                         | (247)                                    | (15,365)                             | (195)                             | (920)                            | -                                  | (16,727) |
| - disposals                                  | -                         | 35                                       | 90                                   | -                                 | 154                              | -                                  | 279      |
| - depreciation and amortisation expense (i)  | -                         | (57)                                     | (2,282)                              | (82)                              | (106)                            | (2)                                | (2,529)  |
| - other                                      | -                         | 2  | (1)                                  | -                                 | 52                               | -                                  | 53       |
| Balance at 30 June 2003                      | -                         | (267)                                    | (17,558)                             | (277)                             | (820)                            | (2)                                | (18,924) |
| <b>Net book value</b>                        |                           |  |                                      |                                   |                                  |                                    |          |
| As at 30 June 2003                           | 48                        | 386                                      | 20,528                               | 581                               | 244                              | 7                                  | 21,794   |

#### General purpose land and buildings

- (a) Land and site improvements  
(b) Buildings (including leasehold improvements)

#### Communication assets

- (c) Communication assets (including leasehold improvements)  
(d) Communication assets under finance lease

#### Other plant and equipment

- (e) Other plant, equipment and motor vehicles  
(f) Equipment under finance lease

(i) The depreciation and amortisation expense on buildings (including leasehold improvements) is split between depreciation of general purpose buildings and amortisation of leasehold improvements in our note 3 disclosures. The depreciation and amortisation expense of communication assets (including leasehold improvements) and communication assets under finance lease is aggregated to depreciation of communication assets in our note 3 disclosures.

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

| Telstra Entity   | (a)                              | (b)   | (c)   | (d)                                      | (e)                                     | (f)                                       |                 |
|--|----------------------------------|---|---|--|---|---|-----------------|
| Note   | Land<br>& site<br>imp'mnt<br>\$m | Buildings<br>(incl<br>l'hold<br>imp'mnt)<br>\$m | CA's<br>(incl.<br>l'hold<br>imp'mnt)<br>\$m | CA's<br>under<br>finance<br>lease<br>\$m | Other<br>plant,<br>equip &<br>MV<br>\$m | Equip<br>under<br>finance<br>lease<br>\$m | Total<br>\$m    |
| <b>30 June 2002</b>                                    |                                  |   |   |  |   |   |                 |
| <b>Carrying amount at cost (1.12)</b>                  |                                  |   |   |  |   |   |                 |
| Balance at 30 June 2001. . . . .                       | 160                              | 1,267   | 33,259                                      | 905                                      | 1,504                                   | 24  | 37,119          |
| - additions. . . . .                                   | -                                | 63  | 2,682                                       | -  | 37                                      | -   | 2,782           |
| - disposals. . . . .                                   | (33)                             | (32)  | (713)                                       | -  | (246)                                   | (24)                                      | (1,048)         |
| - other . . . . .                                      | (47)                             | (588)   | 407   | (47)                                     | 1                                       | -   | (274)           |
| <b>Balance at 30 June 2002. . . . .</b>                | <b>80</b>                        | <b>710</b>                                      | <b>35,635</b>                               | <b>858</b>                               | <b>1,296</b>                            | <b>-</b>                                  | <b>38,579</b>   |
| <b>Accumulated depreciation/amortisation</b>           |                                  |   |   |  |   |   |                 |
| Balance at 30 June 2001. . . . .                       | -                                | (396)   | (13,694)                                    | (164)                                    | (974)                                   | (24)                                      | (15,252)        |
| - disposals. . . . .                                   | -                                | 15  | 650   | -  | 142                                     | 24  | 831             |
| - depreciation and amortisation expense (i). . . . . 3 | -                                | (79)  | (2,130)                                     | (79)                                     | (85)                                    | -   | (2,373)         |
| - other . . . . .                                      | -                                | 213   | (191)                                       | 48                                       | (3)                                     | -   | 67              |
| <b>Balance at 30 June 2002. . . . .</b>                | <b>-</b>                         | <b>(247)</b>                                    | <b>(15,365)</b>                             | <b>(195)</b>                             | <b>(920)</b>                            | <b>-</b>                                  | <b>(16,727)</b> |
| <b>Net book value</b>                                  |                                  |   |   |  |   |   |                 |
| <b>As at 30 June 2002 . . . . .</b>                    | <b>80</b>                        | <b>463</b>                                      | <b>20,270</b>                               | <b>663</b>                               | <b>376</b>                              | <b>-</b>                                  | <b>21,852</b>   |

#### General purpose land and buildings

- (a) Land and site improvements  
(b) Buildings (including leasehold improvements)

#### Communication assets

- (c) Communication assets (including leasehold improvements)  
(d) Communication assets under finance lease

#### Other plant and equipment

- (e) Other plant, equipment and motor vehicles  
(f) Equipment under finance lease

(i) The depreciation and amortisation expense on buildings (including leasehold improvements) is split between depreciation of general purpose buildings and amortisation of leasehold improvements in our note 3 disclosures. The depreciation and amortisation expense of communication assets (including leasehold improvements) and communication assets under finance lease is aggregated to depreciation of communication assets in our note 3 disclosures.

## Notes to the Financial Statements (continued)

### 12. Property, plant and equipment (continued)

#### Communication assets

Communication assets include certain network land and buildings which are essential to the operation of communication assets.

#### Current value of all land and buildings

We obtain valuations of all of our land and buildings at least once every three years and the current value as at 30 June 2003 is as follows:

- \$2,425 million for the Telstra Group (fiscal 2002: \$2,906 million); and
- \$2,425 million for the Telstra Entity (fiscal 2002: \$2,866 million).

These current values are not on independent valuation. The following bases are used in determining the current value of property, plant and equipment:

| Property, plant and equipment category                    | Valuation basis              |
|---|------------------------------|
| General purpose land and buildings                        | Market value                 |
| <b>Communication assets and other plant and equipment</b> |                              |
| Network land  | Market value                 |
| Network buildings   | Depreciated replacement cost |

These valuations do not include land and buildings held for resale as included in note 14.

Details of our capital expenditure and finance lease commitments are shown in note 20 to these financial statements.

#### Assets pledged as security

Included in our balances of property, plant and equipment are assets which were pledged as collateral for bank loans entered into by our controlled entity, TelstraClear Limited. During fiscal 2003, these loans were fully repaid and the pledge removed (refer note 16 for further information). The property, plant and equipment and other assets, that were subject to this pledge are detailed in the table below:

|   | Telstra Group |       |
|---|---------------|-------|
|   | As at 30 June |       |
|   | 2003          | 2002  |
|   | \$m           | \$m   |
| Property, plant and equipment . . . . . | -             | 818   |
| Other assets . . . . .                  | -             | 415   |
|   | -             | 1,233 |

## Notes to the Financial Statements (continued)

|  | Telstra Group |              | Telstra Entity |            |
|--|---------------|--------------|----------------|------------|
|  | As at 30 June |              | As at 30 June  |            |
|  | 2003          | 2002         | 2003           | 2002       |
|  | \$m           | \$m          | \$m            | \$m        |
| <b>13. Intangible assets</b>                   |               |              |                |            |
| <b>Intangibles - goodwill (1.14(a))</b>        |               |              |                |            |
| Goodwill (a) (b) . . . . .                     | 2,290         | 2,219        | 6              | 6          |
| Accumulated amortisation . . . . .             | (272)         | (156)        | (2)            | (1)        |
|  | <b>2,018</b>  | <b>2,063</b> | <b>4</b>       | <b>5</b>   |
| <b>Intangibles - other (1.14(b)) . . . . .</b> |               |              |                |            |
| Patents, trademarks and licences . . . . .     | 685           | 697          | 339            | 340        |
| Accumulated amortisation . . . . .             | (121)         | (87)         | (103)          | (71)       |
|  | <b>564</b>    | <b>610</b>   | <b>236</b>     | <b>269</b> |
| Brandnames . . . . .                           | 216           | 247          | -              | -          |
| Accumulated amortisation . . . . .             | (24)          | (16)         | -              | -          |
|  | <b>192</b>    | <b>231</b>   | <b>-</b>       | <b>-</b>   |
| Customer bases . . . . .                       | 559           | 629          | -              | -          |
| Accumulated amortisation . . . . .             | (169)         | (112)        | -              | -          |
|  | <b>390</b>    | <b>517</b>   | <b>-</b>       | <b>-</b>   |
|  | <b>1,146</b>  | <b>1,358</b> | <b>236</b>     | <b>269</b> |

(a) The movements in the carrying value of our net goodwill balance are summarised as follows:

|   | Telstra Group |              |
|---|---------------|--------------|
|   | As at 30 June |              |
|   | 2003          | 2002         |
|   | \$m           | \$m          |
| Carrying amount at beginning of year . . . . .    | 2,063         | 1,548        |
| Additional goodwill recognised (i) (ii) . . . . . | 71            | 615          |
| Removal of goodwill on disposal . . . . .         | -             | (13)         |
| Amortisation expense . . . . .                    | (116)         | (87)         |
| Carrying amount at end of year . . . . .          | <b>2,018</b>  | <b>2,063</b> |

(i) On 9 April 2003, we acquired the remaining 41.6% shareholding of TelstraClear Limited that we did not hold, resulting in additional goodwill of \$71 million in fiscal 2003 (refer note 23 for further information).

(ii) On 28 June 2002, we acquired the remaining 40% shareholding of Telstra CSL Limited that we did not hold, resulting in additional goodwill of \$522 million in fiscal 2002 (refer note 23 for further information).

(b) As at 30 June 2003, the net goodwill balance was from investments made in the following controlled entities:

|  | Telstra Group |              |
|--|---------------|--------------|
|  | As at 30 June |              |
|  | 2003          | 2002         |
|  | \$m           | \$m          |
| Telstra CSL Limited (ii) . . . . .                         | 1,784         | 1,884        |
| TelstraClear Limited (i) . . . . .                         | 145           | 79           |
| Sensis Pty Ltd (formerly Pacific Access Pty Ltd) . . . . . | 39            | 41           |
| Telstra Enterprise Services Pty Ltd . . . . .              | 32            | 39           |
| InsNet Pty Ltd . . . . .                                   | 10            | 11           |
| Other . . . . .  | 8             | 9            |
| Net goodwill . . . . .                                     | <b>2,018</b>  | <b>2,063</b> |

## Notes to the Financial Statements (continued)

|   | Telstra Group |              | Telstra Entity |              |
|---|---------------|--------------|----------------|--------------|
|   | As at 30 June |              | As at 30 June  |              |
|   | 2003          | 2002         | 2003           | 2002         |
|   | \$m           | \$m          | \$m            | \$m          |
| <b>14. Other assets</b>   |               |              |                |              |
| <b>Current</b>  |               |              |                |              |
| Net deferred mobile phone handset subsidies (1.15(b)) . . . . . | 111           | 184          | 111            | 184          |
| Deferred expenditure (1.15(c)) . . . . .                        | 249           | 233          | 213            | 197          |
| Prepayments . . . . .   | 218           | 187          | 142            | 132          |
| Land and buildings held for resale (i) . . . . .                | -             | 434          | -              | 434          |
|   | <b>578</b>    | <b>1,038</b> | <b>466</b>     | <b>947</b>   |
| <b>Non current</b>  |               |              |                |              |
| Deferred expenditure (1.15(c)) . . . . .                        | 392           | 397          | 385            | 396          |
| Accumulated amortisation . . . . .                              | (5)           | (12)         | (5)            | (12)         |
|   | <b>387</b>    | <b>385</b>   | <b>380</b>     | <b>384</b>   |
| Software assets developed for internal use (1.15(d)) . . . . .  | 3,181         | 2,627        | 3,016          | 2,469        |
| Accumulated amortisation . . . . .                              | (1,180)       | (823)        | (1,157)        | (808)        |
|   | <b>2,001</b>  | <b>1,804</b> | <b>1,859</b>   | <b>1,661</b> |
| Net deferred mobile phone handset subsidies (1.15(b)) . . . . . | 49            | 17           | 49             | 17           |
| Converting note issued by PCCW (ii) . . . . .                   | 83            | 337          | 83             | 337          |
|   | <b>2,520</b>  | <b>2,543</b> | <b>2,371</b>   | <b>2,399</b> |

(i) In fiscal 2002, we reclassified \$434 million of land and buildings from property, plant and equipment as these assets were held for sale as at 30 June 2002. On 1 August 2002, we sold this portfolio of seven office properties for \$570 million (refer to note 3 for further details).

(ii) On 7 February 2001, PCCW Limited (PCCW) issued a convertible note to us for US\$750 million (A\$1,366 million). The term of the convertible note was 6 years with an interest coupon compounding quarterly of 5% for the first four years and 7% for the remaining two years.

On 28 June 2002, this convertible note was redeemed in full by PCCW. Under an agreement, the fair value of the redemption was applied to acquire PCCW's 40% interest in the Telstra CSL Group and to subscribe for a new US\$190 million (A\$337 million) mandatorily converting secured note issued by PCCW. This note has a three year term and an interest coupon compounding at a rate of 5% per annum. PCCW's obligations under the note are secured by an equitable mortgage of shares over its 50% shareholding in Reach Ltd.

On 25 April 2003, this converting note was partially redeemed to fund the capacity prepayment (refer note 9 for further information). The terms and conditions of this converting note remain unchanged and the face value after the partial redemption is US\$54 million (A\$87 million).

## Notes to the Financial Statements (continued)

|   | Note | Telstra Group |              | Telstra Entity |              |
|---|------|---------------|--------------|----------------|--------------|
|   |      | As at 30 June |              | As at 30 June  |              |
|   |      | 2003          | 2002         | 2003           | 2002         |
|   |      | \$m           | \$m          | \$m            | \$m          |
| <b>15. Payables</b>   |      |               |              |                |              |
| <b>Current</b>  |      |               |              |                |              |
| Trade creditors (a) . . . . .   |      | 645           | 606          | 475            | 424          |
| Accrued expenses . . . . .  |      | 1,254         | 1,328        | 964            | 999          |
| Accrued capital expenditure . . . . .   |      | 181           | 194          | 240            | 277          |
| Accrued interest . . . . .  |      | 195           | 208          | 195            | 205          |
| Other creditors (a) . . . . .   |      | 250           | 426          | 156            | 172          |
| Amounts owed to controlled entities (other than trade creditors) . . . . . 27 |      | -             | -            | -              | 125          |
|   |      | <b>2,525</b>  | <b>2,762</b> | <b>2,030</b>   | <b>2,202</b> |
| <b>Non current</b>  |      |               |              |                |              |
| Other creditors . . . . .   |      | 51            | 129          | 48             | 68           |

(a) We generally pay trade creditors and other creditors within 30 days of the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments. The carrying value of these balances is approximately equal to net fair value.

## Notes to the Financial Statements (continued)

|  | Note | Telstra Group |               | Telstra Entity |               |
|--|------|---------------|---------------|----------------|---------------|
|  |      | As at 30 June |               | As at 30 June  |               |
|  |      | 2003          | 2002          | 2003           | 2002          |
|  |      | \$m           | \$m           | \$m            | \$m           |
| <b>16. Interest-bearing liabilities</b>                                |      |               |               |                |               |
| <b>Current</b>   |      |               |               |                |               |
| <b>Short term debt</b>   |      |               |               |                |               |
| Loan from joint venture entities and associated entities (a) . . . . . | .27  | 1             | 4             | 1              | 4             |
| Bills of exchange and commercial paper (b) . . . . .                   |      | 643           | 602           | 643            | 602           |
|  |      | <b>644</b>    | <b>606</b>    | <b>644</b>     | <b>606</b>    |
| <b>Long term debt - current portion</b>                                |      |               |               |                |               |
| Bank loans (c) . . . . .   |      | -             | 539           | -              | 20            |
| Loans from controlled entities . . . . .                               | .27  | -             | -             | 2,015          | 1,704         |
| Telstra bonds (d) . . . . .  |      | 210           | 582           | 210            | 582           |
| Other loans (e) . . . . .  |      | 449           | 149           | 449            | 149           |
| Finance leases (f) . . . . .   | .20  | 20            | 20            | 9              | 7             |
|  |      | <b>679</b>    | <b>1,290</b>  | <b>2,683</b>   | <b>2,462</b>  |
|  |      | <b>1,323</b>  | <b>1,896</b>  | <b>3,327</b>   | <b>3,068</b>  |
| <b>Non current</b>   |      |               |               |                |               |
| <b>Long term debt</b>  |      |               |               |                |               |
| Bank loans (c) . . . . .   |      | -             | 1,074         | -              | 1,063         |
| Telstra bonds (d) . . . . .  |      | 2,403         | 2,605         | 2,403          | 2,605         |
| Other loans (e) . . . . .  |      | 8,403         | 8,667         | 8,403          | 8,667         |
| Finance leases (f) . . . . .   | .20  | -             | 21            | -              | 1             |
| Cross currency swap hedge payable (1.2) . . . . .                      | .29  | 426           | 114           | 426            | 114           |
|  |      | <b>11,232</b> | <b>12,481</b> | <b>11,232</b>  | <b>12,450</b> |
| <b>Total debt payable</b>  |      |               |               |                |               |
| <b>Short term debt</b>   |      |               |               |                |               |
| Loan from joint venture entities and associated entities (a) . . . . . | .27  | 1             | 4             | 1              | 4             |
| Bills of exchange and commercial paper (b) . . . . .                   |      | 643           | 602           | 643            | 602           |
|  |      | <b>644</b>    | <b>606</b>    | <b>644</b>     | <b>606</b>    |
| <b>Long term debt (including current portion)</b>                      |      |               |               |                |               |
| Bank loans (c) . . . . .   |      | -             | 1,613         | -              | 1,083         |
| Loans from controlled entities . . . . .                               | .27  | -             | -             | 2,015          | 1,704         |
| Telstra bonds (d) . . . . .  |      | 2,613         | 3,187         | 2,613          | 3,187         |
| Other loans (e) . . . . .  |      | 8,852         | 8,816         | 8,852          | 8,816         |
| Finance leases (f) . . . . .   | .20  | 20            | 41            | 9              | 8             |
| Cross currency swap hedge payable (1.2) . . . . .                      | .29  | 426           | 114           | 426            | 114           |
|  |      | <b>11,911</b> | <b>13,771</b> | <b>13,915</b>  | <b>14,912</b> |
|  |      | <b>12,555</b> | <b>14,377</b> | <b>14,559</b>  | <b>15,518</b> |

Our interest-bearing liabilities are unsecured, except for:

- finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us; and
- bank loans of \$nil (2002: \$519 million) held by non-Australian controlled entities.

Refer to notes (c) and (f) below.



## Notes to the Financial Statements (continued)

### 16. Interest-bearing liabilities (continued)

Our long term debt (excluding cross currency swap hedge payables) is repayable over the next five years ending 30 June and after as follows:

|                                  | Telstra Group |             |             |             |             |                   | Total<br>\$m  |
|----------------------------------|---------------|-------------|-------------|-------------|-------------|-------------------|---------------|
|                                  | 2004<br>\$m   | 2005<br>\$m | 2006<br>\$m | 2007<br>\$m | 2008<br>\$m | after 2008<br>\$m |               |
| Long term debt payable . . . . . | 680           | 2,318       | 1,114       | 392         | 1,385       | 5,668             | 11,557        |
| Unamortised discount . . . . .   |               |             |             |             |             |                   | (72)          |
|                                  |               |             |             |             |             |                   | <u>11,485</u> |

#### (a) Loan from joint venture entities and associated entities

As at 30 June 2003, we owed a joint venture entity \$1 million (2002: \$4 million) for an amount deposited with the Telstra Entity. The amount is repayable on demand and has an interest rate of 4.70% (2002: 4.70%).

#### (b) Bills of exchange and commercial paper

We have issued bills of exchange and commercial paper of \$643 million (2002: \$602 million) to financial institutions with an original maturity of less than 180 days. Some of our commercial paper is issued in foreign currencies and swapped into Australian dollars.

At 30 June 2003, all \$643 million (2002: \$602 million) of the commercial paper matures in less than three months. The weighted average effective interest rate applicable to this commercial paper (in currency of issue) at 30 June 2003 was 3.22% (2002: 4.41%).

#### (c) Bank loans

Our non-Australian controlled entities had the following bank loans:

|  | A\$ amount              |              | Interest rates       |           |
|--|-------------------------|--------------|----------------------|-----------|
|  | As at                   |              | Year ended           |           |
|  | 30 June<br>2003<br>A\$m | 2002<br>A\$m | 30 June<br>2003<br>% | 2002<br>% |
| Sri Lankan rupees bank loans (i) . . . . .             | -                       | 11           | -                    | 17.0      |
| New Zealand dollar loans (ii) . . . . .                | -                       | 519          | -                    | 6.8       |
| Total bank loans including current<br>portion. . . . . | <u>-</u>                | <u>530</u>   |                      |           |

(i) In fiscal 2002, this loan had not been secured, but a negative pledge had been given by our controlled entity and we also issued a letter of comfort. On 31 October 2002, we sold our 60% shareholding in the Sri Lankan mobile carrier, Mobitel (Pvt) Limited (refer note 23 for further information).

(ii) In fiscal 2002, the loans held by TelstraClear Limited were secured against certain fixed and floating assets of that entity. For further details of the assets pledged as security, refer note 12. During fiscal 2003, these loans were fully repaid.

## Notes to the Financial Statements (continued)

### 16. Interest-bearing liabilities (continued)

#### (d) Telstra bonds

During fiscal 2003, \$582 million (2002: \$39 million) of Telstra bonds matured. Telstra bonds have been issued to both retail and wholesale investors and in a range of currencies. They have effective interest rates ranging from 3.50% to 12.67% (2002: 3.50% to 12.67%) and mature up until the year 2020 (2002: 2020). Our Telstra bonds are repayable over the next five years ending 30 June and after as follows:

| Coupon interest rate           | Telstra Group |            |                |                |                | Total<br>\$m |
|--------------------------------|---------------|------------|----------------|----------------|----------------|--------------|
|                                | up to 6.0%    | up to 8.0% | up to<br>10.0% | up to<br>12.0% | up to<br>16.0% |              |
|                                | \$m           | \$m        | \$m            | \$m            | \$m            |              |
| Due in the year ending June 30 |               |            |                |                |                |              |
| 2004 . . . . .                 | 158           | 45         | 7              | -              | -              | 210          |
| 2005 . . . . .                 | -             | 250        | 3              | 20             | -              | 273          |
| 2006 . . . . .                 | -             | -          | 12             | 504            | -              | 516          |
| 2007 . . . . .                 | -             | -          | -              | -              | -              | -            |
| 2008 . . . . .                 | -             | -          | -              | -              | -              | -            |
| After 2008 . . . . .           | 35            | 1,510      | 28             | 44             | 32             | 1,649        |
|                                | 193           | 1,805      | 50             | 568            | 32             | 2,648        |
| Unamortised discount . . . . . |               |            |                |                |                | (35)         |
|                                |               |            |                |                |                | 2,613        |

#### (e) Other loans

Our other loans are repayable over the next five years ending 30 June and after as follows:

|                                | Telstra Group |             |             |             |             |                   | Total<br>\$m |
|--------------------------------|---------------|-------------|-------------|-------------|-------------|-------------------|--------------|
|                                | 2004<br>\$m   | 2005<br>\$m | 2006<br>\$m | 2007<br>\$m | 2008<br>\$m | after 2008<br>\$m |              |
| Other loans . . . . .          | 449           | 2,045       | 598         | 392         | 1,385       | 4,019             | 8,888        |
| Unamortised discount . . . . . |               |             |             |             |             |                   | (36)         |
|                                |               |             |             |             |             |                   | 8,852        |

## Notes to the Financial Statements (continued)

### 16. Interest-bearing liabilities (continued)

#### (e) Other loans (continued)

Details of our other loans including currency of borrowing, interest rates and maturity dates are presented in the table below:

| Telstra Group - Other loans details         | A\$ amount    |              | Interest rates     |                   | Maturity dates                       |                                     |
|---|---------------|--------------|--------------------|-------------------|--------------------------------------|-------------------------------------|
|   | As at 30 June |              | Year ended 30 June |                   | As at 30 June                        |                                     |
|   | 2003<br>A\$m  | 2002<br>A\$m | 2003<br>%          | 2002<br>%         | 2003                                 | 2002                                |
| Australian dollar loans . . . . .           | 250           | -            | 4.60% to<br>7.87%  | -                 | between July 2003<br>and August 2014 | -                                   |
| US dollar loans . . . . .                   | 1,946         | 2,301        | 1.65% to<br>6.50%  | 2.40% to<br>6.50% | between July 2003<br>and April 2012  | between July 2003<br>and April 2012 |
| Euro eurobond loan . . . . .                | 4,261         | 4,352        | 2.58% to<br>6.38%  | 5.88% to<br>6.38% | between June 2005<br>and June 2011   | between June 2005<br>and June 2011  |
| Deutschemark eurobond loan . . . . .        | 872           | 891          | 6.38%<br>5.13%     | 6.38%<br>5.13%    | April 2008                           | April 2008                          |
| French franc loan . . . . .                 | 391           | 399          | 6.00%<br>3.38%     | 6.00%<br>3.38%    | December 2006                        | December 2006                       |
| Swiss franc eurobond loan . . . . .         | 332           | 357          | 3.38%<br>0.31% to  | 3.38%<br>0.33% to | June 2005                            | June 2005                           |
| Japanese yen loans . . . . .                | 225           | 415          | 1.65%<br>3.80%     | 5.58%<br>3.80%    | between July 2007<br>and Sept 2010   | between Oct 2002<br>and Sept 2010   |
| Singapore dollar loans . . . . .            | 85            | 101          | 3.80%<br>4.31% to  | 3.80%             | March 2008                           | March 2008                          |
| British pound sterling loans . . . . .      | 490           | -            | 6.13%              | -                 | August 2014                          | -                                   |
| Total other loans including current portion | 8,852         | 8,816        |                    |                   |                                      |                                     |

To appropriately assess our foreign currency borrowings included in our other loans, the hedge receivables and hedge payables arising from our cross currency swaps entered to hedge this position should also be considered. Our policy on the use of derivative instruments is included in note 1.25. The following table shows our other loan position net of our outstanding cross currency swap contracts:

|   | Telstra Group |             |
|---|---------------|-------------|
|   | As at 30 June |             |
|   | 2003<br>\$m   | 2002<br>\$m |
| Other loans . . . . .                           | 8,852         | 8,816       |
| - less hedge receivable - current . . . . .     | (10)          | (29)        |
| - less hedge receivable - non current . . . . . | (273)         | (622)       |
| - add hedge payable - non current . . . . .     | 426           | 114         |
| Other loans net of cross currency swaps         | 8,995         | 8,279       |

## Notes to the Financial Statements (continued)

### 16. Interest-bearing liabilities (continued)

#### (f) Finance leases

Details of minimum lease payments due under finance leases are presented as follows:

|                                  | Telstra Group |             |             |             |             |                   | Total<br>\$m |
|----------------------------------|---------------|-------------|-------------|-------------|-------------|-------------------|--------------|
|                                  | 2004<br>\$m   | 2005<br>\$m | 2006<br>\$m | 2007<br>\$m | 2008<br>\$m | after 2008<br>\$m |              |
| Finance leases . . . . .         | 21            | -           | -           | -           | -           | -                 | 21           |
| Future finance charges . . . . . |               |             |             |             |             |                   | (1)          |
|                                  |               |             |             |             |             |                   | <u>20</u>    |

#### (g) Financing arrangements

|  | Telstra Group |             | Telstra Entity |             |
|--|---------------|-------------|----------------|-------------|
|  | As at 30 June |             | As at 30 June  |             |
|  | 2003<br>\$m   | 2002<br>\$m | 2003<br>\$m    | 2002<br>\$m |
| <b>Our financing arrangements</b>  |               |             |                |             |
| We have access to the following lines of credit:                                     |               |             |                |             |
| <b>Credit standby arrangements</b>   |               |             |                |             |
| Unsecured committed cash standby facilities which are subject to annual review . . . | 894           | 955         | 850            | 815         |
| Amount of credit unused. . . . .   | 855           | 896         | 850            | 815         |
| <b>Loan facilities</b>   |               |             |                |             |
| Unsecured bank term loan facilities . . . . .  | 2,149         | 2,313       | 2,149          | 2,313       |
| Amount of credit unused. . . . .   | 2,149         | 1,250       | 2,149          | 1,250       |

We have commercial paper facilities in place with financial institutions under which we may issue up to \$15,058 million (2002: \$16,088 million). As at 30 June 2003, we had drawn down \$643 million (2002: \$602 million) of these commercial paper facilities. These facilities are not committed or underwritten and we have no guaranteed access to the funds.

Generally, our facilities are available unless we default on any terms applicable under the relevant agreements or become insolvent.

## Notes to the Financial Statements (continued)

|   | Note | Telstra Group |              | Telstra Entity |              |
|---|------|---------------|--------------|----------------|--------------|
|   |      | As at 30 June |              | As at 30 June  |              |
|   |      | 2003          | 2002         | 2003           | 2002         |
|   |      | \$m           | \$m          | \$m            | \$m          |
| <b>17. Provisions</b>   |      |               |              |                |              |
| <b>Current</b>  |      |               |              |                |              |
| Dividends payable (b) (c) . . . . .                                   | 7    | -             | 1,415        | -              | 1,415        |
| Employee benefits (a) . . . . .                                       |      | 279           | 373          | 234            | 253          |
| Workers' compensation (1.18(b)) (b) (c) . . . . .                     |      | 39            | 41           | 36             | 38           |
| Other provisions (b) (c) . . . . .                                    |      | 35            | 74           | 14             | 17           |
|   |      | <b>353</b>    | <b>1,903</b> | <b>284</b>     | <b>1,723</b> |
| <b>Non current</b>  |      |               |              |                |              |
| Employee benefits (a) . . . . .                                       |      | 572           | 572          | 522            | 517          |
| Workers' compensation (1.18(b)) (b) (c) . . . . .                     |      | 197           | 229          | 184            | 218          |
| Other provisions (b) (c) . . . . .                                    |      | 45            | 47           | 21             | 22           |
|   |      | <b>814</b>    | <b>848</b>   | <b>727</b>     | <b>757</b>   |
| <b>(a) Aggregate employee benefits and related on-costs liability</b> |      |               |              |                |              |
| Current provision for employee benefits . . . . .                     |      | 279           | 373          | 234            | 253          |
| Non current provision for employee benefits . . . . .                 |      | 572           | 572          | 522            | 517          |
| Accrued labour, redundancy and on-costs (i) . . . . .                 |      | 242           | 183          | 236            | 182          |
|   |      | <b>1,093</b>  | <b>1,128</b> | <b>992</b>     | <b>952</b>   |

(i) Accrued labour and related on-costs are included within current payables (refer note 15).

Provision for employee benefits consist of amounts for annual leave, long service leave and redundancy payments to employees (refer to note 1.18(a)).

The carrying amounts of all employee benefits are approximately equal to their net fair value.

Non current employee benefits for long service leave are measured at their present value. The following assumptions were adopted in measuring their present value:

|  | Telstra Group |      | Telstra Entity |      |
|--|---------------|------|----------------|------|
|  | As at 30 June |      | As at 30 June  |      |
|  | 2003          | 2002 | 2003           | 2002 |
| Weighted average projected increase in employee benefits . . . . . | 4.0%          | 4.0% | 4.0%           | 4.0% |
| Weighted average discount rates . . . . .                          | 5.7%          | 6.0% | 5.7%           | 6.0% |
| Leave taking rates . . . . .                                       | 13.0%         | 7.3% | 13.3%          | 7.0% |

## Notes to the Financial Statements (continued)

### 17. Provisions (continued)

#### b) Information about our provisions, other than employee benefits:

##### Dividends Payable

In fiscal 2002, this provision provided for the final ordinary dividend to shareholders. Due to the first time application of the new accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", a difference has arisen between reporting periods regarding the timing and the recognition of dividends declared in our statement of financial performance and statement of financial position. There has been no change in the timing of dividends declared by the directors. As the final ordinary dividend was not declared, determined or publicly recommended as at 30 June 2003, no provision for dividend was raised prior to that date in the statement of financial position (refer note 7 for further information). The final ordinary dividend is now reported as an event after balance date (refer note 28).

##### Workers' Compensation

The Telstra Entity and certain controlled entities self insure their workers' compensation liabilities. The provision is based on a semi annual actuarial review of our workers' compensation liability.

#### (c) Movement in provisions, other than employee benefits

##### Telstra Group

|   | Dividends<br>Payable<br>\$m | Workers<br>Compensa-<br>tion<br>\$m | Other<br>\$m | Total<br>\$m |
|---|-----------------------------|-------------------------------------|--------------|--------------|
| <b>30 June 2003</b>   |                             |                                     |              |              |
| <b>Balance at 30 June 2002</b> . . . . .                      | 1,415                       | 270                                 | 121          | 1,806        |
| - adjustment due to change in accounting policy (i) . . . . . | (1,415)                     | -                                   | -            | (1,415)      |
| - additional provisions . . . . .                             | -                           | 10                                  | 24           | 34           |
| - amounts used . . . . .                                      | -                           | -                                   | (44)         | (44)         |
| - reductions due to remeasurements . . . . .                  | -                           | (44)                                | (22)         | (66)         |
| - other . . . . .   | -                           | -                                   | 1            | 1            |
| <b>Balance at 30 June 2003</b> . . . . .                      | <b>-</b>                    | <b>236</b>                          | <b>80</b>    | <b>316</b>   |
| <b>30 June 2002</b>   |                             |                                     |              |              |
| <b>Balance at 30 June 2001</b> . . . . .                      | 1,416                       | 284                                 | 151          | 1,851        |
| - additional provisions . . . . .                             | 1,415                       | -                                   | 76           | 1,491        |
| - amounts used . . . . .                                      | (1,416)                     | (1)                                 | (73)         | (1,490)      |
| - reductions due to remeasurements . . . . .                  | -                           | (15)                                | (34)         | (49)         |
| - other . . . . .   | -                           | 2                                   | 1            | 3            |
| <b>Balance at 30 June 2002</b> . . . . .                      | <b>1,415</b>                | <b>270</b>                          | <b>121</b>   | <b>1,806</b> |

(i) Under the new accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", the provision for final ordinary dividend raised at 30 June has been reversed to opening retained profits in the current period retained statement of financial position (refer to statement of changes in shareholders equity).

## Notes to the Financial Statements (continued)

### 17. Provisions (continued)

#### Telstra Entity

|   | Workers                     |                          |              | Total<br>\$m |
|---|-----------------------------|--------------------------|--------------|--------------|
|   | Dividends<br>Payable<br>\$m | Compensa-<br>tion<br>\$m | Other<br>\$m |              |
| <b>30 June 2003</b>   |                             |                          |              |              |
| <b>Balance at 30 June 2002</b> . . . . .                      | 1,415                       | 256                      | 39           | 1,710        |
| - adjustment due to change in accounting policy (i) . . . . . | (1,415)                     | -                        | -            | (1,415)      |
| - additional provisions . . . . .                             | -                           | 8                        | 6            | 14           |
| - amounts used . . . . .                                      | -                           | -                        | (7)          | (7)          |
| - reductions due to remeasurements . . . . .                  | -                           | (44)                     | (4)          | (48)         |
| - other . . . . .   | -                           | -                        | 1            | 1            |
| <b>Balance at 30 June 2003</b> . . . . .                      | <b>-</b>                    | <b>220</b>               | <b>35</b>    | <b>255</b>   |
| <b>30 June 2002</b>   |                             |                          |              |              |
| <b>Balance at 30 June 2001</b> . . . . .                      | 1,416                       | 273                      | 104          | 1,793        |
| - additional provisions . . . . .                             | 1,415                       | -                        | (15)         | 1,400        |
| - amounts used . . . . .                                      | (1,416)                     | (1)                      | (43)         | (1,460)      |
| - reductions due to remeasurements . . . . .                  | -                           | (15)                     | (5)          | (20)         |
| - other . . . . .   | -                           | (1)                      | (2)          | (3)          |
| <b>Balance at 30 June 2002</b> . . . . .                      | <b>1,415</b>                | <b>256</b>               | <b>39</b>    | <b>1,710</b> |

(i) Under the new accounting standard AASB 1044: "Provisions, Contingent Liabilities and Contingent Assets", the provision for final ordinary dividend raised at 30 June has been reversed to opening retained profits in the current period statement of financial position (refer to statement of changes in shareholders equity).

#### Provision for restructuring on acquisition of TelstraClear Limited

The provision for restructuring on acquisition of TelstraClear Limited (TelstraClear) is included in our other provisions of the Telstra Group.

On 12 December 2001, we acquired a 8.4% shareholding in TelstraClear giving us a 58.4% controlling interest. In fiscal 2002, we recognised a \$44 million provision based on our best estimate of costs including redundancies directly attributable to the restructure. In fiscal 2003, we have subsequently acquired the remaining interest of TelstraClear (refer note 23 for further information).

The movement in the restructuring provision relating to the acquisition of TelstraClear is detailed in the table below:

|   | Telstra Group                |             |
|---|------------------------------|-------------|
|   | As at 30 June<br>2003<br>\$m | 2002<br>\$m |
| <b>Balance at beginning of year</b> . . . . . | 27                           | -           |
| - additional provisions . . . . .             | -                            | 44          |
| - amounts used . . . . .                      | (28)                         | (13)        |
| - reductions due to remeasurements . . . . .  | -                            | (5)         |
| - other . . . . .                             | 1                            | 1           |
| <b>Balance at end of year</b> . . . . .       | <b>-</b>                     | <b>27</b>   |

## Notes to the Financial Statements (continued)

|   | Telstra Group & Telstra Entity |              |       |       |
|---|--------------------------------|--------------|-------|-------|
|   | As at 30 June                  |              |       |       |
|   | 2003                           | 2003         | 2002  | 2001  |
|   | \$m                            | US\$m        | \$m   | \$m   |
| <b>18. Contributed equity</b>                           |                                |              |       |       |
| Issued and paid up capital                              |                                |              |       |       |
| 12,866,600,200 fully paid ordinary shares (a) . . . . . | <b>6,433</b>                   | <b>4,310</b> | 6,433 | 6,433 |

(a) Each of our fully paid ordinary shares carries the right to one vote at a meeting of the company. Holders of our shares also have the right to receive dividends as declared, and to participate in the proceeds from sale of all surplus assets in proportion to the total shares issued in the event of the company winding up.



## Notes to the Financial Statements (continued)

### 19. Employee share plans

#### (a) TESOP99 and TESOP97

As part of the Commonwealth's sale of its shareholding in fiscal 2000 and fiscal 1998 we offered our eligible employees as defined by the employee share plans the opportunity to buy Telstra shares. The shares were ordinary shares of the Telstra Entity at the time of the offer.

These share plans were:

- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

All eligible employees of the Telstra Entity and of companies that Telstra owned greater than 50% equity were able to participate in the plans. Certain employees who were part time, casual, fixed term, on leave without pay or living outside Australia and contractors were not eligible to participate.

Generally, employees were offered interest free loans by the Telstra Entity to acquire certain shares and in some cases became entitled to certain extra shares and loyalty shares as a result of participating in the plans. All shares acquired under the plans were transferred from the Commonwealth either to the employees or to the trustee for the benefit of the employees. Telstra ESOP Trustee Pty Ltd is the trustee for TESOP99 and TESOP97 and holds the shares on behalf of participants. This company is 100% owned by us.

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan. The loan may, however, be repaid in full at any time by the employee using his or her own funds.

The loan shares, extra shares and in the case of TESOP99, the loyalty shares, are generally subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceases. After three years, the employee may sell the shares provided the loan is repaid in full for the loan shares and TESOP97 extra shares. Approximately 80% of the dividends on the loan shares and TESOP97 extra shares held for the employees under the plans are used to repay their loans.

If a participating employee leaves the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, to acquire the relevant shares the employee must repay their loan within two months of leaving. This is the case except where the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months).

If the employee does not repay the loan when required, the trustee can sell the shares if the sale proceeds cover the amount outstanding on the loan plus relevant costs. The sale proceeds must then be used to pay the costs of the sale and any amount outstanding on the loan, after which the balance will be paid to the employee. The Telstra Entity's recourse under the loan is limited to the amount recoverable through the sale of the employee's shares.

For TESOP99, the Government guaranteed an allocation of up to 5,000 shares for employees using their own funds to purchase shares in the public offer. These shares are directly held by the employees.

Further details on each of the plans are highlighted in the table following in section (c).

Telstra incurs expenses in relation to the administration of the trusts for TESOP99 and TESOP97. These are recognised in the statement of financial performance as incurred. The allocation of shares under these plans did not give rise to any other expense to be recognised by us.

#### (b) Telstra Growthshare Trust

The Telstra Growthshare Trust commenced in fiscal 2000. Under the trust, Telstra operates three different share plans:

- Telstra Growthshare
- Directshare; and
- Ownshare.

The trustee for the trust is Telstra Growthshare Pty Ltd. This company is 100% owned by us. Allocations are in the form of options, restricted shares, performance rights, deferred shares, directshares and ownshares under these plans. Refer to the tables in section (c) below for more information.

#### (i) Telstra Growthshare

Telstra Growthshare started in fiscal 2000. Its purpose is to align key executives' rewards with shareholders' interests, and reward performance improvement supporting business plans and corporate strategies.

The board determines who is invited to participate in Telstra Growthshare. Allocations are in the form of options, restricted shares, and performance rights under our long term incentive plan, and deferred shares under our deferred remuneration plan. Instruments issued represent a right to acquire a share in Telstra. Generally, the options, restricted shares and performance rights may only be exercised to acquire Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options, the exercise price is paid by the executive. Deferred shares may only be exercised when a prescribed period of service has been completed.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (b) Telstra Growthshare Trust (continued)

##### (i) Telstra Growthshare (continued)

##### Performance hurdle for options, restricted shares and performance rights

For allocations of options and performance rights made during fiscal 2003 and fiscal 2002, the applicable performance hurdle is based on comparing Telstra's total shareholder return (TSR) with the TSRs of the companies in the S&P/ASX 200 (Industrial) Index (peer group) within the performance period.

The companies in the peer group are anchored at the effective date of allocation, and this same peer group of companies are then tracked during the performance period. At the end of each quarter during the performance period, the 30 day average TSR is calculated for Telstra and the companies in the peer group for each trading day during that quarter.

The number of options and performance rights exercisable is dependant on whether, during the performance period, the Telstra 30 day average TSR achieves or exceeds the 50th percentile ranking when compared to the 30 day average TSR of the peer group, and the timing of when or if this occurs.

Both the number of options and the number of performance rights potentially exercisable are based on the following:

- If in the first quarter of the performance period, Telstra's percentile ranking is the 50th percentile or above then:
  - (i) the number of options and performance rights that become exercisable for that quarter is scaled proportionately from the 50th percentile (at which 50% of the allocation becomes exercisable) to the 75th percentile (at which 100% of the allocation becomes exercisable); and
  - (ii) in subsequent quarters, the number that become exercisable is based on the same proportionate scale, but is reduced by the number of options or performance rights that have previously become exercisable. The percentile ranking achieved needs to be above that achieved in previous quarters for additional options and performance rights to become exercisable.
- If in the first quarter of the performance period, the percentile ranking is less than the 50th percentile then:
  - (i) half of the allocation will lapse; and
  - (ii) in subsequent quarters, the remaining 50% of the options or performance rights will become exercisable if the ranking is the 50th percentile or above for that quarter.
- If Telstra does not achieve or exceed the 50th percentile ranking in any quarter of the performance period, all options and performance rights will lapse.

For all allocations prior to 30 June 2001, the applicable performance hurdle was that the average Telstra Accumulation Index must exceed the average S&P/ASX 200 (Industrial) Index (replacing the superseded All Industrials Accumulation Index) for thirty consecutive days within the performance period. If the performance hurdle is satisfied for these allocations, all of the relevant options or restricted shares would become exercisable (i.e. they do not become exercisable on a proportionate basis).

##### Options

An executive is not entitled to Telstra shares before the options allocated under Telstra Growthshare initially vest, and then are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the expiry date; otherwise they will lapse. Once the options are exercised, Telstra shares will be transferred to the executive.

Telstra provides loans to the trustee to enable it to purchase shares on market to underpin the options. When exercised, the executive pays for the shares at the exercise price and the loan is repaid to us. We receive interest on the loans to the trust. On the basis that the executives must pay the exercise price of the options, which repays the loans made by Telstra, there is no cash expense incurred by us and included in our statement of financial performance. From 1 July 2002, we have suspended our option plan. Previously issued options remain outstanding and valid.

##### Restricted Shares

The executive is not entitled to Telstra shares before the restricted shares allocated under Telstra Growthshare vest. If the performance hurdle is satisfied in the performance period, the restricted shares will vest and may be exercised at any time before the expiry date, otherwise they will lapse. Once the restricted shares have vested, they become restricted trust shares, which will generally be held by the trustee for the executive for a certain period. Once converted into restricted trust shares, the executive has an interest in Telstra shares and is entitled to dividends, other distributions, and voting rights.

Restricted trust shares are held by the Trustee until the earlier of:

- the period determined in accordance with the trust deed;
- the executive finishes employment with Telstra; or
- a date nominated by the board.

The executive may exercise restricted shares at a cost of \$1 in total for the number of restricted shares exercised on a particular day. These shares are recorded as an expense to us when we provide funding to the trust to purchase them on market. In fiscal 2003 and fiscal 2002, there were no restricted shares allocated and therefore no associated expense.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (b) Telstra Growthshare Trust (continued)

##### (i) Telstra Growthshare (continued)

###### Performance Rights

An executive is not entitled to Telstra shares before the performance rights allocated under Telstra Growthshare vest. If the performance hurdle is satisfied in the performance period, a specified number of performance rights as determined in accordance with the trust deed and terms of issue, will become vested performance rights. The vested performance rights can then be exercised at any time before the expiry date, otherwise they will lapse. Once the vested performance rights are exercised, Telstra shares will be transferred to the executive. Until this time, the executive cannot use the performance rights (or vested performance rights) to vote or receive dividends.

Telstra shares will be transferred to the executive on exercise of vested performance rights. The executive may exercise the performance rights at a cost of \$1 in total for the number of performance rights exercised on a particular day. The issue of performance rights are recorded as an expense to us when we provide funding to the trust to purchase Telstra shares on market to underpin them. In fiscal 2003, we recorded an expense of \$8.5 million (2002: \$6.5 million).

###### Deferred Shares

An executive is not entitled to Telstra shares before the deferred shares allocated under Telstra Growthshare vest. Generally, if an executive continues to be employed by an entity that forms part of the Telstra Group three years after the commencement date of the instrument, the deferred share will become a vested deferred share. The vested deferred shares can then be exercised at any time before the expiry date, otherwise they will lapse. Once exercised, Telstra shares will be transferred to the executive. Until this time, the executive can not use the deferred shares or vested deferred shares to vote or receive dividends or other entitlements.

Telstra shares will be transferred to the executive on exercise of vested deferred shares. The executive may exercise the deferred shares at a cost of \$1 in total for the number of deferred shares exercised on a particular day. The issue of deferred shares are recorded as an expense to us when we provide funding to the trust to purchase Telstra shares on market to underpin them. In fiscal 2003, we recorded an expense of \$10.3 million (2002: \$nil).

###### Telstra Growthshare amounts expensed for USGAAP purposes

For the purposes of the United States generally accepted accounting principles (USGAAP) disclosures, the estimated fair value of the options, restricted shares, performance rights and deferred shares is made at the date of grant using an approach consistent with the binomial and Black-Scholes valuation models.

The additional compensation expense for USGAAP recognised on this basis for performance rights and deferred shares allocated in fiscal 2003 was \$nil (2002: \$41 million for options and performance rights). Refer to note 30 for additional information.

##### (ii) Telstra Directshare

Non-executive directors may be provided part of their fees in Telstra shares. Directors will receive a minimum of 20% of their fees by way of directshares. Shares are acquired by the trustee from time to time and allocated to the participating directors on a 6 monthly basis, on dates determined by the trustee at its discretion. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses and rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for five years from the date of allocation of the shares;
- until the participating director is no longer a director of, or is employed by, a company in the Telstra Group; or
- until the board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the directshares will be transferred to the participating director. The participating director is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for directors' fees.

##### (iii) Telstra Ownshare

Certain eligible employees may be provided part of their remuneration in Telstra shares. Those employees indicate a preference to be provided Telstra shares as part of their remuneration. Shares are acquired by the trustee from time to time and allocated to these employees at the time their application is accepted. Although the trustee holds the shares in trust, the participant retains the beneficial interest in the shares (dividends, voting rights, bonuses or rights issues) until they are transferred at expiration of the restriction period.

The restriction period continues:

- for three years or five years depending on the elections available to the participant at the time of allocation;
- until the participant ceases employment with the Telstra Group; or
- until the board of Telstra determines that an 'event' has occurred.

At the end of the restriction period, the ownshares will be transferred to the participant. The participant is not able to deal in the shares until this transfer has taken place. The expense associated with shares allocated under this plan is included in the disclosure for employees remuneration.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information

The table below provides information about our TESOP99 and TESOP97 share plans:

|   | TESOP99  | TESOP97  |
|---|--|--|
| Date used to determine number of eligible employees . . . . .   | 27 August 1999   | 20 September 1997  |
| Date the plan started . . . . .   | 16 October 1999  | 15 November 1997   |
| Number of employees eligible to participate . . . . .   | 53,900   | 64,309   |
| Price paid by employee - first instalment. . . . .  | (16 October 1999) \$4.50   | (15 November 1997) \$1.95  |
| Price paid by employee - second instalment. . . . .   | (2 November 2000) \$2.90   | (17 November 1998) \$1.35  |
| Total price paid by employee and market price on date of issue . . . . .  | \$7.40   | \$3.30   |
| Number of shares each eligible employee was able to buy with interest free loan (loan shares) . . . . .   | 400  | 2,000  |
| Number of extra shares received by each eligible employee . . . . .   | one extra share for every four guaranteed allocation shares purchased up to a limit of 200 | one extra share for every four loan shares or non-loan shares purchased up to a limit of 500 |
| The date participating employees have full ownership of the loan shares and extra shares (i) . . . . .  | 16 October 2002  | 15 November 2000   |
| Number of employees who purchased loan shares . . . . .   | 42,439   | 55,748   |
| Total number of loan shares initially purchased . . . . .   | 16,939,000   | 109,979,100  |
| Total number of extra shares initially acquired relating to loan shares . . . . .   | (ii)   | 27,494,775   |
| Number of employees who used their own funds to buy shares in TESOP and received extra shares . . . . .   | 21,424   | 2,282  |
| Number of shares initially purchased under TESOP with own funds . . . . .   | (iii)  | 3,776,732  |
| Number of extra shares initially acquired by employees from using their own funds . . . . .   | (ii) 3,903,314   | 944,183  |
| Total market value of shares at issue date (including extra shares) . . . . .   | \$93,790,413 (first instalment)<br>\$58,832,889 (second instalment)                        | \$277,279,841 (first instalment)<br>\$181,936,265 (second instalment)                        |
| Total initial loan made to employees . . . . .  | \$76,225,500 (first instalment)<br>\$48,556,440 (second instalment)                        | \$221,823,872 (first instalment)<br>\$144,401,940 (second instalment)                        |
| Loan discount paid on behalf of employees (\$1 per loan). . . . .   | \$42,439   | \$55,748   |
| Number of Commonwealth loyalty shares available to each eligible employee at no additional cost (shares need to be held for 12 months to qualify) . . . . . | one for every 10 shares purchased up to a limit of 80                                      | one for every 10 non loan shares purchased in the public offer up to a limit of 200          |
| Number of employees who received Commonwealth loyalty shares . . . . .  | (iv) 17,138  | 21,761   |
| Number of loyalty shares issued . . . . .   | (iv) 1,243,305   | 3,162,222  |
| Market value of Commonwealth loyalty shares issued . . . . .  | (iv) \$7,696,058 (\$6.19 per share)  | \$20,363,290 (\$6.46 per share)  |

(i) In the case of all loan shares, and extra shares acquired under TESOP97, the loan must be repaid in full before shares may be transferred to the employee.

(ii) For TESOP99, the extra shares were acquired under the Commonwealth component as a result of employees acquiring guaranteed allocation shares in the public offer using their own funds.

(iii) Does not include guaranteed allocation shares acquired by employees from the Commonwealth under the Commonwealth component.

(iv) TESOP99 loyalty shares were issued to eligible employees still holding their Commonwealth component shares on 2 November 2000 and did not prepay the final instalment.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

The following information details the number of outstanding equity instruments and loan balances relevant to the TESOP99 and TESOP97 plans.

|  | Employee<br>share plans<br>As at 30 June 2003 | Employee<br>share plans<br>As at 30 June 2002 |
|--|---|---|
| Market price of Telstra shares . . . . .   | <b>\$4.40 per share</b>                       | <b>\$4.66 per share</b>                       |
| Employee share loan balance (total including current and non current, excluding Growthshare option loans - note 9) . . . . . | <b>\$198 million</b>                          | <b>\$230 million</b>                          |
| Loan to Telstra Growthshare (other receivables non current - note 9) . . . . .   | <b>\$88 million</b>                           | <b>\$115 million</b>                          |
| <b>TESOP99</b>   |   |   |
| Remaining employees with loan shares (i) . . . . .   | <b>37,148</b>                                 | <b>38,140</b>                                 |
| Remaining number of loan shares . . . . .  | <b>14,828,600</b>                             | <b>15,224,500</b>                             |
| Remaining number of extra shares (ii) . . . . .  | <b>-</b>                                      | <b>2,784,590</b>                              |
| Remaining number of loyalty shares (ii) . . . . .  | <b>-</b>                                      | <b>1,081,671</b>                              |
| <b>TESOP97</b>   |   |   |
| Remaining employees with loan shares . . . . .   | <b>21,960</b>                                 | <b>25,665</b>                                 |
| Remaining number of loan shares . . . . .  | <b>43,465,700</b>                             | <b>50,778,700</b>                             |
| Remaining number of extra shares . . . . .   | <b>10,866,425</b>                             | <b>12,694,675</b>                             |

(i) The number of employees with loan shares includes 11,258 (2002: 6,703) employees that have ceased employment and elected not to repay their loan. The Telstra ESOP Trustee Pty Ltd continues to hold the shares relating to those loans until the share price is sufficient to recover the loan amount and associated costs. The Telstra ESOP Trustee Pty Ltd will then sell the shares. As at 30 June 2003, there were 4,503,300 held for this purpose (2002: 2,675,100).

(ii) During fiscal 2003, the extra shares and loyalty shares for TESOP99 were transferred to employees on completion of the restriction period.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

We provide the following information about Telstra Growthshare:

##### (i) Instruments outstanding at the beginning of fiscal 2003

The following options, restricted shares and performance rights had been issued at the start of fiscal 2003, but were yet to vest with employees.

|   | Number of instruments outstanding | Commencement date | Performance hurdle period               | Exercise price           | Exercise date (once performance hurdle met) |
|---|-----------------------------------|-------------------|---|--------------------------|---|
| <b>Growthshare 2000 - Sept 1999 allocation</b>  |                                   |                   |   |                          |   |
| Options . . . . .                               | 2,125,667                         | 13 Sept 1999      | between 13 Sept 2002 and 13 Sept 2004   | \$8.02                   | any time before 13 Sept 2009                |
| Restricted shares. . . . .                      | 350,688                           | 13 Sept 1999      | between 13 Sept 2002 and 13 Sept 2004   | \$1 per parcel exercised | any time before 13 Sept 2004                |
| <b>Growthshare 2001 - Sept 2000 allocation</b>  |                                   |                   |   |                          |   |
| Options . . . . .                               | 4,020,841                         | 8 Sept 2000       | between 8 Sept 2003 and 13 Sept 2005    | \$6.28                   | any time before 8 Sept 2010                 |
| Restricted shares. . . . .                      | 826,883                           | 8 Sept 2000       | between 13 Sept 2003 and 13 Sept 2005   | \$1 per parcel exercised | any time before 8 Sept 2005                 |
| <b>Growthshare 2001 - March 2001 allocation</b> |                                   |                   |   |                          |   |
| Options . . . . .                               | 168,710                           | 16 March 2001     | between 16 March 2004 and 16 March 2006 | \$6.55                   | any time before 16 March 2011               |
| Restricted shares. . . . .                      | 43,817                            | 16 March 2001     | between 16 March 2004 and 16 March 2006 | \$1 per parcel exercised | any time before 16 March 2006               |
| <b>Growthshare 2002 - Sept 2001 allocation</b>  |                                   |                   |   |                          |   |
| Options . . . . .                               | 36,501,695                        | 6 Sept 2001       | between 6 Sept 2004 and 6 Sept 2006     | \$4.90                   | any time before 6 Sept 2011                 |
| Performance rights . . . . .                    | 3,486,241                         | 6 Sept 2001       | between 6 Sept 2004 and 6 Sept 2006     | \$1 per parcel exercised | any time before 8 Dec 2006                  |
| <b>Growthshare 2002 - March 2002 allocation</b> |                                   |                   |   |                          |   |
| Options . . . . .                               | 2,068,000                         | 14 March 2002     | between 14 March 2005 and 14 March 2007 | \$5.63                   | any time before 14 March 2012               |
| Performance rights . . . . .                    | 167,200                           | 14 March 2002     | between 14 March 2005 and 14 March 2007 | \$1 per parcel exercised | any time before 14 June 2007                |

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (i) Instruments outstanding at the beginning of fiscal 2003 (continued)

The following directshares and ownshares had been issued at the start of fiscal 2003 but were held by the trustee for the benefit of the relevant directors or employees pending expiration of the restriction period.

|  | Number of<br>instruments<br>outstanding |
|--|---|
| <b>DirectShares</b>                    |   |
| 15 September 2000 allocation . . . . . | 7,585                                   |
| 19 March 2001 allocation . . . . .     | 11,104                                  |
| 14 September 2001 allocation . . . . . | 14,453                                  |
| 14 March 2002 allocation . . . . .     | 18,117                                  |
| <b>OwnShares</b>                       |   |
| 15 September 2000 allocation . . . . . | 312,655                                 |
| 14 September 2001 allocation . . . . . | 326,946                                 |
| 2 November 2001 allocation . . . . .   | 98,042                                  |

Participants in the directshare and ownshare plans are only able to deal in these instruments at the end of the restriction period.

##### (ii) Instruments granted during the financial year

The following instruments were granted in September 2002:

|  | Growthshare 2003<br>deferred shares     | Growthshare 2003<br>performance rights               |
|--|---|--|
| Number of executives who were allocated deferred shares and performance rights . . . . .   | 166                                     | 166  |
| Effective commencement date of deferred shares and performance rights . . . . .  | 5 September 2002                        | 5 September 2002                                     |
| Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest . . . . . | (a)                                     | period between 5 September 2005 and 5 September 2007 |
| Number of deferred shares and performance rights (representing a 100% allocation or maximum entitlement available) issued . . . . .            | 2,123,000                               | 4,246,000  |
| Exercise price (once the instruments become exercisable) . . . . .   | \$1 per parcel of instruments exercised | \$1 per parcel of instruments exercised              |
| Market price of Telstra shares on commencement date . . . . .  | \$4.87 per share                        | \$4.87 per share                                     |
| Exercise date (once the instruments become exercisable) . . . . .  | any time before 5 September 2007        | any time before 5 December 2007                      |

(a) As deferred shares are allocated as annual fixed remuneration, there is no performance hurdle. Generally, deferred shares will vest if the participating executive continues to be employed by an entity that forms part of the Telstra Group for three years after the effective commencement date.

No consideration is required to be provided by the participating executives on the granting of these deferred shares and performance rights.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (ii) Instruments granted during the financial year (continued)

The following instruments were granted in March 2003:

|  | <b>Growthshare 2003<br/>deferred shares</b> | <b>Growthshare 2003<br/>performance rights</b> |
|--|---|--|
| Number of executives who were allocated deferred shares and performance rights . . . . .   | 4   | 4  |
| Effective commencement date of deferred shares and performance rights . . . . .  | 7 March 2003                                | 7 March 2003                                   |
| Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest . . . . . | (a)   | period between 7 March 2006 and 7 March 2008   |
| Number of deferred shares and performance rights (representing a 100% allocation or maximum entitlement available) issued . . . . .            | 22,100                                      | 44,200   |
| Exercise price (once the instruments become exercisable) . . . . .   | \$1 per parcel of instruments exercised     | \$1 per parcel of instruments exercised        |
| Market price of Telstra shares on commencement date . . . . .  | \$4.11 per share                            | \$4.11 per share                               |
| Exercise date (once the instruments become exercisable) . . . . .  | any time before 7 March 2008                | any time before 7 June 2008                    |

(a) As deferred shares are allocated as annual fixed remuneration, there is no performance hurdle. Deferred shares will vest if the participating executive continues to be employed by a member of the Telstra Group for three years after the effective commencement date.

No consideration is required to be provided by the participating executives on the granting of these deferred shares.

In the prior year, the following instruments were granted during September 2001:

|  | <b>Growthshare 2002<br/>options</b>                  | <b>Growthshare 2002<br/>performance rights</b>       |
|--|--|--|
| Number of executives who were allocated options and performance rights . . . . .   | 155  | 155  |
| Effective commencement date of options and performance rights . . . . .  | 6 September 2001                                     | 6 September 2001                                     |
| Performance hurdle period - i.e. over what time period executives have to satisfy performance hurdle to be eligible for shares . . . . . | period between 6 September 2004 and 6 September 2006 | period between 6 September 2004 and 6 September 2006 |
| Number of options and performance rights issued (representing a 100% allocation or maximum entitlement available) . . . . .              | 37,034,000   | 3,537,100  |
| Exercise price (once the instruments become exercisable) . . . . .   | \$4.90 per option                                    | \$1 per parcel of instruments exercised              |
| Market price of shares on commencement date . . . . .  | \$4.90 per share                                     | \$4.90 per share                                     |
| Exercise date (once the instruments become exercisable) . . . . .  | any time before 6 September 2011                     | any time before 6 December 2006                      |



## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (ii) Instruments granted during the financial year (continued)

In the prior year, the following instruments were granted during March 2002:

|  | Growthshare 2002<br>options                       | Growthshare 2002<br>performance rights            |
|--|---|---|
| Number of executives who were allocated options and performance rights . . . . .   | 4   | 4   |
| Effective commencement date of options and performance rights . .  | 14 March 2002                                     | 14 March 2002                                     |
| Performance hurdle period - i.e. over what time period executives have to satisfy the performance hurdle for the instruments to vest . | period between 14 March 2005<br>and 14 March 2007 | period between 14 March 2005<br>and 14 March 2007 |
| Number of options and performance rights issued (representing a 100% allocation or maximum entitlement available) . . . . .            | 2,068,000   | 167,200   |
| Exercise price (once the instruments become exercisable) . . . . .   | \$5.63 per option                                 | \$1 per parcel of<br>instruments exercised        |
| Market price of shares on commencement date . . . . .  | \$5.63 per share                                  | \$5.63 per share                                  |
| Exercise date (once the instruments become exercisable) . . . . .  | any time before 14 March 2012                     | any time before 14 June 2007                      |

The following directshares were granted in September of fiscal 2003 and fiscal 2002:

|  | DirectShare Equity Plan 2003 | DirectShare Equity Plan 2002 |
|--|------------------------------|------------------------------|
| Number of eligible participants . . . . .      | 11                           | 11                           |
| Number of participants in the plan . . . . .   | 10                           | 10                           |
| Allocation date of shares. . . . .             | 5 September 2002             | 14 September 2001            |
| Number of shares allocated . . . . .           | 19,713                       | 19,445                       |
| Fair value of shares allocated . . . . .       | \$4.87 per share             | \$4.81 per share             |
| Total fair value of shares allocated . . . . . | \$96,002                     | \$93,531                     |

The following directshares were granted in March of fiscal 2003 and fiscal 2002:

|  | DirectShare Equity Plan 2003 | DirectShare Equity Plan 2002 |
|--|------------------------------|------------------------------|
| Number of eligible non-executive directors . . . . . | 11                           | 11                           |
| Number of participants in the plan . . . . .         | 10                           | 10                           |
| Allocation date of shares. . . . .                   | 7 March 2003                 | 14 March 2002                |
| Number of shares allocated . . . . .                 | 40,709                       | 18,117                       |
| Fair value of shares allocated . . . . .             | \$4.11 per share             | \$5.63 per share             |
| Total fair value of shares allocated . . . . .       | \$167,314                    | \$101,999                    |

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (ii) Instruments granted during the financial year (continued)

The following ownshares were granted in September of fiscal 2003 and fiscal 2002:

|  | OwnShare Equity Plan 2003 | OwnShare Equity Plan 2002 |
|--|---------------------------|---------------------------|
| Number of eligible participants . . . . .      | 6,788                     | 6,263                     |
| Number of participants in the plan . . . . .   | 406                       | 321                       |
| Allocation date of shares. . . . .             | 5 September 2002          | 14 September 2001         |
| Number of shares allocated . . . . .           | 574,899                   | 333,911                   |
| Fair value of shares allocated . . . . .       | \$4.87 per share          | \$4.81 per share          |
| Total fair value of shares allocated . . . . . | \$2,799,758               | \$1,606,112               |

The following ownshares were granted in October of fiscal 2003 and fiscal 2002:

|  | OwnShare Equity Plan 2003 | OwnShare Equity Plan 2002 |
|--|---------------------------|---------------------------|
| Number of eligible employees . . . . .         | 12,216                    | 11,181                    |
| Number of participants in the plan . . . . .   | 179                       | 90                        |
| Allocation date of shares. . . . .             | 28 October 2002           | 2 November 2001           |
| Number of shares allocated . . . . .           | 166,676                   | 98,042                    |
| Fair value of shares allocated . . . . .       | \$4.78 per share          | \$4.98 per share          |
| Total fair value of shares allocated . . . . . | \$796,711                 | \$488,249                 |

On an allocation of directshares and ownshares, the participants in the plans are not required to make any payment to the Telstra Entity. Participants may be provided a portion of their remuneration in the form of directshares or ownshares as applicable. The fair value of the instruments issued is determined by the remuneration foregone by the participant. The number of directshares or ownshares allocated is based on the weighted average price of a Telstra share in the week ending on the day before allocation date, in conjunction with the remuneration foregone.

##### (iii) Instruments exercised during the financial year

There have been no options, restricted shares or performance rights that have been exercised during the year and no fully paid shares distributed relating to these plans as a result.

There were 8,925 deferred shares that were exercised during the year at the exercise price of \$1. These deferred shares were part of the September 2002 allocation and were exercised as part of a redundancy. The fair value at the date of the transfer of Telstra shares relating to this exercise was \$39,359, based on the closing market price at that date.

There were no instruments exercised and no Telstra shares transferred relating to the option, restricted share, performance rights and deferred share plans during fiscal 2002.

Directshares and ownshares are not required to be exercised. The fully paid shares held by the Telstra Growthshare Trust relating to these instruments are merely transferred to the participants at the completion of the restriction period.

The following fully paid shares have been distributed from the Telstra Growthshare Trust to directors and executives under the directshare and ownshare plans respectively, due to expiration of the applicable restriction period.

|                        | No. of shares distributed | Fair value |
|------------------------|---------------------------|------------|
| DirectShares . . . . . | -                         | -          |
| OwnShares . . . . .    | 101,146                   | \$460,843  |

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (iii) Instruments exercised during the financial year (continued)

The following fully paid shares relating to the same plans were distributed during fiscal 2002:

|                        | No. of<br>shares<br>distributed | Fair value |
|------------------------|---------------------------------|------------|
| DirectShares . . . . . | 13,627                          | \$73,136   |
| OwnShares . . . . .    | 43,863                          | \$220,489  |

The fair value of ownshares and directshares distributed is determined through reference to the closing market price of a Telstra share on the date of transfer.

##### (iv) Instruments which have lapsed during the financial year

The following instruments issued to participating employees have lapsed during the financial year due to cessation of employment or the relevant performance hurdle not being met:

| Allocation                | Instruments lapsed<br>during year ended<br>30 June |         |
|---------------------------|--|---------|
|                           | 2003   | 2002    |
| <b>Options</b>            |  |         |
| September 1999 . . . . .  | 591,945  | 137,000 |
| September 2000 . . . . .  | 650,181  | 296,617 |
| March 2001 . . . . .      | 18,710   | -       |
| September 2001 . . . . .  | 4,084,750  | 532,305 |
| March 2002 . . . . .      | 214,000  | -       |
| <b>Restricted shares</b>  |  |         |
| September 1999 . . . . .  | 90,410   | 23,312  |
| September 2000 . . . . .  | 128,923  | 59,058  |
| March 2001 . . . . .      | 3,817  | -       |
| <b>Performance rights</b> |  |         |
| September 2001 . . . . .  | 388,086  | 50,859  |
| March 2002 . . . . .      | 18,200   | -       |
| September 2002 . . . . .  | 211,774  | -       |
| <b>Deferred shares</b>    |  |         |
| September 2002 . . . . .  | 91,577   | -       |

##### (v) Instruments outstanding at the end of fiscal 2003

After movements in our share plans during the financial year, the following instruments remain outstanding as at 30 June 2003:

|   | No. of instruments<br>outstanding<br>as at 30 June 2003 |
|---|---|
| <b>Growthshare 2000</b>                         |   |
| Options . . . . .                               | 1,533,722   |
| Restricted shares . . . . .                     | 260,278   |
| <b>Growthshare 2001 - Sept 2000 allocation</b>  |   |
| Options . . . . .                               | 3,370,660   |
| Restricted shares . . . . .                     | 697,960   |
| <b>Growthshare 2001 - March 2001 allocation</b> |   |
| Options . . . . .                               | 150,000   |
| Restricted shares . . . . .                     | 40,000  |
| <b>Growthshare 2002 - Sept 2001 allocation</b>  |   |
| Options . . . . .                               | 32,416,945  |
| Performance rights . . . . .                    | 3,098,155   |
| <b>Growthshare 2002 - March 2002 allocation</b> |   |
| Options . . . . .                               | 1,854,000   |
| Performance rights . . . . .                    | 149,000   |
| <b>Growthshare 2003 - Sept 2002 allocation</b>  |   |
| Deferred shares . . . . .                       | 2,022,498   |
| Performance rights . . . . .                    | 4,034,226   |
| <b>Growthshare 2003 - March 2003 allocation</b> |   |
| Deferred shares . . . . .                       | 22,100  |
| Performance rights . . . . .                    | 44,200  |

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (v) Instruments outstanding at the end of fiscal 2003 (continued)

|  | No. of instruments<br>outstanding<br>as at 30 June 2003 |
|--|---|
| <b>DirectShares</b>                    |   |
| 15 September 2000 allocation . . . . . | 7,585   |
| 19 March 2001 allocation . . . . .     | 11,104  |
| 14 September 2001 allocation . . . . . | 14,453  |
| 14 March 2002 allocation . . . . .     | 18,117  |
| 5 September 2002 allocation . . . . .  | 19,713  |
| 7 March 2003 allocation . . . . .      | 40,709  |
| <b>OwnShares</b>                       |   |
| 15 September 2000 allocation . . . . . | 276,725   |
| 14 September 2001 allocation . . . . . | 287,763   |
| 2 November 2001 allocation . . . . .   | 88,518  |
| 5 September 2002 allocation . . . . .  | 565,466   |
| 28 October 2002 allocation . . . . .   | 159,600   |

The grant dates, performance hurdles, exercise prices and other terms relating to the above instruments have not changed from initial allocation date or from those terms disclosed at the beginning of fiscal 2003.

##### (vi) Other information relevant to our employee share plans

Shares held by the TESOP99 and TESOP97 trusts for the purposes of facilitating the operations of the relevant share plans amount to 69,160,725 shares (2002: 82,564,136 shares). The fair value of these shares as at 30 June 2003 based on the market value of Telstra shares at balance date amounts to \$304 million (2002: \$385 million). As the final restriction period for these shares was completed on 16 October 2002, they are now considered fully transferable to the employees once the loan has been repaid in full.

Shares held by the Telstra Growthshare Trust for the purposes of facilitating the operations of the Telstra Growthshare, Directshare and Ownshare plans amount to 23,168,288 shares (2002: 23,278,359 shares). The fair value of these shares as at 30 June 2003 based on the market value of Telstra shares at balance date amounts to \$102 million (2002: \$108 million).

Options, restricted shares, and performance rights are subject to a performance hurdle. Deferred shares require a prescribed period of service to be completed. Generally, if these requirements are not achieved the instruments will have a \$nil value and will lapse. As the achievement of the performance hurdle and completion of the service period is uncertain, a remuneration value is not attributed to the options, restricted shares, performance rights and deferred shares.

Under Telstra's USGAAP disclosures (refer note 30), an approach consistent with the binomial and Black-Scholes pricing models was used to determine the fair value of these instruments for the purpose of inclusion in the potential compensation expenses. The value of the allocations per security as used in our USGAAP disclosures is as follows:

| Offers               | Options | Restricted shares | Performance rights | Deferred shares |
|----------------------|---------|-------------------|--------------------|-----------------|
| Sept 1999 . . . . .  | \$1.38  | \$5.64            | (a)                | (a)             |
| Sept 2000 . . . . .  | \$0.89  | \$2.05            | (a)                | (a)             |
| March 2001 . . . . . | \$0.80  | \$2.15            | (a)                | (a)             |
| Sept 2001 . . . . .  | \$0.90  | (a)               | \$2.33             | (a)             |
| March 2002 . . . . . | \$0.97  | (a)               | \$2.51             | (a)             |
| Sept 2002 . . . . .  | (a)     | (a)               | \$2.54             | \$3.77          |
| March 2003 . . . . . | (a)     | (a)               | \$2.15             | \$3.08          |

The following valuations are based on the same methodologies, but in all cases, exclude adjustments for the effect of non-retention of participants and non-transferability of the instruments.

| Offers               | Options | Restricted shares | Performance rights | Deferred shares |
|----------------------|---------|-------------------|--------------------|-----------------|
| Sept 1999 . . . . .  | \$1.38  | \$5.64            | (a)                | (a)             |
| Sept 2000 . . . . .  | \$1.59  | \$3.62            | (a)                | (a)             |
| March 2001 . . . . . | \$1.53  | \$3.77            | (a)                | (a)             |
| Sept 2001 . . . . .  | \$1.13  | (a)               | \$2.86             | (a)             |
| March 2002 . . . . . | \$1.19  | (a)               | \$3.08             | (a)             |
| Sept 2002 . . . . .  | (a)     | (a)               | \$2.99             | \$4.41          |
| March 2003 . . . . . | (a)     | (a)               | \$2.60             | \$3.60          |

(a) There were no allocations of options, performance rights, restricted shares or deferred shares in the relevant offer periods.

The following weighted average assumptions were used in determining the above current year valuations:

|  | Growthshare deferred shares<br>and performance rights |            |
|--|---|------------|
|  | Sept 2002   | March 2003 |
| Risk free rate . . . . .   | 5.12%   | 4.64%      |
| Dividend yield . . . . .   | 4.0%  | 4.0%       |
| Expected stock volatility . . . . .                                | 19.0%   | 18.3%      |
| Expected life - performance rights . . . . .                       | 5 years   | 5 years    |
| Expected life - deferred shares . . . . .                          | 3 years   | 3 years    |
| Average forfeiture rate per annum-<br>performance rights . . . . . | 10%   | 10%        |
| Average forfeiture rate per annum-<br>deferred shares . . . . .    | 14.5%   | 14.5%      |

On this basis, the resultant outcomes of the model indicate that the performance hurdles are expected to be met in 61.6% of cases for the September 2002 allocation and 62.7% for the March 2003 allocation.

## Notes to the Financial Statements (continued)

### 19. Employee share plans (continued)

#### (c) Share plan information (continued)

##### (vi) Other information relevant to our employee share plans (continued)

The following table highlights shareholdings by individual non-executive directors as at 30 June 2003 as allocated under the directshare equity plan. These shareholdings have been included in the total shareholding disclosures made in note 27.

|                                   | <b>Total shares held<br/>as at 30 June 2002</b> | <b>September 2002<br/>allocation</b> | <b>March 2003<br/>allocation</b> | <b>Total shares held<br/>as at 30 June 2003</b> |
|-----------------------------------|---|--------------------------------------|----------------------------------|---|
|                                   | <b>No. of shares</b>                            | <b>No. of shares</b>                 | <b>No. of shares</b>             | <b>No. of shares</b>                            |
| Robert C Mansfield . . . . .      | 16,139  | 4,928                                | 7,137                            | 28,204  |
| John T Ralph . . . . .            | 8,071   | 2,464                                | 3,569                            | 14,104  |
| Sam H Chisholm (i) . . . . .      | -   | -                                    | -                                | -   |
| Anthony J Clark . . . . .         | 4,595   | 1,540                                | 2,474                            | 8,609   |
| John E Fletcher . . . . .         | 3,744   | 1,335                                | 3,771                            | 8,850   |
| Belinda J Hutchinson . . . . .    | 1,664   | 1,540                                | 2,176                            | 5,380   |
| Catherine B Livingstone . . . . . | 3,744   | 1,335                                | 2,068                            | 7,147   |
| Charles Macek . . . . .           | 1,554   | 1,540                                | 2,474                            | 5,568   |
| Donald G McGauchie . . . . .      | 4,373   | 1,335                                | 3,771                            | 9,479   |
| William A Owens . . . . .         | 1,997   | 1,848                                | 3,650                            | 7,495   |
| John W Stocker . . . . .          | 5,378   | 1,848                                | 9,619                            | 16,845  |
|                                   | <b>51,259</b>                                   | <b>19,713</b>                        | <b>40,709</b>                    | <b>111,681</b>                                  |

(i) As fees are declined by the director, no directshares have been allocated under this equity plan.

## Notes to the Financial Statements (continued)

|   | Telstra Group |             | Telstra Entity |             |
|---|---------------|-------------|----------------|-------------|
|   | As at 30 June |             | As at 30 June  |             |
|   | 2003<br>\$m   | 2002<br>\$m | 2003<br>\$m    | 2002<br>\$m |
| <b>20. Expenditure commitments</b>  |               |             |                |             |
| <b>(a) Capital expenditure commitments</b>  |               |             |                |             |
| Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements:  |               |             |                |             |
| Within 1 year . . . . .   | 366           | 379         | 434            | 353         |
| Within 1-2 years . . . . .  | 168           | 148         | 140            | 131         |
| Within 2-3 years . . . . .  | 127           | 139         | 122            | 114         |
| Within 3-4 years . . . . .  | 140           | 109         | 135            | 106         |
| Within 4-5 years . . . . .  | -             | 109         | -              | 106         |
| After 5 years . . . . .   | -             | 23          | -              | 23          |
|   | <b>801</b>    | <b>907</b>  | <b>831</b>     | <b>833</b>  |
| The capital expenditure commitments above include contracts for building and improving our networks and software enhancements.  |               |             |                |             |
| Included in the amounts above are capital commitments relating to information technology services (i):  |               |             |                |             |
| Within 1 year . . . . .   | 157           | 198         | 149            | 181         |
| Within 1-2 years . . . . .  | 129           | 101         | 124            | 92          |
| Within 2-3 years . . . . .  | 127           | 92          | 122            | 90          |
| Within 3-4 years . . . . .  | 140           | 90          | 135            | 88          |
| Within 4-5 years . . . . .  | -             | 91          | -              | 88          |
| After 5 years . . . . .   | -             | 5           | -              | 5           |
|   | <b>553</b>    | <b>577</b>  | <b>530</b>     | <b>544</b>  |
| (i) These capital commitments predominantly relate to amounts to be spent on software assets developed for internal use under a 10 year contract with IBM Global Services Australia Limited (IBM GSA) (Refer note 20(d)(ii) for other commitments relating to IBM GSA). |               |             |                |             |
| <b>(b) Operating lease commitments</b>  |               |             |                |             |
| Future lease payments for non-cancellable operating leases not recorded in the financial statements:  |               |             |                |             |
| Within 1 year . . . . .   | 251           | 234         | 136            | 148         |
| Within 1-2 years . . . . .  | 174           | 180         | 86             | 117         |
| Within 2-3 years . . . . .  | 144           | 101         | 63             | 67          |
| Within 3-4 years . . . . .  | 130           | 73          | 48             | 44          |
| Within 4-5 years . . . . .  | 114           | 60          | 34             | 34          |
| After 5 years . . . . .   | 487           | 198         | 83             | 54          |
|   | <b>1,300</b>  | <b>846</b>  | <b>450</b>     | <b>464</b>  |

In addition, in fiscal 2003 the Telstra Group have total future commitments under cancellable operating leases of \$471 million (2002: \$492 million). In fiscal 2003 the Telstra Entity have total future commitments under cancellable operating leases of \$426 million (2002: \$404 million).

## Notes to the Financial Statements (continued)

### 20. Expenditure commitments (continued)

#### Description of our operating leases

We have operating leases for the following major services:

- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers and mechanical aids; and
- rental of personal computers, laptops, printers and other related equipment that are used in non communications plant activities.

The average lease term is:

- seven years for land and buildings;
- four years for motor vehicles, five years for light commercial vehicles and seven to twelve years for trucks and mechanical aids; and
- three years for personal computers and related equipment.

Contingent rental payments only exist for motor vehicles and are not significant compared with total rental payments made. These are based on unfair wear and tear, excess kilometres travelled, additional fittings and no financial loss to be suffered by the leasing company from changes to the original agreements. Our motor vehicles and related equipment must also remain in Australia.

We do not have any significant purchase options in our operating leases.

Operating leases related to our personal computers and associated equipment had average interest rates of 5.1% for fiscal 2003 (5.5% for fiscal 2002).

|   | Telstra Group |             | Telstra Entity |             |
|---|---------------|-------------|----------------|-------------|
|   | As at 30 June |             | As at 30 June  |             |
| Note  | 2003<br>\$m   | 2002<br>\$m | 2003<br>\$m    | 2002<br>\$m |
| <b>(c) Finance lease commitments</b>                              |               |             |                |             |
| Within 1 year . . . . .   | 21            | 22          | 9              | 7           |
| Within 1-2 years . . . . .  | -             | 19          | -              | 1           |
| Within 2-3 years . . . . .  | -             | 2           | -              | -           |
| Within 3-4 years . . . . .  | -             | -           | -              | -           |
| Within 4-5 years . . . . .  | -             | -           | -              | -           |
| Total minimum lease payments . . . . .                            | 21            | 43          | 9              | 8           |
| Future finance charges on finance leases . . . . .                | (1)           | (2)         | -              | -           |
| Present value of net future minimum lease payments . . . . .      | 20            | 41          | 9              | 8           |
| Recorded as current interest-bearing liabilities . . . . . 16     | 20            | 20          | 9              | 7           |
| Recorded as non current interest-bearing liabilities . . . . . 16 | -             | 21          | -              | 1           |
| Total finance lease liabilities . . . . . 16                      | 20            | 41          | 9              | 8           |

#### Description of our finance leases

In addition to the above finance lease commitments, we have also guaranteed the performance of a third party for finance lease payments to be made by the third party, on our behalf (refer note 21 for further information).

We have finance leases for the following major services:

- communications exchange equipment denominated in US dollars; and
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:

- 13 years for communications exchange equipment denominated in US dollars; and
- three years for computer mainframe and associated equipment.

We entered into US finance leases for communications exchange equipment in fiscal 2000 and fiscal 1999. We have prepaid all lease rentals due under the terms of these leases. We have guaranteed that the lease payments will be paid as scheduled over the lease term to the ultimate lessor. We received guarantee fees of \$39 million in fiscal 2000 and \$37 million for fiscal 1999. These fees are recorded in revenue received in advance and are being released to the statement of financial performance over the term of the leases being 13 years. The structure of each lease includes an early buy out option with approximately 10 years remaining.

## Notes to the Financial Statements (continued)

### 20. Expenditure commitments (continued)

Interest rates for our finance leases are:

- US dollar communication assets between 4.25% and 5.06%; and
- computer mainframe, computer processing equipment and associated equipment between 8.26% and 9.36%.

Refer note 12 for further details on communication assets and equipment that are held under finance lease

|   | Telstra Group |              | Telstra Entity |              |
|---|---------------|--------------|----------------|--------------|
|   | As at 30 June |              | As at 30 June  |              |
|   | 2003<br>\$m   | 2002<br>\$m  | 2003<br>\$m    | 2002<br>\$m  |
| <b>(d) Other commitments</b>  |               |              |                |              |
| Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are:   |               |              |                |              |
| Within 1 year . . . . .   | 920           | 1,125        | 635            | 844          |
| Within 1-2 years . . . . .  | 582           | 651          | 350            | 467          |
| Within 2-3 years . . . . .  | 521           | 553          | 308            | 374          |
| Within 3-4 years . . . . .  | 515           | 487          | 313            | 308          |
| Within 4-5 years . . . . .  | 156           | 489          | 10             | 309          |
| After 5 years . . . . .   | 1,547         | 1,427        | 4              | 22           |
|   | <b>4,241</b>  | <b>4,732</b> | <b>1,620</b>   | <b>2,324</b> |
| The other expenditure commitments above include contracts for purchase of capacity, printing, engineering and operational support services, software maintenance, license fees, naming rights and building maintenance. The above commitments also include commitments relating to our investment in FOXTEL (refer note 24) and commitments relating to information technology services (other than those disclosed as capital commitments) as follows: |               |              |                |              |
| FOXTEL commitments (i):   |               |              |                |              |
| Within 1 year . . . . .   | 193           | 139          | -              | -            |
| Within 1-2 years . . . . .  | 194           | 139          | -              | -            |
| Within 2-3 years . . . . .  | 174           | 139          | -              | -            |
| Within 3-4 years . . . . .  | 163           | 139          | -              | -            |
| Within 4-5 years . . . . .  | 133           | 139          | -              | -            |
| After 5 years . . . . .   | 1,352         | 1,174        | -              | -            |
|   | <b>2,209</b>  | <b>1,869</b> | <b>-</b>       | <b>-</b>     |
| Commitments relating to information technology services (ii) . . . . .  |               |              |                |              |
| Within 1 year . . . . .   | 399           | 496          | 338            | 375          |
| Within 1-2 years . . . . .  | 306           | 350          | 277            | 316          |
| Within 2-3 years . . . . .  | 297           | 334          | 270            | 305          |
| Within 3-4 years . . . . .  | 308           | 328          | 279            | 299          |
| Within 4-5 years . . . . .  | -             | 334          | -              | 305          |
| After 5 years . . . . .   | -             | 18           | -              | 18           |
|   | <b>1,310</b>  | <b>1,860</b> | <b>1,164</b>   | <b>1,618</b> |



## Notes to the Financial Statements (continued)

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### 20. Expenditure commitments (continued)

(i) Our joint venture entity, FOXTEL has commitments amounting to approximately \$4,418 million (US\$2,960 million) (2002: \$3,738 million, US\$2,060 million), the majority of our 50% share of these commitments relate to minimum subscriber guarantees (MSG) for pay television programming agreements. These agreements are for periods of between 1 and 17 years (2002: 1 and 18 years) and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation/reduction formulas contained in the agreements.

On 1 December 2002, FOXTEL entered an unconditional content supply agreement with Optus that allowed Optus to provide a number of FOXTEL pay TV channels over the Optus cable network. Under this agreement, FOXTEL assumes some of Optus' financial obligations under its movie and other content arrangement.

Refer also to note 21 'FOXTEL minimum subscriber guarantees', for further information.

(ii) Commitments for information technology (IT) services predominantly result from a contract with IBM GSA. Under the IBM GSA contract, IBM GSA will provide IT services to the Telstra Entity and selected Australian controlled entities for a period of 10 years from 24 July 1997. The Telstra Entity is committed to a total amount of \$1,596 million (2002: \$2,026 million) over the period, of which \$507 million (2002: \$458 million) relates to a capital commitment (refer note 20(a)).

#### Commitments with Reach Ltd (REACH)

Under an International Services Agreement Australia (AISA) signed with our joint venture entity REACH in fiscal 2002, we are committed to the purchase of switched voice, international transmission and global internet access services to meet certain percentages of our annual capacity requirement ("committed services"). The committed services may also include the services for the carriage of calls or data between places outside of Australia.

In fiscal 2003, the AISA was updated to expand our initial five year commitment until 31 December 2010 in accordance with the terms of the new capacity prepayment agreement (refer note 9 for further information). Under the revised AISA, we are committed to the purchase of switched voice, international transmission and global internet access services to meet 90% of our annual capacity requirement.

## Notes to the Financial Statements (continued)

### 21. Contingent liabilities and contingent assets

We have no significant contingent assets as at 30 June 2003. The details and maximum amounts (where reasonable estimates can be made) are set out below for contingent liabilities.

#### Telstra Entity

##### Common law claims

Certain common law claims by employees and third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. As at 30 June 2003, management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows.

##### Indemnities, performance guarantees and financial support

We have provided the following indemnities, performance guarantees and financial support through the Telstra Entity as follows:

- Indemnities to financial institutions to support bank guarantees to the value of \$276 million (2002: \$311 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was \$249 million (2002: \$219 million).
- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling \$7 million (2002: \$nil) and a requirement that the entity remains our controlled entity.
- Guarantee of the performance of joint venture entities under contractual agreements to a maximum amount of \$247 million (2002: \$422 million).
- Guarantee of the performance of a third party for lease payments to be made by the third party, on our behalf, over the remaining terms of the finance leases (average 13 years). The lease payments over the remaining period of the lease amount to \$1,042 million (US\$698 million) (2002: \$1,256 million (US\$709 million)).
- During fiscal 1998, we resolved to provide our associated entity, IBM Global Services Australia Limited (IBM GSA), with our pro rata 26% share of shareholder guarantees on a several basis up to \$210 million. These guarantees may be made with IBM GSA bankers, or directly to IBM GSA customers. Our shareholding in IBM GSA, and our pro rata share of any future payments made under the shareholder guarantees, reduced to 22.6% during fiscal 2000. We issued a shareholder guarantee of \$68 million on behalf of IBM GSA

during fiscal 2000. As at 30 June 2003, \$142 million (2002: \$142 million) of the \$210 million guarantee facility remains unused.

- Indemnities to Telstra Growthshare Pty Ltd for all liabilities, costs and expenses incurred by the trustee in the execution of the powers vested in it.

#### Controlled entities

##### Indemnities provided by our controlled entities

At 30 June 2003, our controlled entities had outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of our controlled entities' contingent liabilities in respect of these indemnities was \$1 million (2002: \$58 million).

During fiscal 2002, our controlled entity Hong Kong CSL Limited (HK CSL) guaranteed a performance bond of \$57 million (HK\$250 million) issued by a bank to the Office of Telecommunications Authority of Hong Kong (OFTA) in respect of the 3G licence awarded to HK CSL. The performance bond was equal to the minimum annual fees payable to the OFTA for five years.

On 22 October 2002, a revised performance bond of \$38million (HK\$200 million) was issued to the OFTA with a duration of four years. A one year waiver has been granted to HK CSL. In addition, this bond was issued with indemnity from the Telstra Entity. At 30 June 2003, this amount has been included within indemnities to financial institutions in respect of the obligations of our controlled entities. Total expenditure commitments pursuant to the 3G licence are included within other commitments in note 20.

##### Other

The PT Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement (JVA) was renegotiated during the financial year ending 30 June 2000. The revised JVA reduced the amount of base equity to be contributed by shareholders from US\$340 million to US\$208 million (which has now been contributed).

However, Telstra Global Limited (TGL), under the JVA, may be severally liable for calls against standby equity that would be made by MGTI if certain conditions are met. Should this equity be called, TGL will be liable to contribute additional equity of \$25 million (US\$17 million) (2002: \$30 million (US\$17 million)). If the other shareholders in MGTI default on contributing their share of a standby equity call, TGL may be liable to contribute an additional \$102 million (US\$68 million) (2002: \$120 million (US\$68 million)) as standby equity.

## Notes to the Financial Statements (continued)

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### 21. Contingent liabilities and contingent assets (continued)

#### Controlled entities (continued)

##### Other (continued)

TGL has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a \$716 million (US\$480 million) (2002: \$850 million (US\$480 million)) Loan Agreement dated 23 September 1996 between MGTI and various lenders. As a result of agreements with lenders reached in September 1999 the facility is now limited to the debt drawn and outstanding. The outstanding debt under this facility is currently \$106 million (US\$71 million) (2002: \$175 million (US\$99 million)). Repayments are being made on schedule. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by TGL).

In February 2001, changes in Indonesian banking regulations required MGTI to cash in currency hedges associated with the loan facility. These hedges yielded a gain of \$75 million (US\$38 million), which was applied against the principal of the loan.

##### Other

##### FOXTEL minimum subscriber guarantees

The Telstra Entity and its partners, News Corporation and Publishing and Broadcasting Limited, and Telstra Media and its partner, Sky Cable, have entered into agreements relating to pay television programming with various parties. These involve commitments for minimum subscriber fees. Due to joint and several liability under the agreements, if News Corporation, Publishing and Broadcasting Limited or Sky Cable fail to meet any of their obligations, the Telstra Entity and Telstra Media would be contingently liable to the extent of those failures. Refer note 20 for details of minimum subscriber guarantee commitments.

##### ASIC deed of cross guarantee

A list of the companies that are part of our deed of cross guarantee appear in note 23. Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 23 for further information.

## Notes to the Financial Statements (continued)

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### 22. Superannuation commitments

The employee superannuation schemes that we participate in or sponsor exist to provide benefits for our employees and their dependants after finishing employment with us. It is our policy to contribute to the schemes at rates specified in the governing rules for accumulation schemes or at rates determined by the actuaries for defined benefit schemes.

#### Commonwealth Superannuation Scheme (CSS) and the Telstra Superannuation Scheme (Telstra Super)

Before 1 July 1990, eligible employees of the Telstra Entity were members of the Commonwealth Superannuation Scheme (CSS). The CSS is a defined benefit scheme for Commonwealth Public Sector employees. Under the CSS, we are responsible for funding all employer financed benefits that arise from 1 July 1975 for employees who are CSS members. Employer contributions by us, and other employers that participate in the CSS, are paid to the Commonwealth Consolidated Revenue Fund. Employee contributions to the CSS are separately managed.

On 1 July 1990, the Telstra Superannuation Scheme (Telstra Super) was established. Telstra Super has both defined benefit and accumulation divisions. A majority of our CSS members transferred to Telstra Super when it was first established. As CSS members transferred, the liability for benefits for their past service was transferred to Telstra Super and a transfer of assets was payable from the CSS to Telstra Super (deferred transfer values).

The benefits received by members of each defined benefit scheme take into account factors such as the employee's length of service, final average salary, employer and employee contributions.

As at 30 June 2000, S J Schubert FIAA completed an actuarial investigation of Telstra's obligations under the CSS and K O'Sullivan FIAA completed an actuarial investigation of the two defined benefit divisions of Telstra Super.

The actuarial investigation of Telstra Super reported that a surplus continued to exist. As per the recommendations within the actuarial investigation, we were not required to make employer contributions to Telstra Super until the next actuarial investigation that is due to be completed by 30 June 2004 based on the scheme's financial position as at 30 June 2003. This contribution holiday includes the contributions otherwise payable to the accumulation divisions of Telstra Super. The continuance of the holiday, is however, dependant on the performance of the fund. In fiscal 2003, there has been a reduction in the value of the assets of the fund and therefore we are closely monitoring the situation in light of the current financial market performance.

The actuarial investigation of our obligations under the CSS also recommended that we continue to make no employer contributions to the CSS. We will review our contribution rate for the CSS at the next actuarial investigation that is due to be completed by 30 June 2004 based on the scheme's financial position as at 30 June 2003.

In June 1999, the Minister for Finance and Administration signed a document which allowed the CSS surplus (otherwise known as the residual notional fund surplus or RNFS) based on the scheme's financial position at 30 June 1997 to be transferred to Telstra Super over a 40 year period. This amounted to \$1,428 million. Any RNFS amounts transferred to Telstra Super are taxed at the rate of 15%. The CSS actuarial investigation as at 30 June 2000 was conducted during fiscal 2001. The Department of Finance and Administration is currently considering the results of the actuarial investigation. That consideration has not been completed pending the outcome of our discussions with the Commonwealth on superannuation matters. Based on the results of the CSS actuarial investigation, our actuary has recommended that the schedule to transfer the RNFS be reviewed to take into account the revised surplus position.

Prior to 31 August 2000, we had an ongoing arrangement to pay an additional \$121 million each year to Telstra Super over 16 years ending 30 June 2011. This contribution commitment was independent of the contribution holiday advised by the actuary.

On 31 August 2000, the trustee of Telstra Super and the Commonwealth (who guaranteed our payments) released us from our obligation to make these additional contributions. As part of the terms of the release, we have agreed to provide such future employer payments to Telstra Super as may be required to maintain the vested benefits index (VBI - the ratio of fund assets to members' vested benefits) of the defined benefit divisions of Telstra Super in the range of 100-110%.

The trustee of Telstra Super agreed to the release of the obligation based on actuarial advice that the removal of these additional contributions, coupled with Telstra's contribution commitment, will maintain the solvency level of Telstra Super at a satisfactory level (refer to note 3 for the financial effect of the removal of this obligation). The VBI of the defined benefit divisions was approximately 113% as at 30 June 2003 (129% at 30 June 2002).

#### Other superannuation schemes

Our controlled entity, Hong Kong CSL Limited (HK CSL), participates in a superannuation scheme known as the HK CSL Retirement Scheme (formerly Pacific Century CyberWorks (PCCW) Retirement Benefit Scheme). The scheme has both defined benefits and defined contributions divisions.

## Notes to the Financial Statements (continued)

### 22. Superannuation commitments (continued)

#### Other superannuation schemes (continued)

The HK CSL Retirement Scheme is established under trust and is administered by an independent trustee. The benefits received by members for the defined benefits scheme are based on the employees' remuneration and length of service.

At 30 June 2002, the employee liability of HK CSL formed part of a scheme in the name of PCCW-HKT Limited, which was HK CSL's previous immediate parent. On 1 December 2002, HK CSL established the new HK CSL Retirement Scheme.

The assets attributable to HK CSL of the previous scheme were transferred to the new HK CSL Retirement Scheme along with an additional lump sum contribution from HK CSL. This equated to the aggregate past service liability of the previous scheme and ensured that the HK CSL Retirement Scheme was fully funded. The transfers as at 1 December 2002 were based on an actuarial investigation conducted by Watson Wyatt Hong Kong Limited.

#### Financial position

The financial position of the defined benefit divisions of Telstra Super, our Notional Fund in the CSS and the HK CSL Retirement Scheme is shown as follows:

|   | Net scheme assets |               | Accrued benefits |              | Net surplus (a) |              | Vested benefits |              |
|---|-------------------|---------------|------------------|--------------|-----------------|--------------|-----------------|--------------|
|   | As at 30 June     |               | As at 30 June    |              | As at 30 June   |              | As at 30 June   |              |
|   | 2003              | 2002          | 2003             | 2002         | 2003            | 2002         | 2003            | 2002         |
|   | \$m               | \$m           | \$m              | \$m          | \$m             | \$m          | \$m             | \$m          |
| Telstra Super (i)                           | 4,222             | 4,804         | 2,847            | 3,078        | 1,375           | 1,726        | 3,729           | 3,734        |
| CSS (ii)                                    | 7,479             | 7,479         | 3,865            | 3,865        | 3,614           | 3,614        | 4,091           | 4,091        |
| HK CSL Retirement Scheme (iii)              | 67                | 73            | 67               | 73           | -               | -            | 66              | 73           |
|   | <b>11,768</b>     | <b>12,356</b> | <b>6,779</b>     | <b>7,016</b> | <b>4,989</b>    | <b>5,340</b> | <b>7,886</b>    | <b>7,898</b> |
| Less 85% residual notional fund surplus (i) | (1,050)           | (1,195)       | -                | -            | (1,050)         | (1,195)      | -               | -            |
| Total                                       | <b>10,718</b>     | <b>11,161</b> | <b>6,779</b>     | <b>7,016</b> | <b>3,939</b>    | <b>4,145</b> | <b>7,886</b>    | <b>7,898</b> |

(a) Net surplus is the excess of net scheme assets over accrued benefits.

(i) Amounts for the defined benefit divisions of Telstra Super have been taken from the audited financial report of the scheme as at 30 June 2003 and 30 June 2002. The scheme assets are stated at net market values.

Telstra Super net scheme assets include the carrying value of the CSS RNFS as at 30 June 2003 of \$1,235 million (2002: \$1,406 million). The CSS RNFS balance represents the revised surplus position recognised as receivable by Telstra Super. As any amounts transferred from the CSS to Telstra Super are taxed at the rate of 15%, the adjustment in the table represents 85% of the RNFS which should be reduced from net scheme assets and net surplus to eliminate the recognition of the CSS surplus by Telstra Super.

(ii) The CSS amounts show our share of the benefit liability in respect to past service of our employees and former employees who are members of the CSS. The CSS amounts for both 30 June 2003 and 30 June 2002 are based on notional amounts shown in the actuarial valuation dated 30 June 2000, subject to the following:

- deferred transfer values of \$2,142 million have been excluded from the CSS net scheme assets, accrued benefits and vested benefits as Telstra Super is responsible for CSS members transferred to Telstra Super. Amounts for deferred transfer values have been recognised by Telstra Super;
- the net surplus of \$3,614 million excludes \$694 million related to the present value of future service liabilities. By including the \$694 million, the surplus of notional assets over total liabilities for the CSS is \$2,920 million; and
- based on the most recent actuarial investigation as at 30 June 2000, it has been recommended by the actuary that the surplus of \$2,920 million, less superannuation contribution tax at the rate of 15%, be transferred to Telstra Super as previously described in this note. The Department of Finance and Administration is still considering the results of the actuarial investigation and the balance may be subject to change. Based on more recent estimates provided by our actuary this balance has declined, although it is still expected to be above its carrying value of \$1,235 million recognised as receivable by Telstra Super.

## Notes to the Financial Statements (continued)

### 22. Superannuation commitments (continued)

#### Financial position (continued)

(iii) We acquired full ownership of HK CSL on 28 June 2002. At 30 June 2002, the scheme was still in the name of PCCW-HKT Limited, which is HK CSL's previous immediate parent. Amounts for 30 June 2002 are based on our share of the notional amounts shown in the actuarial valuation dated 30 June 2002. On 1 December 2002, the assets attributable to HK CSL were transferred from the PCCW Retirement Benefit Scheme to the HK CSL Retirement Scheme. Amounts for 30 June 2003 for the HK CSL Retirement Scheme have been taken from the actuarial valuation dated 30 June 2003. The scheme assets are stated at net market values.

#### Investment types and estimated returns on those asset groups held by our significant superannuation schemes

|  | Telstra Super/CSS (i)(ii) |      |
|--|---------------------------|------|
|  | Estimated returns         |      |
|  | As at 30 June             |      |
|  | 2003                      | 2002 |
|  | %                         | %    |
| Australian shares . . . . .            | 9.3                       | 7.8  |
| International shares . . . . .         | 8.7                       | 7.5  |
| Listed property . . . . .              | 6.2                       | 6.3  |
| Direct property . . . . .              | 7.5                       | 6.2  |
| Australian fixed interest . . . . .    | 4.8                       | 5.1  |
| International fixed interest . . . . . | 4.6                       | 5.5  |
| Cash . . . . .                         | 4.3                       | 4.2  |

(i) Our estimates are based on expected 10 year after tax returns with an allocation of 85% growth assets and 15% defensive assets.

(ii) Every three years our actuaries calculate the financial position of our notional fund in the CSS as part of their actuarial investigation. The assets of this scheme are accumulated at the same rate of return as that earned by Telstra Super. As a result, the expected after tax returns of the CSS will be identical to those returns expected to be generated by Telstra Super.

The estimated period over which the benefits of our members will be returned is 13 years for Telstra Super and 12 years for the CSS.

#### Employer contributions

Employer contributions made to:

- the defined benefits divisions of Telstra Super were \$nil for the past three fiscal years;
- the CSS were \$nil for the past three fiscal years;
- the defined benefit divisions of the HK CSL scheme for fiscal 2003 were \$8 million (2002: \$7 million; 2001: \$3 million); and
- the accumulation divisions of Telstra Super for fiscal 2003 were \$4 million (2002: \$6 million; 2001: \$7 million), including voluntary salary sacrifice contributions made at the discretion of the employee of \$1 million (2002: \$1 million; 2001: \$1 million).

Telstra Super additional contributions were \$nil for the last three years. As described in this note, the Trustee of Telstra Super and the Commonwealth released us from our obligation to make these additional contributions.

## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities

Below is a list of our investments in controlled entities.

| Name of entity   | Country of incorporation | Telstra Entity's recorded amount of investment (a) |             | % of equity held by immediate parent |           |
|--|--------------------------|--|-------------|--------------------------------------|-----------|
|  |                          | As at 30 June                                      |             | As at 30 June                        |           |
|  |                          | 2003<br>\$m  | 2002<br>\$m | 2003<br>%                            | 2002<br>% |
| <b>Parent entity</b>   |                          |  |             |                                      |           |
| Telstra Corporation Limited (1)  | Australia                |  |             |                                      |           |
| <b>Controlled entities</b>   |                          |  |             |                                      |           |
| Telecommunications Equipment Finance Pty Ltd (5) *   | Australia                | -  | -           | -                                    | -         |
| Telstra Finance Limited (1) (4)  | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Corporate Services Pty Ltd (1)   | Australia                | 6  | 6           | 100.0                                | 100.0     |
| Transport Communications Australia Pty Ltd *   | Australia                | 4  | 4           | 100.0                                | 100.0     |
| Telstra ESOP Trustee Pty Ltd (4) *   | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Growthshare Pty Ltd (4) *  | Australia                | -  | -           | 100.0                                | 100.0     |
| On Australia Pty Ltd (1) (3)   | Australia                | 11   | 11          | 100.0                                | 100.0     |
| Telstra Media Pty Ltd (1)  | Australia                | 381  | 347         | 100.0                                | 100.0     |
| Telstra Multimedia Pty Ltd (1)   | Australia                | 2,678  | 1,720       | 100.0                                | 100.0     |
| Telstra International Limited (1)  | Australia                | 84   | 84          | 100.0                                | 100.0     |
| Telstra OnAir Holdings Pty Ltd *   | Australia                | 302  | 302         | 100.0                                | 100.0     |
| • Telstra OnAir Infrastructure Holdings Pty Ltd *  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra 3G Spectrum Holdings Pty Ltd *   | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra New Wave Pty Ltd (1)   | Australia                | 1  | 1           | 100.0                                | 100.0     |
| • Hypertokens Pty Ltd *  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Customer Contact Technologies Pty Ltd (10) *   | Australia                | -  | -           | 100.0                                | -         |
| • Data & Text Mining Technologies Pty Ltd (10) *   | Australia                | -  | -           | 100.0                                | -         |
| • Lyrebird Technologies Pty Ltd (10) *   | Australia                | -  | -           | 100.0                                | -         |
| Telstra Holdings Pty Ltd (1) (12)  | Australia                | 7,293  | 5,810       | 100.0                                | 100.0     |
| • Beijing Australia Telecommunications Technical Consulting Services Company Limited (7) (8) | China                    | -  | -           | 100.0                                | 100.0     |
| • Telstra Holdings (Bermuda) No. 2 Limited (8)   | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • Telstra CSL Limited (formerly Joint Venture (Bermuda) No. 2 Limited) (2) (8)               | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • Bestclass Holdings Ltd (8)   | British Virgin Islands   | -  | -           | 100.0                                | 100.0     |
| • Hong Kong CSL Limited (8)  | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • Integrated Business Systems Limited (8)  | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • One2Free Personalcom Limited (8)   | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • CSL Limited (8)  | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • RWC, HK Limited (3) (8)  | Hong Kong                | -  | -           | -                                    | 100.0     |
| • Telstra Holdings (Bermuda) No 1 Limited (8)  | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • Telstra International HK Limited (8)   | Hong Kong                | -  | -           | 100.0                                | 100.0     |
| • Telstra IDC Holdings Limited (8)   | Bermuda                  | -  | -           | 100.0                                | 100.0     |
| • Telstra Japan Retail K.K. (8)  | Japan                    | -  | -           | 100.0                                | 100.0     |
| • Telstra Singapore Pte Ltd (8) (10)   | Singapore                | -  | -           | 100.0                                | -         |
| • Telstra Wholesale Inc. (3) (8)   | United States            | -  | -           | -                                    | 100.0     |
| • Mobitel (Pvt) Limited (8) (12)   | Sri Lanka                | -  | -           | -                                    | 60.0      |
| • Telstra New Zealand Limited (3) (8)  | New Zealand              | -  | -           | -                                    | 100.0     |
| • Telstra Global Limited (8)   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • Telstra Europe Limited (8)   | United Kingdom           | -  | -           | 100.0                                | 100.0     |
| • PT Telstra Nusantara (8)   | Indonesia                | -  | -           | 100.0                                | 100.0     |

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## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities (continued)

| Name of entity  | Country of incorporation | Telstra Entity's recorded amount of investment (a) |             | % of equity held by immediate parent |           |
|---|--------------------------|--|-------------|--------------------------------------|-----------|
|   |                          | As at 30 June                                      |             | As at 30 June                        |           |
|   |                          | 2003<br>\$m  | 2002<br>\$m | 2003<br>%                            | 2002<br>% |
| <b>Controlled entities (continued)</b>                      |                          |  |             |                                      |           |
| • Telstra Inc. (8)  | United States            | -  | -           | 100.0                                | 100.0     |
| • Telstra India Private Limited (8)                         | India                    | -  | -           | 100.0                                | 100.0     |
| • NDC New Zealand Limited (8) (12)                          | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • TelstraClear Limited (8) (11) (12)                        | New Zealand              | -  | -           | 100.0                                | 58.4      |
| • Saturn Communications Limited (3) (8)                     | New Zealand              | -  | -           | -                                    | 100.0     |
| • Paradise.Net Limited (3) (8)                              | New Zealand              | -  | -           | -                                    | 100.0     |
| • Kiwi Cable Company Limited (3) (8)                        | New Zealand              | -  | -           | -                                    | 100.0     |
| • Netlink Limited (3) (8)                                   | New Zealand              | -  | -           | -                                    | 100.0     |
| • TelstraSaturn Holdings Limited (8)                        | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • CLEAR Communications Limited (8)                          | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • CLEAR Communications (Australia) Pty Ltd (3) (8)          | Australia                | -  | -           | -                                    | 100.0     |
| • ZFREE Limited (3) (8)                                     | New Zealand              | -  | -           | -                                    | 100.0     |
| • ZTALK Limited (3) (8)                                     | New Zealand              | -  | -           | -                                    | 100.0     |
| Telstra Communications Limited (1)                          | Australia                | 29   | 29          | 100.0                                | 100.0     |
| • Telecom Australia (Saudi) Company Limited (3) (6) (7) (8) | Saudi Arabia             | -  | -           | 50.0                                 | 50.0      |
| Telstra Rewards Pty Ltd *                                   | Australia                | 14   | 14          | 100.0                                | 100.0     |
| • Telstra Visa Card Trust (3)                               | Australia                | -  | -           | 100.0                                | 100.0     |
| • Qantas Telstra Card Trust (3)                             | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra Visa Business Card Trust (3)                      | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra Media Holdings Pty Ltd (1)                          | Australia                | 29   | 29          | 100.0                                | 100.0     |
| • Telstra Enterprise Services Pty Ltd (1) (12)              | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra Limited (8) (12)                                  | New Zealand              | -  | -           | 100.0                                | 100.0     |
| • Telstra Pay TV Pty Ltd (1)                                | Australia                | -  | -           | 100.0                                | 100.0     |
| Telstra CB Holdings Limited (1)                             | Australia                | 898  | 898         | 100.0                                | 100.0     |
| • Telstra CB.net Limited (1)                                | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra CB.Com Limited (1)                                | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra CB.fs Limited (1)                                 | Australia                | -  | -           | 100.0                                | 100.0     |
| • InsNet Pty Ltd (1)  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Australasian Insurance Systems Pty Ltd (1)                | Australia                | -  | -           | 100.0                                | 100.0     |
| • TRC Computer Systems Pty Ltd (1)                          | Australia                | -  | -           | 100.0                                | 100.0     |
| • DBA Limited (1)   | Australia                | -  | -           | 100.0                                | 100.0     |
| • Brokerlink Pty Ltd (1)                                    | Australia                | -  | -           | 81.3                                 | 81.3      |
| • DBA Computer Systems Pty Ltd (1)                          | Australia                | -  | -           | 100.0                                | 100.0     |
| • Brokerlink Pty Ltd (1)                                    | Australia                | -  | -           | 18.7                                 | 18.7      |
| • Unilink Group Pty Ltd (1)                                 | Australia                | -  | -           | 100.0                                | 100.0     |

(continued over page)



## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities (continued)

| Name of entity   | Country of incorporation | Telstra Entity's recorded amount of investment (a) |             | % of equity held by immediate parent |           |
|--|--------------------------|--|-------------|--------------------------------------|-----------|
|  |                          | As at 30 June                                      |             | As at 30 June                        |           |
|  |                          | 2003<br>\$m  | 2002<br>\$m | 2003<br>%                            | 2002<br>% |
| <b>Controlled entities (continued)</b>   |                          |  |             |                                      |           |
| Sensis Pty Ltd (formerly Pacific Access Pty Ltd) (1) (2) . . . . .                   | Australia                | 121  | 121         | 100.0                                | 100.0     |
| • CitySearch Australia Pty Ltd * . . . . .   | Australia                | -  | -           | 100.0                                | 100.0     |
| • CitySearch Canberra Pty Ltd * . . . . .  | Australia                | -  | -           | 100.0                                | 100.0     |
| • Telstra Retail Pty Ltd * . . . . .   | Australia                | -  | -           | 100.0                                | 100.0     |
| • Sensis Holdings Pty Ltd (formerly Telstra Retail Services Pty Ltd) (2) * . . . . . | Australia                | -  | -           | 100.0                                | 100.0     |
| • Pacific Access Enterprises Pty Ltd * . . . . .                                     | Australia                | -  | -           | 100.0                                | 100.0     |
| • WorldCorp Holdings (S) Pte Ltd (3) (8) . . . . .                                   | Singapore                | -  | -           | 100.0                                | 100.0     |
| • WorldCorp Publishing Pte Ltd (3) (8) . . . . .                                     | Singapore                | -  | -           | 100.0                                | 100.0     |
| Network Design and Construction Limited (1) . . . . .                                | Australia                | 177  | 177         | 100.0                                | 100.0     |
| • NDC Global Holdings Pty Ltd (1) (12) . . . . .                                     | Australia                | -  | -           | 100.0                                | 100.0     |
| • NDC Telecommunications India Private Limited (8) . . . . .                         | India                    | -  | -           | 100.0                                | 100.0     |
| • PT NDC Indonesia (8) . . . . .   | Indonesia                | -  | -           | 95.0                                 | 95.0      |
| • NDC Global Philippines, Inc (8) . . . . .  | Philippines              | -  | -           | 100.0                                | 100.0     |
| • NDC Global Services (Thailand) Limited (8) . . . . .                               | Thailand                 | -  | -           | 49.0                                 | 49.0      |
| • NDC Global Holdings (Thailand) Limited (8) . . . . .                               | Thailand                 | -  | -           | 90.4                                 | 90.4      |
| • NDC Global Services (Thailand) Limited (8) . . . . .                               | Thailand                 | -  | -           | 51.0                                 | 51.0      |
| • NDC Global Services Malaysia Sdn. Bhd (8) . . . . .                                | Malaysia                 | -  | -           | 100.0                                | 100.0     |
| • NDC Global Services Pty Ltd (1) . . . . .  | Australia                | -  | -           | 100.0                                | 100.0     |

(a) The amounts recorded are before any provision for reduction in value.

\* These entities are Australian small proprietary limited companies, which are not required to prepare and lodge individual audited financial reports with the ASIC.

## Notes to the Financial Statements (continued)

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### 23. Investments in controlled entities (continued)

#### ASIC deed of cross guarantee

(1) The following companies have entered into a deed of cross guarantee dated 4 June 1996 (or have been subsequently added to this deed by an assumption deed):

- Telstra Corporation Limited;
- Telstra Holdings Pty Ltd;
- Telstra International Limited;
- Telstra Communications Limited;
- Telstra New Wave Pty Ltd;
- Telstra Multimedia Pty Ltd;
- On Australia Pty Ltd;
- Telstra Media Holdings Pty Ltd;
- Network Design and Construction Limited;
- Sensis Pty Ltd (formerly Pacific Access Pty Ltd);
- Telstra CB Holdings Limited;
- Telstra CB.net Limited;
- Telstra CB.Com Limited;
- Telstra CB.fs Limited;
- InsNet Pty Ltd;
- Australasian Insurance Systems Pty Ltd;
- TRC Computer Systems Pty Ltd;
- DBA Limited;
- Brokerlink Pty Ltd;
- DBA Computer Systems Pty Ltd;
- Unilink Group Pty Ltd;
- Telstra Media Pty Ltd;
- Telstra Enterprise Services Pty Ltd;
- Telstra Pay TV Pty Ltd;
- NDC Global Holdings Pty Ltd;
- NDC Global Services Pty Ltd \*; and
- Telstra Corporate Services Pty Ltd \*.

Telstra Finance Limited is trustee to the deed of cross guarantee.

\* These entities were added to the deed of cross guarantee during fiscal 2003 by an assumption deed dated 31 October 2002.

The deed of cross guarantee was formed under ASIC Class Order 98/1418, including those subsequent amendments made. This class order was dated 13 August 1998 and has been subsequently amended by class orders 98/2017, 00/321, 01/1087, 02/248 and 02/1017. Under this class order and the deed of cross guarantee, the companies listed above, except for Telstra Finance Limited:

- form a closed group and extended closed group as defined in the class order;
- do not have to prepare and lodge audited financial reports under the Corporations Act 2001. This does not apply to Telstra Corporation Limited; and
- guarantee the payment in full of the debts of the other named companies in the event of their winding up.

The consolidated assets and liabilities of the closed group and extended closed group at 30 June 2003 and 2002 is presented according to ASIC class order 98/1418 (as amended) as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities (continued)

| Closed Group Statement of Financial Position                        | Closed Group  |               |
|---|---------------|---------------|
|   | As at 30 June |               |
|   | 2003          | 2002          |
|   | \$m           | \$m           |
| <b>Current assets</b>   |               |               |
| Cash assets . . . . .   | 1,187         | 528           |
| Receivables . . . . .   | 3,509         | 5,254         |
| Inventories . . . . .   | 238           | 196           |
| Other assets. . . . .   | 783           | 1,244         |
| Total current assets . . . . .                                      | 5,717         | 7,222         |
| <b>Non current assets</b>   |               |               |
| Receivables . . . . .   | 1,848         | 725           |
| Inventories . . . . .   | 14            | 9             |
| Investments - accounted for using the equity method . . . . .       | 59            | 80            |
| Investments - other . . . . .                                       | 2,632         | 3,838         |
| Property, plant and equipment. . . . .                              | 21,766        | 22,166        |
| Future income tax benefit . . . . .                                 | -             | 131           |
| Intangibles - goodwill . . . . .                                    | 81            | 91            |
| Intangibles - other. . . . .  | 189           | 285           |
| Other assets. . . . .   | 2,519         | 2,197         |
| Total non current assets . . . . .                                  | 29,108        | 29,522        |
| <b>Total assets</b> . . . . .                                       | <b>34,825</b> | <b>36,744</b> |
| <b>Current liabilities</b>  |               |               |
| Payables. . . . .   | 2,194         | 2,185         |
| Interest-bearing liabilities . . . . .                              | 1,650         | 1,624         |
| Income tax payable. . . . .   | 614           | 596           |
| Provisions . . . . .  | 348           | 1,879         |
| Revenue received in advance . . . . .                               | 1,180         | 1,241         |
| Total current liabilities . . . . .                                 | 5,986         | 7,525         |
| <b>Non current liabilities</b>                                      |               |               |
| Payables. . . . .   | 48            | 127           |
| Interest-bearing liabilities . . . . .                              | 11,231        | 11,845        |
| Provision for deferred income tax . . . . .                         | 1,753         | 1,917         |
| Provisions . . . . .  | 790           | 823           |
| Revenue received in advance . . . . .                               | 433           | 438           |
| Total non current liabilities . . . . .                             | 14,255        | 15,150        |
| <b>Total liabilities</b> . . . . .                                  | <b>20,241</b> | <b>22,675</b> |
| <b>Net assets</b> . . . . .   | <b>14,584</b> | <b>14,069</b> |
| <b>Shareholders' equity</b>   |               |               |
| Contributed equity . . . . .  | 6,433         | 6,433         |
| Reserves . . . . .  | 39            | 13            |
| Retained profits . . . . .  | 8,112         | 7,623         |
| <b>Shareholders' equity available to the closed group</b> . . . . . | <b>14,584</b> | <b>14,069</b> |

## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities (continued)

#### ASIC deed of cross guarantee (continued)

(1) (continued)

The consolidated net profit of the Closed Group and Extended Closed Group for the fiscal years ended 30 June 2003 and 2002 is presented according to ASIC class order 98/1418 (as amended) as follows. This excludes Telstra Finance Limited. All significant transactions between members of the Closed Group have been eliminated.

| Closed Group Statement of Financial Performance and Retained Profits reconciliation              | Closed Group       |               |
|--|--------------------|---------------|
|  | Year ended 30 June |               |
|  | 2003               | 2002          |
|  | \$m                | \$m           |
| <b>Ordinary activities</b>   |                    |               |
| Profit before income tax expense . . . . .   | 3,949              | 4,973         |
| Income tax expense . . . . .   | 1,502              | 1,763         |
| <b>Net profit available to the closed group</b> . . . . .  | <b>2,447</b>       | <b>3,210</b>  |
| Retained profits at the beginning of the financial year available to the closed group . . . . .  | 7,623              | 7,018         |
| Transfer out of the closed group (1)(a) . . . . .  | -                  | 225           |
| Transfers to retained profits (1)(b) . . . . .   | (22)               | -             |
| Effect on retained profits from additions of new entities to the closed group . . . . .          | (6)                | -             |
| <b>Total available for distribution</b> . . . . .  | <b>10,042</b>      | <b>10,453</b> |
| Dividends provided for or paid . . . . .   | 1,930              | 2,830         |
| <b>Retained profits at the end of the financial year available to the closed group</b> . . . . . | <b>8,112</b>       | <b>7,623</b>  |

(1)(a) The consolidated assets and liabilities of the closed group includes closed group members' equity accounted investments and investments in controlled entities that are not members of the closed group. Investments in controlled entities which are not part of the closed group are recorded at cost less provision for diminution and are not consolidated as part of this group.

On 12 December 2001, we acquired a further 8.4% shareholding in TelstraClear Limited (TelstraClear) giving us a 58.4% controlling interest. Prior to this date TelstraClear was a joint venture entity and included as an equity accounted investment in the closed group. The increase in retained profits in fiscal 2002 of \$225 million represents a transfer out of accumulated equity accounted retained losses in relation to TelstraClear as at 12 December 2001. From this date, TelstraClear has been a controlled entity and is included in the closed group at cost less provision for diminution.

(1)(b) During fiscal 2003, we sold our remaining shareholding in Solution 6 Holdings Limited (Solution 6). As a result, the foreign currency translation and general reserves arising from equity accounting our investment in Solution 6 were transferred out of reserves and into retained profits. The total amount of equity accounted reserves transferred in fiscal 2003 was a negative \$22 million, resulting in a reduction in retained profits and a corresponding increase in reserves.

#### Change of company names

(2) The following entities changed names during fiscal 2003:

- Pacific Access Pty Ltd changed its name to Sensis Pty Ltd on 19 August 2002;
- Telstra Retail Services Pty Ltd changed its name to Sensis Holdings Pty Ltd on 20 March 2003; and
- Joint Venture (Bermuda) No. 2 Limited changed its name to Telstra CSL Limited on 12 March 2003.

#### Liquidations

(3) As at 30 June 2003, the following companies were in voluntary liquidation:

- On Australia Pty Ltd;
- Telecom Australia (Saudi) Company Ltd;
- WorldCorp Holdings (S) Pte Ltd; and
- WorldCorp Publishing Pte Ltd.

## Notes to the Financial Statements (continued)

### 23. Investments in controlled entities (continued)

#### Liquidations (continued)

(3) (continued)

The following companies were liquidated during fiscal 2003:

- Saturn Communications Limited on 7 August 2002;
- Paradise.Net Limited on 7 August 2002;
- Netlink Limited on 7 August 2002;
- ZFREE Limited on 7 August 2002;
- ZTALK Limited on 7 August 2002;
- CLEAR Communications (Australia) Pty Ltd on 30 September 2002;
- Kiwi Cable Company Limited on 11 November 2002;
- Telstra New Zealand Limited on 11 November 2002;
- RWC, HK Limited on 4 April 2003; and
- Telstra Wholesale Inc. on 30 June 2003.

During fiscal 2002, we entered into arrangements to transfer responsibility for the operation and funding of the Telstra Visa Card, Qantas Telstra Visa Card and the Telstra Visa Business Card loyalty programs and related trusts from Telstra. Telstra's involvement with these trusts will be dissolved during fiscal 2004.

#### Rounded investments

(4) The cost of the Telstra Entity's investments in controlled entities, which is not shown when rounded to the nearest million dollars is as follows:

|  | As at 30 June |      |
|--|---------------|------|
|  | 2003          | 2002 |
|  | \$            | \$   |
| Telstra Finance Limited . . . . .      | 5             | 5    |
| Telstra ESOP Trustee Pty Ltd . . . . . | 2             | 2    |
| Telstra Growthshare Pty Ltd . . . . .  | 1             | 1    |

#### Controlled entities in which we have no equity ownership

(5) We do not have an equity investment in Telecommunications Equipment Finance Pty Ltd. We have effective control over this entity through economic dependency and have consolidated it into our group financial report. This company does not have significant assets or liabilities.

#### Controlled entities in which our equity ownership is less than or equal to 50%

(6) We own 50% of the issued capital of Telecom Australia (Saudi) Company Limited. We can exercise control over the board of directors of this entity in perpetuity, and therefore we have consolidated the financial results, position and cash flows of this entity into our group financial report.

#### Controlled entities with different balance dates

(7) The following companies have different balance dates to our balance date of 30 June for fiscal 2003:

- Telecom Australia (Saudi) Company Limited - 31 December; and
- Beijing Australia Telecommunications Technical Consulting Services Company Limited - 31 December.

Financial reports prepared as at 30 June are used for consolidation purposes.

#### Controlled entities not individually audited by the Australian National Audit Office

(8) Companies not audited by the Australian National Audit Office, our Australian statutory auditor.

#### Dividends received by the Telstra Entity

(9) There were no significant dividends received by the Telstra Entity during fiscal 2003 or fiscal 2002 from our controlled entities.

#### New incorporations and investments

(10) We have invested in or incorporated the following entities during fiscal 2003:

- Customer Contact Technologies Pty Ltd on 30 July 2002;
- Data & Text Mining Technologies Pty Ltd on 30 July 2002;
- Lyrebird Technologies Pty Ltd on 30 July 2002; and
- Telstra Singapore Pte Ltd on 12 November 2002.

The amounts initially invested were not significant.

(11) On 9 April 2003, we acquired the remaining 41.6% of TelstraClear for \$25 million, taking our ownership interest to 100%. As a result of this acquisition, the shareholder's agreement between us and the minority shareholder was terminated, and all rights and options attaching to our respective shareholdings under this agreement ceased to exist.

## Notes to the Financial Statements (continued)

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### 23. Investments in controlled entities (continued)

#### Sales and disposals

(12) On 31 October 2002, we sold our 60% shareholding in the Sri Lankan mobile carrier, Mobitel (Pvt) Limited for \$17 million (US\$9 million).

The following entities were sold between entities within the Telstra Group:

- On 30 September 2002, Telstra Holdings Pty Ltd sold its investment in Telstra Limited to Telstra Enterprise Services Pty Ltd; and
- On 23 June 2003, NDC Global Holdings Pty Ltd sold its investment in NDC New Zealand Limited to Telstra Holdings Pty Ltd. As part of this restructure, TelstraClear performed a share buy-back of Telstra Holdings Pty Ltd's entire shareholding in TelstraClear and issued new shares to NDC New Zealand Limited. TelstraClear is now a 100% owned controlled entity of NDC New Zealand Limited.

#### Other structural changes

(13) On 28 June 2002, we signed a deed poll whereby we gave up our rights to appoint a majority of the directors to the board of Keycorp Limited (Keycorp). Accordingly, we no longer had the capacity to control this entity and reclassified our investment from a controlled entity to an associated entity on the basis that we have the capacity to significantly influence Keycorp's operating and financial policies (refer note 24 for further information). As a result, Keycorp Limited and its subsidiaries are not included in our controlled entity listing as at 30 June 2003 or 30 June 2002.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities

Our investments in joint venture entities are listed below:

| Name of joint venture entity  | Principal activities                                       | Ownership interest |                | Telstra Group's carrying amount of investment (*) |              | Telstra Entity's carrying amount of investment (*) |          |
|---|--|--------------------|----------------|---|--------------|--|----------|
|   |  | As at 30 June      |                | As at 30 June                                     |              | As at 30 June                                      |          |
|   |  | 2003               | 2002           | 2003  | 2002         | 2003   | 2002     |
|   |  | %                  | %              | \$m   | \$m          | \$m  | \$m      |
| <b>(i) Joint venture entities</b>   |  |                    |                |   |              |  |          |
| FOXTEL Partnerships (#) . . . . .   | Pay television   | 50.0               | 50.0           | 44  | 42           | -  | -        |
| Customer Services Pty Ltd (c) . . . . .                                   | Customer service   | 50.0               | 50.0           | -   | -            | -  | -        |
| FOXTEL Management Pty Ltd (1) . . . . .                                   | Management services  | 50.0               | 50.0           | -   | -            | -  | -        |
| FOXTEL Cable Television Pty Ltd (c) (3) . . . . .                         | Pay television   | 80.0               | 80.0           | -   | -            | -  | -        |
| Reach Ltd (incorporated in Bermuda) (a) (c) (11) . . . . .                | International connectivity services to wholesale customers | 50.0               | 50.0           | -   | 945          | -  | -        |
| DataOne Corporation Pte Ltd (incorporated in Singapore) (a) (9) . . . . . | Internet hosting company                                   | -                  | 20.0           | -   | -            | -  | -        |
| Stellar Call Centres Pty Ltd (2) . . . . .                                | Call centre services and solutions                         | 50.0               | 50.0           | 11  | 9            | 3  | 3        |
| Xantic B.V. (incorporated in The Netherlands) (a) . . . . .               | Global satellite communications                            | 35.0               | 35.0           | 74  | 114          | -  | -        |
| Investment 2000 Pty Ltd (1) (8) . . . . .                                 | Olympic business investment opportunities                  | -                  | 25.0           | -   | -            | -  | -        |
| IDC Limited (incorporated in Bermuda) (a) (8) . . . . .                   | Dormant  | -                  | 50.0           | -   | -            | -  | -        |
| TNAS Limited (incorporated in New Zealand) (b) (c) (7) . . . . .          | Toll free number portability in New Zealand                | 33.3               | 50.0           | -   | -            | -  | -        |
|   |  |                    | <b>note 11</b> | <b>129</b>  | <b>1,110</b> | <b>3</b>   | <b>3</b> |

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

(a) Balance date is 31 December.

(b) Balance date is 31 March.

Unless noted above, all investments have a balance date of 30 June and are incorporated in Australia. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting purposes.

(c) Equity accounting of these investments has been suspended and the investment is recorded at zero due to losses made by the entities and/or reductions in the equity accounted carrying amount.

(\*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.10(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

Our investments in associated entities are listed below:

| Name of associated entity  | Principal activities                  | Ownership interest |           | Telstra Group's carrying amount of investment (*) |             | Telstra Entity's carrying amount of investment (*) |             |
|--|---------------------------------------|--------------------|-----------|---|-------------|--|-------------|
|  |                                       | As at 30 June      |           | As at 30 June                                     |             | As at 30 June                                      |             |
|  |                                       | 2003<br>%          | 2002<br>% | 2003<br>\$m                                       | 2002<br>\$m | 2003<br>\$m  | 2002<br>\$m |
| <b>(ii) Associated entities</b>  |                                       |                    |           |   |             |  |             |
| IBM Global Services Australia Limited (a) (2) (#)                              | Information technology services       | 22.6               | 22.6      | 2   | -           | -  | -           |
| Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (a) (c) (12) | Network cable provider                | 39.9               | 39.9      | -   | 34          | -  | -           |
| Solution 6 Holdings Limited (9)  | Business software system provider     | -                  | 15.2      | -   | 14          | -  | -           |
| ECard Pty Ltd (7)  | Smart card transaction processing     | 50.0               | 41.0      | 3   | 12          | 7  | 31          |
| PT Mitra Global Telekomunikasi Indonesia (incorporated in Indonesia) (a)       | Telecommunications services           | 20.4               | 20.4      | 25  | 27          | -  | -           |
| Telstra Super Pty Ltd (c) (1) (4)  | Superannuation trustee                | 100.0              | 100.0     | -   | -           | -  | -           |
| myinternet Limited (c)   | Educational portal                    | 21.1               | 21.1      | -   | -           | -  | -           |
| Keycorp Limited (c) (6)  | Electronic transactions solutions     | 47.9               | 47.9      | -   | -           | -  | -           |
| Telstra Foundation Limited (5)   | Charitable trustee organisation       | 100.0              | 100.0     | -   | -           | -  | -           |
| CityLink Limited (incorporated in New Zealand) (b) (c) (1)                     | Provider of wholesale fibre bandwidth | 27.1               | 27.1      | -   | -           | -  | -           |
| <b>note 11</b>   |                                       |                    |           | <b>30</b>   | <b>87</b>   | <b>7</b>   | <b>31</b>   |

(a) Balance date is 31 December.

(b) Balance date is 31 March.

Unless noted above, all investments have a balance date of 30 June and are incorporated in Australia. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting purposes.

(c) Equity accounting of these investments has been suspended and the investment is recorded at zero due to losses made by the entities and/or reductions in the equity accounted carrying amount.

(\*) The Telstra Group carrying amounts are calculated using the equity method of accounting. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.10(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

(#) Equity accounting recommenced for this investment in fiscal 2003.



## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

#### Share of joint venture entities' and associated entities' net losses/ (profits)

|   | Year ended 30 June |             |
|---|--------------------|-------------|
|   | 2003<br>\$m        | 2002<br>\$m |
| Our net loss/(profit) from joint venture entities and associated entities has been contributed by the following entities: |                    |             |
| <b>Joint venture entities</b>   |                    |             |
| - FOXTEL Partnerships (#) . . . . .   | 47                 | 47          |
| - Stellar Call Centres Pty Ltd (2) . . . . .  | (2)                | (4)         |
| - TelstraClear Limited (10) . . . . .   | -                  | 75          |
| - Xantic B.V. . . . .   | 24                 | -           |
| - Dynegy Connect LP . . . . .   | -                  | 12          |
| - Reach Ltd (11) . . . . .  | 946                | (53)        |
| - DataOne Corporation Pte Ltd (9) . . . . .   | -                  | 2           |
|   | <b>1,015</b>       | <b>79</b>   |
| <b>Associated entities</b>  |                    |             |
| - IBM Global Services Australia Limited (2) . . . . .   | (6)                | (7)         |
| - Australian-Japan Cable Holdings Limited (12) . . . . .  | 6                  | 12          |
| - Solution 6 Holdings Limited (9) . . . . .   | 2                  | (9)         |
| - ECard Pty Ltd (7) . . . . .   | 10                 | 15          |
| - PT Mitra Global Telekomunikasi Indonesia . . . . .  | (2)                | (9)         |
|   | <b>10</b>          | <b>2</b>    |
|   | <b>1,025</b>       | <b>81</b>   |

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

#### Rounded investments

(1) The carrying amounts of our investments in joint venture entities and associated entities which are not shown when rounded to the nearest million dollars are shown below:

|                                       | Carrying amount of investment |         |                |      |
|---------------------------------------|-------------------------------|---------|----------------|------|
|                                       | Telstra Group                 |         | Telstra Entity |      |
|                                       | As at 30 June                 |         | As at 30 June  |      |
|                                       | 2003                          | 2002    | 2003           | 2002 |
|                                       | \$                            | \$      | \$             | \$   |
| <b>(i) Joint venture entities</b>     |                               |         |                |      |
| FOXTEL Management Pty Ltd . . . . .   | 1                             | 1       | -              | -    |
| Investment 2000 Pty Ltd (8) . . . . . | -                             | *       | -              | 12   |
| <b>(ii) Associated entities</b>       |                               |         |                |      |
| Telstra Super Pty Ltd (4) . . . . .   | *                             | *       | 2              | 2    |
| CityLink Limited . . . . .            | 299,403                       | 296,272 | -              | -    |

\* Equity accounted amount of investment is suspended and the investment is recorded at zero due to losses made by the entities or as a result of reducing the equity accounted amount to zero.

#### Dividends received from joint venture and associated entities

(2) We received or were presently entitled to receive dividends and distributions from the following entities during fiscal 2003:

- IBM Global Services Australia Limited \$4.9 million (2002: \$9.0 million); and
- Stellar Call Centres Pty Ltd \$1.2 million (2002: \$0.1 million).

#### Associated and joint venture entities in which we own more than 50% equity

(3) We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a joint venture entity, as the outside equity shareholders have participating rights that prevent us from dominating the decision making of the board of directors. Effective voting power is restricted to 50% and we have joint control.

(4) We own 100% of the equity of Telstra Super Pty Ltd, the trustee for the Telstra Superannuation Scheme (Telstra Super). We do not consolidate Telstra Super Pty Ltd, as we do not control the board of directors. We have equal representation with employee representatives on the board. The entity is therefore classified as an associated entity as we have significant influence over it.

(5) We own 100% of Telstra Foundation Limited (TFL). TFL is limited by guarantee (guaranteed to \$100) with Telstra Corporation Limited being the sole member. We did not contribute any equity to TFL on incorporation. TFL is the trustee of the Telstra Community Development Fund and manager of the Telstra's Kids Fund. We do not consolidate TFL as we do not control the board of directors. However, due to our board representation we significantly influence this entity.

#### Equity accounted investments previously consolidated

(6) On 28 June 2002, we signed a deed poll whereby we gave up our rights to appoint a majority of the directors to the board of Keycorp Limited (Keycorp). Accordingly, we no longer had the capacity to control this entity.

We deconsolidated the Keycorp Group from 28 June 2002 and reclassified the investment from a controlled entity to an associated entity on the basis that we have the capacity to significantly influence the operating and financial policies of the entity.

We have equity accounted our share of Keycorp's post acquisition losses and reserves to the extent that the investment carrying value is reduced to \$nil and as at 30 June 2003 and 30 June 2002 equity accounting was suspended. The equity method of accounting will not recommence until our share of profits and reserves exceeds our cumulative share of losses and reserve reductions.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

#### New incorporations and changes in investments

(7) On 14 November 2002, a share buy back by Ecard Pty Ltd (Ecard) increased our ownership interest in this entity to 50.0% (from 41.0% at 30 June 2002).

On 26 June 2003, we received \$2.5 million as a result of a capital reduction performed by Ecard. This reduced the carrying amount of our investment in this entity by \$2.5 million. This transaction did not effect our ownership interest.

As at 30 June 2003, our interest in TNAS Limited is 33.3% (2002: 50.0%). Our shareholding was diluted due to a cancellation of issued capital of this entity during the financial year.

#### Liquidation and de-registration of companies

(8) On 27 December 2002, the non operating company IDC Limited was dissolved.

Investment 2000 Pty Ltd was liquidated on 28 April 2003.

#### Sale of investments

(9) On 29 November 2002, we exercised a put option under the Joint Venture Agreement between Telstra Holdings Pty Ltd, DataOne Corporation Pte Limited (DataOne) and other venture parties for the sale of our shares in DataOne for a total consideration of \$3 million (SGD\$3 million).

On 8 May 2003, we sold 1 million of our shares in Solution 6 Holdings Limited (Solution 6) for \$0.5 million, reducing our ownership interest from 13.2% to 12.7%. On 19 June 2003, we sold our remaining 32 million shares for \$16.7 million.

Prior to the sale of our shares, our investment in Solution 6 decreased from 15.2% at 30 June 2002 to 13.2% in May 2003 due to six separate dilutions in our shareholding. We were the largest single shareholder and had entitlement to appoint a director to the board of Solution 6. On that basis, we had the capacity to affect substantially the financial and operating policies of the entity and up until the sale of the investment, we continued to equity account this investment.

#### Investments no longer equity accounted

(10) On 12 December 2001, we acquired a controlling interest in TelstraClear Limited (TelstraClear). Subsequent to this, TelstraClear is a controlled entity and as such nil share of (profits)/losses is recorded for equity accounting purposes.

#### Investment in Reach Ltd (REACH)

(11) We have written off the carrying amount of the investment in our 50% owned joint venture, REACH. Equity accounting of the investment is suspended and the investment is recorded at zero.

The write off occurred due to the depressed conditions in the global market for international data and internet capacity resulting in high levels of excess capacity, intense price competition and lower than expected revenues. Refer note 3 for further information.

Included in our net loss from REACH are the following components:

|  | Year ended<br>30 June<br>2003<br>\$m |
|--|--------------------------------------|
| Our share of REACH's profits up to suspension of equity accounting . . . . .   | (57)                                 |
| Notional goodwill amortisation up to suspension of equity accounting. . . . .  | 60                                   |
| Recognition of deferred profit up to suspension of equity accounting . . . . . | (22)                                 |
| Write off of the carrying value of our investment (note 3) . . . . .           | 965                                  |
|  | <u>946</u>                           |

#### Investment in Australian-Japan Cable Holdings Limited

(12) We have written off the carrying value of our investment in our 39.9% owned joint venture, Australian-Japan Cable Holdings Limited.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

The movements in the consolidated equity accounted amount of our joint venture and associated entities are summarised as follows:

|  | Joint venture entities<br>Telstra Group |             | Associated entities<br>Telstra Group |             |
|--|---|-------------|--------------------------------------|-------------|
|  | Year ended/As at<br>30 June             |             | Year ended/As at<br>30 June          |             |
|  | 2003<br>\$m                             | 2002<br>\$m | 2003<br>\$m                          | 2002<br>\$m |
| <b>Carrying amount of investments at beginning of year</b> . . . . .   | <b>1,110</b>                            | 1,192       | <b>87</b>                            | 67          |
| Additional investments made during the year . . . . .  | <b>49</b>                               | 67          | -                                    | 39          |
|  | <b>1,159</b>                            | 1,259       | <b>87</b>                            | 106         |
| Share of profits/(losses) before income tax expense . . . . .  | <b>(1)</b>                              | 38          | <b>(5)</b>                           | (1)         |
| Share of income tax expense . . . . .  | <b>(12)</b>                             | (41)        | <b>(5)</b>                           | (2)         |
| Share of net losses. . . . .   | <b>(13)</b>                             | (3)         | <b>(10)</b>                          | (3)         |
| Amortisation of unrealised inter-entity profits after income tax . . . . .   | <b>24</b>                               | 47          | -                                    | 1           |
| Write off of notional goodwill and release of deferred profit of Reach Ltd . . . . .   | <b>(965)</b>                            | -           | -                                    | -           |
| Amortisation of notional goodwill. . . . .   | <b>(61)</b>                             | (123)       | -                                    | -           |
| <b>Share of net losses</b> . . . . .   | <b>(1,015)</b>                          | (79)        | <b>(10)</b>                          | (2)         |
| Dividends and distributions received . . . . .   | <b>(1)</b>                              | -           | <b>(5)</b>                           | (9)         |
| Share of reserves. . . . .   | -                                       | 53          | <b>3</b>                             | (18)        |
| Share of foreign currency translation reserve and movements due to exchange rate translations. . . . .   | <b>(14)</b>                             | 45          | <b>(7)</b>                           | 10          |
| Sale, transfers and reductions of investments during the year . . . . .  | -                                       | (168)       | <b>(13)</b>                          | -           |
| Carrying amount of investments before reduction to recoverable amount . . . . .  | <b>129</b>                              | 1,110       | <b>55</b>                            | 87          |
| Reduction in value of investments to recoverable amount . . . . .  | -                                       | -           | <b>(25)</b>                          | -           |
| <b>Carrying amount of investments at end of year</b> . . . . . 11  | <b>129</b>                              | 1,110       | <b>30</b>                            | 87          |
| Our share of contingent liabilities of joint venture entities and associated entities - we are not directly liable for these . . . . .   | <b>3</b>                                | 1           | <b>28</b>                            | 36          |
| Our share of capital commitments contracted for, by our joint venture entities and associated entities - we are not directly liable for these (a) . . . . .  | <b>115</b>                              | 239         | <b>2</b>                             | 44          |
| Our share of other expenditure commitments contracted for (other than the supply of inventories), by our joint venture entities and associated entities - we are not directly liable for these (a) . . . . . | <b>147</b>                              | 287         | <b>55</b>                            | 70          |

(a) Our share of commitments of our joint venture entity FOXTEL for which we are directly liable are included within note 20.

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

#### Other disclosures for joint venture entities

Summarised presentation of our share of all of our joint venture entities' assets, liabilities, revenue and expense items (including joint venture entities where equity accounting has been suspended):

|  | <b>Telstra Group</b>    |             |
|--|-------------------------|-------------|
|  | <b>Year ended/As at</b> |             |
|  | <b>30 June</b>          |             |
|  | <b>2003</b>             | <b>2002</b> |
|  | <b>\$m</b>              | <b>\$m</b>  |
| <b>Joint venture entities</b>  |                         |             |
| Current assets . . . . .   | 461                     | 547         |
| Non current assets. . . . .  | 1,190                   | 3,654       |
| Total assets . . . . .   | <b>1,651</b>            | 4,201       |
| Current liabilities . . . . .  | 556                     | 566         |
| Non current liabilities. . . . .   | 1,376                   | 1,742       |
| Total liabilities . . . . .  | <b>1,932</b>            | 2,308       |
| Net assets . . . . .   | <b>(281)</b>            | 1,893       |
| Total revenues . . . . .   | 1,721                   | 1,839       |
| Total expenses . . . . .   | 1,789                   | 1,825       |
| Profits/(losses) before income tax expense. . . . .  | (68)                    | 14          |
| Income tax expense. . . . .  | 23                      | 41          |
| Net losses . . . . .   | <b>(91)</b>             | (27)        |
| <b>Other disclosures for associated entities</b>   |                         |             |
| Summarised presentation of our share of all of our associated entities' assets, liabilities and net profits/(losses) (including associated entities where equity accounting has been suspended): |                         |             |
| <b>Associated entities</b>   |                         |             |
| Net profits/(losses) . . . . .   | <b>(82)</b>             | 3           |
| Assets . . . . .   | 413                     | 571         |
| Liabilities . . . . .  | <b>380</b>              | 474         |

## Notes to the Financial Statements (continued)

### 24. Investments in joint venture entities and associated entities (continued)

Included in the consolidated financial report of the Telstra Group are:

|   | Joint venture entities |         | Associated entities |       |
|---|------------------------|---------|---------------------|-------|
|   | Telstra Group          |         | Telstra Group       |       |
|   | As at 30 June          |         | As at 30 June       |       |
|   | 2003                   | 2002    | 2003                | 2002  |
|   | \$m                    | \$m     | \$m                 | \$m   |
| Amount of our recorded retained losses balance relating to equity accounting our joint venture entities and associated entities (i) . . . . .                                 | (2,545)                | (1,530) | (179)               | (143) |
| Amount of our recorded foreign currency translation reserve credit/(debit) balance relating to equity accounting our joint venture entities and associated entities . . . . . | (13)                   | 9       | (42)                | (35)  |
| Amount of our recorded general reserve credit/(debit) balance relating to equity accounting our joint venture entities and associated entities . . . . .                      | -                      | -       | 9                   | (17)  |

(i) The following items are included in this amount:

- share of net (losses)/profits;
- initial unrealised inter-entity profit after tax adjustment;
- notional goodwill amortisation and writedowns;
- deferred profits amortised; and
- reduction in value of investments to recoverable amount.

**Notes to the Financial Statements (continued)**

|   | Telstra Group      |       | Telstra Entity     |       |
|---|--------------------|-------|--------------------|-------|
|   | Year ended 30 June |       | Year ended 30 June |       |
|   | 2003               | 2002  | 2003               | 2002  |
|   | \$m                | \$m   | \$m                | \$m   |
| <b>25. Directors' remuneration - salaries and other benefits</b>  |                    |       |                    |       |
| Total income and benefits of all directors of the Telstra Entity (a) . . . . .  |                    |       | <b>3.300</b>       | 3.927 |
| Total income and benefits of all directors of the Telstra Entity and all of the directors of our controlled entities (a). . . . . | <b>3.310</b>       | 4.338 |                    |       |

The income brackets of Telstra Entity directors are displayed below together with the number of Telstra Entity directors with income in those brackets:

|                                     | Number | Number |
|-------------------------------------|--------|--------|
| \$40,000 - \$49,999 . . . . .       | -      | 1      |
| \$50,000 - \$59,999 . . . . .       | -      | 1      |
| \$70,000 - \$79,999 . . . . .       | 1      | 3      |
| \$80,000 - \$89,999 . . . . .       | 2      | 1      |
| \$90,000 - \$99,999 . . . . .       | 2      | 1      |
| \$110,000 - \$119,999 . . . . .     | 1      | 1      |
| \$120,000 - \$129,999 . . . . .     | -      | 2      |
| \$130,000 - \$139,999 . . . . .     | 2      | -      |
| \$140,000 - \$149,999 . . . . .     | 1      | -      |
| \$150,000 - \$159,999 . . . . .     | -      | 1      |
| \$250,000 - \$259,999 . . . . .     | -      | 1      |
| \$270,000 - \$279,999 . . . . .     | 1      | -      |
| \$280,000 - \$289,999 . . . . .     | -      | 1      |
| \$2,110,000 - \$2,119,999 . . . . . | 1      | -      |
| \$2,390,000 - \$2,399,999 . . . . . | -      | 1      |

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

## Notes to the Financial Statements (continued)

|  | Telstra Group      |        | Telstra Entity     |        |
|--|--------------------|--------|--------------------|--------|
|  | Year ended 30 June |        | Year ended 30 June |        |
|  | 2003               | 2002   | 2003               | 2002   |
|  | \$m                | \$m    | \$m                | \$m    |
| <b>26. Executives' remuneration - salaries and other benefits</b>  |                    |        |                    |        |
| An executive officer is a person who is a member of our senior management team and is involved in our strategic direction and operational management. This includes the chief executive officer (CEO), those who report directly to the CEO and the next level of executives who have a direct reporting relationship to the CEO's direct reports. |                    |        |                    |        |
| Total income and benefits of all Australian based executive officers of the Telstra Entity where their income is \$100,000 or more (a) (b) (c) (d) . . . . .   |                    |        | <b>42.680</b>      | 44.540 |
| Total income and benefits of all Australian based executive officers of the Telstra Entity and our controlled entities where their income is \$100,000 or more (a) (b) (c) (d) . . . . .   | <b>42.900</b>      | 47.106 |                    |        |
| The income brackets of all Australian based executives whose income is \$100,000 or more are displayed below, together with the number of executives with income in those brackets:  |                    |        |                    |        |
|  | <b>Number</b>      | Number | <b>Number</b>      | Number |
| \$100,000 - \$109,999 . . . . .  | 1                  | 1      | 1                  | -      |
| \$110,000 - \$119,999 (d) . . . . .  | 2                  | 1      | 2                  | 1      |
| \$120,000 - \$129,999 . . . . .  | -                  | 5      | -                  | 3      |
| \$130,000 - \$139,999 . . . . .  | 1                  | -      | 1                  | -      |
| \$140,000 - \$149,999 . . . . .  | -                  | 5      | -                  | 3      |
| \$150,000 - \$159,999 . . . . .  | 1                  | 2      | 1                  | 2      |
| \$160,000 - \$169,999 . . . . .  | -                  | 2      | -                  | 2      |
| \$170,000 - \$179,999 . . . . .  | -                  | 1      | -                  | -      |
| \$180,000 - \$189,999 . . . . .  | -                  | 3      | -                  | 3      |
| \$190,000 - \$199,999 . . . . .  | 2                  | 5      | 2                  | 3      |
| \$200,000 - \$209,999 . . . . .  | 1                  | 3      | 1                  | 2      |
| \$210,000 - \$219,999 . . . . .  | 4                  | 1      | 3                  | -      |
| \$220,000 - \$229,999 (d) . . . . .  | 1                  | 4      | 1                  | 4      |
| \$230,000 - \$239,999 (d) . . . . .  | 5                  | -      | 5                  | -      |
| \$240,000 - \$249,999 . . . . .  | -                  | 3      | -                  | 3      |
| \$250,000 - \$259,999 . . . . .  | 1                  | 3      | 1                  | 2      |
| \$260,000 - \$269,999 . . . . .  | 1                  | -      | 1                  | -      |
| \$270,000 - \$279,999 . . . . .  | 2                  | 2      | 2                  | 2      |
| \$280,000 - \$289,999 . . . . .  | 2                  | 2      | 2                  | 2      |
| \$290,000 - \$299,999 . . . . .  | -                  | 4      | -                  | 4      |
| \$300,000 - \$309,999 . . . . .  | 1                  | 5      | 1                  | 4      |
| \$310,000 - \$319,999 . . . . .  | 8                  | 3      | 8                  | 3      |
| \$320,000 - \$329,999 . . . . .  | 3                  | 3      | 3                  | 3      |
| \$330,000 - \$339,999 . . . . .  | -                  | 1      | -                  | 1      |
| \$340,000 - \$349,999 (d) . . . . .  | 3                  | 1      | 3                  | 1      |
| \$350,000 - \$359,999 . . . . .  | 3                  | 4      | 3                  | 4      |
| \$360,000 - \$369,999 (d) . . . . .  | 2                  | 3      | 2                  | 3      |
| \$370,000 - \$379,999 . . . . .  | -                  | 2      | -                  | 2      |
| \$380,000 - \$389,999 . . . . .  | -                  | 2      | -                  | 1      |
| \$390,000 - \$399,999 . . . . .  | 2                  | 2      | 2                  | 2      |
| \$400,000 - \$409,999 . . . . .  | 1                  | 3      | 1                  | 3      |

(continued over page)



## Notes to the Financial Statements (continued)

|   | Telstra Group      |               | Telstra Entity     |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Year ended 30 June |               | Year ended 30 June |               |
|   | 2003               | 2002          | 2003               | 2002          |
| <b>26. Executives' remuneration - salaries and other benefits (continued)</b> |                    |               |                    |               |
|   | <b>Number</b>      | <b>Number</b> | <b>Number</b>      | <b>Number</b> |
| \$420,000 - \$429,999 . . . . .   | 1                  | 3             | 1                  | 3             |
| \$430,000 - \$439,999 . . . . .   | 1                  | 4             | 1                  | 4             |
| \$440,000 - \$449,999 (d) . . . . .   | 5                  | 1             | 5                  | 1             |
| \$450,000 - \$459,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$460,000 - \$469,999 . . . . .   | 6                  | 3             | 6                  | 3             |
| \$470,000 - \$479,999 . . . . .   | 3                  | 2             | 3                  | 2             |
| \$480,000 - \$489,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$490,000 - \$499,999 (d) . . . . .   | 1                  | 2             | 1                  | 2             |
| \$500,000 - \$509,999 . . . . .   | 1                  | 1             | 1                  | 1             |
| \$510,000 - \$519,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$520,000 - \$529,999 . . . . .   | 2                  | 4             | 2                  | 4             |
| \$530,000 - \$539,999 . . . . .   | -                  | 2             | -                  | 2             |
| \$540,000 - \$549,999 . . . . .   | 2                  | -             | 2                  | -             |
| \$550,000 - \$559,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$560,000 - \$569,999 . . . . .   | 1                  | 2             | 1                  | 2             |
| \$580,000 - \$589,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$600,000 - \$609,999 (d) . . . . .   | 1                  | -             | 1                  | -             |
| \$610,000 - \$619,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$620,000 - \$629,999 . . . . .   | 1                  | 2             | 1                  | 2             |
| \$640,000 - \$649,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$650,000 - \$659,999 (d) . . . . .   | 1                  | -             | 1                  | -             |
| \$670,000 - \$679,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$710,000 - \$719,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$740,000 - \$749,999 . . . . .   | 1                  | 1             | 1                  | 1             |
| \$880,000 - \$889,999 (d) . . . . .   | 1                  | -             | 1                  | -             |
| \$890,000 - \$899,999 (d) . . . . .   | 1                  | -             | 1                  | -             |
| \$930,000 - \$939,999 . . . . .   | 1                  | 1             | 1                  | 1             |
| \$1,000,000 - \$1,009,999 (d) . . . . .                                       | 1                  | -             | 1                  | -             |
| \$1,060,000 - \$1,069,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$1,130,000 - \$1,139,999 (d) . . . . .                                       | 3                  | -             | 3                  | -             |
| \$1,190,000 - \$1,199,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$1,250,000 - \$1,259,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$1,340,000 - \$1,349,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$1,510,000 - \$1,519,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$1,680,000 - \$1,689,999 (d) . . . . .                                       | 1                  | 1             | 1                  | 1             |
| \$1,700,000 - \$1,709,999 . . . . .   | -                  | 1             | -                  | 1             |
| \$2,110,000 - \$2,119,999 . . . . .   | 1                  | -             | 1                  | -             |
| \$2,390,000 - \$2,399,999 . . . . .   | -                  | 1             | -                  | 1             |

## Notes to the Financial Statements (continued)

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### 26. Executives' remuneration - salaries and other benefits (continued)

(a) Income and benefits of executives includes:

- fixed remuneration which is made up of salary, company superannuation contributions and benefits including fringe benefits tax;
- manager incentive plan payments relating to actual performance for Telstra and the individual in fiscal 2003;
- retirement/redundancy/termination payments totalling \$5.81 million (2002: \$4.06 million) for the Telstra Group; and
- retirement/redundancy/termination payments totalling \$5.78 million (2002: \$4.00 million) for the Telstra Entity.

(b) The Manager Incentive Plan (MIP) is an annual plan open to all of our executives. The amount of remuneration at risk (target incentive) varies between 10% and 43% (2002: 10% and 43%) of the total remuneration package depending on the executive's role. The plan is based on performance against set targets for corporate, business unit and individual measures. The measures include financial, customer service, employee opinion and individual measures that support our key business objectives. Before any MIP is payable, a target must be reached, according to the predefined measures. The plan also provides that payments are capped at a specified level.

(c) Telstra Growthshare commenced in fiscal 2000 and provides for selected senior executives who contribute significantly to our future long term profitability to be invited to participate in an equity based Long Term Incentive (LTI) plan and/or an equity based deferred remuneration plan, on an annual basis. Since the commencement of the plan, those selected senior executives have been eligible to receive an allocation of options, restricted shares, performance rights or deferred shares, or a combination of each in a given fiscal year. The options, restricted shares and performance rights can only be exercised to obtain normal ordinary shares between certain time periods and if specific long term company performance hurdles have been achieved. Generally, deferred shares can only be exercised after a certain period of service has been completed. If the hurdle is not achieved or the service period not completed, the instrument will have a \$nil value and will lapse. For further details of the LTI plan and equity based deferred remuneration plan, including detailed explanations of performance hurdles and allocations, refer to note 19.

As there is no AGAAP requirement to record an expense for the fair value of the options, performance rights and deferred shares issued under Telstra Growthshare in fiscal 2003 or fiscal 2002, no remuneration value has been included in our director and executive remuneration disclosures relating to those instruments. Under Telstra's USGAAP disclosures (refer note 30), we are however required to derive a value for the purposes of our USGAAP statement of financial performance. An approach consistent with the binomial and Black-Scholes valuation models was adopted to complete this requirement.

Details of the valuations derived since the commencement of Telstra Growthshare and the assumptions used in deriving those values for fiscal 2003 are detailed in note 19. For further details on our USGAAP disclosures, refer to note 30.

(d) Includes payments relating to individual contractual commitments and the commencement or completion of employment with us during fiscal 2003.

## Notes to the Financial Statements (continued)

### 27. Related entity transactions

#### Ultimate controlling entity

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

We supply telecommunications services to, and acquire other services from, the Commonwealth, its Departments of State, trading and other agencies. These transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There are no exclusive rights to supply any of these services. Services provided to any one governmental department or agency or the combination of all of these services in total, do not represent a significant component of our operating revenues. For these reasons, the financial reports do not disclose transactions relating to the purchase and sale of goods and services from or to the Commonwealth, its Departments of State, trading and other agencies.

#### Directors of the Telstra Entity

The name of each person who held office as a director of the Telstra Entity for the whole of fiscal 2003 is:

|                    |                         |                      |
|--------------------|-------------------------|----------------------|
| Robert C Mansfield | John E Fletcher         | Donald G McGauchie   |
| John T Ralph       | Belinda J Hutchinson    | William A Owens      |
| Sam H Chisholm     | Catherine B Livingstone | John W Stocker       |
| Anthony J Clark    | Charles Macek           | Zygmunt E Switkowski |

Details of directors' remuneration, superannuation and retirement payments are listed in note 25.

#### Loans to directors of the Telstra Entity

No non-executive director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during fiscal 2003 or 2002.

In fiscal 1998, Z E Switkowski (before being appointed chief executive officer and managing director) was provided with a loan from the Telstra Entity as part of his participation in the Telstra Employee Share Ownership Plan (TESOP97). The loan was provided interest free and on the same terms as all other eligible employees who participated in TESOP97. During fiscal 2000, Z E Switkowski also participated in the Telstra Employee Share Ownership Plan II (TESOP99). Further details of the share plans are contained in note 19.

The total amounts repaid during fiscal 2003 was \$555 (2002: \$469). At 30 June 2003, the outstanding balance of the loan to Z E Switkowski was \$7,144 (2002: \$7,699). There were no loans provided during fiscal 2003 and fiscal 2002.

#### Other transactions with directors of the Telstra Entity and their director related entities

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

#### Loan to Telstra Growthshare

During fiscal 2000, Telstra created Telstra Growthshare (a senior executive equity participation plan). In fiscal 2003, we advanced \$nil (2002: \$81 million) to Telstra Growthshare to enable it to purchase shares in the Telstra Entity. In the prior year, of the \$81 million loan provided, \$7 million was used to acquire performance rights. This amount has been immediately expensed to the statement of financial performance as it is not repayable to Telstra. The loan balance at 30 June 2003 of \$88 million (2002: \$115 million) was used to acquire Telstra Entity shares over which certain senior executives are granted options. Telstra Growthshare also holds in trust certain shares allocated to senior executives and non-executive directors under the ownshare and directshare schemes (refer note 19 for further information).

#### Loans to employees

We have two employee shares schemes, being TESOP97 and TESOP99. At the commencement of the scheme, loans were advanced to participating employees to enable the purchase of Telstra shares. Loans under TESOP97 and TESOP99 are provided interest free. During fiscal 2003, \$32 million (2002: \$40 million) of the loans under TESOP97 and TESOP99 was repaid. At 30 June 2003, the outstanding loan balance for both schemes was \$198 million (2002: \$230 million). Refer to note 19 for further information.

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Directors of the Telstra Entity's interests in shares of the Telstra Entity

As at 30 June 2003 and 2002, the directors, family members and their related entities had interests in the share capital of the Telstra Entity as follows:

#### Telstra Entity - shares (a)

|                              | As at 30 June |         |
|------------------------------|---------------|---------|
|                              | 2003          | 2002    |
| R C Mansfield . . . . .      | 130,604       | 118,539 |
| J T Ralph . . . . .          | 92,204        | 81,171  |
| S H Chisholm . . . . .       | -             | -       |
| A J Clark . . . . .          | 92,609        | 84,095  |
| J E Fletcher . . . . .       | 40,850        | 35,744  |
| B J Hutchinson . . . . .     | 62,091        | 58,375  |
| C B Livingstone . . . . .    | 34,697        | 31,294  |
| C Macek . . . . .            | 37,568        | 23,554  |
| D G McGauchie . . . . .      | 26,476        | 23,073  |
| W A Owens . . . . .          | 7,495         | 1,997   |
| J W Stocker . . . . .        | 85,670        | 60,503  |
| Z E Switkowski (a) . . . . . | 155,810       | 155,810 |

Total shareholdings include shares held by the directors and their director related entities. Unless related to TESOP99, TESOP97 or Telstra Growthshare, shares acquired or disposed by directors during the year were on an arm's length basis at market price. Overall, there has been 91,919 shares (2002: 83,420 shares) acquired and nil shares (2002: 2,950 shares) disposed of during fiscal 2003.

(a) There have been no shares issued under TESOP97 and TESOP99 during fiscal 2003 or fiscal 2002. Shares have, however, been allocated under the directshare equity plan. A schedule of the shareholdings and details on this plan are included in note 19.

#### Telstra Entity - cumulative equity based instruments issued under Telstra Growthshare

|                              | Z E Switkowski (b) |
|------------------------------|--------------------|
| <b>As at 30 June 2003</b>    |                    |
| Options . . . . .            | 3,456,000          |
| Restricted shares. . . . .   | 146,000            |
| Performance rights . . . . . | 756,200            |
| Deferred shares . . . . .    | 249,100            |
| <b>As at 30 June 2002</b>    |                    |
| Options . . . . .            | 3,456,000          |
| Restricted shares. . . . .   | 146,000            |
| Performance rights . . . . . | 258,000            |
| Deferred shares . . . . .    | -                  |

(b) Refer to note 19 for details of Telstra Growthshare terms and conditions.

#### Directors of controlled entities

Each of our controlled entity directors and their director related entities have telecommunications services transactions with us, which are on normal commercial terms and conditions which are trivial and domestic in nature.

#### Loans to directors of controlled entities

Certain employees of the Telstra Group who were eligible to participate in TESOP99 and TESOP97 (refer note 19) were also directors of controlled entities. The directors of the controlled entities were provided with an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in TESOP99 and TESOP97. During fiscal 2003 and fiscal 2002, certain employees became directors of controlled entities in the Telstra Group. These directors brought with them existing loans of \$nil and \$130,696 respectively.

The amount of new loans advanced during fiscal 2003 was \$nil (2002: \$nil). Loan repayments of \$45,078 (2002: \$55,698) were made including 5 directors who repaid their TESOP97 loans in full. For TESOP99 shares, directors that have left continue to be the beneficial owner of the shares. The balance of the loans outstanding at 30 June 2003 was \$211,046 (2002: \$315,245). All controlled entity directors listed below made loan repayments during fiscal 2003 and 2002:

|             |             |                 |
|-------------|-------------|-----------------|
| B Akhurst   | B Grisdale  | M Robey         |
| R Baxter    | P Hastings  | C Rowles        |
| B Beros     | J Hibbard   | L Saly          |
| H Bradlow   | H Kelly     | H Sawczak       |
| T Bundrock  | S Lee       | G Shepherd      |
| J Burke     | A Lockwood  | D Simmonds      |
| C Cameron   | G Moriarty  | R Simpson       |
| D Campbell  | G Nicholson | J Stanhope      |
| A Cherubin  | T Pearson   | P Wallis        |
| T Crossley  | N Peckham   | P Whorlow       |
| C Davis     | P Pickering | K Wijeyewardene |
| A Day       | B Pineau    | G Willis        |
| A Dix       | D Pitt      | L Wood          |
| W Donaldson | J Price     |                 |

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Loans to directors of controlled entities (continued)

There were five directors who repaid their TESOP97 loan in full during the year; they were C Cameron, G Moriarty, B Pineau, M Robey, and G Shepherd. G Moriarty and G Shepherd also repaid their TESOP99 loans in full.

#### Telstra shares owned by the Telstra Superannuation Scheme (Telstra Super)

Telstra Super owns shares in Telstra Corporation Limited. As at 30 June 2003 Telstra Super owned 9,975,761 (2002: 14,838,932) shares at a cost of \$46 million (2002: \$77 million) and a market value of \$44 million (2002: \$69 million). In fiscal 2003, we paid dividends to Telstra Super of \$3 million (2002: \$3 million). In addition, Telstra Super holds bonds issued by Telstra Corporation Limited. As at 30 June 2003, Telstra Super holds bonds with a cost of \$8 million (2002: \$3 million) and a market value of \$8 million (2002: \$3 million). All purchases and sales of Telstra shares and bonds by Telstra Super are determined by the trustee and/or its investment managers on behalf of the members of Telstra Super.

#### Wholly owned group and other related entity disclosures

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

|   | Note  | Telstra Group |      | Telstra Entity |       |
|---|-------|---------------|------|----------------|-------|
|   |       | As at 30 June |      | As at 30 June  |       |
|   |       | 2003          | 2002 | 2003           | 2002  |
|   |       | \$m           | \$m  | \$m            | \$m   |
| <b>Total amounts receivable</b>                                 |       |               |      |                |       |
| <b>(including trade debtors) at 30 June from:</b>               |       |               |      |                |       |
| <b>Current</b>  |       |               |      |                |       |
| Wholly owned controlled entities . . . . .                      | 9     | -             | -    | 689            | 2,620 |
| Provision for amounts owed by controlled entities (i) . . . . . | 9     | -             | -    | (285)          | (855) |
|   |       | -             | -    | 404            | 1,765 |
| Other controlled entities . . . . .                             | 9     | -             | -    | -              | 528   |
| Joint venture entities and associated entities . . . . .        | 9     | 61            | 61   | 48             | 29    |
| <b>Non current</b>  |       |               |      |                |       |
| Wholly owned controlled entities . . . . .                      | 9     | -             | -    | 511            | 202   |
| Provision for amounts owed by controlled entities . . . . .     | 9     | -             | -    | (69)           | (86)  |
|   |       | -             | -    | 442            | 116   |
| Joint venture entities and associated entities . . . . .        | 9     | 29            | 46   | 29             | 46    |
|   |       | 90            | 107  | 923            | 2,484 |
| <b>Total amounts payable</b>                                    |       |               |      |                |       |
| <b>(including accounts payable) at 30 June to:</b>              |       |               |      |                |       |
| <b>Current</b>  |       |               |      |                |       |
| Wholly owned controlled entities . . . . .                      | 15,16 | -             | -    | 2,015          | 1,829 |
| Joint venture entities and associated entities . . . . .        | 15,16 | 63            | 125  | 56             | 103   |
|   |       | 63            | 125  | 2,071          | 1,932 |

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Wholly owned group and other related entity disclosures (continued)

##### Transactions with our wholly owned controlled entities

(i) Included in the profit before income tax expense of the Telstra Entity was a positive net movement of \$570 million (2002: \$855 million expense) in relation to the provision for amounts owed by a controlled entity. This balance is eliminated on consolidation for Telstra Group reporting purposes (refer note 3 for further information).

(ii) In fiscal 2003, a number of purchase and sale transactions occurred between the Telstra Entity and its wholly owned controlled entities.

- During fiscal 2003, communication assets were sold by the Telstra Entity to a controlled entity in the wholly owned group at cost of \$29 million (2002: \$34 million).
- The Telstra Entity sold services, purchased goods and communications assets, paid fees and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.
- Our controlled entity Network Design and Construction Limited (NDC) constructs communication assets on our behalf. During fiscal 2003, we paid for the purchase and maintenance of communication assets from NDC totalling \$737 million (2002: \$784 million).

Included in the revenue received in advance amount at 30 June 2003 is \$228 million (2002: \$233 million) for the use of our Yellow Pages<sup>®</sup> trademark and \$84 million (2002: \$90 million) for the use of our White Pages<sup>®</sup> trademark that were received from a controlled entity. These amounts are not recorded as revenue until the directories are published according to our accounting policy described in note 1.19.

During fiscal 2003, the Telstra Entity elected to form a tax consolidated group with its Australian resident wholly owned controlled entities. We have transferred the amount of \$191 million relating to future income tax benefits and \$94 million relating to provision for deferred income tax from our resident wholly owned controlled entities to the Telstra Entity as a result of this election. In addition, the Telstra Entity has reimbursed our resident wholly owned controlled entities \$10 million relating to PAYG instalments made prior to entering the tax consolidation system (refer note 4 for further information).

##### Transactions with our other related entities

On 25 April 2003, we entered a capacity prepayment agreement with our joint venture entity Reach Ltd (Reach). Included in non current receivables for the year ended 30 June 2003 is a payment of \$230 million (US\$143 million) to Reach for a right to receive future carriage and related services capacity. This non current receivable earns interest at market rates (refer note 9 for further information).

During fiscal 2003, purchases were made by the Telstra Group of \$506 million (2002: \$788 million) and Telstra Entity of \$471 million (2002: \$735 million) from Reach. These amounts were for both the purchase of, and entitlement to, capacity and connectivity services. These purchases were made in line with market prices. Entitlement to capacity with Reach takes into account our future needs and growth opportunities. Sales were made for international inbound call termination services, construction and consultancy by the Telstra Group of \$109 million (2002: \$115 million) and Telstra Entity of \$105 million (2002: \$94 million) to Reach.

During fiscal 2003, purchases were made by the Telstra Group of \$413 million (2002: \$417 million) and Telstra Entity of \$403 million (2002: \$407 million) from our associated entity IBMGSA. These amounts were for information technology services predominately resulting from a contract with IBMGSA. These purchases were made on normal commercial terms and conditions (refer note 20 for further information).

Included in software assets for fiscal 2003 is \$132 million (2002: \$168 million) paid to IBMGSA.

During fiscal 2003, we paid for operating expenses on behalf of the following entities:

- Telstra Foundation Limited;
- Telstra Community Development Trust;
- Telstra Growthshare Trust;
- Telstra Employee Share Ownership Plan I (TESOP97); and
- Telstra Employee Share Ownership Plan II (TESOP99).

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Wholly owned group and other related entity disclosures (continued)

During fiscal 2003, 2002 and 2001, we had the following transactions between members of the wholly owned group and other related entities:

|  | Note | Telstra Group      |       |      | Telstra Entity     |       |
|--|------|--------------------|-------|------|--------------------|-------|
|  |      | Year ended 30 June |       |      | Year ended 30 June |       |
|  |      | 2003               | 2002  | 2001 | 2003               | 2002  |
|  |      | \$m                | \$m   | \$m  | \$m                | \$m   |
| <b>Our transactions with entities in the wholly owned group and other related entities</b> |      |                    |       |      |                    |       |
| Profit before income tax expense for the year includes the following transactions:         |      |                    |       |      |                    |       |
| <b>Interest revenue from:</b>  |      |                    |       |      |                    |       |
| Wholly owned controlled entities . . . . .   | 2    | -                  | -     | -    | 124                | 67    |
| Joint venture entities and associated entities . . . . .                                   | 2    | 2                  | 2     | 2    | 2                  | 2     |
| <b>Borrowing costs:</b>  |      |                    |       |      |                    |       |
| Wholly owned controlled entities . . . . .   | 3    | -                  | -     | -    | 80                 | 58    |
| <b>Provision for doubtful debts - increase/(decrease):</b>                                 |      |                    |       |      |                    |       |
| Wholly owned controlled entities . . . . .   | 3    | -                  | -     | -    | (587)              | 830   |
| <b>Sale of goods and services to:</b>  |      |                    |       |      |                    |       |
| Joint venture entities and associated entities . . . . .                                   |      | 232                | 370   | 152  | 124                | 120   |
| <b>Purchase of goods and services from:</b>  |      |                    |       |      |                    |       |
| Joint venture entities and associated entities . . . . .                                   |      | 1,113              | 1,332 | 616  | 985                | 1,210 |

## Notes to the Financial Statements (continued)

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### 28. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 30 June 2003 that, in their opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

On 28 August 2003, the directors of Telstra Corporation Limited declared a fully franked final ordinary dividend of 12 cents per ordinary share, payable on 31 October 2003 to those shareholders on record at 26 September 2003. A provision for dividend payable has been raised as at the date of declaration, amounting to \$1,544 million.

On 28 August 2003, plans were announced to spend between \$800 million and \$1,000 million to buy-back a portion of the Telstra Entity's share capital, subject to regulatory approval. The share buy-back will be an off market buy-back and is the first step of a capital management program. The financial effect of the buy-back cannot be reliably estimated as yet.

On 27 August 2003, we entered into an agreement to sell our 22.6% shareholding in our associated entity IBM Global Services Australia Limited (IBMGSA), subject to regulatory approvals. Revenue from the sale of this investment amounted to \$154 million resulting in a profit before income tax expense of \$149 million. We also modified a 10 year contract with IBMGSA to provide information technology services. This modification will result in an expense of \$130 million being recognised in our fiscal 2004 statement of financial performance and the removal of \$1,596 million of expenditure commitments disclosed as at 30 June 2003 (refer to note 20 for additional information). In fiscal 2004, the net impact on our profit before income tax expense of this transaction will be \$19 million.

On 18 July 2003, we sold our 16.4% remaining interest in Commander Communications Limited for \$24 million.

The financial effect of the above events after balance date have not been recognised in our statements of financial performance, financial position or cash flows for the year ending 30 June 2003.



## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures

We undertake transactions in a range of financial instruments which can be classified as either primary (physical instruments) or secondary instruments (derivative instruments).

Our primary instruments include:

- cash assets;
- receivables;
- payables;
- bank deposits;
- bills of exchange and commercial paper;
- listed investments and investments in other corporations; and
- various forms of borrowings both receivable and payable.

These primary financial instruments enable us to achieve company objectives through facilitating our ongoing operating activities and ensuring that all entities within the Telstra Group remain solvent at all times.

Secondary instruments or derivative instruments create an obligation or right that effectively transfers one or more of the risks associated with an underlying primary financial instrument. We use derivatives to manage our exposure within levels considered acceptable to the group as determined by guidelines and policies approved by the board of directors. Instruments that we use to achieve this include:

- forward foreign currency contracts;
- cross currency swaps; and
- interest rate swaps.

Primary instruments create underlying exposures for the group. The main risks associated with these instruments include:

- interest rate risk;
- foreign currency risk;
- credit risk; and
- liquidity risk.

**Interest rate risk** refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Our interest rate risk arises from the interest bearing financial assets and liabilities that we use whether the primary instrument has a fixed or variable rate attached. We monitor this risk on our net debt portfolio which includes our financial liabilities less matching short term financial assets. We manage interest rate risk by:

- controlling the settings of the group financial position to target levels of fixed and variable interest proportions of the net debt portfolio; and
- ensuring access to diverse sources of funding, minimising risks of refinancing.

We use suitable derivative instruments as part of the management of this risk.

**Foreign currency risk** refers to the risk that the value of a financial commitment or investment will fluctuate due to changes in foreign currency exchange rates. Our foreign currency risk arises due to:

- firm or anticipated transactions for receipts and payments for international telecommunications traffic settled in foreign currencies;
- purchase commitments priced in foreign currencies;
- investments denominated in foreign currencies; and
- a portion of our borrowings denominated in foreign currencies.

We manage this risk by initially seeking contracts effectively denominated in Australian dollars where possible and economically favourable to do so. Where financial commitments are effectively denominated in foreign currencies and do not form part of a natural hedging position, we manage exposure to rate movements through the use of derivative instruments.

**Credit risk** is the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. We have exposure to credit risk on all financial assets included in our statement of financial position. To help manage this risk:

- we have a policy for establishing credit limits for the entities we deal with;
- we may require collateral where appropriate; and
- we minimise exposure to individual entities we either transact with or enter into derivative contracts with (through a system of credit limits).

**Liquidity risk** includes the risk that, as a result of our operational liquidity requirements:

- we will not have sufficient funds to settle a transaction on the due date;
- we will be forced to sell financial assets at a value which is less than what they are worth; or
- we may be unable to settle or recover a financial asset at all.

To help reduce these risks we:

- have a liquidity policy which targets a minimum and average level of cash and cash equivalents to be maintained;
- have readily accessible standby facilities and other funding arrangements in place; and
- generally use instruments that are tradeable in highly liquid markets.

## Notes to the Financial Statements (continued)

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### 29. Additional financial instruments disclosures (continued)

After we have minimised the potential risk associated with entering into a primary financial instrument, any remaining risk is then hedged through the use of derivative instruments within guidelines approved by the board of directors. These instruments enable us to minimise our exposure to:

- interest rate risk;
- foreign currency risk; and/or
- other market risk.

After hedging risk through derivatives, the remaining potential for gain or loss is managed. This is due to the gains or losses on the underlying physical transactions being offset by the gains or losses on the related derivative instrument. Hedging activities also enable us to minimise the volatility of our cash flows due to changes in interest rates and foreign currency exchange rates.

We do not speculatively trade in derivative instruments. All our derivative transactions are entered into to hedge the risks relating to underlying physical transactions.

To hedge our interest rate risk, we mainly use interest rate swaps and cross currency swaps. Our interest rate risk is calculated on our net debt portfolio which includes both physical borrowings such as bonds and commercial paper and associated derivative instruments. We manage our net debt in accordance with set targeted interest rate profiles and debt maturity profiles.

To hedge our foreign currency risk, we predominantly use cross currency swaps and forward foreign currency contracts.

Our currency risk arising from translation of foreign currency borrowings and investments is determined by reference to the underlying primary instrument. In relation to borrowings, we effectively remove the currency risk by fully converting them to Australian dollar borrowings at drawdown by applying cross currency swaps, unless a natural hedge exists. In relation to investments, we hedge borrowings in the same currency and with the same interest rate characteristics where appropriate. We enter into forward foreign currency contracts on anticipated future transactions to reduce our risk to a level considered acceptable by the company.

Foreign currency risk on transactions (i.e. excluding translation risks) are calculated on a net foreign exchange basis for individual currencies. This underlying foreign exchange risk is combined (offset) with the associated foreign exchange derivatives used to hedge these risks generating our net foreign exchange risk.

Foreign currency risk also arises on translation of the financial reports of our non-Australian controlled entities. Our significant non-Australian controlled entities operate independently from us both financially and operationally. As a result, the majority of the foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve. Where hedging of this risk is undertaken, we prefer to use foreign currency borrowings to provide a natural hedge position. Where this is not an option, other derivative instruments are used (e.g. forward foreign currency contracts).

We enter into, and hedge transactions in the following significant foreign currencies:

- United States dollars;
- British pounds sterling;
- New Zealand dollars;
- Euro;
- Hong Kong dollars; and
- Japanese yen.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Interest rate risk

Our exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2003 are shown in Table A below. This information includes all financial instruments both recognised and unrecognised in the statement of financial position. The information as at 30 June 2002 is shown in Table B.

**Table A**

Telstra Group

|  | As at 30 June 2003                                |          |                 |             |             |                            |           | Note |
|--|---|----------|-----------------|-------------|-------------|----------------------------|-----------|------|
|  | Weighted<br>average<br>effective<br>interest rate | Floating | Interest rate   |             |             | Non<br>interest<br>bearing | Total (c) |      |
|  |   |          | Fixed due dates |             |             |                            |           |      |
|  |   |          | 1 yr. or less   | 2 to 5 yrs. | over 5 yrs. |                            |           |      |
| %  | \$m   | \$m      | \$m             | \$m         | \$m         | \$m                        |           |      |
| <b>Financial assets</b>  |   |          |                 |             |             |                            |           |      |
| Cash assets . . . . . (a)  | 4.48  | 1,101    | -               | -           | -           | 199                        | 1,300     | 8    |
| Trade debtors and accrued revenue . .  | -   | -        | -               | -           | -           | 3,305                      | 3,305     | 9    |
| Bank deposits, bills of exchange<br>and commercial paper > 90 days . . (a)   | -   | -        | -               | -           | -           | -                          | -         | 9    |
| Share loan to employees . . . . .  | -   | -        | -               | -           | -           | 198                        | 198       | 9    |
| Other receivables . . . . . (a)  | 2.50  | -        | -               | -           | 88          | 346                        | 434       | 9    |
| Loans to joint ventures and associated<br>entities . . . . . (a)             | 5.23  | -        | 33              | 29          | -           | -                          | 62        | 9    |
| Cross currency swaps . . . . . (a)   | -   | (1,892)  | 10              | 2,192       | (27)        | -                          | 283       | 9    |
| Investments . . . . . (b)  | -   | -        | -               | -           | -           | 96                         | 96        | 11   |
| PCCW converting note . . . . . (a)   | 5.00  | -        | -               | 83          | -           | -                          | 83        | 14   |
| <b>Total financial assets/(liabilities)<br/>as at 30 June 2003 . . . . .</b> |   | (791)    | 43              | 2,304       | 61          | 4,144                      | 5,761     |      |
| <b>Financial liabilities</b>   |   |          |                 |             |             |                            |           |      |
| Trade creditors and accrued expenditure                                      | -   | -        | -               | -           | -           | 2,275                      | 2,275     | 15   |
| Other creditors . . . . .  | -   | -        | -               | -           | -           | 301                        | 301       | 15   |
| Loan from joint venture entity . . . (a)                                     | 4.70  | -        | 1               | -           | -           | -                          | 1         | 16   |
| Bills of exchange and commercial<br>paper . . . . . (a)                      | 3.22  | 643      | -               | -           | -           | -                          | 643       | 16   |
| Bank loans . . . . . (a)   | -   | -        | -               | -           | -           | -                          | -         | 16   |
| Telstra bonds . . . . . (a)  | 8.19  | -        | 210             | 784         | 1,619       | -                          | 2,613     | 16   |
| Other loans . . . . . (a)  | 5.65  | -        | 449             | 4,409       | 3,994       | -                          | 8,852     | 16   |
| Cross currency swaps . . . . . (a)   | -   | 593      | -               | (148)       | (19)        | -                          | 426       | 16   |
| Finance lease liabilities . . . . . (a)                                      | 7.55  | -        | 18              | 2           | -           | -                          | 20        | 16   |
| Interest rate swaps . . . . . (a)  | -   | 2,222    | 230             | (149)       | (2,303)     | -                          | -         |      |
| <b>Total financial liabilities as at<br/>30 June 2003 . . . . .</b>          |   | 3,458    | 908             | 4,898       | 3,291       | 2,576                      | 15,131    |      |
| <b>Net financial assets/(liabilities)<br/>as at 30 June 2003 . . . . .</b>   |   | (4,249)  | (865)           | (2,594)     | (3,230)     | 1,568                      | (9,370)   |      |

(a) The effective yield (effective interest rate) on our net debt at 30 June 2003 was 7.45%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per statement of financial position.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Interest rate risk (continued)

|   | Telstra Group  |                |               |                |                |                            |                 | Note |
|---|--|----------------|---------------|----------------|----------------|----------------------------|-----------------|------|
|   | As at 30 June 2002                                   |                |               |                |                |                            |                 |      |
|   | Weighted<br>average<br>effective<br>interest<br>rate | Floating       | Interest rate |                |                | Non<br>interest<br>bearing | Total (c)       |      |
|   |  |                | 1 yr. or less | 2 to 5 yrs.    | over 5 yrs.    |                            |                 |      |
| %   | \$m  | \$m            | \$m           | \$m            | \$m            | \$m                        |                 |      |
| <b>Financial assets</b>   |  |                |               |                |                |                            |                 |      |
| Cash assets . . . . . (a)   | 3.45   | 759            | -             | -              | -              | 311                        | 1,070           | 8    |
| Trade debtors and accrued revenue . . . . .                                     | -  | -              | -             | -              | -              | 3,438                      | 3,438           | 9    |
| Bank deposits, bills of exchange and<br>commercial paper > 90 days. . . . . (a) | 5.15   | 388            | -             | -              | -              | -                          | 388             | 9    |
| Share loan to employees. . . . .  | -  | -              | -             | -              | -              | 230                        | 230             | 9    |
| Other receivables . . . . . (a)   | 3.50   | -              | -             | -              | 115            | 184                        | 299             | 9    |
| Loans to joint ventures and associated<br>entities. . . . . (a)                 | 4.61   | -              | 16            | 46             | -              | -                          | 62              | 9    |
| Cross currency swaps . . . . . (a)  | -  | (1,916)        | 148           | 1,548          | 871            | -                          | 651             | 9    |
| Investments . . . . . (b)   | -  | -              | -             | -              | -              | 105                        | 105             | 11   |
| PCCW converting note . . . . . (a)  | 5.00   | -              | -             | 337            | -              | -                          | 337             | 14   |
| <b>Total financial assets/(liabilities)<br/>as at 30 June 2002 . . . . .</b>    |  | <b>(769)</b>   | <b>164</b>    | <b>1,931</b>   | <b>986</b>     | <b>4,268</b>               | <b>6,580</b>    |      |
| <b>Financial liabilities</b>  |  |                |               |                |                |                            |                 |      |
| Trade creditors and accrued expenditure. . . . .                                | -  | -              | -             | -              | -              | 2,336                      | 2,336           | 15   |
| Other creditors . . . . .   | -  | -              | -             | -              | -              | 555                        | 555             | 15   |
| Loan from joint venture entity . . . . . (a)                                    | 4.70   | -              | 4             | -              | -              | -                          | 4               | 16   |
| Bills of exchange and commercial paper (a)                                      | 4.41   | 602            | -             | -              | -              | -                          | 602             | 16   |
| Bank loans . . . . . (a)  | 3.87   | 1,613          | -             | -              | -              | -                          | 1,613           | 16   |
| Telstra bonds . . . . . (a)   | 8.74   | -              | 582           | 989            | 1,616          | -                          | 3,187           | 16   |
| Other loans . . . . . (a)   | 5.85   | -              | 148           | 3,736          | 4,932          | -                          | 8,816           | 16   |
| Cross currency swaps . . . . . (a)  | -  | 331            | -             | -              | (217)          | -                          | 114             | 16   |
| Finance lease liabilities. . . . . (a)  | 7.11   | -              | 20            | 21             | -              | -                          | 41              | 16   |
| Interest rate swaps . . . . . (a)   | -  | 1,150          | (280)         | (1,763)        | 893            | -                          | -               | -    |
| <b>Total financial liabilities as at<br/>30 June 2002 . . . . .</b>             |  | <b>3,696</b>   | <b>474</b>    | <b>2,983</b>   | <b>7,224</b>   | <b>2,891</b>               | <b>17,268</b>   |      |
| <b>Net financial assets/(liabilities)<br/>as at 30 June 2002 . . . . .</b>      |  | <b>(4,465)</b> | <b>(310)</b>  | <b>(1,052)</b> | <b>(6,238)</b> | <b>1,377</b>               | <b>(10,688)</b> |      |

(a) The effective yield (effective interest rate) on our net debt at 30 June 2002 was 7.7%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per statement of financial position.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Credit risk

The recorded amounts of financial assets included in the consolidated statement of financial position, net of any applicable provisions for loss, represent our maximum exposure due to credit risk for these assets. Where entities have a right of set-off and intend to settle on a net basis under master netting arrangements, this set-off has been recognised in the financial statements on a net basis. Accordingly, our maximum credit risk exposure amounts to \$5,761 million (2002: \$6,580 million).

The major concentrations of credit risk for the group arise from our transactions in money market instruments, forward foreign currency contracts, cross currency and interest rate swaps. One of the methods that we use to manage the risk relating to these instruments is to monitor our exposure by country of institution. When reviewing concentrations of risk, we adjust for the period to maturity of relevant instruments in our portfolio to accurately consider our exposure at a point in time. On this basis, our credit risk exposure (which includes a time based volatility allowance (VAR)) by country of institution is included in Table C below.

|                     | 2003       |              | 2002       |              |
|---------------------|------------|--------------|------------|--------------|
|                     | %          | \$m          | %          | \$m          |
| Australia . . . . . | 30         | 2,232        | 26         | 2,079        |
| United States . . . | 51         | 3,876        | 51         | 4,027        |
| Japan . . . . .     | -          | 16           | -          | 35           |
| Europe . . . . .    | 9          | 680          | 11         | 847          |
| Hong Kong . . . . . | -          | -            | 5          | 405          |
| Other . . . . .     | 10         | 767          | 7          | 542          |
|                     | <b>100</b> | <b>7,571</b> | <b>100</b> | <b>7,935</b> |

We also have credit risk exposure to an individual contracting entity through a converting note we hold in PCCW Limited (PCCW). Our maximum credit risk exposure relating to this transaction amounts to \$83 million (2002: \$337 million) (refer to note 14 for further information).

Outside of these above transactions, we do not have any other significant exposure to any individual contracting entity.

#### Net fair value of our financial assets and financial liabilities

Apart from those items referred to below, our financial assets and financial liabilities recorded in the statement of financial position approximate net fair value.

|                                    | Carrying amount<br>As at 30 June |             | Net fair value<br>As at 30 June |             |
|------------------------------------|----------------------------------|-------------|---------------------------------|-------------|
|                                    | 2003<br>%                        | 2002<br>\$m | 2003<br>%                       | 2002<br>\$m |
| <b>Not readily traded</b>          |                                  |             |                                 |             |
| <i>Financial assets</i>            |                                  |             |                                 |             |
| Converting note issued by PCCW     | <b>83</b>                        | 337         | <b>85</b>                       | 337         |
| <b>Traded on organised markets</b> |                                  |             |                                 |             |
| <i>Financial assets</i>            |                                  |             |                                 |             |
| Listed investments                 | <b>32</b>                        | 41          | <b>89</b>                       | 144         |
| <i>Financial liabilities</i>       |                                  |             |                                 |             |
| Telstra bonds                      | <b>2,663</b>                     | 3,253       | <b>2,990</b>                    | 3,472       |
| Other loans                        | <b>8,957</b>                     | 8,904       | <b>9,707</b>                    | 9,097       |
|                                    | <b>11,620</b>                    | 12,157      | <b>12,697</b>                   | 12,569      |

Unless there is evidence to suggest otherwise, financial assets and financial liabilities with a short term to maturity are considered to approximate net fair value. This includes items such as bank deposits, trade debtors, payables, bills of exchange and commercial paper.

The net fair values of other financial assets and financial liabilities (apart from our listed investments) are determined through reference to discounted cash flows, current risk adjusted market interest rates and any rights specific to each instrument or group of instruments. The net fair values of our listed investments are determined by reference to prices quoted on the relevant stock exchanges where the securities are traded.

The net fair value of our derivative instruments is included in the following discussion on derivatives.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Other information on our primary financial instruments

Until 28 June 2002, we held a US\$750 million convertible note issued by PCCW. On this date, PCCW redeemed the note in full and the fair value of the redemption was applied to acquire PCCW's 40% interest in Telstra CSL Limited and to subscribe to a new US\$190 million mandatorily converting secured note. We valued the original note on a yield to maturity basis which resulted in a \$96 million expense recorded in our statement of financial performance in fiscal 2002. As this transaction was completed at the prior year end, the carrying value of the converting note was considered to represent fair value at 30 June 2002. Also included in interest expense for fiscal 2002, was \$66 million relating to a mark to market adjustment for interest rate swaps taken out over the convertible note where the underlying exposure was no longer present.

On 25 April 2003, the converting note was partially redeemed by PCCW as part of our entry into a capacity prepayment arrangement with our 50% owned joint venture, Reach Ltd. The remaining converting note at the time of entry into this arrangement was approximately US\$54 million (refer to note 9 and note 14 for additional information).

#### Additional information about our derivative instruments

As indicated, we enter into contracts for derivative instruments to hedge risks relating to underlying transactions. The following information provides further details on terms and conditions relating to those derivative instruments. To appropriately assess our exposure to risk, these secondary instruments should be viewed in the context of the underlying transactions and balances being hedged. As a result, net market values and other data should not be assessed on their own.

Our major exposure to interest rate risk and foreign currency risk arises from our loans and borrowings. It is our policy to hedge the interest rate exposure on our debt portfolio to adjust the ratio of fixed interest debt to variable interest debt, as required by our debt management policy. We also hedge currency exposure on our foreign currency loans and borrowings remaining after considering any natural hedging positions. We mainly use cross currency swaps, interest rate swaps, and forward foreign currency exchange contracts to achieve this position.

The terms and conditions in relation to interest rate and maturity of the cross currency swaps are similar to the terms and conditions of the underlying hedged borrowings in note 16.

The due dates of interest rate swaps match the due dates of the underlying debt within the requirements of our debt management policy. Net interest receipts and payments are recognised as an adjustment to borrowing costs.

At 30 June 2003 and 2002, the Australian dollar interest rates applicable to our derivatives varied as shown in Table E below.

| Table E                     | Telstra Group                   |                        |
|-----------------------------|---------------------------------|------------------------|
|                             | Interest rate variations        |                        |
|                             | As at 30 June                   |                        |
| <b>Cross currency swaps</b> | <b>2003</b>                     | <b>2002</b>            |
| Fixed . . . . .             | <b>from 7.05% to<br/>7.87%</b>  | from 7.05% to<br>7.87% |
| Variable . . . . .          | <b>from 4.60% to<br/>6.14%</b>  | from 4.69% to<br>6.58% |
| <b>Interest rate swaps</b>  |                                 |                        |
| Fixed . . . . .             | <b>from 5.25% to<br/>10.11%</b> | from 5.25% to<br>8.46% |
| Variable . . . . .          | <b>from 4.42% to<br/>5.21%</b>  | from 4.15% to<br>5.44% |

The notional principal amounts of interest rate swaps represent the face values of swap contracts entered into by us and that are outstanding at balance date. The notional principal amounts do not represent amounts exchanged or to be exchanged by the parties to the contract. They are not a true reflection of the credit risk and are therefore not recorded in the statement of financial position.

The maturity dates, net notional principal amounts, net fair value and carrying amounts of our outstanding interest rate swaps at balance date are shown in Table F following.

The gross notional principal amounts of our interest rate swaps are \$11,551 million (2002: \$11,416 million). The gross notional principal amounts of interest rate swaps is significantly larger than the net notional principal amounts shown. This is due to the net notional principal amount taking into account our offsetting positions. Gross positions have also been modified over time as volumes and positions have changed.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Additional information about our derivative instruments (continued)

Table F

|  | Telstra Group                     |              |                    |              |                     |             |
|--|-----------------------------------|--------------|--------------------|--------------|---------------------|-------------|
|  | Net notional principal amount (a) |              | Net fair value (b) |              | Carrying amount (c) |             |
|  | As at 30 June                     |              |                    |              |                     |             |
|  | 2003                              | 2002         | 2003               | 2002         | 2003                | 2002        |
|  | \$m                               | \$m          | \$m                | \$m          | \$m                 | \$m         |
| <b>Interest rate swaps with floating interest rates</b>  |                                   |              |                    |              |                     |             |
| - Less than one year receivable/(payable) . . . . .      | (230)                             | 280          | (4)                | (3)          | (2)                 | (1)         |
| - One to five years receivable/(payable) . . . . .       | 149                               | 1,763        | (71)               | (89)         | (8)                 | (79)        |
| - Greater than five years receivable/(payable) . . . . . | 2,303                             | (893)        | 319                | (12)         | 31                  | (8)         |
|  | <b>2,222</b>                      | <b>1,150</b> | <b>244</b>         | <b>(104)</b> | <b>21</b>           | <b>(88)</b> |

(a) At 30 June 2003 and 30 June 2002, we had a net interest rate swap position of pay fixed. This means that on a net basis we receive interest on the interest rate swap at variable rates and pay interest on the interest rate swaps at fixed rates. As a result our exposure to movements in interest rates is managed.

(b) The net fair value represents the market value of both the fixed and floating components of our interest rate swaps.

(c) The carrying amount represents the accrued interest payable on interest rate swaps which is included in current payables.

The maturity profile, net principal amounts, net fair values and carrying amounts of our outstanding cross currency swaps at balance date are shown in Table G below.

Table G

|                                     | Telstra Group                 |              |                    |            |                     |            |
|-------------------------------------|-------------------------------|--------------|--------------------|------------|---------------------|------------|
|                                     | Notional principal amount (a) |              | Net fair value (b) |            | Carrying amount (c) |            |
|                                     | As at 30 June                 |              |                    |            |                     |            |
|                                     | 2003                          | 2002         | 2003               | 2002       | 2003                | 2002       |
|                                     | \$m                           | \$m          | \$m                | \$m        | \$m                 | \$m        |
| <b>Cross currency swaps</b>         |                               |              |                    |            |                     |            |
| - Less than one year . . . . .      | 440                           | 119          | 8                  | 36         | 7                   | 31         |
| - One to five years . . . . .       | 4,024                         | 3,273        | 348                | 561        | 172                 | 502        |
| - Greater than five years . . . . . | 4,287                         | 4,894        | (477)              | (102)      | (308)               | 33         |
|                                     | <b>8,751</b>                  | <b>8,286</b> | <b>(121)</b>       | <b>495</b> | <b>(129)</b>        | <b>566</b> |

(a) The notional principal amount represents the face value of the payable leg of our swaps we have entered into, denominated in Australian dollars.

(b) The net fair value represents the market value of our outstanding cross currency swaps.

(c) The carrying amount represents the net principal which is recorded in interest bearing liabilities, current receivables and non current receivables and accrued interest which is recorded in current receivables.

## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Additional information about our derivative instruments (continued)

We also have exposure to foreign currency risk through our ongoing business activities where we have purchase or settlement commitments in foreign currencies. This includes equipment and material purchases or other currency conversion exposures on ongoing receivables and payables, excluding loan and borrowing balances. In addition, we have exposure to foreign currency risk as a result of our investments in offshore activities, including our investments in TelstraClear Limited and Hong Kong CSL Limited. This risk is created by the translation of the net assets of these entities from their operating currency to Australian dollars. Our exposures before and after hedging are detailed in Table H below:

|   | Telstra Group           |              |                        |              |
|---|-------------------------|--------------|------------------------|--------------|
|   | Exposure before hedging |              | Exposure after hedging |              |
|   | As at 30 June           |              | As at 30 June          |              |
|   | 2003<br>\$m             | 2002<br>\$m  | 2003<br>\$m            | 2002<br>\$m  |
| Net anticipated future transactions (amounts payable) . . . . .   | 273                     | 503          | 139                    | 261          |
| Net transaction exposure (on amounts payable recorded in the statement of financial position) . . . . . | 176                     | 299          | 79                     | 154          |
| Translation exposure (offshore investments) . . . . .   | (1,802)                 | (959)        | (1,065)                | (959)        |
|   | <b>(1,353)</b>          | <b>(157)</b> | <b>(847)</b>           | <b>(544)</b> |
| The maturity dates of the anticipated future transactions are as follows:                               |                         |              |                        |              |
| Less than one year . . . . .  | 264                     | 503          |                        |              |
| One to five years . . . . .   | 9                       | -            |                        |              |
|   | <b>273</b>              | <b>503</b>   |                        |              |

Our hedging policy provides effective hedging for all our foreign currency exchange exposures within levels considered acceptable to the company.

Details of forward foreign currency contracts we have entered into to hedge our trading activities are combined with forward foreign currency contracts entered into to hedge our loans and borrowings in Table I below. Details include net Australian dollar amounts receivable/(payable), settlement dates and average contractual forward exchange rates.

|  | Telstra Group |             |
|--|---------------|-------------|
|  | As at 30 June |             |
|  | 2003<br>\$m   | 2002<br>\$m |
| United States dollars  |               |             |
| - less than three months, at rates averaging United States dollars \$0.5465 (2002: US\$0.5389) . . . | 6             | 117         |
| - 3 to 12 months, at rates averaging United States dollars \$0.6112 (2002: US\$0.5643) . . . . .     | 97            | 251         |
| - 12 to 18 months, at rates averaging United States dollars \$0.6046 (2002: US\$0.4989) . . . . .    | 5             | 9           |
| - over 18 months, at rates averaging United States dollars \$0.6716 (2002: US\$0.5630) . . . . .     | 16            | (2)         |
|  | <b>124</b>    | <b>375</b>  |



## Notes to the Financial Statements (continued)

### 29. Additional financial instruments disclosures (continued)

#### Additional information about our derivative instruments (continued)

Table I (continued)

|  | Telstra Group |              |
|--|---------------|--------------|
|  | As at 30 June |              |
|  | 2003          | 2002         |
|  | \$m           | \$m          |
| British pounds sterling  |               |              |
| - less than three months, at rates averaging British pounds sterling 0.3560 (2002: British pounds sterling 0.3991) . . . . . | 1             | 1            |
| - 3 to 12 months, at rates averaging British pounds sterling nil (2002: British pounds sterling 0.3784) . . . . .            | -             | 7            |
|  | <b>1</b>      | <b>8</b>     |
| Euro   |               |              |
| - less than three months, at rates averaging Euro 0.5430 (2002: Euro 0.5895) . . . . .                                       | 3             | 17           |
| - 3 to 12 months, at rates averaging Euro nil (2002: Euro 0.5927) . . . . .  | -             | 31           |
|  | <b>3</b>      | <b>48</b>    |
| Japanese yen   |               |              |
| - less than three months, at rates averaging Japanese yen nil (2002: Japanese yen 69.5398) . . . . .                         | -             | 1            |
| - 3 to 12 months, at rates averaging Japanese yen nil (2002: Japanese yen 70.2000) . . . . .                                 | -             | 3            |
|  | -             | <b>4</b>     |
| New Zealand dollars  |               |              |
| - less than three months, at rates averaging New Zealand dollars \$1.1465 (2002: New Zealand dollars \$1.215) . . . . .      | (148)         | (500)        |
|  | <b>(148)</b>  | <b>(500)</b> |
| Hong Kong dollars  |               |              |
| - less than three months, at rates averaging Hong Kong dollars \$4.4593 (2002: Hong Kong dollars nil) . . . . .              | (255)         | -            |
| Our offshore controlled entities have also entered into the following Australian dollar forward foreign currency contracts:  |               |              |
| - less than three months, at rates averaging Australian dollars \$0.8764 (2002: Australian dollars nil) . . . . .            | (1)           | -            |
| - 3 to 12 months, at rates averaging Australian dollars \$0.9702 (2002: Australian dollars nil)                              | (4)           | -            |
|  | <b>(5)</b>    | -            |

The net fair value of forward foreign currency contracts at 30 June 2003 is a \$22 million gain (2002: \$30 million loss).

For interest rate swaps, cross currency swaps and forward foreign currency contracts where the carrying amount is in excess of net fair value at balance date, no reduction to net fair value is made since these derivatives act as hedges of underlying physical transactions.

In addition to the credit risk on our primary financial instruments, we also have exposure on our derivative instruments. The values shown in Table J below include all transactions where the net fair value is favourable. For credit purposes, there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. The amounts disclosed in Table J are different from those shown in the net fair value amounts in Tables G and H as these show the net fair value

after netting favourable against unfavourable transactions. Table J only shows the favourable transactions.

Table J

|  | Telstra Group  |            |
|--|----------------|------------|
|  | Net fair value |            |
|  | As at 30 June  |            |
|  | 2003           | 2002       |
|  | \$m            | \$m        |
| Interest rate swaps . . . . .                | 623            | 129        |
| Cross currency swaps . . . . .               | 431            | 562        |
| Forward foreign currency contracts . . . . . | 50             | 9          |
|  | <b>1,104</b>   | <b>700</b> |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures

#### Reconciliations to financial reports prepared using USGAAP

Our consolidated financial report is prepared in accordance with accounting principles generally accepted in Australia (AGAAP). AGAAP has significant differences from the accounting principles

generally accepted in the United States (USGAAP). The significant differences between AGAAP and USGAAP are presented throughout note 30. Additionally, where there is no conflict with AGAAP requirements we have incorporated some of the additional USGAAP requirements throughout the AGAAP financial statements.

| <b>Telstra Group</b>   |                     |                       |                     |                     |
|--|---------------------|-----------------------|---------------------|---------------------|
| <b>Year ended 30 June</b>  |                     |                       |                     |                     |
| <b>Note</b>  | <b>2003<br/>\$m</b> | <b>2003<br/>US\$m</b> | <b>2002<br/>\$m</b> | <b>2001<br/>\$m</b> |
| <b>Reconciliation of net income to USGAAP</b>  |                     |                       |                     |                     |
| AGAAP net income reported in statement of financial performance . . . . .                        | 3,429               | 2,297                 | 3,661               | 4,058               |
| <b>Adjustments required to agree with USGAAP</b>   |                     |                       |                     |                     |
| Property, plant and equipment . . . . . 30(a)  | (323)               | (216)                 | (204)               | (192)               |
| Retirement benefit gain/(expense) . . . . . 30(f)  | 130                 | 87                    | 472                 | (110)               |
| Amortisation of software assets . . . . . 30(i)  | -                   | -                     | -                   | (25)                |
| Mobile phone subsidies . . . . . 30(k)   | -                   | -                     | 30                  | 144                 |
| Income tax benefit/(expense) . . . . . 30(l)   | 164                 | 110                   | (59)                | 307                 |
| Employee compensation expense . . . . . 30(m)  | -                   | -                     | (41)                | (9)                 |
| Redundancy and restructuring provision - fiscal 2000 reversal . . . . . 30(n)                    | -                   | -                     | (94)                | (392)               |
| Derivative financial instruments and hedging activities . . . . . 30(o)                          | (420)               | (281)                 | (17)                | (101)               |
| PCCW converting note . . . . . 30(o)   | 12                  | 8                     | 198                 | (198)               |
| Sale of Global Wholesale Business to Reach Ltd (REACH) . . . . . 30(p)                           | -                   | -                     | -                   | (882)               |
| Equity accounting and write-off adjustments for REACH . . . . . 30(q)                            | 665                 | 445                   | 36                  | 17                  |
| Consolidation adjustment for Telstra CSL Limited (CSL) . . . . . 30(r)                           | -                   | -                     | (65)                | 959                 |
| Fair value / general reserve adjustments . . . . . 30(s)   | 9                   | 6                     | (19)                | -                   |
| Goodwill adjustments . . . . . 30(t)   | (216)               | (145)                 | -                   | -                   |
| <b>Net income per USGAAP</b> . . . . .   | <b>3,450</b>        | <b>2,311</b>          | <b>3,898</b>        | <b>3,576</b>        |
| <b>Statement of financial performance measured and classified per USGAAP</b>                     |                     |                       |                     |                     |
| Operating revenue (i) . . . . .  | 20,495              | 13,732                | 20,196              | 19,456              |
| Operating expenses:  |                     |                       |                     |                     |
| Labour . . . . .   | 3,074               | 2,060                 | 2,862               | 2,899               |
| Goods and services purchased . . . . .   | 3,236               | 2,168                 | 3,613               | 3,320               |
| Depreciation and amortisation . . . . .  | 3,532               | 2,366                 | 3,536               | 3,149               |
| Other operating expenses . . . . .   | 4,337               | 2,906                 | 4,072               | 3,854               |
| <b>Total operating expenses</b> . . . . .  | <b>14,179</b>       | <b>9,500</b>          | <b>14,083</b>       | <b>13,222</b>       |
| <b>Operating income</b> . . . . .  | <b>6,316</b>        | <b>4,232</b>          | <b>6,113</b>        | <b>6,234</b>        |
| Net interest expense (ii) . . . . .  | (823)               | (552)                 | (851)               | (705)               |
| Dividend income . . . . . 2  | 1                   | 1                     | 1                   | 16                  |
| Share of net losses of associates and joint venture entities . . . . .                           | (114)               | (76)                  | (41)                | (143)               |
| Other (expense)/income (iii) . . . . .   | (297)               | (199)                 | 537                 | 370                 |
| <b>Net income before income tax expense and minority interests</b> . . . . .                     | <b>5,083</b>        | <b>3,406</b>          | <b>5,759</b>        | <b>5,772</b>        |
| Income tax expense . . . . . 30(l)   | 1,359               | 911                   | 1,859               | 2,044               |
| <b>Net income before minority interests and cumulative effect adjustments</b> . . . . .          | <b>3,724</b>        | <b>2,495</b>          | <b>3,900</b>        | <b>3,728</b>        |
| Minority interests . . . . .   | 35                  | 23                    | (2)                 | 10                  |
| <b>Net income before cumulative effect adjustments</b> . . . . .                                 | <b>3,759</b>        | <b>2,518</b>          | <b>3,898</b>        | <b>3,738</b>        |
| Cumulative effect of changes in accounting principles, net of tax . . . . . 30 (j), 30(o), 30(t) | (309)               | (207)                 | -                   | (162)               |
| <b>Net income per USGAAP</b> . . . . .   | <b>3,450</b>        | <b>2,311</b>          | <b>3,898</b>        | <b>3,576</b>        |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Reconciliations to financial reports prepared using USGAAP (continued)

|  | Note       | Telstra Group      |               |        |        |
|--|------------|--------------------|---------------|--------|--------|
|  |            | Year ended 30 June |               | 2002   | 2001   |
|  |            | 2003               | 2003          | 2002   | 2001   |
|  |            | \$m                | US\$m         | \$m    | \$m    |
| <b>Reconciliation of certain statement of financial performance components to USGAAP</b>   |            |                    |               |        |        |
| Presenting information according to USGAAP involves reclassifying the presentation adopted for AGAAP. The reconciliation of operating revenue, net interest expense and other income from AGAAP to USGAAP is provided below: |            |                    |               |        |        |
| <b>Revenue from ordinary activities per AGAAP</b> . . . . .  | 2          | <b>21,616</b>      | <b>14,483</b> | 20,802 | 22,983 |
| Less:  |            |                    |               |        |        |
| Dividend income . . . . .  | 2          | 1                  | 1             | 1      | 16     |
| Revenue from the sale of non current assets . . . . .  | 2          | 859                | 575           | 302    | 3,303  |
| Reclassifications due to cumulative effect of change in accounting principle . . . . .   | 1.2, 3(c)  | -                  | -             | -      | (777)  |
| Writeback of superannuation additional contribution liability . . . . .  | 3(c),30(f) | -                  | -             | -      | 725    |
| Other revenue per AGAAP (iv) . . . . .   |            | 261                | 175           | 303    | 260    |
| <b>(i) Operating revenue per USGAAP</b> . . . . .  |            | <b>20,495</b>      | <b>13,732</b> | 20,196 | 19,456 |
| <b>Net borrowing costs per AGAAP</b> . . . . .   |            | <b>(795)</b>       | <b>(533)</b>  | (770)  | (666)  |
| Additional derivative financial instruments and hedging expenses . . . . .   |            | (15)               | (10)          | (20)   | (15)   |
| Interest income on REACH capacity prepayment . . . . .   |            | 2                  | 1             | -      | -      |
| PCCW converting note interest revenue reversal . . . . .   |            | (15)               | (10)          | (61)   | (24)   |
| <b>(ii) Net interest expense per USGAAP</b> . . . . .  |            | <b>(823)</b>       | <b>(552)</b>  | (851)  | (705)  |
| <b>(iv) Other revenue per AGAAP</b> . . . . .  |            | <b>261</b>         | <b>175</b>    | 303    | 260    |
| Add/(subtract):  |            |                    |               |        |        |
| AGAAP Net profit/(loss) on sale of:  |            |                    |               |        |        |
| - property, plant and equipment . . . . .  | 3(a)       | 173                | 116           | (4)    | 7      |
| - investments in controlled entities . . . . .   | 3(a)       | 5                  | 3             | 3      | 4      |
| - investments in joint venture entities . . . . .  | 3(a)       | 3                  | 2             | -      | 2      |
| - investments in associated entities . . . . .   | 3(a)       | 9                  | 6             | -      | -      |
| - investments in listed entities and other corporations . . . . .  | 3(a)       | (2)                | (1)           | (5)    | 266    |
| - patents, trademarks and licences . . . . .   | 3(a)       | -                  | -             | 1      | 8      |
| - business . . . . .   | 3(a)       | 10                 | 7             | -      | 852    |
| USGAAP reversal of gain on sale of Global Wholesale Business . . . . .   |            | -                  | -             | -      | (859)  |
| USGAAP net profit on sale of non current assets . . . . .  |            | 48                 | 33            | (7)    | 38     |
| USGAAP write-off of REACH investment . . . . .   | 30(q)      | (203)              | (136)         | -      | -      |
| USGAAP impairment of CSL goodwill . . . . .  | 30(t)      | (85)               | (57)          | -      | -      |
| USGAAP reversal of gain on sale/leaseback and subsequent amortisation . . . . .  | 30(a)      | (162)              | (109)         | -      | -      |
| Derivative financial instruments and hedging activities . . . . .  |            | (404)              | (271)         | 4      | (59)   |
| PCCW converting note . . . . .   |            | 27                 | 18            | 259    | (174)  |
| Net foreign currency translation gains/(losses) . . . . .  |            | 23                 | 15            | (17)   | 25     |
| <b>(iii) Other (expense)/income per USGAAP</b> . . . . .   |            | <b>(297)</b>       | <b>(199)</b>  | 537    | 370    |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Reconciliations to financial reports prepared using USGAAP (continued)

|  | Telstra Group      |               |             |             |
|--|--------------------|---------------|-------------|-------------|
|  | Year ended 30 June |               |             |             |
| Note   | 2003<br>\$m        | 2003<br>US\$m | 2002<br>\$m | 2001<br>\$m |
| <b>USGAAP Earnings per share</b>   |                    |               |             |             |
| Net income per USGAAP . . . . .  | 3,450              | 2,311         | 3,898       | 3,576       |
|  | ¢                  | US ¢          | ¢           | ¢           |
| Basic earnings per share before cumulative effect of change in accounting principles . . .   | 29.4               | 19.7          | 30.5        | 29.3        |
| Cumulative effect of change in accounting principles (net of tax):   |                    |               |             |             |
| Revenue recognition (SAB 101) . . . . . 30(j)  | -                  | -             | -           | (1.1)       |
| Derivative financial instruments and hedging activities . . . . . 30(o)  | -                  | -             | -           | (0.1)       |
| Transition impairment of CSL goodwill . . . . . 30(r),30(t)  | (2.4)              | (1.6)         | -           | -           |
| <b>Basic earnings per share per USGAAP (cents)</b> . . . . .   | <b>27.0</b>        | <b>18.1</b>   | 30.5        | 28.1        |
| Dilutive earnings per share before cumulative effect of change in accounting principles . .  | 29.3               | 19.6          | 30.4        | 29.1        |
| Cumulative effect of change in accounting principles (net of tax):   |                    |               |             |             |
| Revenue recognition (SAB 101) . . . . . 30(j)  | -                  | -             | -           | (1.1)       |
| Derivative financial instruments and hedging activities . . . . . 30(o)  | -                  | -             | -           | (0.1)       |
| Transition impairment of CSL goodwill . . . . . 30(r),30(t)  | (2.4)              | (1.6)         | -           | -           |
| <b>Diluted earnings per share per USGAAP (cents)</b> . . . . .   | <b>26.9</b>        | <b>18.0</b>   | 30.4        | 27.9        |
| <b>Number (in millions)</b>  |                    |               |             |             |
| Weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations (v) . . . . .         | 12,793             | 12,793        | 12,783      | 12,764      |
| Weighted average number of employee share options exercised during the year (vi) . . .   | 36                 | 36            | 44          | 65          |
| Weighted average number of potential ordinary shares and common share equivalents used for diluted earnings per share calculations . . . . . | 12,829             | 12,829        | 12,827      | 12,829      |

#### (v) Reconciliation of weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations

|  | Number (in millions) |               |        |        |
|--|----------------------|---------------|--------|--------|
| Number of shares used for AGAAP earnings per share calculations . . . . . 18             | 12,867               | 12,867        | 12,867 | 12,867 |
| Adjusted for weighted average TESOP97 and 99 options outstanding during the year (vii) . | (74)                 | (74)          | (84)   | (103)  |
| Number of shares used for USGAAP basic earnings per share calculations . . . . .         | <b>12,793</b>        | <b>12,793</b> | 12,783 | 12,764 |

(vi) Only the TESOP97 options are dilutive to dilutive earnings per share per USGAAP. The average market price of Telstra shares is below the exercise price of the TESOP99 options and therefore the TESOP99 options are not dilutive. The exercise price for TESOP97 and TESOP99 options is the remaining loan balance payable by the employee to Telstra.

(vii) For USGAAP, the earnings per share calculations for fiscal 2003, 2002 and 2001 are affected by the issue of TESOP97 and TESOP99 options referred to in note 30(m) below.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Reconciliations to financial reports prepared using USGAAP (continued)

|   | Note       | Telstra Group |               |               |               |
|---|------------|---------------|---------------|---------------|---------------|
|   |            | As at 30 June |               |               |               |
|   |            | 2003<br>\$m   | 2003<br>US\$m | 2002<br>\$m   | 2001<br>\$m   |
| <b>Reconciliation of shareholders' equity to USGAAP</b>                   |            |               |               |               |               |
| GAAP shareholders' equity per statement of financial position             |            | 15,422        | 10,333        | 14,106        | 13,722        |
| <b>Cumulative adjustments required to agree with USGAAP</b>               |            |               |               |               |               |
| Property, plant and equipment   | 30(a)      | 96            | 65            | 419           | 622           |
| Listed investments (available-for-sale securities)                        | 30(b)      | 57            | 38            | 103           | 417           |
| Dividend payable  | 7,17,30(c) | -             | -             | 1,415         | 1,416         |
| Minority interests  | 30(d)      | (2)           | (2)           | 2             | (483)         |
| Retirement benefits   | 30(f)      | 4,217         | 2,825         | 4,087         | 3,615         |
| Mobile phone subsidies  | 30(k)      | -             | -             | -             | (30)          |
| Income tax  | 30(l)      | (1,031)       | (691)         | (1,293)       | (1,337)       |
| Employee share loans  | 30(m)      | (198)         | (133)         | (230)         | (270)         |
| Redundancy and restructuring provision - fiscal 2000                      | 30(n)      | -             | -             | -             | 94            |
| Derivative financial instruments and hedging activities                   | 30(o)      | (538)         | (360)         | (133)         | (133)         |
| PCCW converting note (available-for-sale security)                        | 30(o)      | 2             | 1             | -             | (104)         |
| Sale of Global Wholesale Business to Reach Ltd - fiscal 2001              | 30(p)      | (882)         | (591)         | (882)         | (882)         |
| Equity accounting and write-off adjustments for Reach Ltd                 | 30(q)      | 696           | 466           | 41            | 17            |
| Consolidation adjustment for Telstra CSL Limited (CSL)                    | 30(r)      | 456           | 306           | 821           | 1,131         |
| Fair value / general reserve adjustments                                  | 30(s)      | (54)          | (36)          | (54)          | -             |
| Goodwill adjustments  | 30(t)      | (216)         | (145)         | -             | -             |
| <b>Shareholders' equity per USGAAP</b>                                    |            | <b>18,025</b> | <b>12,076</b> | <b>18,402</b> | <b>17,795</b> |
| <b>Statement of financial position measured and classified per USGAAP</b> |            |               |               |               |               |
| <b>Current assets</b>   |            |               |               |               |               |
| Cash  | .8         | 1,300         | 871           | 1,070         | 1,077         |
| Accounts receivable, net  |            | 3,561         | 2,386         | 4,038         | 4,259         |
| Inventories   | 10         | 260           | 174           | 204           | 320           |
| Deferred tax asset  | 30(l)      | 166           | 111           | 301           | 171           |
| Other assets  |            | 578           | 387           | 604           | 519           |
| <b>Total current assets</b>   |            | <b>5,865</b>  | <b>3,929</b>  | <b>6,217</b>  | <b>6,346</b>  |
| <b>Non current assets</b>   |            |               |               |               |               |
| Receivables   |            | 259           | 174           | 178           | 74            |
| Derivative financial instruments  |            | 694           | 465           | 637           | 514           |
| Inventories   | 10         | 14            | 9             | 20            | 8             |
| Investments - accounted for using the equity method                       |            | 161           | 108           | 386           | 424           |
| Investments - other non current   |            | 238           | 159           | 545           | 1,963         |
| Property, plant and equipment   |            | 44,635        | 29,906        | 43,800        | 41,196        |
| Accumulated depreciation of property, plant and equipment                 |            | (21,356)      | (14,309)      | (19,515)      | (17,758)      |
| Goodwill, net   |            | 2,112         | 1,415         | 2,800         | 2,636         |
| Other intangible assets, net  |            | 1,146         | 768           | 1,358         | 1,464         |
| Prepaid pension assets  | 30(f)      | 4,217         | 2,825         | 4,087         | 3,615         |
| Other assets  |            | 2,437         | 1,633         | 2,206         | 2,078         |
| <b>Total non current assets</b>   |            | <b>34,557</b> | <b>23,153</b> | <b>36,502</b> | <b>36,214</b> |
| <b>Total assets</b>   |            | <b>40,422</b> | <b>27,082</b> | <b>42,719</b> | <b>42,560</b> |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Reconciliations to financial reports prepared using USGAAP (continued)

|   | Note  | Telstra Group |               |               |               |
|---|-------|---------------|---------------|---------------|---------------|
|   |       | As at 30 June |               |               |               |
|   |       | 2003<br>\$m   | 2003<br>US\$m | 2002<br>\$m   | 2001<br>\$m   |
| <b>Statement of financial position measured and classified per USGAAP (continued)</b> |       |               |               |               |               |
| <b>Current liabilities</b>  |       |               |               |               |               |
| Payables . . . . .  |       | 2,525         | 1,692         | 2,793         | 2,823         |
| Borrowings - short term debt . . . . .  | 16    | 644           | 431           | 606           | 2,552         |
| Borrowings - long term debt due within one year . . . . .                             | 16    | 679           | 455           | 1,260         | 52            |
| Income tax payable . . . . .  | 4     | 660           | 442           | 632           | 657           |
| Provisions . . . . .  |       | 353           | 237           | 488           | 557           |
| Revenue received in advance . . . . .   |       | 991           | 664           | 1,037         | 1,128         |
| <b>Total current liabilities</b> . . . . .  |       | <b>5,852</b>  | <b>3,921</b>  | <b>6,816</b>  | <b>7,769</b>  |
| <b>Non current liabilities</b>  |       |               |               |               |               |
| Payables . . . . .  |       | 13            | 9             | 129           | 120           |
| Derivative financial instruments . . . . .  |       | 549           | 368           | 267           | 103           |
| Borrowings - long term debt . . . . .   |       | 11,580        | 7,758         | 12,372        | 11,943        |
| Income tax payable . . . . .  |       | -             | -             | -             | 91            |
| Deferred tax liability . . . . .  | 30(l) | 3,011         | 2,017         | 3,449         | 2,967         |
| Provisions . . . . .  |       | 814           | 545           | 848           | 846           |
| Revenue received in advance . . . . .   |       | 576           | 386           | 438           | 456           |
| <b>Total non current liabilities</b> . . . . .  |       | <b>16,543</b> | <b>11,083</b> | <b>17,503</b> | <b>16,526</b> |
| <b>Total liabilities</b> . . . . .  |       | <b>22,395</b> | <b>15,004</b> | <b>24,319</b> | <b>24,295</b> |
| Minority interests . . . . .  |       | 2             | 2             | (2)           | 470           |
| <b>Net assets</b> . . . . .   |       | <b>18,025</b> | <b>12,076</b> | <b>18,402</b> | <b>17,795</b> |
| <b>Shareholders' equity</b>   |       |               |               |               |               |
| Contributed equity . . . . .  | 18    | 6,433         | 4,310         | 6,433         | 6,433         |
| Share loan to employees . . . . .   | 30(m) | (198)         | (133)         | (230)         | (270)         |
| Additional paid in capital from employee share plans . . . . .                        | 30(m) | 333           | 223           | 333           | 292           |
| <b>Total share capital</b> . . . . .  |       | <b>6,568</b>  | <b>4,400</b>  | <b>6,536</b>  | <b>6,455</b>  |
| Accumulated other comprehensive (loss)/income (reserves) (viii) . . . . .             |       | (554)         | (371)         | (27)          | 532           |
| Retained earnings . . . . .   |       | 12,011        | 8,047         | 11,893        | 10,808        |
| <b>Total shareholders' equity</b> . . . . .   |       | <b>18,025</b> | <b>12,076</b> | <b>18,402</b> | <b>17,795</b> |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Reconciliations to financial reports prepared using USGAAP (continued)

##### (viii) Accumulated other comprehensive (loss)/income (reserves)

Accumulated other comprehensive (loss)/income, net of related tax, for USGAAP consists of the following components:

|  | Telstra Group |             |            |
|--|---------------|-------------|------------|
|  | As at 30 June |             |            |
|  | 2003          | 2002        | 2001       |
|  | \$m           | \$m         | \$m        |
| General reserve . . . . .  | -             | -           | 4          |
| Foreign currency translation reserve . . . . .                               | (645)         | (98)        | 188        |
| (tax effect) . . . . .   | 72            | 17          | (15)       |
|  | (573)         | (81)        | 173        |
| Derivative financial instruments . . . . .                                   | (22)          | (27)        | (31)       |
| (tax effect) . . . . .   | 7             | 9           | 9          |
|  | (15)          | (18)        | (22)       |
| Unrealised gain on available-for-sale securities . . . . .                   | 47            | 103         | 511        |
| (tax effect) . . . . .   | (13)          | (31)        | (134)      |
|  | 34            | 72          | 377        |
| <b>Accumulated other comprehensive (loss)/ income (net of tax) . . . . .</b> | <b>(554)</b>  | <b>(27)</b> | <b>532</b> |

#### Other comprehensive loss disclosure

Other comprehensive loss is calculated by totalling movements in shareholders' equity that are not related to contributions from owners or payments to owners.

|  | Telstra Group      |              |             |
|--|--------------------|--------------|-------------|
|  | Year ended 30 June |              |             |
|  | 2003               | 2002         | 2001        |
|  | \$m                | \$m          | \$m         |
| General reserve . . . . .  | -                  | (4)          | 3           |
| Foreign currency translation reserve (after tax) . . . . .   | (492)              | (254)        | 214         |
| Derivative financial instruments (after tax) . . . . .   | 3                  | 4            | (22)        |
| Unrealised (loss)/gain on available-for-sale securities (after tax) . . . . .                                | (49)               | (302)        | 31          |
| Realised loss/(gain) on sale of available-for-sale securities (after tax) transferred to net income. . . . . | 11                 | (3)          | (266)       |
| <b>USGAAP other comprehensive loss . . . . .</b>   | <b>(527)</b>       | <b>(559)</b> | <b>(40)</b> |

The re-classification out of accumulated other comprehensive (loss)/income to net income was determined on the basis of specific identification.

In fiscal 2003, the proceeds from sales of available-for-sale equity securities were \$7 million (2002: \$22 million, 2001: \$603 million).

#### Total comprehensive income disclosure

Total comprehensive income is calculated by adding net income and other comprehensive loss.

|  | Telstra Group      |              |              |
|--|--------------------|--------------|--------------|
|  | Year ended 30 June |              |              |
|  | 2003               | 2002         | 2001         |
|  | \$m                | \$m          | \$m          |
| Net income per USGAAP . . . . .                    | 3,450              | 3,898        | 3,576        |
| USGAAP other comprehensive loss . . . . .          | (527)              | (559)        | (40)         |
| <b>USGAAP Total comprehensive income . . . . .</b> | <b>2,923</b>       | <b>3,339</b> | <b>3,536</b> |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP

#### 30(a) Property, plant and equipment

##### Revaluations

Prior to 1 July 2000, AGAAP allowed property, plant and equipment to be revalued upwards. Increases in revalued amounts were recorded in an asset revaluation reserve, unless they reversed a previous revaluation decrease charged to the statement of financial performance. Impairments (decreases) to asset values were recorded in the statement of financial performance, unless they reversed a previous increase still remaining in the asset revaluation reserve.

Revaluations of property, plant and equipment are not allowed under USGAAP, except for permanent impairments. Including the broadband network described below, the net adjustment included in the reconciliation to shareholders equity to reduce revalued property, plant and equipment to historical cost for revaluations and impairments not allowed under USGAAP is \$401 million for fiscal 2003 (2002: \$407 million; 2001: \$371 million). For fiscal 2003, net adjustments for depreciation and disposals of \$6 million benefit (2002: \$36 million expense; 2001: \$2 million benefit) has been included in the reconciliation of net income to USGAAP.

Under USGAAP, a permanent impairment loss can only be recorded when the future undiscounted cash flows relating to a group of assets are less than the recorded amount of the assets. Under AGAAP, impairment losses are recorded in accordance with Telstra's accounting policy when discounted future cash flows are less than the recorded amount of the asset. Under AGAAP, in note 3, we recorded no impairment losses during fiscal 2003 or fiscal 2002 and a \$31 million impairment loss in fiscal 2001. This loss related to Infrastructure Services & Wholesale projects that were cancelled and the related capitalised internal use software that was written off. This write off was allowed under USGAAP and no adjustment to the USGAAP reconciliation was made.

**USGAAP Impairment loss reversal - broadband network:** In fiscal 1997, under AGAAP we wrote down the value of our broadband network. We recognised an impairment loss of \$342 million in net income and \$245 million was adjusted against the asset revaluation reserve. Under USGAAP, the initial future undiscounted cash flows derived from our broadband network were greater than the recorded value and continue to be as at 30 June 2003. The reversal of the impairment loss has been adjusted for in the reconciliations of net income and shareholders' equity to USGAAP and additional depreciation of \$62 million was recorded in the reconciliation of net income to USGAAP in fiscal 2003 (2002: \$62 million; 2001: \$62 million), included in the net adjustments above.

##### Depreciation expense

Depreciation expense for AGAAP and USGAAP has been calculated using the straight line method of depreciation. Under AGAAP, depreciation expense is based on the recorded amount of the asset and is therefore higher for assets that have been revalued upwards. Depreciation expense has been adjusted to reflect depreciation based on original cost in the reconciliations of net income and shareholders' equity to USGAAP.

##### Indirect overheads included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996 we recorded overhead costs directly associated with the construction of our communication assets as part of the cost of those assets. We expensed all indirect overhead costs as incurred. From 1 July 1996, indirect overhead costs (as well as direct overhead costs) associated with operations and management personnel directly involved in the construction of our communication assets have been recorded as part of the cost of those assets. This policy is now the same as USGAAP.

To reflect the current policy, as if it had always been in place for USGAAP purposes, before 1 July 1996, capitalised overheads with a net book value of \$515 million (2002: \$638 million, 2001: \$782 million) have been included in the reconciliation of shareholders' equity to USGAAP as at 30 June 2003. For fiscal 2003, additional depreciation and disposals of \$123 million (2002: \$144 million; 2001: \$142 million) have been included in the reconciliation of net income to USGAAP.

##### Borrowing costs included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996, we expensed all borrowing costs when incurred. From 1 July 1996, borrowing costs relating to the construction of property, plant and equipment for internal use are recorded as part of the cost of the asset. This policy is now the same as USGAAP.

To reflect the current policy, as if it had always been in place for USGAAP purposes, before 1 July 1996, capitalised interest with a net book value of \$144 million (2002: \$188 million, 2001: \$213 million) have been included in the reconciliation of shareholders' equity to USGAAP as at 30 June 2003. For fiscal 2003, additional depreciation and disposals of \$44 million (2002: \$24 million; 2001: \$51 million) have been included in the reconciliation of net income to USGAAP.

##### Re-classification of assets held for sale

Under AGAAP, in fiscal 2002 we classified some land and buildings held for sale as other current assets (refer note 14). Under USGAAP, usually assets held for sale should be classified as current assets. However, as these assets were part of a sale and leaseback transaction, the land and buildings remained in property, plant and equipment until the sale was complete. In fiscal 2002, these assets were reclassified, with a net increase to property, plant and equipment of \$435 million.



## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(a) Property, plant and equipment (continued)

##### Reversal of gain on sale of property sold as part of a sale and lease back transaction

The property held for sale under AGAAP in fiscal 2002 was sold in fiscal 2003. Under AGAAP the net gain was recognised in net income.

Under USGAAP, any gains made on assets as part of a sale and leaseback transaction must be deferred and recognised over the period of the underlying leases. For fiscal 2003, the net gain reversed was \$162 million before tax and \$49 million tax expense in the reconciliations of net income and shareholders' equity to USGAAP.

##### Profits/(losses) on the sale of assets

Under AGAAP, proceeds on sale of non current assets are recorded as revenue from ordinary activities - other revenue, and the net book value of assets sold is recorded as other operating expenses, with the net impact representing the profit or loss on sale of non current assets.

For USGAAP, the sale of non current assets is not considered to be an operating activity and as a result the net profit or loss on the sale of non-current assets is reclassified to other income below operating income.

AGAAP reported profits or losses on the sale of revalued assets are based on revenue received less revalued net book value. For USGAAP, profits or losses are based on revenue received less historical net book value. Adjustments are made to the reconciliation of net income to USGAAP to record this difference in the profit or loss on sale.

##### Asset retirement obligations

We adopted the requirements of SFAS 143 "Accounting for Asset Retirement Obligations" (SFAS 143) for the first time from 1 July 2002. SFAS 143 requires us to recognise the fair value of a liability for any legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction, development, or normal operation of a long-lived asset, with the cost capitalised as part of the asset carrying value.

Asset retirement obligations exist on general purpose leased buildings and certain mobile tower communication assets that are situated on land held under operating leases. Our treatment under AGAAP of these obligations is detailed in note 1.18(c). We have calculated the impact of adopting SFAS 143 and have determined that it is not material to us. Therefore, no adjustment has been made to the USGAAP reconciliation.

#### 30(b) Investments

##### Investments in joint venture entities and associated entities

From 1 July 1997, we adopted the equity method of accounting for investments in joint venture entities and associated entities (refer note 1.10(b)). Under AGAAP, equity accounting is suspended where the cumulative share of losses and reserve movements have reduced the participating equity investment to zero.

Under USGAAP, equity accounted losses are required to be recognised in net income to the extent that we have other non participating investments in the equity accounted entity (i.e. preference shares or loans). In fiscal 2003 we ceased equity accounting our REACH investment under AGAAP due to the investment being written off to zero.

On 25 April 2003 we made a capacity prepayment of \$230 million (US\$143 million) to REACH. This advance will accrue interest on a compounding basis at a market reference rate and is to be repaid through the provision of capacity in the future at market prices. This is recorded as a receivable under AGAAP (refer to note 9). Under USGAAP, this amount (including accrued interest) is considered to be a non participating investment in REACH. As such we continue to equity account our share of the net assets and losses of REACH under USGAAP as an adjustment to the adjusted basis of the receivable. Refer to note 30(q) for further details regarding this adjustment.

In fiscal 2001, our investment in Reach Ltd, was initially recorded at a cost of negative \$30 million (refer note 30(p)). This negative investment was increased to zero by crediting the goodwill created on the acquisition of Telstra CSL Limited (CSL).

##### Equity securities (joint venture entities and associated entities)

Under AGAAP, temporary changes in the fair values of debt and equity securities are not required to be adjusted and recorded in the financial statements. AGAAP however does require permanent impairments in the value of debt and equity securities to be recorded in the statement of financial performance.

Under USGAAP, Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities," we are required to account for debt and equity securities based on our intention to hold or sell the securities. Securities classified as held-to-maturity are stated at cost unless there is a decline in fair value that is considered permanent. This reduction is recorded in the statement of financial performance. Securities classified as available-for-sale are recorded at fair value with changes in fair value, other than a permanent reduction, recorded in a separate component of shareholders' equity (accumulated other comprehensive income) until realised. Realised gains and losses are then recorded in the statement of financial performance.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(b) Investments (continued)

##### Available-for-sale securities

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

| Telstra Group   |       |                  |                            |                          |                   |                                  |
|---|-------|------------------|----------------------------|--------------------------|-------------------|----------------------------------|
| As at 30 June 2003  |       |                  |                            |                          |                   |                                  |
|   | Note  | Principal<br>\$m | Accrued<br>interest<br>\$m | Amortised<br>cost<br>\$m | Fair value<br>\$m | Net<br>unrealised<br>gain<br>\$m |
| Marketable securities included in cash:                                       |       |                  |                            |                          |                   |                                  |
| Bank bills and promissory notes . . . . .                                     |       | 1,101            | 3                          | 1,104                    | 1,104             | -                                |
| Equity securities:  |       |                  |                            |                          |                   |                                  |
| Listed investments . . . . .  | 11    | 32               | -                          | -                        | 89                | 57                               |
| Income tax expense . . . . .  |       |                  |                            |                          |                   | (17)                             |
|   |       |                  |                            |                          |                   | 40                               |
| Debt securities:  |       |                  |                            |                          |                   |                                  |
| PCCW converting note - US\$47 million face value . . . . .                    | 30(o) | 95               | -                          | -                        | 85                | (10)                             |
| Income tax benefit . . . . .  |       |                  |                            |                          |                   | 4                                |
|   |       |                  |                            |                          |                   | (6)                              |
| Total unrealised gain (net of tax) on available-for-sale securities . . . . . |       |                  |                            |                          |                   | 34                               |

| Telstra Group   |       |                  |                            |                          |                   |                                  |
|---|-------|------------------|----------------------------|--------------------------|-------------------|----------------------------------|
| As at 30 June 2002  |       |                  |                            |                          |                   |                                  |
|   | Note  | Principal<br>\$m | Accrued<br>interest<br>\$m | Amortised<br>cost<br>\$m | Fair value<br>\$m | Net<br>unrealised<br>gain<br>\$m |
| Marketable securities included in cash:                                       |       |                  |                            |                          |                   |                                  |
| Bank deposits, bank bills and promissory notes . . . . .                      |       | 759              | 2                          | 761                      | 761               | -                                |
| Marketable securities due within one year:                                    |       |                  |                            |                          |                   |                                  |
| Bank bills and promissory notes . . . . .                                     |       | 382              | 1                          | 383                      | 383               | -                                |
| Equity securities:  |       |                  |                            |                          |                   |                                  |
| Listed investments . . . . .  | 11    | 41               | -                          | -                        | 144               | 103                              |
| Income tax expense . . . . .  |       |                  |                            |                          |                   | (31)                             |
|   |       |                  |                            |                          |                   | 72                               |
| Debt securities:  |       |                  |                            |                          |                   |                                  |
| PCCW converting note - US\$190 million face value . . . . .                   | 30(o) | 337              | -                          | -                        | 337               | -                                |
| Total unrealised gain (net of tax) on available-for-sale securities . . . . . |       |                  |                            |                          |                   | 72                               |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(b) Investments (continued)

|   | Telstra Group |      |
|---|---------------|------|
|   | As at 30 June |      |
|   | 2003          | 2002 |
|   | \$m           | \$m  |
| <b>Held-to-maturity securities</b>                    |               |      |
| Marketable securities maturing in less than one year: |               |      |
| Foreign currency deposits (a) . . . . .               | -             | 6    |

(a) Foreign currency deposits are directly related to our finance lease liabilities and can only be used for settlement of these finance leases. The cost basis above equates to fair value.

#### 30(c) Dividend payable recognition

In fiscal 2002 and 2001, under AGAAP, dividends declared after balance date and before approval of the financial reports were recognised as a liability in those financial statements.

Under USGAAP, provisions for dividends are only recognised as liabilities if the dividends are formally declared before balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to USGAAP. In fiscal 2003, due to a change in AGAAP, AGAAP is now consistent with USGAAP and this adjustment is no longer required. Refer to note 7 for additional disclosures on dividends.

The dividends per share for USGAAP (including the TESOP97 and TESOP99 options outstanding (refer note 30(m) below) as issued shares) in Australian dollars for the last three years are:

|   | Telstra Group      |      |      |
|---|--------------------|------|------|
|   | Year ended 30 June |      |      |
|   | 2003               | 2002 | 2001 |
|   | ¢                  | ¢    | ¢    |
| <b>Dividends paid per share:</b>                    |                    |      |      |
| Total dividends paid per share per USGAAP . . . . . | 26.0               | 22.0 | 18.0 |

#### 30(d) Minority interests (defined as outside equity interests per AGAAP)

Under AGAAP, minority interests are included in shareholders' equity in 'Outside equity interests'. Under USGAAP, minority interests are disclosed as a separate component of net assets rather than included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to USGAAP.

#### 30(e) Dealer commissions and bonuses classification

Under AGAAP, dealer commissions and bonuses are included in goods and services purchased as they are directly related to our sales revenue. Under USGAAP, they are classified as other operating expenses. In the statement of financial performance measured and classified under USGAAP, we have reclassified \$379 million of dealer commissions and bonuses from goods and services purchased to other operating expenses (2002: \$353 million; 2001: \$386 million).

#### 30(f) Retirement benefits

Pension costs/benefits (defined as superannuation expense under AGAAP) for our defined benefit plans are based on contributions payable to the plans for the year, at rates determined by the actuary of the defined benefit plans. Refer to note 22 for details of our superannuation plans.

For our defined benefit schemes, where scheme assets are greater than members' vested entitlements, the difference is recorded as a prepaid pension asset. Where there has been a shortfall in prior years of the net market value of the scheme assets when compared to members' vested entitlements, we have provided for the present value of any shortfall, to the extent that the shortfall represents a present obligation.

Under USGAAP, pension costs/benefits for defined benefit plans are accounted for under Statement of Financial Accounting Standards No. 87 (SFAS 87) "Employers' Accounting for Pensions" and are calculated by an actuary using the projected unit credit method. This method includes current service cost, interest cost, return on plan assets and amortisation of transition assets. Aggregated unrecorded gains and losses of the plans exceeding 10% of the greater of the aggregated projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

We adopted SFAS 87 on 1 July 1992, as it was not feasible to adopt SFAS 87 from its effective date of 1 July 1989. The transition asset recorded under SFAS 87 is being amortised from 1 July 1992 over 12 years, ending 30 June 2004. Where scheme assets are greater than the present obligations relating to members' vested entitlements, the difference is recognised as an asset in accordance with USGAAP.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(f) Retirement benefits (continued)

The effect of the adjustments required by SFAS 87 to retirement benefit expense/gain has been disclosed in the USGAAP reconciliations. If we had reported our net periodic pension cost/benefit and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions under USGAAP, the disclosures required are as follows:

|  | Telstra Group      |               |              |              |
|--|--------------------|---------------|--------------|--------------|
|  | Year ended 30 June |               |              |              |
| Note   | 2003<br>\$m        | 2003<br>US\$m | 2002<br>\$m  | 2001<br>\$m  |
| <b>Net periodic pension (benefit)/cost (all funds combined)</b>  |                    |               |              |              |
| The components of net periodic pension cost for our defined benefit superannuation plans are as follows:                     |                    |               |              |              |
| Service cost on benefits earned . . . . .  | 337                | 226           | 333          | 380          |
| Interest cost on projected benefit obligation . . . . .  | 657                | 440           | 716          | 779          |
| Expected return on assets . . . . .  | (1,003)            | (672)         | (1,292)      | (1,281)      |
| Expenses and taxation . . . . .  | 74                 | 50            | 74           | 70           |
| Member contributions for defined benefits . . . . .  | (113)              | (76)          | (109)        | (113)        |
| Amortisation of transition asset . . . . .   | (84)               | (56)          | (85)         | (87)         |
| Amortisation of fund loss . . . . .  | 30                 | 20            | -            | -            |
| Transfers to CSL retirement scheme (i) . . . . .   | 6                  | 4             | -            | -            |
| Settlement gain . . . . .  | (26)               | (17)          | (107)        | (349)        |
| <b>Net periodic pension benefit per USGAAP</b> . . . . .   | <b>(122)</b>       | <b>(81)</b>   | <b>(470)</b> | <b>(601)</b> |
| Reverse amount expensed for AGAAP (labour expense) . . . . .   | (8)                | (5)           | (2)          | (14)         |
| <b>Net periodic pension benefit USGAAP adjustment</b> . . . . .  | <b>(130)</b>       | <b>(86)</b>   | <b>(472)</b> | <b>(615)</b> |
| Writeback of superannuation additional liability . . . . . 3(c)  | -                  | -             | -            | 725          |
| <b>Total USGAAP adjustment - retirement benefit (gain)/expense</b> . . . . .   | <b>(130)</b>       | <b>(86)</b>   | <b>(472)</b> | <b>110</b>   |
| We used the following major assumptions to account for our defined benefit superannuation plans for the years ended 30 June: |                    |               |              |              |
| Discount rate . . . . .  | 5.00%              | 5.00%         | 6.50%        | 6.00%        |
| Expected rate of increase in future salaries . . . . .   | 3.49%              | 3.49%         | 4.00%        | 3.50%        |
| Expected long-term rate of return on assets . . . . .  | 7.50%              | 7.50%         | 8.50%        | 8.50%        |
| <b>Reconciliation of change in benefit obligation (all funds combined)</b>   |                    |               |              |              |
| Projected benefit obligation at beginning of year . . . . .  | 9,537              | 6,390         | 9,146        | 9,929        |
| Service cost . . . . .   | 337                | 226           | 333          | 380          |
| Interest cost . . . . .  | 657                | 440           | 716          | 779          |
| Transfers to CSL retirement scheme (i) . . . . .   | 80                 | 54            | -            | -            |
| Member contributions . . . . .   | 122                | 82            | 117          | 87           |
| Benefit payments . . . . .   | (945)              | (633)         | (902)        | (1,196)      |
| Curtailments loss . . . . .  | 9                  | 6             | 32           | -            |
| Foreign currency exchange rate changes . . . . .   | (12)               | (8)           | -            | -            |
| Actuarial loss/(gain) . . . . .  | 464                | 311           | 95           | (833)        |
| Projected benefit obligation at end of year . . . . .  | <b>10,249</b>      | <b>6,868</b>  | 9,537        | 9,146        |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(f) Retirement benefits (continued)

|   | Telstra Group      |               |               |               |
|---|--------------------|---------------|---------------|---------------|
|   | Year ended 30 June |               |               |               |
|   | 2003<br>\$m        | 2003<br>US\$m | 2002<br>\$m   | 2001<br>\$m   |
| <b>Reconciliation of change in fair value of plan assets (all funds combined)</b> |                    |               |               |               |
| Fair value of plan assets at beginning of year . . . . .                          | 12,208             | 8,179         | 13,502        | 13,486        |
| Actual return on plan assets . . . . .  | 53                 | 36            | (544)         | 1,068         |
| Transfers to CSL retirement scheme (i) . . . . .                                  | 74                 | 50            | -             | -             |
| Employer contributions . . . . .  | 8                  | 5             | 2             | 14            |
| Member contributions for defined benefits . . . . .                               | 113                | 76            | 109           | 113           |
| Transfers/member contributions for accumulation benefits . . . . .                | 122                | 82            | 117           | 87            |
| Benefit payments . . . . .  | (945)              | (633)         | (904)         | (1,196)       |
| Plan expenses . . . . .   | (13)               | (9)           | (13)          | (14)          |
| Foreign currency exchange rate changes. . . . .                                   | (13)               | (9)           | -             | -             |
| Contribution tax . . . . .  | (61)               | (41)          | (61)          | (56)          |
| <b>Fair value of plan assets at end of year . . . . .</b>                         | <b>11,546</b>      | <b>7,736</b>  | <b>12,208</b> | <b>13,502</b> |
| <b>Reconciliation of funded status of plan (all funds combined)</b>               |                    |               |               |               |
| Projected benefit obligation. . . . .   | (10,249)           | (6,868)       | (9,537)       | (9,146)       |
| Plan assets at fair value . . . . .   | 11,546             | 7,736         | 12,208        | 13,502        |
| Funded status . . . . .   | 1,297              | 868           | 2,671         | 4,356         |
| Unrecognised net transition asset (ii) . . . . .                                  | (79)               | (53)          | (169)         | (255)         |
| Unrecognised net actuarial loss/(gain) (ii) . . . . .                             | 2,999              | 2,010         | 1,585         | (486)         |
| <b>Prepaid pension asset at 30 June . . . . .</b>                                 | <b>4,217</b>       | <b>2,825</b>  | <b>4,087</b>  | <b>3,615</b>  |

(i) On 1 December 2002, Telstra CSL Limited (CSL) established a new scheme known as the HK CSL Retirement Scheme. Previously, CSL participated in the Pacific Century CyberWorks (PCCW) Retirement Scheme, the scheme of its previous immediate parent. The assets attributable to CSL of the previous scheme were transferred to the HK CSL Retirement Scheme. Refer to note 22 for further details.

(ii) Settlements recorded in net periodic pension benefit/cost have effected the unrecognised net transition asset and the unrecognised net actuarial loss/(gain) as follows:

(a) unrecognised transition asset; 2003: \$1 million gain; 2002: \$1 million gain; 2001: \$6 million loss.

(b) unrecognised net actuarial gain; 2003: \$26 million; 2002: \$110 million; fiscal 2001: \$343 million.

#### 30(g) Employee entitlements - Long Service Leave

Our employee entitlement provisions include a liability for long service leave. Refer to note 1.18 (a) for a definition of long service leave. The assumptions used to calculate this liability for AGAAP are consistent with those used under SFAS 87 for USGAAP.

#### 30(h) Enterprise bargaining agreements

Fiscal 2003 saw Telstra negotiate with its Staff Associations a new redundancy agreement and six separate Business Unit Enterprise Agreements (the Agreements). The Agreements provide improved operating efficiencies for both management and staff and provide a firm basis for future productivity improvements and ability to respond to our customers needs.

As provided for in the Agreements the staff covered by these Agreements received a 2% salary increase in January 2003. A further four 2% increases will be paid every six months, effective July 2003.

These Agreements are due to expire in June 2005 and implementation plans are presently underway towards realising the benefits provided for by these new Enterprise Agreements.

As at 30 June 2003 approximately 54% of full time staff were covered by the Business Unit Enterprise Agreements and the Telstra Shop Agreement.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(i) Software assets developed for internal use

Under AGAAP, before 1 July 1996, we did not record costs associated with software developed for internal use as software assets. From 1 July 1996, we recorded costs (including borrowing costs) associated with software developed for internal use as software assets. This policy is now the same as USGAAP. These costs include direct labour (both internal and external) and other directly associated costs.

To reflect the current policy as if it had always been in place for USGAAP purposes before 1 July 1996 in the reconciliations of net income and shareholders' equity to USGAAP, we originally recorded \$1,370 million as software assets and accumulated amortisation of \$732 million. These assets have been fully amortised and/or disposed of in full during fiscal 2001, therefore there are no further reconciling items included in the reconciliation of net income for fiscal 2003 (2002: \$nil; 2001: \$25 million).

#### 30(j) Revenue recognition - cumulative adjustment

On 3 December 1999, the United States Securities Exchange Commission (SEC) released "Staff Accounting Bulletin (SAB) No. 101 - Revenue Recognition", (SAB 101), which provides guidance on our recognition, presentation and disclosure of revenue in financial statements filed with the SEC. This guidance was adopted in fiscal 2001 in our AGAAP financial statements, refer to note 1.2 for a description of the initial impact of the change in the accounting policy and note 1.19 for revenue accounting policies.

In fiscal 2001, there were no differences in total net income between AGAAP and USGAAP other than a reclassification of the cumulative effect on adoption of SAB 101 from sales revenue and direct cost of sales to the cumulative effect of change in accounting principle, net of tax. In future years there will be no further differences between USGAAP and AGAAP as we have aligned AGAAP revenue recognition policies to accord with US requirements.

#### 30(k) Mobile phone subsidies

Under AGAAP, from 1 July 1999, we changed our accounting policy relating to subsidies provided to our customers when they purchase mobile phones. From this date, we deferred the subsidy provided to customers who enter into mobile phone contracts with a length of two years or greater. This policy was considered to be inconsistent with industry practice in the United States and therefore \$174 million of costs were expensed under USGAAP in fiscal 2000 and reversed as an expense as the amounts were amortised under AGAAP during fiscal 2001 and fiscal 2002.

Due to changes in industry practice in the United States, this policy is now consistent with USGAAP from fiscal 2001. The amounts recognised in the USGAAP reconciliation of shareholders equity in fiscal 2000 have now been fully reversed in fiscal 2002. From 1 July 2002 there are no further adjustments.

#### 30(l) Income tax

Under AGAAP, timing differences are recorded in the statement of financial position as deferred tax assets and liabilities using the liability method of tax effect accounting. Future income tax benefits relating to tax losses and timing differences are not recorded as an asset unless the benefit is considered virtually certain of being realised.

Under USGAAP, deferred tax assets and liabilities are created for all temporary differences between the accounting and tax bases of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset, will not be realised. We increase or decrease our deferred tax balances for the income tax effect of accounting differences included in our reconciliations of net income and shareholders' equity to USGAAP.

AGAAP requires the effect of a change in the income tax rate to be included in the calculation of deferred tax balances when the change has been announced by the Treasurer of the Commonwealth. USGAAP requires the tax rate change to be recognised in the year that the Australian Parliament has approved the legislation and it has received royal assent from the Governor General of Australia (Head of State).

For AGAAP, we classify all deferred tax balances as non current. For USGAAP, the classification between current and non current is based on the statement of financial position classification of the underlying net current and non current asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the statement of financial position measured and classified per USGAAP.

Under AGAAP and USGAAP we do not create deferred tax assets or liabilities for temporary differences relating to investments where there is no intention of disposing of the investment or where we are incapable of realising any benefit or incurring any obligations due to tax law restrictions.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(l) Income tax (continued)

|   | Telstra Group  |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | As at 30 June  |                |                |                |
|   | 2003           | 2003           | 2002           | 2001           |
|   | \$m            | US\$m          | \$m            | \$m            |
| <b>Future income tax benefit (deferred tax assets)</b>                        |                |                |                |                |
| Property, plant and equipment . . . . .                                       | 33             | 22             | 33             | 46             |
| Foreign exchange translation, hedge and other finance costs . . . . .         | 238            | 159            | 58             | 48             |
| Employee entitlements . . . . .   | 252            | 169            | 331            | 275            |
| Revenue received in advance . . . . .   | 49             | 33             | 7              | 10             |
| Inventory valuation . . . . .   | 9              | 6              | -              | 6              |
| Provisions . . . . .  | 99             | 66             | 212            | 29             |
| Tax losses . . . . .  | -              | -              | -              | 5              |
| Other . . . . .   | 171            | 115            | 104            | 145            |
| <b>Total deferred tax assets under USGAAP</b> . . . . .                       | <b>851</b>     | <b>570</b>     | <b>745</b>     | <b>564</b>     |
| <b>Deferred income tax (deferred tax liabilities)</b>                         |                |                |                |                |
| Property, plant and equipment . . . . .                                       | 2,366          | 1,585          | 2,521          | 2,033          |
| Foreign exchange translation, hedge and other finance costs . . . . .         | -              | -              | 1              | 19             |
| Prepaid pension cost . . . . .  | 1,265          | 847            | 1,226          | 1,085          |
| Prepayments . . . . .   | 3              | 2              | 6              | 8              |
| Expenditure accruals . . . . .  | -              | -              | 69             | -              |
| Marketable securities . . . . .   | 1              | 1              | 27             | 102            |
| Other . . . . .   | 61             | 41             | 43             | 113            |
| <b>Total deferred tax liabilities under USGAAP</b> . . . . .                  | <b>3,696</b>   | <b>2,476</b>   | <b>3,893</b>   | <b>3,360</b>   |
| <b>Net deferred tax liability under USGAAP</b> . . . . .                      | <b>(2,845)</b> | <b>(1,906)</b> | <b>(3,148)</b> | <b>(2,796)</b> |
| <b>Represented by:</b>  |                |                |                |                |
| AGAAP future income tax benefit - non current . . . . .                       | -              | -              | 132            | 114            |
| AGAAP deferred income tax - non current . . . . .                             | (1,814)        | (1,215)        | (1,987)        | (1,573)        |
| USGAAP/AGAAP income tax differences . . . . .                                 | (1,031)        | (691)          | (1,293)        | (1,337)        |
| <b>Net deferred tax liability under USGAAP</b> . . . . .                      | <b>(2,845)</b> | <b>(1,906)</b> | <b>(3,148)</b> | <b>(2,796)</b> |
| <b>Reported as follows for the USGAAP statement of financial position:</b>    |                |                |                |                |
| Current deferred tax asset (future income tax benefit) . . . . .              | 169            | 113            | 307            | 183            |
| Current deferred tax liability (deferred income tax) . . . . .                | (3)            | (2)            | (6)            | (12)           |
| <b>Net current deferred tax asset (future income tax benefit)</b> . . . . .   | <b>166</b>     | <b>111</b>     | <b>301</b>     | <b>171</b>     |
| Non current deferred tax asset (future income tax benefit) . . . . .          | 682            | 457            | 438            | 381            |
| Non current deferred tax liability (deferred income tax) . . . . .            | (3,693)        | (2,474)        | (3,887)        | (3,348)        |
| <b>Net non current deferred tax liability (deferred income tax)</b> . . . . . | <b>(3,011)</b> | <b>(2,017)</b> | <b>(3,449)</b> | <b>(2,967)</b> |
| <b>Total</b> . . . . .  | <b>(2,845)</b> | <b>(1,906)</b> | <b>(3,148)</b> | <b>(2,796)</b> |
| <b>The components of income tax expense for USGAAP are:</b>                   |                |                |                |                |
| Current tax expense . . . . .   | 1,567          | 1,051          | 1,608          | 1,498          |
| Deferred tax expense . . . . .  | (180)          | (121)          | 235            | 540            |
| (Over)/under provision in prior year . . . . .                                | (28)           | (19)           | 16             | 6              |
| <b>Income tax expense for USGAAP</b> . . . . .                                | <b>1,359</b>   | <b>911</b>     | <b>1,859</b>   | <b>2,044</b>   |

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(m) Employee share plans and compensation expenses

Our employee and executive share plans are described in note 19. AGAAP does not require certain employee compensation and option expenses to be recorded in the statement of financial performance for our employee share plans.

Under USGAAP, we have adopted Statement of Financial Accounting Standards No.123 (SFAS 123) "Accounting for Stock Based Compensation,". Under this method, compensation expense is calculated based on the fair value of options on the grant date and recognised over the associated service period, which is usually the vesting period. USGAAP requires that shares issued under TESOP97 and TESOP99 in conjunction with non-recourse loans be accounted for as options. In addition options, restricted shares, performance rights and deferred shares issued under the Telstra Growthshare executive compensation scheme are also accounted for as options.

In fiscal 2003, there was no additional compensation expense included in the reconciliation of net income for USGAAP (2002: \$41 million; 2001: \$9 million). A life to date expense of \$333 million is recorded as additional paid in capital in total shareholders equity for USGAAP. The outstanding balance of the loans for TESOP97 and TESOP99 provided to employees is deducted from shareholders' equity rather than classified as a receivable. The Telstra Growthshare trust loan is not reclassified as it is not linked to non-recourse loans.

There is no income tax effect on the additional compensation expense for USGAAP as it is a permanent difference (non taxable) for TESOP97, TESOP99 and Growthshare schemes.

A brief description of the schemes and details of options granted and outstanding under each scheme are as follows:

#### TESOP General

Options allocated to employees under the TESOP schemes all vested immediately upon grant and will expire at the earlier of repayment of the loan balance or the termination of employment. Employee compensation expense has been recognised on inception of the TESOP97 scheme (fiscal 1998 and subsequent loyalty share issues) and TESOP99 scheme (fiscal 2000 and subsequent loyalty share issues). Dividends on both TESOP schemes are not recorded as further compensation expense as their forecasted value was included when calculating the initial option valuations.

For fiscal 2002 and 2001, only the TESOP97 options are dilutive for the USGAAP earnings per share calculation as the exercise price of the TESOP99 options was above the average Telstra share price.

#### TESOP97

There were 98,547,625 options outstanding at 30 June 2000. **Fiscal 2001** options exercised 24,324,500 - resulting in 74,223,125 options outstanding at 30 June 2001.

**Fiscal 2002** options exercised 10,749,750 - resulting in 63,473,375 options outstanding at 30 June 2002.

**Fiscal 2003** options exercised 9,141,250 - resulting in 54,332,125 options outstanding at 30 June 2003.

At 30 June 2003, the weighted average expected life of the options was 2 years. The weighted average price of the option at 30 June 2003, 30 June 2002 and 30 June 2001 was \$1.58.

#### TESOP99

There were 16,816,400 options outstanding at 30 June 2000.

**Fiscal 2001** options exercised 1,150,000 - resulting in 15,666,400 options outstanding at 30 June 2001.

**Fiscal 2002** options exercised 700,900 - resulting in 14,965,500 options outstanding at 30 June 2002.

**Fiscal 2003** options exercised 136,900 - resulting in 14,828,600 options outstanding at 30 June 2003.

At 30 June 2003, the weighted average expected life of the options was 4 years. The weighted average price of the option at 30 June 2003, 30 June 2002 and 30 June 2001 was \$3.53.

#### TESOP99 loyalty shares

In fiscal 2001 we recognised compensation expense of \$8 million for loyalty shares issued to employees by the Commonwealth.

#### Telstra Growthshare General

The Telstra Growthshare options issued under all schemes vest when the performance hurdles have been reached and the executive pays the exercise price per share. The Growthshare restricted share options, performance right options and deferred share options allocated to employees under all schemes vest when the performance hurdles have been reached or period of service completed.

For USGAAP compensation expense is measured in the year that the options are granted less any compensation expense paid under AGAAP based on calculated "option values" for Growthshare options, restricted share options, performance right options and deferred share options. An allowance is made for expected resignations and cancellations when calculating the various option values.

These options, restricted share options, performance right options and deferred share options are not dilutive for earnings per share calculations.



## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(m) Employee share plans and compensation expense (continued)

##### Telstra Growthshare 2000

There were 2,708,000 options and 463,500 restricted share options outstanding at 30 June 2000.

**Fiscal 2001** options lapsed 445,333 - resulting in 2,262,667 options outstanding at 30 June 2001. Fiscal 2001 restricted share options lapsed 89,500 - resulting in 374,000 restricted share options outstanding as at 30 June 2001.

**Fiscal 2002** options lapsed 137,000 - resulting in 2,125,667 options outstanding at 30 June 2002. Restricted share options lapsed 23,312 - resulting in 350,688 restricted share options outstanding as at 30 June 2002.

**Fiscal 2003** options lapsed 591,945 - resulting in 1,533,722 options outstanding at 30 June 2003. Restricted share options lapsed 90,410 - resulting in 260,278 restricted share options outstanding at 30 June 2003.

##### Telstra Growthshare 2001

**Fiscal 2001** options granted - 4,852,910, options lapsed 366,742 - resulting in 4,486,168 options outstanding at 30 June 2001. In addition restricted share options of 1,005,771 were granted with 76,013 lapsing resulting in 929,758 restricted share options outstanding at 30 June 2001.

**Fiscal 2002** options lapsed 296,617 resulting in 4,189,551 options outstanding at 30 June 2002. Restricted share options lapsed 59,058 - resulting in 870,700 restricted share options outstanding as at 30 June 2002.

**Fiscal 2003** options lapsed 668,891 resulting in 3,520,660 options outstanding at 30 June 2003. Restricted share options lapsed 132,740 - resulting in 737,960 restricted share options outstanding at 30 June 2003.

##### Telstra Growthshare 2002

**Fiscal 2002** options granted - 39,102,000, options lapsed 532,305 resulting in 38,569,695 options outstanding at 30 June 2002. In addition, performance rights options of 3,704,300 were granted with 50,859 lapsing resulting in 3,653,441 performance rights options outstanding at 30 June 2002.

**Fiscal 2003** options lapsed 4,298,750 resulting in 34,270,945 options outstanding at 30 June 2003. Performance rights options lapsed 406,286 - resulting in 3,247,155 performance rights options outstanding at 30 June 2003.

##### Telstra Growthshare 2003

**Fiscal 2003** deferred share options of 2,145,100 were granted with 8,925 exercised and 91,577 lapsing resulting in 2,044,598 deferred share options outstanding at 30 June 2003. In addition, 4,290,200 performance right options were granted with 211,774 lapsing resulting in 4,078,426 performance right options outstanding at 30 June 2003.

For the valuation methodology and assumptions regarding Telstra Growthshare issues, refer to note 19(c).

#### 30(n) Redundancy and restructuring provisions

In fiscal 2000, under AGAAP, we recorded a provision for redundancy and restructuring of \$486 million before tax. The amount charged for income tax expense was \$175 million with a net amount after tax of \$311 million. We satisfied the AGAAP requirements for recording this provision. However, under USGAAP, we did not meet the stricter requirements imposed on us to be able to record the provision. By fiscal 2002, this provision had been fully utilised. Therefore, we reversed the AGAAP provision in the reconciliation of shareholders' equity to USGAAP for fiscal 2001 and recognised the movement in this provision in fiscal 2002 as an expense in the reconciliation to net income of \$94 million (2001:\$392 million).

##### Redundancy and restructuring disclosures for fiscal 1997 program

The disclosures required by USGAAP for the redundancy and restructuring provision recorded by us are as follows:

In fiscal 1997, we approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. In June 1998, we also approved a three year plan, to 30 June 2001, which included an additional reduction of approximately 2,000 employees by redundancy. We effected the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions have occurred primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

The total estimated cost of the fiscal 1997 redundancy program was \$1,320 million including estimated severance and award payments of \$1,043 million and estimated career and transition costs of \$277 million. There has been no reversal of costs no longer required to the statement of financial performance.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(n) Redundancy and restructuring provisions (continued)

Career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties for the outplacement program.

In future periods, the expected number of 80 redundancies and payments of \$3 million still remains as a provision balance. For fiscal 2002, staff unrelated to the 1997 program were made redundant and their costs were charged as an expense.

|  | Telstra Group  |                |                |
|--|----------------|----------------|----------------|
|  | As at 30 June  |                |                |
|  | 2003<br>Number | 2002<br>Number | 2001<br>Number |
| Accepted offers for redundancy or involuntary redundancies . . . . . | -              | -              | 8              |
| Expected redundancies . . . . .                                      | 80             | 80             | 88             |

We have made the following payments which have been charged against the provision for redundancy and restructuring:

|  | Telstra Group |             |             |
|--|---------------|-------------|-------------|
|  | As at 30 June |             |             |
|  | 2003<br>\$m   | 2002<br>\$m | 2001<br>\$m |
| Severance payments . . . . .                         | -             | -           | 1           |
| Career transition and other employee costs . . . . . | -             | 1           | 8           |

The fiscal 1997 redundancy and restructuring provision has been substantially utilised as at 30 June 2003. The \$3 million provision balance remains due to contractual obligations Telstra has with third parties in relation to outsourcing agreements, superannuation arrangements and surplus leased space.

The impact of redundancies has been taken into consideration in the SFAS 87 calculation in note 30(f) Retirement benefits.

#### 30(o) Derivative financial instruments and hedging activities

Our risk management policies and objectives of entering into derivative financial instruments have been disclosed in note 29, "Additional financial instrument disclosures."

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS 133 requires us to recognise all of our derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognised in net income during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in net income during the period of change. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is that reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognised in net income during the period of change.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(o) Derivative financial instruments and hedging activities (continued)

Effective 1 July 2000, we adopted SFAS 133 in the reconciliations to financial reports prepared using USGAAP. On adoption we recognised, as a cumulative effect of change in accounting principle, a charge of \$27 million, before tax, in the statement of financial performance measured and classified per USGAAP and a charge of \$47 million, before tax, in other comprehensive income. The basis of accounting for the adjustments made on adoption, in either the statement of financial performance or other comprehensive income, is dependent upon the hedging relationships that existed for the particular derivative instrument prior to adoption.

We enter into forward foreign exchange contracts to hedge certain firm commitments denominated in foreign currencies relating to our capital expenditure programs. Under AGAAP, realised gains and losses on termination of these hedges are recognised as a net cost of the equipment acquired.

We are not able to identify specific forward foreign exchange contracts with specific capital expenditure contracts to meet the designation criteria in SFAS 133. As a result, changes in fair value of the forward foreign exchange contracts are required to be recognised in net income for USGAAP purposes. We have recorded a marked to market gain of \$5 million in other income per USGAAP for the forward foreign exchange contracts outstanding at 30 June 2003 (2002: \$11 million loss; 2001: \$4 million gain). We also recorded an additional adjustment of \$1 million, net of tax, in other income per USGAAP to reverse net realised foreign exchange gains capitalised in property, plant and equipment in fiscal 2003 under AGAAP (2002: \$1 million loss, 2001: \$14 million gain).

We enter into interest rate swaps to manage our exposure to interest rate risk relating to our outstanding short-term commercial paper. SFAS 133 does not allow us to consider the interest rate swaps used to manage our interest rate exposure as hedges. As a result, changes in the fair values of these interest rate swaps are required to be included in the reconciliation of net income to USGAAP. We have recorded a marked to market loss of \$128 million, before tax, as an expense in other income per USGAAP for changes in fair value of interest rate swap contracts outstanding at 30 June 2003 (2002: \$17 million gain; 2001: \$77 million loss).

We enter into cross currency interest rate swaps to hedge our exposure to the risk of overall changes in fair value relating to interest rate and foreign currency risk of our foreign currency borrowings. During fiscal 2003, 2002 and 2001, the ineffective portion of our hedging instruments (inclusive of the time value of money) was taken to the statement of financial performance.

During the year ended 30 June 2003, we reclassified \$17 million of losses, net of tax, from accumulated other comprehensive income to other income (2002: \$15 million; 2001: \$15 million). At 30 June 2003 there are no remaining losses recorded in accumulated other comprehensive income related to the repayment of borrowings that have been hedged by interest rate and cross currency swaps in cash flow hedging relationships prior to the adoption of SFAS 133.

#### PCCW Converting Note

As a part of our strategic alliance with PCCW, we purchased a US\$750 million convertible note issued by PCCW in February 2001. This convertible note was convertible at our option into PCCW common stock at a conversion price of HK\$6.886 per share. This note was redeemed on 28 June 2002 in consideration for the remaining 40% interest in CSL and a new converting note with a face value of US\$190 million.

During the year ended 30 June 2003 we redeemed US\$143 million of this converting note in return for entering into a capacity prepayment agreement with Reach Ltd as discussed in note 30(b).

Under AGAAP, the initial values of the converting notes are recorded at face value in other non-current receivables. The old convertible note was, and the newly issued note will, continue to be carried at the face value, adjusted for accrued interest and any provision for permanent diminution considered necessary. Any foreign exchange gains and losses on translation of the converting note to A\$ are recorded in the statement of financial performance in operating expenses.

Our conversion option contained in the original note was classified as an embedded derivative under SFAS 133 as its underlying risk, relating to changes in the value of PCCW common stock, was not clearly and closely related to changes in the underlying risk of the note, namely changes in interest rates. The note portion of the instrument was classified as an available-for-sale security (refer note 30(b)) with changes in fair value being recorded in other comprehensive income. The fair value of the option in the original note was written off in full before redemption. We recorded a loss of \$10 million in fiscal 2002 and \$63 million in fiscal 2001.

The newly issued note is also classified as an available-for-sale security and is disclosed in note 30(b).

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(o) Derivative financial instruments and hedging activities (continued)

##### TelstraClear SFAS 133 adjustments

In November 2001, the underlying debt of TelstraClear was restructured and effectively cancelled and replaced with a new credit facility. The swap contracts were not restructured. As a result, the transition adjustment has been amortised over the maturity schedule of the restructured debt (to June 2002), resulting in amortisation for fiscal 2002 of \$3 million.

At June 2002, the change in fair value of the interest rate swap contract of \$1 million was recorded as interest income.

#### 30(p) Sale of Global Wholesale Business to Reach Ltd

In fiscal 2001, as a part of the strategic alliance with PCCW, a joint venture entity, Reach Ltd, was formed through the combination of our international wholesale business and certain other wholesale assets together with certain PCCW assets. Under AGAAP, the investment in the joint venture entity was recognised at its cost of acquisition, being the fair value of the assets transferred net of cash received and including acquisition costs. The gain on sale of the Global Wholesale Business, measured as the difference between the cost of the investment and the net book values of the net assets transferred, was deferred to the extent of our ownership interest retained in the joint venture entity, in this case being 50%.

For US GAAP purposes, the investment in joint venture entities should be recorded at the net book value of the assets and liabilities transferred, reduced by the amount of any cash received by the investor. Where the resultant investment carrying value would be a negative amount, the excess credit is recognised as an adjustment to the amount of goodwill on other components of the interdependent transactions - in this case a reduction of \$30 million on the CSL goodwill (refer note 30(r)). Also, for USGAAP, there were differences in the fair valuation of the net assets. These related to pre-1996 capitalised interest, assembled work force and other fair value adjustments.

The total effect of these differences reduces shareholders' equity under USGAAP by \$882 million as at 30 June 2003 (2002: \$882 million; 2001: \$882 million). In fiscal 2001, this adjustment reduced the reconciliation of net income to USGAAP by \$882 million.

#### 30(q) Equity accounting and write-off adjustments for Reach Ltd

USGAAP adjustments made on the sale of the Global Wholesale Business to REACH in 30 (p) above, will result in ongoing differences in the reconciliations of net income and shareholders' equity to USGAAP.

Under AGAAP, 50% of the profit after tax was deferred and accounted for in the investment carrying value. The deferred gain was to be recognised in the statement of financial performance on a straight line basis over a period of 20 years. For fiscal 2003, this adjustment was \$22 million up to the date of write-off of REACH (refer below) and has been reversed for USGAAP (2002: \$44 million; 2001: \$18 million). Under AGAAP there is no further recognition of this amount due to the write-off.

For USGAAP equity accounting, there is also a calculation of notional negative goodwill at inception that is required to be amortised over the life of the investment. This notional goodwill is determined by comparing the investment carrying value to 50% of the net assets/ (liabilities) of the REACH joint venture. This amount, similar to AGAAP, is not separately recognised in the statement of financial position, however, it is included in the investment carrying amount. This notional goodwill has been written off with the write-off of the REACH investment (refer below).

##### Write-off of REACH investment

As discussed in notes 3 and 24, as at 31 December 2002, we wrote off the entire carrying amount of our investment in REACH. In accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", where there is evidence that would indicate a loss in value of an investment that is other than a temporary decline, the loss in value should be recognised. Such factors include, but are not limited to, a current fair value of an investment that is less than its carrying amount and the inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment.

A discounted cash flow model has been used to calculate the fair value of our investment in REACH and as a result the carrying amount has been written down to zero. For AGAAP, this resulted in a write-off of \$965 million. However, due to GAAP differences discussed above and in note 30(p), under USGAAP the write-off of the investment was \$203 million. Therefore, an additional net adjustment of \$762 million was recognised in the reconciliations of net income and shareholders equity to USGAAP. Please refer to note 3 for further explanation of the write down made under AGAAP.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(q) Equity accounting and write-off adjustments for Reach Ltd (continued)

Subsequent to the write-off of our investment in REACH, we made a capacity prepayment of \$230 million (US\$143 million) and hence we continue to equity account for our share of losses and net assets from REACH under USGAAP as discussed in note 30(b). For fiscal 2003, the adjustment required to take account of our share of the equity accounting losses of REACH is \$82 million in the reconciliation of net income to USGAAP.

In fiscal 2003 and 2002, there is also a difference due to the adoption of SFAS 133 for REACH. Our share of the SFAS 133 accumulated other comprehensive loss of REACH has decreased the receivable by \$22 million (2002: \$12 million).

The total net adjustment in the reconciliation of net income to USGAAP in fiscal 2003 for all of these differences is an increase of \$665 million (2002: \$36 million; 2001: \$17 million). The total net adjustment included in the reconciliation of shareholders' equity to USGAAP is \$696 million (2002: \$41 million; 2001: \$17 million).

#### 30(r) Consolidation adjustment for Telstra CSL Limited (CSL)

There are several adjustments that need to be made for the consolidation of CSL for USGAAP purposes.

For AGAAP, gains/losses on a hedge for the purchase of CSL are included in the cost of the acquisition, thereby effecting the determination of goodwill. For USGAAP, gains/losses on hedges of a purchase business combination are recognised in net income. Accordingly, in fiscal 2001, hedging losses of \$30 million that were included in the cost of acquisition of CSL for AGAAP, have been recognised in the net income under USGAAP.

For AGAAP, purchase price allocations in an acquisition accounted for as a business combination are not tax effected. The tax effect of basis differences arising from purchase price allocations (fair value adjustments) will be recognised in net income as those basis differences reverse. For USGAAP, such basis differences are treated as temporary differences and tax-effected as part of the acquisition accounting.

For AGAAP, acquisition costs of \$999 million were written off on acquisition of CSL in January 2001. In fiscal 2002 and 2001, USGAAP did not allow such a write off, unless it could be supported by an analysis of the undiscounted cash flows of the entity. As a result of an analysis of undiscounted cash flows relating to CSL, a goodwill write off was not supportable under USGAAP in fiscal 2002 and 2001. Accordingly, in fiscal 2001 the goodwill write off was reversed in the reconciliation of net income to USGAAP and is carried forward as a difference in the reconciliation of shareholders' equity to USGAAP. This amount was also amortised in fiscal 2002 for USGAAP. For fiscal 2003 \$309 million of goodwill was recorded as an impairment loss under USGAAP, based on the transitional goodwill impairment test. Refer to note 30(t) for further information as to the accounting requirements and basis of the impairment.

Goodwill under AGAAP is translated at its historical foreign currency translation rate as the goodwill arises in \$A. Under USGAAP, using the current rate method, goodwill is translated at the spot rate at year end. Amortisation of goodwill is translated using the weighted average rate. Adjustments have been made to restate amortisation at the weighted average exchange rate and to adjust the ending goodwill balance for fluctuations in the Hong Kong dollar, being CSL's functional currency.

The net adjustments above resulted in an increase to goodwill amortisation expense for USGAAP in fiscal 2002 of \$52 million and in fiscal 2001 of \$23 million. For fiscal 2003 goodwill under USGAAP is no longer amortised, refer note 30(t).

#### 30(s) Fair Value and General Reserve adjustments

In AGAAP, when we acquire a controlled entity, we are required to restate the net identifiable assets of that controlled entity to fair value. To the extent we have an equity accounted ownership interest in the company prior to consolidation, we are required to recognise our share of the reserve created on consolidation. In USGAAP, this fair value adjustment is offset against goodwill on consolidation. For fiscal 2002, the adjustment to the reconciliation to shareholders equity was \$54 million.

In AGAAP, the effect of dilutions of ownership due to equity transactions conducted by third parties are recorded in a reserve. In USGAAP, this is treated as a sale of ownership interest and taken to net income. In fiscal 2003, the adjustment to net income was \$2 million loss (2002: \$19 million loss).

In AGAAP, we also have a share of a foreign associated entity's general reserve credit of \$2 million in fiscal 2002. For USGAAP purposes this reserve has been transferred to the foreign currency translation reserve.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(t) Goodwill adjustments and other intangible assets

We adopted Statement of Financial Accounting Standard No. 142 (SFAS 142), "Goodwill and Other Intangible Assets", on 1 July 2002. Under SFAS 142, goodwill is no longer amortised but reviewed for impairment annually, or more frequently if certain impairment indicators or triggers arise. Goodwill is tested for impairment at a "reporting unit" level and we have assigned goodwill to reporting units in accordance with the net goodwill balances by legal entity included in Note 13.

We completed the initial step of the transitional impairment test within six months of adoption of SFAS 142, using a discounted cash flow technique to calculate the fair value of the reporting units to identify any impairment in the carrying value of goodwill. As a result we have recorded an impairment loss of \$309 million relating to the USGAAP carrying value of goodwill in CSL as a cumulative effect of a change in accounting principle.

At 30 June 2003, we identified a further impairment in the USGAAP carrying value of the goodwill in CSL under SFAS 142. The fair value of CSL was determined using a discounted cash flow technique. As a result, under USGAAP we have recognised an additional impairment loss of \$85 million.

Under AGAAP, goodwill is still amortised over its useful life and we have reversed the goodwill amortised of \$178 million for the year ended 30 June 2003 in the reconciliations of net income and shareholders' equity to USGAAP.

The following table represents adjusted net income per USGAAP and adjusted earnings per share to exclude amortisation expense for goodwill that is no longer amortised:

|  | <b>Telstra Group</b>      |       |       |
|--|---------------------------|-------|-------|
|  | <b>Year ended 30 June</b> |       |       |
|  | <b>2003</b>               | 2002  | 2001  |
|  | <b>\$m</b>                | \$m   | \$m   |
| Net income per USGAAP . . . . .                                  | <b>3,450</b>              | 3,898 | 3,576 |
| Goodwill amortisation expense                                    | -                         | 262   | 126   |
| <b>Adjusted net income per USGAAP . . . . .</b>                  | <b>3,450</b>              | 4,160 | 3,702 |
|  | ¢                         | ¢     | ¢     |
| Adjusted basic earnings per share per USGAAP (cents) . . . . .   | <b>27.0</b>               | 32.5  | 29.0  |
| Adjusted diluted earnings per share per USGAAP (cents) . . . . . | <b>26.9</b>               | 32.4  | 28.9  |

The following table represents the estimated aggregate amortisation expense for other intangible assets which are still amortised under USGAAP. These items are brandnames, customer bases, and patents, trademarks and licences:

|  | <b>Telstra Group</b>      |      |      |      |      |
|--|---------------------------|------|------|------|------|
|  | <b>Year ended 30 June</b> |      |      |      |      |
|  | 2004                      | 2005 | 2006 | 2007 | 2008 |
|  | \$m                       | \$m  | \$m  | \$m  | \$m  |
| Estimated aggregate amortisation expense | 136                       | 136  | 130  | 95   | 58   |

#### 30(u) Consolidation

AGAAP requires consolidation of an entity where we are able to dominate decision making, directly or indirectly, relating to the financial and operating policies of that entity to enable it to operate with us in achieving our objectives. Ownership percentage as a single factor does not determine consolidation under AGAAP.

Under USGAAP, prior to the adoption of FIN 46 (refer to note 30(w) for further information), the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one company, directly or indirectly, of over fifty per cent of the outstanding voting shares of another company is a condition pointing towards consolidation.

USGAAP also provides for exemptions from consolidation where control is likely to be temporary or where control does not rest with majority owners.

Also, in certain circumstances, an investment may not be consolidated when the investor owns a majority of the voting stock, but the minority shareholder or shareholders have certain approval, veto or participating rights.

Our AGAAP consolidation policy does not result in material differences between the consolidation policy applicable under USGAAP, and therefore we have not made any adjustments to the USGAAP reconciliation.

## Notes to the Financial Statements (continued)

### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(v) Recently issued Australian accounting standards

A number of new accounting standards have been issued by the Australian Accounting Standards Board (AASB) that have not yet been adopted for AGAAP. A summary of the standards appears in note 1.3.

Some of these standards, once adopted, will result in certain adjustments in the reconciliations of net income to USGAAP and shareholders' equity to USGAAP no longer being required.

The more significant changes are:

#### Income tax

AASB 1020 "Income taxes" has been amended to introduce the balance sheet liability method currently adopted in USGAAP. Although conceptually AASB 1020 will bring AGAAP in closer alignment with USGAAP, management have not yet determined the impact the adoption of AASB 1020 will have on our financial position, results of operations or cash flows.

#### Adoption of International Financial Reporting Standards

The Australian Financial Reporting Council (FRC) has determined that Australian entities adopt International Financial Reporting Standards (IFRS) from 1 January 2005. This will involve completing a first time set of financial statements under IFRS for the half-year ended 31 December 2005 and for the financial year ended 30 June 2006.

Management have not yet determined the impact the adoption of IFRS will have on our financial position, results of operations or cash flows.

#### 30(w) Recently issued United States accounting standards

#### Revenue Arrangements with Multiple Deliverables

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables", and is effective for fiscal years beginning after 15 June 2003. EITF 00-21 prescribes the determination of multiple revenue-generating activities and whether those activities contain more than one unit of accounting. Revenue from arrangements involving multiple deliverables that contain more than one unit of accounting must be allocated among the units based on their relative fair values. Management have not yet determined the effect, if any, the adoption of EITF 00-21 will have on our financial position, results of operations or cash flows.

#### Accounting for Costs Associated with Exit or Disposal Activities

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146 (SFAS 146) "Accounting for Costs Associated with Exit or Disposal Activities", effective for fiscal years beginning after 31 December 2002. SFAS 146 requires that a liability for a cost that is associated with an exit or disposal activity be recognised when the liability is incurred. Under SFAS 146, the FASB determined that an entity's commitment to a plan does not, by itself, create a present obligation to other parties that meets the definition of a liability. SFAS 146 also establishes that fair value is the objective for the initial measurement of the liability. Management have not yet determined the effect, if any, the adoption of SFAS 146 will have on our financial position, results of operations or cash flows.

#### Amendment of SFAS 133 on Derivative Instruments and Hedging Activities

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS 133. Statement 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative as discussed in SFAS 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. SFAS 149 is generally effective for contracts entered into or modified after 30 June 2003 and for hedging relationships designated after 30 June 2003. The guidance should be applied prospectively. Management have not yet determined the effect, if any, the adoption of SFAS 149 will have on our financial position, results of operations or cash flows.

## Notes to the Financial Statements (continued)

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### 30. United States generally accepted accounting principles disclosures (continued)

#### Notes to the reconciliations to financial reports prepared using USGAAP (continued)

#### 30(w) Recently issued United States accounting standards (continued)

##### Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under this Statement is obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominately to a variable such as a market index, or varies inversely with the value of the issuer's shares. SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. This Statement is effective for financial instruments entered into or modified after 31 May 2003, and otherwise is effective at the beginning of the first interim period beginning after 15 June 2003. Management have not yet determined the impact, if any, the adoption of SFAS 150 will have on our financial position, results of operations or cash flows.

##### Accounting for Contingencies

In accordance with Statement of Financial Accounting Standards No. 5 (SFAS 5), "Accounting for Contingencies", and FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", we are required to recognise and measure at fair value a liability for certain guarantees we issue at the inception of the guarantee. This applies to all guarantees issued or modified by us after 31 December 2002.

Under AGAAP, we do not recognise our guarantees that we issue in the statement of financial position. They are disclosed as contingent liabilities in note 21.

We have reviewed our guarantees issued or modified after 31 December 2002 and determined that the liability to be recognised under those guarantees is not material. Therefore, no adjustment has been made to the USGAAP reconciliation.

#### Consolidation of Variable Interest Entities

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities". FIN 46 requires a beneficiary to consolidate a variable interest entity if it is the primary beneficiary of that entity. The primary beneficiary is defined as having a variable interest in a variable interest entity that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both.

We own 100% of the equity of Telstra ESOP Trustee Pty Ltd and Telstra Growthshare Pty Ltd, the corporate trustees for the Telstra Employee Share Ownership Plan Trust (TESOP97), the Telstra Employee Share Ownership Plan Trust II (TESOP99) and the Telstra Growthshare Trust. Under AGAAP we do not consolidate or equity account these trusts as we do not control or significantly influence the trusts. Refer to note 1 and note 24 for further information.

TESOP97, TESOP99 and the Telstra Growthshare Trust are considered to be variable interest entities under FIN 46. Our maximum potential exposure to loss as a result of our involvement with TESOP97, TESOP99 and the Telstra Growthshare Trust at 30 June 2003 is \$88 million. We are currently determining whether we are the primary beneficiary of the trusts. We are also still in the process of considering other potential variable interest entities. Management have not yet determined the full impact, if any, the adoption of FIN 46 on 1 July 2003 will have on our financial position, results of operations or cash flows.



## Directors' Declaration

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*This directors' declaration is required by the Corporations Act 2001 of Australia.*

The directors of Telstra Corporation Limited have made a resolution that declared:

- (a) the financial statements and notes, set out on pages 176 to 326 of Telstra Corporation Limited and the Telstra Group:
  - (i) comply with the Accounting Standards, Corporations Regulations and Urgent Issues Group Consensus Views;
  - (ii) give a true and fair view of the financial position as at 30 June 2003 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2003; and
  - (iii) in the directors' opinion, have been made out in accordance with the Corporations Act 2001.
- (b) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable in Australia; and
- (c) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 23(1) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 23(1).

For and on behalf of the board

Handwritten signatures of Robert C Mansfield and Ziggy Switkowski. The signature of Robert C Mansfield is on the left, and the signature of Ziggy Switkowski is on the right.

Robert C Mansfield  
Chairman

Ziggy Switkowski  
Chief Executive Officer and  
Managing Director

Date: 28 August 2003  
Melbourne, Australia

## Independent Audit Report to the Members of Telstra Corporation Limited

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*This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2003 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.*

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, statement of changes in shareholders' equity, accompanying notes to the financial statements, and the directors' declaration for Telstra Corporation Limited (the Telstra Entity) and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the Telstra Entity and the entities it controlled during that year (the Telstra Group).

The directors of the Telstra Entity are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the Telstra Entity and the Telstra Group, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit Approach*

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Telstra Entity.

The audit was conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, and in accordance with auditing standards generally accepted in the United States of America, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Audit procedures were performed to assess whether, "in all material respects," the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and, other mandatory professional reporting requirements in Australia, a view that is consistent with my understanding of the Telstra Entity's and the Telstra Group's financial position, and their performance as represented by the results of their operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and other disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

I have also audited the explanation and quantification of the major differences between accounting principles generally accepted in Australia compared to accounting principles generally accepted in the United States of America, which is presented in note 30 to the financial report. I have audited note 30 in order to form an opinion whether, "in all material respects", it presents fairly, in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and generally accepted accounting procedures in the United States of America, the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of the procedures, the audit was not designed to provide assurance on internal controls

Audit procedures were performed to assess whether the substance of business transactions was accurately reflected in the financial report. These and the other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the Telstra Entity.

### Independence

I am independent of the Telstra Entity, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

## **Independent Audit Report to the Members of Telstra Corporation Limited (continued)**

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### **Audit opinion**

In my opinion, the financial report of the Telstra Entity is in accordance with:

- (a) the Corporations Act 2001 including:
  - (i) giving a true and fair view of the financial position of the Telstra Entity and the Telstra Group as at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Further, in my opinion, note 30 to the financial report presents fairly the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America.



P. J. Barrett  
**Auditor-General**

Date: 28 August 2003  
Melbourne, Australia

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

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*This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2003 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.*

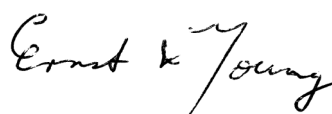
We have audited the accompanying consolidated statements of financial position of Telstra Corporation Limited and its subsidiaries as of 30 June 2003 and 2002, and the related consolidated statements of financial performance, changes in shareholders' equity and cash flows for each of the three years in the period ended 30 June 2003, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telstra Corporation Limited and its subsidiaries at 30 June 2003 and 2002, and the consolidated results of their operations and cash flows for each of the three years in the period ended 30 June 2003, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for each of the three years in the periods ended 30 June 2003, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 2003, 30 June 2002 and 30 June 2001, to the extent summarised in note 30 to the consolidated financial statements.

As discussed in note 1 to the consolidated financial statements, in 2001 Telstra Corporation Limited and its subsidiaries changed their accounting for service activation and certain installation fee revenues.



**Ernst & Young**

Date: 28 August 2003  
Melbourne, Australia