

INFORMATION MEMORANDUM ADDENDUM



**TELSTRA CORPORATION LIMITED**

(ACN 051 775 556)

**PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS**

*Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for debt instruments (the "Instruments") issued under the programme (the "Programme") described in the Information Memorandum (as defined on page 2 of this document) during the period of twelve months from the Programme Date (as defined on page 2 of this document) to be admitted to the Official List. The Information Memorandum comprises listing particulars issued in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 for the purpose of giving information with regard to the issue during the period of twelve months from the Programme Date of Instruments under the Programme. Copies of the listing particulars have been delivered for registration to the Registrar of Companies in England and Wales in accordance with Section 149 of the Financial Services Act 1986. Instruments may also be issued under the Programme which are not listed on any stock exchange.*

*Arranger for the Programme*

**MORGAN STANLEY DEAN WITTER**

*Dealers*

**ABN AMRO**

**COMMONWEALTH BANK OF AUSTRALIA**

**DEUTSCHE BANK**

**HSBC**

**MERRILL LYNCH INTERNATIONAL**

**MORGAN STANLEY DEAN WITTER**

**BANQUE NATIONALE DE PARIS**

**CREDIT SUISSE FIRST BOSTON**

**GOLDMAN SACHS INTERNATIONAL**

**IBJ INTERNATIONAL PLC**

**J.P. MORGAN SECURITIES LTD.**

**WARBURG DILLON READ**

**WESTPAC BANKING CORPORATION**

*12 November 1999*

This document is the Information Memorandum Addendum relating to Telstra Corporation Limited (the "Issuer" or "Telstra") which forms part of the "Information Memorandum" (as defined in the Information Memorandum dated 12 November 1999) (the "main document") of the Issuer in respect of its Programme for the Issuance of Debt Instruments. This document should be read in conjunction with the main document.

This document, together with the main document, comprises listing particulars issued in compliance with the listing rules made under Section 142 of the Financial Services Act 1986 for the purpose of giving information with regard to the issue during the period of twelve months from the Programme Date of Instruments under the Programme. The attention of the recipients of this document is drawn, in particular, to the responsibility statement contained in the main document and to the other statements and information contained therein and to the section entitled "Documents Incorporated by Reference".

The maximum aggregate principal amount of Instruments outstanding at any one time under the Programme will not exceed U.S.\$4,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Instruments calculated in accordance with the provisions of the Dealership Agreement) or such higher amount as may be authorised by the Issuer subject to compliance with the relevant provisions of the Dealership Agreement as defined under "Subscription and Sale" and the Trust Deed executed by the Issuer in relation to the Programme.

All references in this Information Memorandum Addendum to "AUD", "Australian dollars" "A\$" or "\$" are to the lawful currency of the Commonwealth of Australia and all references to "U.S.\$", "U.S. dollars", "United States dollars" or "cents" are to the lawful currency of the United States of America.

Words and expressions defined in the main document shall have the same meanings when used herein.

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## TELSTRA CORPORATION LIMITED

### Introduction

Telstra is Australia's leading telecommunications and information services company with fiscal 1999 revenue of more than A\$18 billion. It is one of Australia's largest corporations and has one of the best-known brands in the country. It offers a full range of services and competes in all telecommunications markets throughout Australia.

Telstra's origins date back to 1901, when the Postmaster-General's Department ("PMG") was established to manage all domestic telephone, telegraph and postal services. The Overseas Telecommunications Commission ("OTC") was established in 1946 to manage Australia's International telecommunications.

The Australian Telecommunications Commission, trading as Telecom Australia, was created as a separate entity in July 1975 following the break up of the PMG, and was changed from a government commission to a statutory corporation called the Australian Telecommunications Corporation in 1989. OTC and Telecom Australia became the Australian and Overseas Telecommunications Corporation Limited following a merger in February 1992. The combination of the entities represented a reorganisation of entities under common control and was accounted for in a manner similar to a pooling of interests.

Telstra Corporation Limited became the legal corporate name of the merged entity in April 1993. The domestic trading name, Telecom Australia, was changed to Telstra on 1 July 1995 to distinguish Telstra from other telecommunications companies in increasingly competitive and deregulated markets. The Issuer has been trading as Telstra internationally since 1993.

Telstra was incorporated as an Australian public limited liability company in November 1991. Following a partial privatisation in November 1997, approximately 66.7 per cent of its issued shares are owned by the Commonwealth of Australia. Telstra is listed, and those of Telstra's shares which are not held by the Commonwealth are quoted, on the Australian Stock Exchange and on the New Zealand Stock Exchange. American depositary shares, each representing five shares evidenced by American depositary receipts, have been issued by the Bank of New York, as depositary, and are listed on the New York Stock Exchange.

The Commonwealth is required by legislation to retain ownership of at least 50.1% of Telstra's issued shares. A global offering by the Commonwealth of up to 16.6% of Telstra's issued shares was launched in September 1999. The shares sold by the Commonwealth were listed on the Australian Stock Exchange and the New Zealand Stock Exchange, in the form of instalment receipts, and the New York Stock Exchange, in the form of interim American Depositary Receipts on 18 October 1999.

### Business Strategy

Telstra's vision is to enhance its position as the leading full-service, telecommunications and information services company in Australia and to expand its presence internationally. To realise this vision, increase shareholder value and successfully compete, Telstra has a four-part growth strategy. This strategy entails:

- optimising returns from traditional telecommunications products and services in Australia;
- focusing on key growth opportunities in mobile telecommunications and data;
- exploring growth opportunities in other areas of our business; and
- transforming corporate culture and improving productivity.

In addition, Telstra continually reviews its entity and organisation structures to ensure it optimises the overall value to shareholders of the total business and its component parts.

## BUSINESS

Telstra's main activities are to provide telephone lines to homes and businesses, local and long distance telephone calls in Australia and international calls to and from Australia, mobile telecommunications services, a comprehensive range of data, Internet and on-line services, wholesale services to other carriers and carriage service providers, telephone directories (White Pages® and Yellow Pages®) and pay television services through an affiliate.

Telstra's fixed telephony network extends across Australia and serves virtually all Australian homes and most Australian businesses. It has optical fibre on all major traffic routes and has a fully digital switching capability that allows it to develop and deploy a full range of modern products and services. As well as the basic telephony network, Telstra has a variety of other delivery platforms over which it provides its services, such as:

- an integrated services digital network;
- switched, data, transaction and digital data networks;
- a hybrid fibre co-axial cable broadband network that runs past 2.5 million homes;
- Internet protocol networks; and
- international submarine cables and access to international satellite infrastructure.

Telstra is also the largest mobile telecommunications provider in Australia, with a digital GSM network covering over 94% of the population and international roaming to more than 65 countries. Telstra has recently launched a second digital mobile network-based on CDMA technology and it expects this network to provide wide-ranging coverage and high quality service.

Recognising the importance of data services and the Internet to the future and their potential to transform the nature of the telecommunications industry, Telstra is also reviewing its business, operations and networks to assess the changes required to enable it to compete effectively in rapidly growing data markets. It has established a single strategic business unit that is responsible for both expanding its range of data products and developing its content-based businesses, such as Internet and e-commerce, pay television services and directories. Telstra has established strengths in products such as Internet access and electronic directories. For example, it is already the largest Internet service provider in Australia, with over 400,000 Internet subscribers at 30 June 1999, and its Australian Yellow Pages® web site is one of the most frequently visited sites in Australia.

Telstra has also devoted considerable resources over recent years to upgrade and modernise its networks and systems. This programme has increased Telstra's flexibility and expanded the range of products and services that it can offer its customers in its traditional telephony markets as well as mobile telecommunications and emerging data and Internet markets. This has enabled Telstra to maintain its revenues from the traditional telephony products and services and grow revenues in these other markets. Over the last several years, Telstra has also focused on its operating efficiency and on changing its corporate culture to be more commercially oriented and more customer focused. These efforts have included:

- enhancing the efficiency of its networks, systems and processes;
- improving work practices; and
- systematically reviewing its cost structures and the way in which it delivers service to its customers.

So far these initiatives have allowed Telstra to achieve cost efficiencies in many areas and have resulted in a significant reduction in the number of full-time employees, particularly over the last four years. Telstra is committed to continuing a review of areas of the business where it believes cost efficiencies can be gained. Future reductions in full-time staff will follow but are likely to be smaller than have been experienced over the last few years.

To date, Telstra's investments outside Australia have been modest. It continues to review opportunities, some of which could be substantial, that are of interest both strategically and financially offshore and in Australia.

## **Telstra's Markets**

In recent years, the Australian Government has further liberalised the Australian telecommunications market and has introduced open competition. Competition began in the national long distance and international telephone service markets in 1991 and in the mobile telephone service market in 1992.

On 1 July 1997, the Government opened the Australian telecommunications markets to full competition by removing the limit on the number of carriers that may enter the market and substantially amended the regulations that apply to providers of telecommunications services. This open market environment has been operating for two years and at 30 June 1999, there were approximately 30 licensed carriers, 50 carriage service providers and 700 Internet service providers competing in Australia.

While this environment presents significant challenges for Telstra, Telstra believes it also provides new opportunities and its strategy is designed to take advantage of these opportunities. Telstra has greater competitive flexibility under the current regulatory regime than it had under the earlier legislation as the changes allow it to structure its products, marketing and pricing in a more commercial fashion. With more competitors entering the market, Telstra is also focusing on opportunities to develop and expand its wholesale business with new and value-added product and service offerings. The open competitive environment has caused Telstra to take on a more commercially oriented and customer focused approach.

Telstra has moved into new products and services beyond the traditional telephony product set, implemented significant cost initiatives to improve its efficiency and has sought to improve its product development and time to market capabilities.

Since the introduction of competition, Telstra's share of the Australian telecommunications market revenues have been gradually declining. However, the effects of this decline on revenue have been more than offset by strong growth in the telecommunications market overall. Telstra expects that these trends will continue as competition increases and demand for products and services, particularly mobile telecommunications products, data and Internet, help expand the market overall. Currently, Telstra continues to be the market leader in all its main businesses.

Telstra expects that existing strong competition in the mobile telecommunications, national long distance, international telephone and data markets will increase. It is also likely to face increased competition in the basic access and local call markets where competition has previously been limited. Telstra expects that new and existing competitors will continue to develop their own telecommunications infrastructure and services as well as new products based on access to Telstra's services and facilities.

As this open market environment is still evolving, Telstra is uncertain exactly how future competition and regulatory decisions will affect its business. The Australian Competition and Consumer Commission and the Australian Communications Authority oversee the overall regulatory framework and over the last two years have increased their level of activity in telecommunications markets, including in some highly competitive markets. For example, the ACCC has issued a number of competition notices to Telstra, and commenced legal proceedings against Telstra, alleging that it is acting anti-competitively and has recently mandated that it provide its competitors with access to a range of wholesale services, including unconditioned local loop and local call resale.

## Products and Services

Telstra offers a broad range of telecommunications and information products and services to a diverse customer base. The following table shows Telstra's operating revenue by major product and service category and as a percentage of total operating revenue for the last three fiscal years (extracted from Telstra's audited consolidated financial statements (except percentages)).

|  | Year ended 30 June                |            |               |            |               |            |
|--|-----------------------------------|------------|---------------|------------|---------------|------------|
|  | 1999                              |            | 1998          |            | 1997          |            |
|  | A\$                               | %          | A\$           | %          | A\$           | %          |
|  | (in millions, except percentages) |            |               |            |               |            |
| Basic access .....                       | 1,855                             | 10         | 1,770         | 10         | 1,740         | 11         |
| Local calls .....                        | 2,727                             | 15         | 2,664         | 15         | 2,664         | 17         |
| National long distance calls .....       | 2,775                             | 15         | 2,594         | 15         | 2,455         | 15         |
| International telephone services .....   | 1,103                             | 6          | 1,380         | 8          | 1,342         | 8          |
| Mobile telecommunications services ..... | 2,538                             | 14         | 2,154         | 13         | 1,981         | 12         |
| Data, text and Internet services .....   | 2,483                             | 14         | 2,197         | 13         | 1,932         | 12         |
| Directory services(1) .....              | 1,078                             | 6          | 1,029         | 6          | 723           | 5          |
| Customer premises equipment .....        | 368                               | 2          | 538           | 3          | 576           | 4          |
| Inter-carrier services .....             | 617                               | 3          | 582           | 3          | 558           | 3          |
| Inbound calling products .....           | 400                               | 2          | 337           | 2          | 309           | 2          |
| Payphones .....                          | 207                               | 1          | 225           | 1          | 248           | 2          |
| Other sales and services .....           | 1,420                             | 8          | 1,233         | 7          | 902           | 6          |
| Sales revenue .....                      | 17,571                            | 96         | 16,703        | 96         | 15,430        | 97         |
| Other revenue(2) .....                   | 647                               | 4          | 599           | 4          | 553           | 3          |
| Operating revenue .....                  | <u>18,218</u>                     | <u>100</u> | <u>17,302</u> | <u>100</u> | <u>15,983</u> | <u>100</u> |

(1) Telstra did not consolidate a part of its directories business before fiscal 1998.

(2) Telstra's other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.

### Basic access

Telstra provides basic access services to virtually all homes and most businesses in Australia. Telstra also sells access services to carriage service providers who then sell these services to their customers.

Telstra's basic access service consists of installing, renting and maintaining connections between a customer's premises and its PSTN network to provide basic voice, facsimile and Internet services. Telstra's basic access service does not include enhanced products like ISDN access and FaxStream® services. Customers are charged for connecting new lines and reconnecting existing lines.

### Local calls

Telstra currently provides local call services to nearly all the residential market and a substantial majority of businesses in Australia. It generally charges for local calls on an untime per call basis. Telstra also provides local call services to carriage service providers at a discount from the standard retail price. These carriage service providers resell local call services and bill their customers directly.

Digitalising and upgrading its networks and systems has allowed Telstra to offer a wide range of products and services that provide more features and functions to its customers. Telstra is focused on increasing local call connections by offering customers services which are designed to increase the number of calls they make. These include messaging services, call waiting, call forwarding, calling number display and call return.

### ***National long distance calls***

Telstra is the leading provider of national long distance services in Australia. This comprises fixed-to-fixed long distance calls over its PSTN and fixed-to-mobile calls made from its PSTN. Telstra provides these services to residential and business customers. It also provides national long distance services as a wholesale product.

Telstra generally charges for national long distance calls on a timed basis after a call connection fee. Different rates apply for fixed-to-fixed and fixed-to-mobile calls. These charges usually depend on the duration, destination, time of day and day of the week of the call.

Telstra also offers a capped price to customers for fixed-to-fixed calls made between 7:00 pm and midnight each week-night. Capped price calls have increased call minutes and significantly improved customers' perceptions about the price and value of Telstra's long distance service.

### ***International telephone services***

Telstra is the leading provider of international telephone services in Australia. It offers customers international telephone services to more than 230 countries and territories. In addition, Telstra offers international outbound telephone services on a wholesale basis.

Telstra generally charges for international telephone calls on a per second basis after a call connection fee. The charge usually depends on the duration of the call and the destination of the call regardless of the time of day or day of the week on which the call is made. Telstra has also recently introduced Easy ½ Hours® where customers purchase calls in 30 minute blocks of time using a 0018 dialing code. It also uses a variety of other marketing programmes and pricing initiatives to encourage its customers to use Telstra's services more.

Telstra also provides international carriers with services to carry transit traffic through Telstra's network from one country to another country. In such cases, Telstra acts as an intermediary and charges a transit fee for this refile traffic.

### ***Mobile telecommunications services***

Telstra's mobile telecommunications services include both digital and analogue cellular services, sales of mobile handsets and a wide range of added features and functions.

*GSM digital service*—Telstra's digital GSM network covers more than 94% of the Australian population. Telstra has continued to expand its digital GSM coverage into regional centres and along highways that link regional centres. It has also focused on improving depth of coverage in major cities, particularly in-building and underground coverage.

Telstra offers GSM digital customers different pricing options which vary depending on committed usage rates and length of contract. GSM digital customers who opt for a higher monthly access fee generally pay a lower air-time charge. Telstra also charges customers an activation fee.

*Analogue service*—Telstra operates the only AMPS mobile telecommunications network in Australia. At 30 June 1999, Telstra's AMPS network covered approximately 94% of the Australian population. As required by regulation, Telstra has sold AMPS mobile telecommunications services to Cable & Wireless Optus for resale.

Telstra is progressively closing its AMPS network as required by law. It will close all metropolitan and 130 non-metropolitan AMPS sites by 31 December 1999 and will close the remaining non-metropolitan sites by 31 December 2000.

Telstra continues to invest considerable resources and develop targeted programmes to offer and encourage analogue customers to switch to Telstra's digital GSM service and to the new digital CDMA mobile service.

*CDMA digital service*—Telstra has launched a new mobile telecommunications network based on CDMA. In fiscal 1998, it purchased 800MHz spectrum to operate its CDMA digital mobile network. The 800MHz spectrum is the spectrum Telstra previously used for its AMPS network. Telstra believes that its new CDMA network will:

- provide similar coverage to that provided by the AMPS network;
- relieve potential congestion on the GSM digital mobile network in urban areas and provide quality services in regional and rural areas;
- provide similar features and services to the GSM service, including privacy and security for voice communications, enhanced messaging and data services; and
- enable it to provide broader geographic coverage at a lower cost than expanding the GSM digital network, particularly in rural regions.

Telstra launched the CDMA service in the first half of fiscal 2000 into areas covered by its AMPS network that it is required to close by 31 December 1999. Telstra then plans to offer its CDMA service in the remaining areas covered by the AMPS network beginning in the second half of fiscal 2000. It will initially offer dual band handsets that will allow customers to roam between the AMPS network and the new CDMA network.

#### ***Data, text and Internet access services***

Telstra provides a range of data network services including:

- ISDN access services;
- dedicated data services that its business customers use to form their own private networks and carriage service providers use to establish their own facility-based communications services;
- large bandwidth services for TV programme transmission;
- international data services offered through global or bi-lateral agreements with international partners including:
  - leased services;
  - frame relay and packet switched services; and
  - internet protocol services offered through alliances with international partners.

Telstra's text services consist mainly of facsimile products and services marketed under its FaxStream® brand name.

Telstra also offers a range of Internet products and packages under the Big Pond® brand. Big Pond® Home and Big Pond® Business offer dial-up Internet services to residential and business users. Big Pond® Direct provides larger retail and wholesale customers with dedicated Internet access within Australia at different transmission rates. Big Pond® Intranet enables customers to construct their own intranets. Big Pond® Advance provides broadband Internet services through cable and satellite.

Telstra also builds "extranets" for corporate and business customers which extend their intranets to other authorised users. Telstra's DialConnect® service provides Internet protocol dial access to corporate systems.

Telstra builds customised solutions for businesses and organisational groups. It also offers web hosting and streaming services.

#### ***Directory services***

Telstra is the main provider of directory services in Australia through its wholly owned subsidiary Pacific Access Pty Ltd. The directory services Telstra offers includes printed White Pages™ directories and Yellow Pages® directories.

Telstra's White Pages™ directories portfolio includes various new media products, including Internet and CD ROM products. It also offers Telstra's NetSelect™ product that allows businesses to list details of their products to facilitate on-line shopping. Telstra is developing a range of other electronic commerce and Internet products and services based on its directory products.

#### ***Customer premises equipment***

Telstra's customer premises equipment business consists of:

- sales of branded telephones, answering machines, facsimile machines and other telecommunications products;
- telephone rental including rental under its universal service obligation; and
- installation and maintenance of PBX telephone systems.

Telstra purchases from third party suppliers all of the equipment that it sells or rents.

In early fiscal 1999, Telstra sold its small business systems business to a joint venture owned 30% by Telstra and 70% by Plessey Asia Pacific Pty Ltd.

#### ***Intercarrier services***

In addition to providing services for resale, Telstra provides a range of other services to carriers. These include:

- interconnection services including originating and terminating access to Telstra's fixed and mobile networks, preselection services and access to network facilities such as ducts, towers and exchange space;
- transmission services, including switched services and leased lines;
- data access services;
- international services;
- analogue mobile telecommunications services; and
- systems maintenance and billing services.

Telstra does not provide GSM telecommunication services as a wholesale product but will commence providing CDMA telecommunication services on a wholesale basis during fiscal 2000.

#### ***Inbound calling products***

Telstra offers:

- inbound call services including Freecall™ 1800, which is a reverse charge call service used widely by large and small businesses to extend their market reach and attract sales;
- Priority® One3 numbers, used by larger businesses and franchise operations for service calls for which inbound callers only pay local call rates irrespective of the source of the call;
- Priority® One3 caller dependent routing to the nearest business location, enabling efficient delivery of customer service;
- Priority® 1300 services, which provide features equivalent to Freecall™ 1800 but with local call rates charged to the inbound caller and lower number charges than Priority® One3 to the subscriber; and
- call centre products such as network-based services for business call centres that include interactive voice response and on-line customer selection menus.

Telstra is developing facilities managed services to provide to business customers. It also supplies a range of products that offer alternative billing options, including prepaid cards, automated reverse charging and calling cards.

### ***Payphones***

Telstra is the leading provider of payphones in Australia. As at 30 June 1999, it operated approximately 36,000 public payphones. Other operators had approximately 42,000 coin-only payphones under equipment sale or lease arrangements with Telstra. The universal service obligation requires Telstra to make payphone services reasonably accessible throughout Australia, including in non-metropolitan and rural areas. Approximately half of Telstra's public payphones are in these areas.

Telstra has upgraded most of its public payphones to accept smartcards with embedded computer chips. Specific smartcards have a reload capability. These reloadable smartcards and other Telstra smartcards are on trial today in selected locations for use as electronic cash payments in vending machines and point-of-sale devices.

### ***Other sales and services***

Telstra's other sales and services mainly include domestic information and connection services, "190" payment services for voice and facsimile, commercial works, ship-to-shore services, mobile data and roaming, video and conferencing and audio and video services.

### ***Pay television***

Telstra owns 50% of FOXTEL, Australia's largest pay television provider. FOXTEL currently provides over 30 television channels, including movies, sports, news and other entertainment channels as well as re-transmission to cable customers of the five free-to-air television networks. In December 1998, Publishing and Broadcasting Ltd exercised an option to acquire 50% of The News Corporation Limited's interest in FOXTEL. As a consequence, each of PBL and News Corporation now have a 25% interest in FOXTEL. The FOXTEL partners have committed, with very limited exceptions, to confine their involvement in the provision of pay television services in Australia to participation in FOXTEL. PBL and News Corporation have made long-term programming commitments to FOXTEL.

There are a number of issues in FOXTEL on which the partners have a difference of view including equalisation of ownership interests and the treatment of some sports programming.

FOXTEL has entered into various programme supply arrangements, including some with minimum subscriber commitments. At 30 June 1999, the amount of FOXTEL's commitment discounted to present value was A\$1,850 million (extracted from FOXTEL's audited consolidated financial statements). To the extent that FOXTEL does not meet these commitments, the FOXTEL partners are jointly and severally liable for the short-fall.

In fiscal 1999, FOXTEL introduced a commercial satellite service which enables pay television to be delivered to approximately two million homes not passed by Telstra's broadband cable, excluding homes in areas serviced by Austar. FOXTEL has licensed movie programming to Austar for satellite delivery on an exclusive basis and therefore may not provide a satellite service containing this programming in areas serviced by Austar.

### ***International Investments***

A component of Telstra's strategy is to provide seamless delivery of products and services to multinational companies. Telstra is pursuing a number of options to achieve this goal.

- Telstra has established sales and service offices in Asia, North America and United Kingdom/Europe to serve its multinational customers.
- Telstra is establishing facilities based points of presence in Asia, Europe and the United States and investing in mobile communications, directories and telecommunications infrastructure in those regions. Initially, Telstra installed facilities in the United Kingdom, New Zealand, Japan and Hong Kong, with planned facilities in South Korea, the United States and other Asian and European countries expected to follow.

- Telstra has recently entered into a global service provider agreement with Infonet Services Corporation, in which it has an 8% equity interest, that will allow it to expand its global service offerings to multinational customers.
- Telstra continues to focus on its New Zealand operations and is continuing to expand its product and service offerings for this market to better meet the needs of customers. Options Telstra is exploring to achieve this objective include network rollout and, where appropriate, strategic alliances and acquisitions. Telstra currently has interconnect arrangements and, where appropriate, reseller arrangements with each of the major carriers in New Zealand.

Telstra also has some investments in Asia, including:

- a business co-operation contract, which will be scaled down in October 2000 and cease altogether in March 2002, if not extended, with the Vietnamese Government carrier, VNPT, to expand and upgrade Vietnam's international network;
- an interest in a digital mobile telephone network in Calcutta and a joint venture to operate a mobile telephone network in Sri Lanka;
- a meshed satellite based voice and data network and a network management system in India; and
- an interest in a Build-Operate-Transfer venture to operate existing regional basic services and to install 350,000 additional lines in Central Java in Indonesia.

To date, Telstra's investments outside Australia have been modest. It continues to review opportunities, some of which could be substantial, that interest it both strategically and financially offshore and in Australia.

### **Information Technology Alliances**

In July 1997, Telstra acquired a 26% equity interest in IBM Global Services Australia Limited, also owned by IBM Australia (51%) and Lend Lease (23%) and outsourced its data centre operations and some of its applications maintenance and enhancement activities to IBM Global Services Australia for 10 years.

Telstra has engaged IBM Global Services Australia to provide services during the contract period. Telstra can terminate the agreement for services after 2001, subject to payment of potentially significant financial penalties. If it does so, IBM and Lend Lease may require Telstra to exit its investment.

Telstra has also formed a network services joint venture company, Advantra Pty Limited, with IBM Australia and Lend Lease. Telstra owns 50% of Advantra, IBM Australia owns 30% and Lend Lease owns 20%. Advantra supplies network facilities management, network systems integration services and supplies network application services to major business and government customers in Australia. Advantra also supplies network services to IBM Global Services Australia's customers across Australia.

### **Networks and Systems**

Telstra operates fixed and mobile telecommunications networks to support its diverse range of products and services. An extensive national and international transmission infrastructure and largely centralised management support its networks. Telstra is currently centralising the operational management of its core networks by establishing a single global operations centre. The new global operations centre has a disaster recovery back-up facility in an alternative location.

Telstra invests a substantial amount of capital and other resources in its networks and systems. It has deployed a digital GSM mobile telecommunications network and a hybrid fibre co-axial cable broadband network. It is currently undertaking a project to reduce the level of faults in its customer access network. It also incurs other expenditures to upgrade services available on the customer access network. Telstra is currently deploying a new digital mobile network based on CDMA that will replace its AMPS network. Telstra has also recently completed a five-year programme to upgrade, rationalise and digitalise some of its fixed networks and

improve many of its systems, including those relating to billing, sales and customer service. It has ongoing programmes to improve work practices, streamline processes, eliminate duplication of overhead costs and improve record keeping for property, plant and equipment.

Telstra intends to continue to invest in its networks and systems, particularly to cater for the increasing demand for data services such as Internet services. It anticipates that data traffic in its domestic network will exceed voice traffic within the next two-to-three years. Telstra is currently undertaking a key initiative called Data Mode of Operation in order to:

- position itself for significant new revenue streams from on-line sources;
- develop a cost competitive network capable of handling the growing volume of data traffic;
- modify its processes and systems to be more customer focused and cater for a wide range of data and voice product offerings;
- develop an operational model for its expected future product and service mix; and
- establish a procedure to update its skill base.

As part of the DMO project, Telstra is evaluating whether it would be feasible for it to shift much of its fixed network voice traffic to Internet protocol and ATM-based technology over the next ten years. It is also assessing whether it can use these technologies in its internal operations to help it control costs and improve productivity.

Telstra's customers are increasingly demanding greater control of their services and access to information such as their own billing information. In order to meet these demands, Telstra will need to make further investment in its systems.

Telstra intends to increase its ability to support services that require high bandwidth by using technologies such as its hybrid fibre co-axial cable broadband network and xDSL technology. In remote areas, Telstra may achieve this by using satellite or other wireless technologies.

## YEAR 2000 ISSUES

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

Telstra has also incorporated year 2000 considerations into its system development and maintenance plans. Telstra's operations, however, may also be affected by the ability of third parties dealing with it to manage the effect of the year 2000 date change.

Telstra estimates that the cost of its year 2000 programme will be up to A\$400 million for the period to 31 December 2000. Approximately A\$300 million of the anticipated cost relates to remediation work and the remaining amount relates to contingency planning and capital expenditure. As at 30 June 1999, the year 2000 programme had incurred total direct expenditures of approximately A\$235 million. These figures are estimates or approximations and have not been audited.

While Telstra has devoted significant resources to the year 2000 problem, there is a risk that its year 2000 programme will not be successful or that the date change from 1999 to 2000 will materially affect Telstra's operations and financial results. In addition, Telstra faces other material year 2000 risks, including:

- year 2000 problems in the networks of other domestic or international carriers or carriage service providers that have an effect on Telstra's ability to continue to provide services;
- suppliers' failure to provide Telstra with year 2000 compliant products or maintain continuity of supply of products or services affecting Telstra's ability to continue to provide services;
- customers or trading partners taking action against Telstra if it is unable to maintain services to them; and
- regulators imposing fines or taking other actions against Telstra for failing to maintain continuous services, such as under Telstra's customer service guarantees.

Telstra has also established year 2000 contingency plans as part of its standard disaster recovery planning. It is reviewing these plans and augmenting them where needed to deal with the types of scenarios that might occur in relation to the year 2000 problem.

## COMPETITIVE AND REGULATORY ENVIRONMENT

The Telstra brand is one of the most recognised brands in Australia. Telstra's Making Life Easier™ approach underpins its marketing initiatives that are designed to enhance customer loyalty and increase customer retention.

Telstra has designed its marketing and distribution channels to focus on improving service to existing customers and attracting new customers. It seeks to provide high quality services that deliver value to its customers. In particular, it offers value-added products and services and competitive price and product packages tailored to particular customer segments.

Competition in Australia's telecommunications industry began in 1989 with the opening of the customer premises equipment and value-added services markets. In 1991, competitors started reselling Telstra's services, particularly national long distance and international telephone services.

The competitive environment changed significantly in 1992 when Cable & Wireless Optus entered the market and began reselling Telstra's analogue mobile telephone service and offering national long distance and international telephone services.

Telstra started offering digital mobile telephone services over its own network in 1993. In the same year, Cable & Wireless Optus and Vodafone Holdings (Australia) Pty Limited began offering those services over their own networks. On 1 July 1997, the Australian Government introduced the current regulatory regime allowing for open competition.

From a position of being the sole provider of products and services in most Australian telecommunications markets, inevitably, competition has reduced Telstra's market share. However, competition has also contributed to overall market growth. Telstra expects both these trends to continue.

Telstra is permitted to compete in all telecommunications markets throughout Australia. Telstra's competitors are also permitted to compete in all these markets. Competitors may seek to take advantage of their position in one market to enter or improve their position in another market.

### **Regulation**

Some of the major features of the Australian telecommunications regulatory regime are industry specific competition regulation, extensive industry specific consumer protection regulation, industry codes and standards under a self-regulatory regime, no limits on the number of carriers, carriage service providers with many of the same access rights and obligations as carriers and limited carrier land access rights and statutory immunities.

### ***Principal industry regulators***

The Communications Minister and the Communications Minister's Department are primarily responsible for telecommunications industry policy and legislation.

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

The Australian Competition and Consumer Commission administers the Trade Practices Act 1974 (Cth). The TPA regulates competition generally and protects consumers and also includes specific provisions governing the telecommunications industry. The ACCC administers the telecommunications access regime, provisions for controlling anti-competitive conduct and Telstra's retail price caps and price control arrangements.

The Australian Communications Authority is responsible for regulating the non-competition aspects of the telecommunications industry under the Telecommunications Act 1997 and the Telecommunications (Consumer Protection and Service Standards) Act 1999 including carrier licensing, technical regulation, quality of service, the customer service guarantee, preselection, numbering and number portability, the universal service obligation, spectrum management and industry codes and standards.

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

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

## **Competition Regulation**

### ***Competition rule***

In addition to the general requirements of trade practices law, a carrier or carriage service provider must not engage in anti-competitive conduct in breach of the competition rule. A carrier or a carriage service provider may breach the competition rule if it contravenes general trade practices rules relating to anti-competitive conduct in respect of a telecommunications market or has a substantial degree of market power and takes advantage of that power with the effect or likely effect of substantially lessening competition in any telecommunications market, taking into account other conduct if necessary.

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

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

A carrier or a carriage service provider may be liable to pay penalties of up to A\$10 million plus A\$1 million per day of contravention, and for compensatory damages to affected third parties, if it continues to engage in conduct the subject of a competition notice after the notice comes into effect and the Federal Court finds that the conduct is in breach of the competition rule.

### ***Retail price restrictions***

The Government has set retail price controls on some of Telstra's services and groups of services which apply from 1 July 1999 to 30 June 2001. The Government is considering an adjustment to the price controls for fiscal 2001 as a result of the introduction of the goods and services tax and the Government's policy that business should be permitted to pass on to customers the impact of the goods and services tax.

Telstra cannot increase prices for the basket of connections, basic access, local calls, national long distance and international calls, domestic and international leased lines and fixed-to-mobile calls and mobile

telecommunications services, beyond annual increases in the Consumer Price Index over the previous year, less 5.5%. If the annual increase in CPI is less than 5.5%, Telstra is required to reduce its prices accordingly. Previously this cap was set at CPI-7.5%.

Telstra cannot increase prices beyond annual increases in CPI for a basket of line rentals and local calls and a basket of connection services. Previously Telstra was constrained in increasing its prices for individual services under specific price caps, such as, residential line rental, trunk calls and international calls. This change provides scope for rebalancing line rentals and call charges.

A cap of CPI minus 1% applies to a basket of services for residential customers which include connections, line rentals, local calls, national long distance and international calls. Revenue-weights for services in this basket are set at the average for the bottom 50% of Telstra preselected residential customers by bill size.

Line rentals for the bottom 10% of Telstra's preselected residential customers by bill size must not increase by more than CPI in one year unless Telstra can satisfy the ACCC that it will have products or arrangements in place to ensure that these customers bills do not, on average, increase by more than CPI.

The ACCC has powers to monitor and report on Telstra's compliance with price controls.

#### **Access**

The ACCC has broad powers to determine those of Telstra's services to which competitors will have access and the terms and conditions under which Telstra provides this access.

#### ***Declaration of services***

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

Services can be declared by the ACCC either in accordance with an industry recommendation or after conducting a public inquiry and finding that the declaration of a particular service will promote the long-term interests of end-users.

In determining whether the long-term interests of end-users will be promoted, the ACCC must have regard only to whether declaring the service is likely to promote competition in markets for telecommunications and related services, achieve "any-to-any" connectivity and encourage the economically efficient use of, and investment in, telecommunications infrastructure.

#### ***Carriers and carriage service providers must comply with "standard access obligations"***

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

Standard access obligations are subject to exceptions relating to available capacity, protected contractual rights and the reliability, creditworthiness and technical ability of the party seeking access.

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

### ***Carrier-to-carrier access obligations***

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

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

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

Carriers must also comply with the Facilities Access Code issued by the ACCC in relation to access to underground facilities and certain towers and sites. Amendments to the legislation enable the ACCC to develop codes setting out conditions that are to be met in providing information or access to information or in consulting on network modification or reconfiguration.

### **Carrier licences**

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

There is no legislative limit on the number of carrier licences which may be issued. A licence applies to the ownership of certain types of facilities used to supply services to the public and does not distinguish between fixed, mobile or satellite services.

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

### **Network Operations**

#### ***Powers and immunities***

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

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

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

- the carrier holds a facility installation permit, which the ACA may only issue subject to stringent conditions; or
- the facility has been determined to be a "low impact facility" by the Communications Minister (for example, specified types of underground conduit and cable); or
- the facility is a temporary defence facility; or
- the installation is carried out before 1 July 2000 for the sole purpose of connecting a building to a network that was in existence on 30 June 1997.

If Telstra engages in these activities, it must restore land and pay compensation to land owners. Telstra is also subject to a Telecommunications Code of Practice providing for notice and objection mechanisms. The Secretary to the Commonwealth Department of the Environment may impose conditions on some facilities' installation activities.

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

#### ***No limitation of tort liability***

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

#### ***Number portability***

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

##### **(a) The ACA numbering plan mandates number portability for some services**

The ACA has put in place a numbering plan for Australia. Pursuant to a direction by the ACCC, the plan sets out rules about number portability for local services (excluding paging) by 1 January 2000, with limited portability being available by 30 November 1999, freephone (e.g. 1800) services by 16 November 2000 and local rate (e.g. 13) services by 16 November 2000.

Currently Telstra only provides portability to Optus for local call services which are single line services.

ACIF is currently finalising a code which sets out operational procedures for the implementation of local number portability processes, and a network plan which sets out inter-network arrangements.

##### **(b) Terms and conditions of supply are negotiated or arbitrated**

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

Optus has lodged a dispute in respect of the manner in which Telstra routes calls to ported numbers. The dispute is currently being arbitrated by the ACCC. The issue is also being raised in industry forums.

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

##### **(c) Requirement of full number portability**

The ACA has issued criteria which it says it will use to assess whether number portability being provided by a carrier allows the customer to receive "equivalent service" and thereby satisfies the requirement of full number portability. Telstra is currently assessing the implications of that paper. It will be required to demonstrate that Telstra's number portability service satisfies these criteria by 31 December 1999. If Telstra's proposed number portability service is found to be inadequate, it may need to incur substantial additional capital costs to implement an adequate system.

Pricing principles with respect to inbound (freephone and local rate) number portability have not yet been issued.

(d) Mobile number portability

In October 1999, the ACCC decided to mandate portability for mobile telephone numbers. Compliance with this requirement may require significant capital expenditure and the resolution of numerous technical issues. Telstra might not be able to recover its costs of providing mobile number portability in full from other carriers or carriage service providers.

## INVESTMENTS IN CONTROLLED ENTITIES

As of 30 September 1999

| <u>Name of entity</u>                                  | <u>Country of<br/>incorporation</u> | <u>% of equity held by<br/>immediate parent</u> |
|--|-------------------------------------|---|
| <i>Parent entity:</i>                                  |                                     |   |
| Telstra Corporation Limited .....                      | Australia                           |   |
| <i>Controlled Entities:</i>                            |                                     |   |
| Telstra Rewards Pty Ltd .....                          | Australia                           | 100%  |
| • Telstra Visa Card Trust .....                        | Australia                           | 100%  |
| • Qantas Telstra Card Trust .....                      | Australia                           | 100%  |
| Telecom Messageteck Pty Ltd .....                      | Australia                           | 51.1%   |
| • Sarzeau (NSW) Pty Ltd .....                          | Australia                           | 100%  |
| Telstra Technologies Pty Ltd .....                     | Australia                           | 100%  |
| On Australia Pty Ltd .....                             | Australia                           | 100%  |
| Telecommunications Equipment Finance Pty Ltd (1) ..... | Australia                           | —   |
| Telstra Finance Limited .....                          | Australia                           | 100%  |
| Transport Communications Australia Pty Ltd .....       | Australia                           | 100%  |
| Telstra ESOP Trustee Pty Ltd .....                     | Australia                           | 100%  |
| Telstra Media Pty Ltd .....                            | Australia                           | 100%  |
| Telstra Multimedia Pty Ltd .....                       | Australia                           | 100%  |
| Telstra Media Holdings Pty Ltd .....                   | Australia                           | 100%  |
| Lawpoint Pty Ltd .....                                 | Australia                           | 60%   |
| Telstra R&D Management Pty Ltd .....                   | Australia                           | 100%  |
| Pacific Access Pty Ltd .....                           | Australia                           | 100%  |
| • Pacific Access Enterprises Pty Ltd .....             | Australia                           | 100%  |
| • WorldCorp Holdings (S) Pte Ltd .....                 | Singapore                           | 100%  |
| • WorldCorp Publishing Pte Ltd .....                   | Singapore                           | 100%  |
| Telstra Pay TV Investments Pty Limited .....           | Australia                           | 100%  |
| • Telstra CB.Com Limited .....                         | Australia                           | 100%  |
| Atlas Travel Technologies Pty Ltd .....                | Australia                           | 67.64%  |
| • Atlas Travel Technologies Inc. ....                  | United States                       | 100%  |
| • Moneydirect International Limited .....              | United Kingdom                      | 100%  |
| • Moneydirect Pty Ltd .....                            | Australia                           | 100%  |
| • Moneydirect Limited .....                            | New Zealand                         | 100%  |
| Network Design and Construction Limited .....          | Australia                           | 100%  |
| Advanced Network Management Pty Ltd .....              | Australia                           | 100%  |
| Telstra International Limited .....                    | Australia                           | 100%  |
| • Modi Telstra (Private) Limited .....                 | India                               | 49%   |
| Telstra Communications Limited .....                   | Australia                           | 100%  |
| • Telecom Australia (Saudi) Company Ltd .....          | Saudi Arabia                        | 50%   |
| Telstra Holdings Pty Ltd .....                         | Australia                           | 100%  |
| • Telstra (Malaysia Holdings) Sdn. Bhd. ....           | Malaysia                            | 100%  |
| • Telstra International (HK) Holdings Limited .....    | Hong Kong                           | 100%  |
| • Mobitel (pvt) Limited .....                          | Sri Lanka                           | 60%   |
| • Telstra (New Zealand) Limited .....                  | New Zealand                         | 100%  |
| • Navigator Communications (NZ) Limited .....          | New Zealand                         | 100%  |
| • Telstra Global Limited .....                         | United Kingdom                      | 100%  |
| • Telstra UK Limited .....                             | United Kingdom                      | 100%  |
| • PT Telstra Nusantara .....                           | Indonesia                           | 100%  |
| • Telstra Germany GmbH .....                           | Germany                             | 100%  |
| • Telstra Korea Limited .....                          | Korea                               | 100%  |
| • Telstra CB.UK Limited .....                          | United Kingdom                      | 100%  |
| • Telstra France SA .....                              | France                              | 100%  |
| • Telstra Inc .....                                    | United States                       | 100%  |
| • North Point Telecommunications Inc. ....             | United States                       | 100%  |
| • Telstra Development LLC .....                        | United States                       | 100%  |
| • Telstra Vishesh Communications Ltd .....             | India                               | 47%   |
| • Telstra South Asia Holdings Limited .....            | Mauritius                           | 100%  |
| • Telstra India Private Limited .....                  | India                               | 100%  |
| • Telstra Singapore Pte Ltd .....                      | Singapore                           | 100%  |
| • Telstra Japan K.K. ....                              | Japan                               | 100%  |

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

## MANAGEMENT

Mr Frank Blount retired as chief executive officer of Telstra in fiscal 1999. Dr Zygmunt E Switkowski, formerly Group Managing Director of Business & International, was appointed to this position.

Mr Codd has advised that he will not stand for re-election as a director and will retire at the annual general meeting on 12 November 1999. The board has invited Mr Robert C Mansfield, BCom, FASA, CPA, to become a director on Mr Codd's retirement and Mr Mansfield has agreed to accept this position if elected. As at 3 September 1999, Mr Mansfield held the positions of Chairman of CBS Technologies Pty Ltd and Director, McDonald's Australia Limited and Datacraft Asia Limited. He was formerly chief executive officer of McDonald's Australia Limited, Wormald International Limited, Optus Communications Limited and John Fairfax Holdings Limited. Mr Mansfield will be nominated at the annual general meeting to fill the vacancy created by Mr Codd.

Mr Hoare will retire as chairman shortly after the annual general meeting. The board has decided to invite Mr Mansfield to become the chairman to succeed Mr Hoare.

The business address of each of the directors is c/o Telstra Corporation Limited, Level 41, 242 Exhibition Street, Melbourne, Victoria 3000, Australia. A brief biography for each of the directors as at 30 September 1999 is as follows:

### Name and Title

### Qualifications

#### **David M HOARE**

BEC, FCPA  
Director and Chairman

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

#### **John T RALPH**

AO, FCPA, FTSE, FAICD, FAIM,  
FAusIMM, Hon LLD (Melb & Qld)  
Director and Deputy Chairman

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

#### **Zygmunt E SWITKOWSKI**

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

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

#### **N Ross ADLER**

AO, BCom, MBA  
Director

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

#### **Anthony J CLARK**

AM, FCA, FCPA, FAICD  
Director

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

**Name and Title**

**Michael H CODD**

AC, BEc (Hons)  
Director

**Qualifications**

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

**Malcolm G IRVING**

AM, BCom, Hon DLit  
Director

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

**Donald G McGAUCHIE**

Director

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

**Cecilia A MOAR**

DipT  
Director

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

**Elizabeth A NOSWORTHY**

BA, LLB, LLM  
Director

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

**Christopher I ROBERTS**

BCom  
Director

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

**John W STOCKER**

AO, MB, BS, BMedSc, PhD, FRACP,  
FTSE  
Director

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

**Stephen W VIZARD**

AM, LLB, BA, FAICD  
Director

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

## LEGAL PROCEEDINGS

Telstra is involved in routine litigation. Governmental authorities and other parties frequently threaten it with legal proceedings. See also “Contingent Liabilities and Guarantees—Telstra—Legal Actions” on page 29. The following proceedings could adversely affect Telstra’s overall business or financial position.

### **Cable & Wireless Optus claims that Telstra has breached the misuse of market power and competition rule provisions of the Trade Practices Act**

On 10 September 1997, Cable & Wireless Optus and two of its subsidiaries commenced proceedings against Telstra in the Federal Court of Australia. Cable & Wireless Optus claims that Telstra has breached section 46 of the TPA (misuse of market power provision) by reason of the arrangements for the supply of Telstra’s pay TV carriage services to FOXTEL and the construction of Telstra’s broadband network.

Cable & Wireless Optus claims unquantified damages, including interest. Telstra believes that it has substantial defences to these claims, and will continue to defend the action vigorously.

The proceedings are provisionally listed for trial in June 2000.

Cable & Wireless Optus’ previous claims in this proceeding concerning local number portability and local call access and resale services, including Telstra’s commercial churn service, were settled on confidential terms in August 1999. The settlement will not have a material adverse affect on Telstra’s financial results or position.

### **The ACCC claims Telstra has breached the competition rule**

On 24 December 1998, the Australian Competition and Consumer Commission commenced proceedings in the Federal Court of Australia against Telstra for breach of the competition rule in section 151AK of the Trade Practices Act. On 23 April 1999, the ACCC commenced further proceedings for breach of the competition rule. These proceedings have now been consolidated.

The ACCC seeks declarations that Telstra has engaged in anti-competitive conduct, injunctions and pecuniary penalties. The alleged anti-competitive conduct involves Telstra’s commercial churn service. The ACCC alleges that in imposing the terms and conditions of the commercial churn service, Telstra is using its market power in the market for fixed local calls with the effect of substantially lessening competition in that market and the long distance market.

Telstra believes that the ACCC’s claims are unfounded and that it has substantial defences to them. Telstra will continue to defend the proceedings vigorously.

Substantial penalties of up to A\$10 million and A\$1 million per day of contravention apply for a breach of the competition rule.

### **Telstra is involved in significant litigation with two of its wholesale customers**

Telstra is also currently involved in significant litigation with two of its wholesale customers—AAPT Limited and First Netcom Pty Ltd. AAPT is a wholesale customer of Telstra and First Netcom was a wholesale customer.

Telstra claims that AAPT and First Netcom have not paid it for telecommunications services it has provided to them. Telstra’s claim against AAPT is for approximately A\$123 million and its claim against First Netcom is for approximately A\$15 million. Both AAPT and First Netcom dispute that the amounts claimed by Telstra or any amounts are owing by them.

AAPT and First Netcom have both cross-claimed and seek to offset their claims against amounts claimed by Telstra. AAPT's cross-claim is for losses which it estimates to be in the order of A\$315 million. First Netcom has estimated its losses to be up to approximately A\$37 million.

In relation to the amount claimed by Telstra, AAPT and First Netcom have raised various disputes including that they did not receive Telstra's bills, Telstra's bills were inaccurate and Telstra's billing and account management systems were defective in other ways.

AAPT's and First Netcom's cross-claims include claims for damages and other relief.

The proceedings against AAPT have been provisionally set down for trial to commence in the Federal Court of Australia in December 1999. The proceedings against First Netcom commenced in April 1997 and are currently before the Federal Court of Australia, but no trial date has been set.

### **Legal proceedings settled**

The following legal proceedings were settled during fiscal 1999 and did not have a material adverse affect on Telstra's financial results or position:

- proceedings brought by British Telecom Australasia Pty Limited ("BTA"), and British Telecom plc, against the State of New South Wales ("NSW") and Telstra arising out of the termination of a supply agreement between BTA and NSW; and
- litigation with two wholesale customers—QAI Australia Limited/Southern Cross Telecommunications Pty Limited and I-Tel Pty Limited.

## RELATIONSHIP WITH THE COMMONWEALTH

Telstra has a number of distinct relationships with the Commonwealth, including as shareholder, regulator and customer. The Commonwealth is Telstra's controlling shareholder and has special rights and privileges under the Telstra Act. Telstra's relationship with all of its shareholders, including the Commonwealth is, in general, regulated by the Australian Corporations Law, the Australian Stock Exchange listing rules and Telstra's constitution. Commonwealth departments and independent agencies are also responsible for the regulation of the telecommunications industry generally and Telstra in particular under the Telstra Act, the Trade Practices Act, the Telecommunications Act and the Telecommunications (Consumer Protection and Services Standards) Act.

### **The Commonwealth as shareholder**

At the end of fiscal 1999, the Commonwealth owned 66.7% of Telstra's shares. After the global offering in October 1999, the Commonwealth will retain ownership of at least 50.1% of Telstra. The Telstra Act precludes any reduction in the Commonwealth's voting rights, paid-up capital or rights to distributions of capital or profit, if any, below a 50.1% interest without amending legislation. The current Government's policy is the eventual full privatisation of Telstra, subject to passage of enabling legislation. The main opposition party has stated that it is opposed to further privatisation of Telstra.

Telstra is required under the Telstra Act to provide the Commonwealth with certain information that it would not generally be required to disclose concurrently, if at all, to other shareholders. This information includes annual provision of Telstra's three-year corporate plan, interim financial statements, if requested by the Communications Minister and reports regarding significant proposed events, including corporate restructurings, acquisitions and divestitures or joint ventures and partnership activities.

Telstra is also required to keep the Communications Minister and the Minister of Finance and Administration generally informed about its operations and to give them such information about its operations as they require. Telstra's management is required to appear before and, with limited exceptions, provide information to Parliamentary Committees.

The Communications Minister has the power, under the Telstra Act, to give Telstra, after consultation with Telstra's board of directors, such written directions as appear to the Communications Minister to be necessary in the public interest. To date, no directions have been issued under this power. Telstra's board of directors must ensure that it complies with any such direction. The Communications Minister may not give such directions in relation to the amounts to be charged for work done, or services, goods or information supplied, by Telstra. The Communications Minister, however, has some discretionary powers in relation to charges. The Communications Minister also has the power to direct Telstra under the Telecommunications (Consumer Protection and Service Standards) Act of 1999.

The main opposition party has indicated that it is appropriate that the Commonwealth retain a power of direction over the company while it is the majority shareholder, and that such power is exercised in the public or national interest as appropriate, particularly in respect of universal service obligations or customer service guarantee matters.

The Telstra Act deems the Commonwealth Auditor-General to have been appointed as Telstra's auditor for the purposes of the Australian Corporations Law. The Auditor-General cannot be removed without legislative amendment.

The Commonwealth, as holder of more than 50% of Telstra's shares, like any other majority shareholder in an Australian company, has the ability to control Telstra. This includes the power to pass any resolution at a shareholders' meeting requiring a simple majority, which includes the appointment and removal of directors, with the exception of matters upon which the Commonwealth is not permitted to vote under the Australian Corporations Law or applicable listing rules.

The Commonwealth has a set of general policies which apply to partially owned government business enterprises, which provide significant commercial freedoms in the conduct of their business, subject to the oversight of appropriate Ministers. These general policies are applied principally by the Telstra Act, the Commonwealth Authorities and Companies Act and Telstra's constitution.

### **The Commonwealth as regulator**

Telstra is currently regulated by the Commonwealth and its departments and independent agencies under a number of statutes including:

- the Telstra Act;
- the Telecommunications (Consumer Protection and Service Standards) Act;
- the Trade Practices Act; and
- the Telecommunications Act.

The Commonwealth's role as regulator is independent and distinct from its role as shareholder. The Government views the legislation, which established the current regime, as providing the fundamental legal and institutional reforms required to enhance competition within the Australian telecommunications industry. Like other regulatory regimes, the government does not expect the current regime to remain static. It will change over time in light of experience and new developments in the industry.

Telstra is also subject to a range of other Commonwealth legislation, some of which does not apply to Telstra's competitors. This legislation covers a wide range of areas including administrative law, environmental law and employment related law.

### **The Commonwealth as customer**

The Commonwealth is a major user of Telstra's services and Telstra estimates its approximate recent annual expenditures on its services by the Commonwealth have been around A\$300 million. The Commonwealth, as a result of telecommunications liberalisation, is moving towards a whole-of-government approach to the purchase of telecommunications services and will increasingly seek to take advantage of open competition when purchasing telecommunications services. This has resulted, and may continue to result, in a reduction of business being awarded to Telstra.

## CAPITALISATION AND INDEBTEDNESS

The table below shows Telstra's consolidated capitalisation and indebtedness in accordance with Australian GAAP at 30 June 1999.(1)

|  | <u>As at 30 June 1999</u><br><u>(in A\$ millions)</u> |
|--|---|
| Short-term debt(2)(3)(4) .....                                   | 2,265   |
| Long-term debt   |   |
| Telecom/Telstra bonds .....                                      | 2,279   |
| Loans .....  | 2,641   |
| Finance leases .....   | 26  |
| Total long-term debt(3)(4)(5) .....                              | <u>4,946</u>  |
| Total debt(3)(4)(5) .....  | <u>7,211</u>  |
| Shareholders' equity   |   |
| Ordinary shares (12,866,600,200 ordinary shares issued)(6) ..... | 6,433   |
| Reserves .....   | 14  |
| Retained profits .....   | 3,809   |
| Minority interests .....   | 38  |
| Total shareholders' equity .....                                 | <u>10,294</u>   |
| Total capitalisation and indebtedness(4)(7) .....                | <u><u>17,505</u></u>                                  |

- (1) This financial information has been extracted from Telstra's consolidated audited accounts dated 30 June 1999.
- (2) Includes the current portion of long-term debt.
- (3) Borrowings outstanding are unsecured, except for finance leases which are secured, as the rights to the leased asset revert to the lessor in the event of a default, and except for a bank overdraft of A\$4 million and a bank loan of A\$8 million held by an offshore controlled entity, which are secured against certain fixed and floating assets of that controlled entity.
- (4) On 29 October 1999, Telstra paid the final dividend for fiscal 1999 of A\$3,346 million, including a special dividend of A\$2,059 million. Telstra replenished its working capital following payment of this dividend which increased short term debt by A\$500 million and long term debt by A\$2,000 million. The remainder of the dividend was paid out of existing cash reserves.
- (5) The Commonwealth has guaranteed A\$37 million of these borrowings at 30 June 1999.
- (6) Because Australia has abolished the concept of authorised share capital, there is no limit on the number of shares Telstra may issue. In Australia, there is also no longer any concept of a par or nominal value for a share. This means that Telstra may issue its shares at any price. Telstra's issued share capital is fully paid.
- (7) Total capitalisation and indebtedness consists of short-term debt, long-term debt and shareholders' equity, including minority interests.
- (8) Details of Telstra's contingent liabilities and guarantees as at 30 June 1999 are shown in the section headed "Contingent liabilities and guarantees" on page 29.
- (9) Save as described above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Telstra Group since 30 June 1999.

## CONTINGENT LIABILITIES AND GUARANTEES

The details and maximum amounts (where reasonable estimates can be made), as at 30 June 1999 and (save in the case of legal actions where estimates and approximations are used) using information extracted from Telstra's audited financial statements, are set out below for contingent liabilities of:

### **Telstra**

#### *Legal actions*

Details of legal proceedings that could adversely affect Telstra's overall business or financial position are included in the section headed "Legal Proceedings" on page 24.

In addition to the legal proceedings disclosed in the section headed "Legal Proceedings" on page 24, certain common law claims by third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. Management believes that the resolution of these contingencies will not have a material adverse effect on Telstra's financial position, results of operations or cash flows.

#### *Indemnities, performance guarantees and support*

Telstra has provided indemnities to financial institutions to support bank guarantees to the value of A\$383 million in respect of the performance of contracts.

Telstra has provided indemnities to financial institutions in respect of the obligations of controlled entities to the financial institutions. The maximum amount of Telstra contingent liabilities was A\$22 million.

Telstra has resolved to provide financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling A\$59 million and a requirement that the entity remains a controlled entity.

Telstra has guaranteed the performance of joint venture entities under contractual agreements to a maximum amount of A\$100 million.

Telstra has guaranteed the performance of a third party in relation to lease payments to be made by the third party, on Telstra's behalf, over the 16 year term of a finance lease entered into by Telstra during the year ended 30 June 1999. The lease payments over the period of the lease amount to A\$517 million (U.S.\$341 million).

During the year ended 30 June 1998, Telstra resolved to provide its associated entity, IBM Global Services Australia Limited (IBMGSA), with the Telstra Group's pro rata 26% share of shareholder guarantees on a several basis up to A\$210 million through to the end of the calendar year 2000. These guarantees may be made with IBMGSA bankers or directly to IBMGSA customers. As at 30 June 1999 no guarantees had been provided.

### **Controlled entities**

#### *Indemnities*

The controlled entities had, at 30 June 1999, outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of the controlled entities' contingent liabilities in respect of these indemnities was A\$9 million.

In addition, Telstra Global Limited, under the PT Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement, may be severally liable for the contribution of outstanding base equity should the other shareholders of MGTI default from contributing their share. The maximum amount of this additional equity

contribution would be A\$170 million (U.S.\$112 million), this excludes Telstra Global Limited's A\$42 million (U.S.\$28 million) current capital commitment. The agreement also allows for contingent equity calls to be made by MGTI if certain conditions are met. Should the contingent equity be called, Telstra Global Limited will be liable to contribute additional equity of A\$21 million (U.S.\$14 million). If the other shareholders in MGTI default on contributing their share of a contingent equity call, Telstra Global Limited may be liable to contribute an additional A\$82 million (U.S.\$54 million) as contingent equity. Telstra Global Limited executed a guarantee on 31 October 1995 for A\$56 million (U.S.\$37 million), to guarantee that certain performance targets would be achieved by MGTI under the KSO agreement, against which indemnities of A\$38 million (U.S.\$25 million) have been issued, by certain shareholders of MGTI, in favour of Telstra Global Limited. To date the performance targets have been met and there is no indication that they will be breached.

Telstra Global Limited has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a A\$728 million (U.S.\$480 million) Loan Agreement dated 23 September 1996 between MGTI and various lenders. Debt finance of U.S.\$160 million has been drawn down from this facility by MGTI. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by Telstra Global Limited).

#### **Other**

As at 30 June 1999 there are no contingent liabilities of Telstra or its controlled entities for termination benefits under service agreements with directors or persons who take part in the management of the Telstra Group.

Telstra 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, under which commitments for minimum subscriber fees exist. Due to joint and several liability under the agreements, in the event that News Corporation, Publishing and Broadcasting Limited or Sky Cable fail to meet any of their obligations in respect of the minimum subscriber payments, Telstra and Telstra Media would be contingently liable to the extent of those failures.

Telstra, Telstra Holdings Pty Ltd, Telstra International Limited, Telstra Communications Limited, Telstra R&D Management Pty Ltd, Telstra Multimedia Pty Ltd, On Australia Pty Ltd, Telstra Media Holdings Pty Ltd, Network Design and Construction Limited and Telstra Finance Limited (as trustee to the deed of cross guarantee) have entered into a deed of cross guarantee dated 4 June 1996. Under the deed of cross guarantee each of the above named 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.

## SELECTED FINANCIAL INFORMATION

This section contains certain information from Telstra's audited consolidated financial information for the 1995 to 1999 financial year.

The table below shows historical profit and loss information from the Telstra group(1) audited statutory financial statements. Note that during fiscal 1997 certain accounting policies changes were made and some of the changes have had a significant effect on the results of the following fiscal years.

|  | Year ended 30 June |        |        |        |        |
|--|--------------------|--------|--------|--------|--------|
|  | 1999               | 1998   | 1997   | 1996   | 1995   |
| (in A\$ millions, except per share amounts)  |                    |        |        |        |        |
| <b>Profit and Loss Statement Data</b>  |                    |        |        |        |        |
| <i>Amounts in accordance with Australian GAAP:</i>   |                    |        |        |        |        |
| Operating revenue .....  | 18,218             | 17,302 | 15,983 | 15,239 | 14,081 |
| Operating expense (excluding depreciation and amortisation, interest expense, and abnormals) ..... | 9,818              | 9,878  | 9,301  | 9,113  | 8,398  |
| Depreciation and amortisation .....  | 2,502              | 2,322  | 2,353  | 2,351  | 2,204  |
| Operating profit before interest expense, abnormals and income tax expense .....                   | 5,898              | 5,102  | 4,329  | 3,775  | 3,479  |
| Operating profit before abnormals and income tax expense .....                                     | 5,320              | 4,468  | 3,805  | 3,242  | 2,973  |
| Operating profit before income tax expense .....   | 5,320              | 4,468  | 2,073  | 3,447  | 2,405  |
| Operating profit after income tax expense .....  | 3,488              | 3,000  | 1,609  | 2,302  | 1,756  |
| Operating profit attributable to shareholders .....  | 3,486              | 3,004  | 1,617  | 2,305  | 1,753  |
| Earnings per share(2) .....  | 0.27               | 0.23   | 0.13   | 0.18   | 0.14   |
| Dividends provided for or paid(3) .....  | 4,247              | 1,802  | 4,146  | 1,368  | 944    |
| Dividends per share(2), (3) .....  | 0.33               | 0.14   | 0.32   | 0.11   | 0.07   |

The table below shows balance sheet information derived from the Telstra group audited statutory financial statements.

### Balance Sheet Data (at year end)

*Amounts in accordance with Australian GAAP:*

|                              |        |        |        |        |        |
|------------------------------|--------|--------|--------|--------|--------|
| Total assets .....           | 27,682 | 26,470 | 25,858 | 24,362 | 24,083 |
| Current borrowings .....     | 2,265  | 2,935  | 1,560  | 793    | 1,984  |
| Non-current borrowings ..... | 4,946  | 4,787  | 6,421  | 4,350  | 3,872  |
| Shareholders' equity .....   | 10,294 | 11,079 | 9,938  | 12,668 | 11,727 |

- (1) The Telstra group comprises Telstra and its controlled entities. A controlled entity is one in which the Telstra group is able to dominate decision making, directly or indirectly, in relation to the financial and operating policies of that entity to enable that other entity to operate with Telstra in pursuing the objectives of the Telstra group.
- (2) Calculated based on 12,866,600,200 shares. Earnings per share for each year was the same as earnings per share fully diluted.
- (3) During the year ended 30 June 1999, Telstra declared and paid dividends of A\$1,802 million (1999 interim dividend plus 1998 final dividend paid during the year ended 30 June 1999). During the year 30 June 1998, Telstra declared and paid dividends of A\$1,422 million (1998 interim dividend plus 1997 final dividend during the year ended 30 June 1998), and in fiscal 1997, A\$4,307 million, of which A\$3,000 million was paid as a special dividend to the Commonwealth on 30 June 1997.

## GENERAL INFORMATION

1. The listing of the Programme on the London Stock Exchange is expected to be granted on or around 12 November 1999.

2. Save as disclosed under "LEGAL AND REGULATORY PROCEEDINGS" on page 24, there are no, nor have there been any, legal, arbitration or administrative proceedings against or affecting the Issuer or any of its subsidiaries (and, so far as the Issuer is aware, no such proceedings are pending or threatened) which have or may have or have had during the twelve months prior to the date of this document, a significant effect on the financial position of the Issuer and its subsidiaries taken as a whole.

3. Since 30 June 1999, the last day of the financial period in respect of which the most recent audited financial statements of the Issuer have been prepared, there has (saved as by disclosed herein) been no significant change in the financial or trading position or prospects of the Issuer and its subsidiaries taken as a whole.

4. The financial statements of the Issuer have been audited for the three financial years preceding the date of this document by Australian Auditor-General, independent public auditors of the Issuer for that period, and unqualified opinions have been reported thereon.

5. For so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents may be inspected during normal business hours at the specified office of the Principal Paying Agent, the Trustee and the Registrar (or other, the specified office(s) of the Paying Agent(s) in the United Kingdom) and from the principal office of the Issuer, namely:

- (a) the constitution of the Issuer;
- (b) the current listing particulars and any supplementary listing particulars in relation to the Programme, together with any amendments;
- (c) the Trust Deed;
- (d) the Paying Agency Agreement;
- (e) the most recent accounts and consolidated of the Issuer beginning with the accounts for the years ended 30 June 1998 and 30 June 1999 together with any unaudited interim accounts and consolidated accounts of the Issuer beginning with the 31 December 1998 accounts and consolidated accounts; and
- (f) any Pricing Supplement relating to Instruments which are listed on any stock exchange. (In the case of any Instruments which are not listed on any stock exchange, copies of the relevant Pricing Supplement will only be available for inspection by an Instrument holder (including, for this purpose, any person holding an interest in a Global Instrument or a Global Registered Instrument) in respect of, such Instrument).

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**PRINCIPAL OFFICE OF THE ISSUER**

242 Exhibition Street  
Melbourne Victoria 3000

**REGISTERED OFFICE OF THE ISSUER**

Level 41  
242 Exhibition Street  
Melbourne Victoria 3000

**ARRANGER**

Morgan Stanley & Co. International Limited  
25 Cabot Square  
London E14 4QA

**DEALERS**

ABN AMRO Bank N.V.  
250 Bishopsgate  
London EC2M 4AA

Banque Nationale de Paris  
16 boulevard des Italiens  
75009 Paris

Commonwealth Bank of Australia  
Level 12  
385 Bourke Street  
Melbourne Victoria 3000

Credit Suisse First Boston (Europe) Limited  
One Cabot Square  
London E14 4QJ

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

Goldman Sachs International  
Peterborough Court  
133 Fleet Street  
London EC4A 2BB

HSBC Bank plc  
Thames Exchange  
10 Queen Street Place  
London EC4R 1BQ

IBJ International plc  
Bracken House  
One Friday Street  
London EC4M 9JA

Merrill Lynch International  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

J.P. Morgan Securities Ltd.  
60 Victoria Embankment  
London EC4Y 0JP

Morgan Stanley & Co. International Limited  
25 Cabot Square  
London E14 4QA

Warburg Dillon Read  
1 Finsbury Avenue  
London EC2M 2PP

Westpac Banking Corporation  
60 Martin Place  
Sydney, NSW 2000

**AUDITORS OF THE ISSUER**

Australian Auditor-General  
Australian National Audit Office  
Centenary House  
19 National Circuit  
Barton ACT 2600

**TRUSTEE**

Bankers Trust Company Limited  
1 Appold Street  
Broadgate  
London EC2A 2HE

**PRINCIPAL PAYING AGENT AND TRANSFER AGENT**

Deutsche Bank AG London  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB

**REGISTRAR**

Bankers Trust Luxembourg S.A.  
P.O. Box 807  
14 Boulevard F.D. Roosevelt  
L-2450 Luxembourg

**PAYING AGENTS AND TRANSFER AGENTS**

Bankers Trust Luxembourg S.A.  
P.O. Box 807  
14 Boulevard F.D. Roosevelt  
L-2450 Luxembourg

UBS AG  
Bahnhofstrasse 45  
CH-8098 Zurich

**AUSTRALIAN REGISTRAR**

National Registry Services Pty Limited  
Level 9  
600 Bourke Street  
Melbourne Victoria 3000

**LEGAL ADVISERS**

*to the Dealers  
as to English law*

Clifford Chance  
30th Floor Jardine House  
One Connaught Place  
Hong Kong

*to the Issuer as  
to Australian law*

Mallesons Stephen Jaques  
Level 28  
Rialto  
525 Collins Street  
Melbourne Victoria 3000

*to the Trustee as  
to English law*

Clifford Chance  
200 Aldersgate Street  
London EC1A 4JJ

**LONDON LISTING AGENT**

Morgan Stanley & Co. International Limited  
25 Cabot Square  
London E14 4QA

