INFORMATION MEMORANDUM ADDENDUM

TELSTRA CORPORATION LIMITED

(ABN 33 051 775 556)

PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

Application has been made to admit 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 of the Financial Services Authority (in its capacity as competent authority for the purposes of Part IV of the Financial Services Act 1986, the "UK Listing Authority") and to trading on the London Stock Exchange plc (the "London Stock Exchange"). 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 listing authority, stock exchange or quotation system.

Arranger for the Programme

MORGAN STANLEY DEAN WITTER

Dealers

ABN AMRO | *BARCLAYS CAPITAL*
BNP PARIBAS | *COMMONWEALTH BANK OF AUSTRALIA*
CREDIT SUISSE FIRST BOSTON | *DEUTSCHE BANK*
GOLDMAN SACHS INTERNATIONAL | *HSBC*
MERRILL LYNCH INTERNATIONAL | *MIZUHO INTERNATIONAL PLC*
J.P. MORGAN SECURITIES LTD. | *MORGAN STANLEY DEAN WITTER*
RBC DOMINION SECURITIES | *UBS WARBURG*

WESTPAC BANKING CORPORATION

4 December 2000

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 4 December 2000) (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 Euro 6,000,000,000 (and for this purpose, any Instruments denominated in another currency shall be translated into Euro 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 and all references to "€" or "Euro" are to the European single currency introduced on 1 January, 1999.

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 Corporation Limited is an Australian listed company incorporated under the laws of the Australian Capital Territory that is 50.1% owned by the Commonwealth of Australia.

In this document:

- "We", "Telstra" and the "Telstra Group" – all mean Telstra Corporation Limited, an Australian corporation, and its controlled entities as a whole; and
- "Telstra Entity" is the legal entity, Telstra Corporation Limited.

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

- "Year" or a "fiscal year" means the year ended 30 June; and
- "2000" means "fiscal 2000" and similarly for other fiscal years.

All amounts are expressed in Australian dollars (A$), unless otherwise stated.

We are Australia's leading telecommunications and information services company with fiscal 2000 revenue of more than A$19 billion. We are one of Australia's largest corporations and have one of the best-known brands in the country. We offer a full range of services and compete in all telecommunications markets throughout Australia.

We are listed, and those of our shares that are not held by the Commonwealth are quoted, on the Australian Stock Exchange and on the New Zealand Stock Exchange. American depositary shares (ADSs), each representing five shares have been issued by The Bank of New York, as depositary, and are listed on the New York Stock Exchange.

Our shares were initially listed on 17 November 1997, following the sale by the Commonwealth of 33.3% of our shares. On 18 October 1999 the Commonwealth sold an additional 16.6% of our shares under a global offering.

Under present legislation the Commonwealth is required to retain ownership of at least 50.1% of our issued shares.

Business Strategy

Our vision is to enhance our position as the leading full-service, telecommunications and information services company in Australia and to expand our presence internationally. To realise this vision, increase shareholder value and successfully compete, we have a four-part growth strategy. In addition, we continually review our entity and organisation structures to ensure we optimise the overall value to shareholders of the total business and its component parts.

Optimising returns from traditional telecommunications products and services in Australia

We are implementing programmes to use our assets more efficiently, enhance our extensive distribution capabilities and improve productivity in the delivery of our traditional telephony services. We are improving our marketing and sales activities, controlling our costs and improving our customer service by:

- reorganising our business units to serve our customer segments more effectively. We have:
  - amalgamated our sales, marketing and customer service activities for business, government and residential customers into one business unit to ensure we maximise

- our ability to offer targeted product and service packages to our many customer segments in a cost effective manner;
  - created a distinct infrastructure services and wholesale business with a focus on providing our own Australian operations and our domestic wholesale customers with world class technology, unit cost and service delivery; and
  - also created a new business unit dedicated to the needs of our regional and rural (country) customers.
- expanding the use of internet-based tools and technologies (e-enabling) throughout the company, especially in our core sales and after sales processes, to provide greater customer choice and convenience while increasing operational efficiency.

We also intend to continue to offer a broad range of customer focused product packages that will increasingly be mixes of traditional products with newer products, such as high speed internet access and mobile and wireless telecommunications.

Focusing on key growth opportunities in mobile, data, broadband and the internet.

We believe that growth opportunities exist in mobile and wireless communications markets. We intend to continue to be the market leader in mobile telecommunications in Australia and to grow our revenues and earnings in this market by:

- expanding our GSM coverage, particularly highway and in-building coverage, and using additional spectrum to enhance capacity;
- introducing innovative products and services including a range of data and information services, such as general packet radio service (GPRS) for higher speed packet data, short messaging service (SMS) and wireless application protocol (WAP) for internet related applications on GSM; and
- extending our new CDMA network to provide additional digital coverage, particularly in rural and regional Australia, and to complement our GSM network in urban areas.

We also see growth opportunities for our business in the data, internet, e-commerce and content-based markets. As telecommunications, computing and media technologies converge, we intend to focus on enhancing our capabilities to provide services more efficiently, develop new and innovative products and expand further into these markets. Growth from converging technologies and products and services could be developed internally, or externally by investment in synergistic businesses.

As part of these initiatives:

- we are completing the data mode of operation (DMO) project that is intended to ensure that our networks and systems are appropriately conditioned for a world where data traffic far exceeds voice;
- we have commenced the rollout of our asymmetric digital subscriber line (ADSL) service that allows very fast internet service over ordinary phone lines;
- we are enhancing our ability to offer an expanded range of data, internet, e-commerce and content-based products and services through strategic partnerships, investments and acquisitions and development of our own products and platforms; and
- we intend to use our broadband capabilities to develop and market additional broadband applications. We are also promoting alternative access technologies to ensure that these services are affordable and widely available. Together, they will allow us to further penetrate the pay television and broadband internet market in Australia.

We intend to enhance our capabilities across a number of content services and access and delivery technologies to position ourselves to take advantage of opportunities in this rapidly changing and uncertain business environment as they unfold.

Exploring growth opportunities in other areas of our business

As the telecommunications markets continue to expand and the number of providers of retail products and services increases, we intend to optimise our wholesale earnings by improving and expanding our product and service offerings both in Australia and internationally. We believe that growth opportunities exist in Australia and internationally for carriers that offer commercially attractive terms and conditions and value- added wholesale services, such as managed network services on a global network. We will shape our wholesale strategy to pursue these opportunities.

We also believe we can increase our revenues and earnings from outside Australia, especially throughout Asia, through:

- our alliance with Hong Kong's Pacific Century CyberWorks Limited (PCCW). This alliance is reflected in three joint ventures, one intended to focus on wireless services in the pan-Asian region, one operating an internet protocol backbone network for wholesale services and for linking our own points-of-presence, and one operating internet data centres outside Australia and Hong Kong; and
- exploring other selected international investment, acquisition and alliance opportunities generally and, in particular, with enterprises engaged in mobile telecommunications, data, the internet or content- based businesses.

Transforming corporate culture and improving productivity

We are continuing to transform our corporate culture and improve productivity with the objective of achieving cost savings and serving our customers better. We must continue to change to meet evolving customer requirements, make major changes to work practices and improve management accountability and commercial discipline. We have invested substantial resources over the past several years to develop technologically advanced networks and systems which have enabled us to redeploy and reduce our workforce, and outsource where appropriate. We are also working to increase the data, internet and other information technology skills of our workforce for the transition to a data dominated electronic communications market through retraining and recruitment. We expect this to result in improved operating flexibility, efficiency and service reliability.

BUSINESS

Our 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.

Our 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 us to develop and deploy a full range of modern products and services. As well as our basic telephony network, we have a variety of other delivery platforms over which we provide our services, such as:

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

We are the largest mobile telecommunications provider in Australia, with GSM and CDMA digital networks, covering over 95% of the population and GSM international roaming to 75 countries. Recognising the importance of data services and the internet to the future and their potential to transform the nature of the telecommunications industry, we continuously review our business, operations and networks to assess the changes required to enable us to compete effectively in rapidly growing data markets. We are expanding our range of data products and developing our content-based businesses, such as internet and e-commerce, pay television services and directories. We have established strengths in products such as internet access and electronic directories.

We have maintained our position as the largest internet service provider in Australia, with nearly 650,000 internet subscribers at 30 June 2000 and our Australian Yellow Pages® web site is one of the most frequently visited sites in Australia.

We have devoted considerable resources over recent years to upgrade and modernise our networks and systems. This programme has increased our flexibility and expanded the range of products and services that we can offer our customers in our traditional telephony markets as well as mobile telecommunications and emerging data and internet markets.

However, margin pressures in the traditional areas of the businesses have occurred and are expected to continue during the time that new growth areas of the business, particularly in the "new economy", such as data and internet markets, mature. Major cost reductions will be necessary during this period of transition for us to achieve similar earnings growth as in recent years.

In March 2000 we announced that we have developed a major "next generation" cost reduction programme which, during the next two years with other initiatives, is expected to lead to an overall reduction of around 10,000 staff including over 220 executive positions. The cost reduction initiatives involve nine major projects that are expected to give annual expense savings of around A$650 million.

Over the last several years, we have focused on improving our operating efficiency and on changing our corporate culture to be more commercially oriented and more customer focused. Our efforts have included:

- enhancing the efficiency of our networks, systems and processes;
- improving work practices; and
- systematically reviewing our cost structures and the way we deliver services to our customers.

Our initiatives have allowed us 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 six years. We are committed to continuing our review of areas of the business where we believe cost efficiencies can be achieved.

By the end of December 2000 we expect to finalise our agreement to hold a 51% interest in Keycorp Limited at a cost of A$426 million. Keycorp will provide a global full service end-to-end internet payment service provision business.

On 13 October 2000, we announced the execution of definitive agreements for the strategic Pan-Asian alliance with PCCW that we initially announced in April 2000. With this alliance we have established a mobiles/wireless company, an internet protocol backbone company offering regional and global reach and an internet data centres joint venture.

In addition to the alliance with PCCW, we continue to review opportunities, some of which could be substantial, that interest us both strategically and financially offshore and in Australia that will increase shareholder value over a reasonable period of time.

Our 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 amending the regulations that apply to providers of telecommunications services. This open market environment has been operating for three years and at 30 June 2000 there were approximately 45 licensed carriers and 1,000 internet service providers which includes 120 providers who are also carriage service providers, competing in Australia.

While this environment presents significant challenges for us, we believe it also provides opportunities for us and our strategy is designed to take advantage of these opportunities. With more competitors entering the market, we are also focusing on opportunities to develop and expand our wholesale business with new and value-added product and service offerings. The open competitive environment has caused us to take on a more commercially oriented and customer focused approach.

We have moved into new products and services beyond our traditional telephony product set, implemented significant cost initiatives to improve our efficiency and have sought to improve our product development and time to market capabilities.

Since the introduction of competition, our share of the Australian telecommunications market revenues has been gradually declining. However, the effects of this decline on our revenue have been more than offset by strong growth in the telecommunications market overall. We expect 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. We expect that existing strong competition in the mobile telecommunications, national long distance, international telephone and data markets will increase. We are also likely to face increased competition in the basic access and local call markets where competition has previously been limited, partly as a result of the retail price restraints on us. We expect that new and existing competitors will continue to develop their own telecommunications infrastructure and services as well as new products based on access to our services and facilities.

As this open market environment is still evolving, we are uncertain exactly how future competition and regulatory decisions will affect our business. The Australian Competition & Consumer Commission (ACCC) and the Australian Communications Authority (ACA) oversee the overall regulatory framework and over the last three years have increased their level of activity in telecommunications markets, including in some highly competitive markets. For example, the ACCC's decision regarding our PSTN undertaking and the introduction of an unconditioned local loop (ULL) service are key indicators of the nature and scope of the regulatory environment in the near future.

Products and Services

We offer a broad range of telecommunications and information products and services to a diverse customer base. Table 1 shows our operating revenue by major product and service category and as a percentage of total operating revenue for the last three fiscal years.

Table 1 - Operating revenue by product and service category

	Year ended 30 June					
	2000		1999		1998	
	(in millions, except percentage of revenue)					
	A$	**%**	A$	%	A$	%
Basic access	**2,020**	**10**	1,855	10	1,770	10
Local calls	**2,650**	**13**	2,727	15	2,664	15
National long distance calls	**2,626**	**13**	2,775	15	2,594	15
International telephone services	**987**	**5**	1,103	6	1,380	8
Mobile goods and services	**2,859**	**15**	2,538	14	2,154	13
Data, text and internet services	**2,838**	**14**	2,483	14	2,197	13
Directory services	**1,122**	**6**	1,078	6	1,029	6
Customer premises equipment	**336**	**2**	368	2	538	3
Intercarrier services	**819**	**4**	617	3	582	3
Inbound calling products	**432**	**2**	400	2	337	2
Facilities management	**235**	**1**	183	1	120	1
Other sales and services	**1,685**	**9**	1,444	8	1,338	8
Sales revenue	**18,609**	**94**	17,571	96	16,703	97
Other revenue (1)	**1,231**	**6**	647	4	599	3
Operating revenue	**19,840**	**100**	18,218	100	17,302	100

(1) *Our other revenue includes interest received/receivable, proceeds from sale of assets/investments, dividends received/receivable and miscellaneous revenue.*

Basic access

We provide basic access services to virtually all homes and most businesses in Australia. We currently charge residential customers a lower monthly access fee than we charge our business customers. We also sell access services to carriage service providers who then sell these services to their customers. Our basic access service consists of installing, renting and maintaining connections between our customers' premises and our PSTN network to provide basic voice, facsimile and internet services. Our basic access service does not include enhanced products like ISDN access and FaxStream® services.

In February 2000, we introduced a new package called EasySaver® Plus. This allows customers to pay a higher monthly access fee in exchange for lower local call charges and capped long distance call charges.

We charge our customers fees for connecting new lines and reconnecting existing lines. We charge all our residential customers approximately the same rates for basic access service even though it is more expensive for us to provide basic access service to our customers located in rural areas than in metropolitan areas. Consequently, a portion of the fees we charge our urban residential customers subsidises our costs of providing basic access service to our rural residential customers.

Housing growth and customer requirements for additional basic access lines drives demand for residential basic access lines. Demand for commercial basic access lines has historically tracked economic growth in Australia. Growth in basic access lines has slowed in recent years but this has been offset, to some extent, by our success in encouraging customers to adopt alternative access services that have more capabilities, such as ISDN and FaxStream® services. Growth in the number of in-home offices and increasing demand for integrated voice and data solutions has caused more of our customers to switch to these alternative access services.

Demand for additional lines arises from increasing customer convenience requirements, internet access demand and demand for other services, such as dedicated voice, electronic funds transfer and facsimile lines.

Although our ability to promote additional lines has in some cases been limited by existing capacity in our customer access network, we market additional lines in areas where we have capacity available. In some areas, we augment our network capacity with technologies, such as pair gain systems, line concentrators, fixed radio access and ISDN.

During the last two years, we have been selectively upgrading our customer access network to reduce the number of faults and thereby improve our service levels. This upgrade has also assisted us to meet the demands for service in a more timely way and provide our network with additional capacity for additional line growth.

In August 2000, we commenced our rollout of ADSL which offers a fast internet service over ordinary phone lines and allows access without tying up the phone line or needing an additional line. We intend to offer ADSL products in nearly 1,300 exchanges and reach about 90% of Australian homes and businesses by the end of fiscal 2002 with uniform Big Pond® ADSL pricing regardless of the customer's location in Australia. ADSL allows a 20 to 50 times faster internet access option that is not available on regular dial-up internet services through normal phone lines. ADSL services are available to our retail and wholesale customers.

The introduction of ADSL is in accordance with our broadband access strategy to offer high-speed internet services to all Australians by cable, standard phone lines or satellite.

Local calls

We currently provide local call services to most of the residential market and a substantial majority of businesses in Australia. We generally charge for local calls on an untimed per call basis and we charge a lower rate for calls within the same exchange area, referred to as a Neighbourhood Call™. We also provide local call services to carriage service providers at a discount from our standard retail price. These carriage service providers resell local call services and bill their customers directly.

Digitalising and upgrading our networks and systems has allowed us to offer a wide range of products and services that provide more features and functions to our customers. We focus on increasing local call connections by offering our customers services that 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

We are the leading provider of national long distance services in Australia. This comprises fixed-to-fixed long distance calls over our PSTN and fixed-to-mobile calls made from our PSTN. We provide these services to our residential and business customers. We also provide national long distance services as a resale product.

We generally charge 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.

We also offer a capped price to customers for fixed-to-fixed and fixed-to-mobile calls made between 7:00 pm and midnight every night of the week. Capped price calls have increased call minutes and significantly improved customers' perceptions about the price and value of our long distance service. In addition, we offer a variety of specials that apply during periods of low traffic so that we increase the use of our network.

International telephone services

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

We generally charge for international telephone calls on a per second basis after a call connection fee. The charge usually depends on the duration of the call and the destination of the call regardless of the time of day or day of the week on which the call is made. Our Easy 1/2 Hours® allows customers to purchase calls in 30 minute blocks of time using a 0018 dialling code. We also use a variety of other marketing programmes and pricing initiatives to encourage our customers to make more use of our services.

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

During fiscal 2000, the top three destinations for outgoing traffic and the top three sources for incoming traffic are shown in the table below:

Country	Percentage of total outgoing minutes(1)	Percentage of total incoming minutes(1)
United Kingdom	19	16
United States	15	23
New Zealand	15	22

(1) *Figures quoted are those used for settlement purposes.*

A large part of our revenue and expenses in our international telephone business depends upon the rates that international carriers charge each other to terminate calls. It has been customary for international carriers to settle these charges through agreed accounting rates. Over recent years pressure from increased competition in the international telecommunications market has effectively lowered the overall level of accounting rates.

On an aggregate basis, our total payments to international carriers have exceeded our total receipts, reflecting the balance of our outbound and inbound traffic volumes. As international accounting rates have fallen, our costs of delivering international calls have declined.

More recently, we have entered into "send or pay" contracts where fixed volumes of traffic are agreed between two carriers for a set price. Incremental rates are payable for additional traffic.

Mobile goods and services

We are the leading provider of mobile telecommunications services in Australia in terms of the number of customers and the geographical coverage of our services. The mobile telecommunications market in Australia is characterised by a significant degree of penetration which we estimate at over 45% at 30 June 2000. We also provide our customers with a range of information services.

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

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

Our mobile telecommunications services include:

- digital cellular services;
- sales of mobile handsets; and
- a wide range of added features and functions.

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

- voicemail;
- call waiting;
- call forwarding;
- mobile facsimile and data services;
- operator through connect;
- SMS;

- WAP services (on GSM only); and
- financial and sports information services.

We believe that these additional services enhance customer loyalty and satisfaction and increase their use of our mobile telephone service.

GSM digital service

Our digital GSM network covers more than 95% of the Australian population. We have continued to expand our digital GSM coverage into regional centres and along highways that link regional centres. We have also focused on improving depth of coverage in major cities, particularly in-building and underground coverage. We offer international roaming in more than 75 countries.

We offer our GSM digital customers different pricing options that vary depending on committed usage rates and length of contract. Our GSM digital customers who opt for a higher monthly access fee generally pay a lower air-time charge. We also generally charge customers an activation fee although during fiscal 2000 there were periods when these fees were waived.

The number of our GSM digital mobile customers has increased rapidly since we introduced GSM digital services in 1993. We attribute this growth to:

- increasing recognition of the value of mobile service by both business and private users;
- the coverage and enhanced features of our GSM digital service;
- our strong distribution capabilities, particularly in retail stores; and
- the transfer of our analogue customers to our GSM digital service.

CDMA digital service

In fiscal 2000, we established a new mobile telecommunications network based on CDMA and by 30 June 2000 had achieved coverage of over 95% of the Australian population. CDMA uses 800MHz spectrum that was previously used for our analogue network. We believe that when the rollout of our CDMA network is complete it will:

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

We are also planning to introduce WAP services for CDMA in early fiscal 2001.

We launched our CDMA service in the first half of fiscal 2000 into areas previously covered by our analogue network that were required to close by 31 December 1999. The next phase of our CDMA rollout will be completed in the first half of fiscal 2001. This will cover the remaining areas previously serviced by our analogue network that closed in October 2000. We have CDMA agreements with other carriers, Cable & Wireless Optus, Hutchison, AAPT, Austar and Primus for resale and recognise the revenue we receive from these services as intercarrier services revenue.

Analogue service

We have progressively closed our analogue mobile network as required by law:

- all metropolitan and 130 non-metropolitan analogue sites closed by 31 December 1999;
- an additional 200 base stations in non-metropolitan areas closed on 30 June 2000; and

- the remaining non-metropolitan sites in Queensland, Northern Territory and Western Australia closed in October 2000.

In a very competitive market, we have successfully developed and marketed programmes to target offers to our analogue customers to switch to our digital GSM or CDMA service.

Data, text and internet access services

We provide a wide range of data, text and internet services to accommodate the needs of a diverse range of customers in terms of product requirements, service levels and geographical coverage.

Data networks

We provide the following data network services:

- ISDN access services;
- dedicated data services that our 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 leased and private data services offered through global or bi-lateral agreements with international partners including:
  - frame relay and packet switched services; and
  - internet protocol services, such as internet protocol virtual private network solutions.

The services we provide vary in bandwidth and also in the degree of network management and network redundancy provided. The current telecommunications trends suggest that customers are progressively using more sophisticated and complex business applications. Additionally, different customers require different levels of network availability. In order to meet these service demands, we are encouraging customers to move from simple services, such as voice grade dedicated lines providing physical connection, to managed dedicated services and newer, packet-based services, such as frame relay.

As well as targeting new products and service levels, we continue to pursue more cost effective means of delivering services through rationalisation of platforms and migration to internet protocol based networks that use transmission capacity more effectively.

LAN/WAN services

We offer a wide variety of local and wide area network (LAN/WAN) services. These services address a number of market dynamics:

- the shift from dedicated to switched data services;
- the demand for higher speed services and packet-based data transmission;
- the shift towards internet protocol environments; and
- the increased networking of computers.

These services are based on advanced data switching technologies, including frame relay, asynchronous transfer mode (ATM) and related technologies. We also provide network management services to our customers.

Internet services

We offer a range of internet products and packages under our Big Pond® brands. Big Pond® Home and Big Pond® Business offer dial-up modem and ISDN internet services to residential and business users across Australia through over 100 different points-of-presence. Big Pond® Direct provides larger corporate, government and wholesale customers with high-quality dedicated internet access within Australia at different transmission rates. Internet speeds range from 56 kilobits per second up to 155 megabits per second. Big Pond® Advance provides broadband internet services to consumer and business customers via hybrid fibre-coax cable and satellite access technologies and ADSL.

We have expanded our internet backbone network significantly to cater for anticipated growth in the Big Pond® customer base as well as the anticipated increased demand for internet traffic during and after the Sydney 2000 Olympics that commenced in mid- September 2000. As planned, we had our internet backbone network bandwidth between Australia and the rest of the world exceeding 1 gigabit per second in time for the Olympics.

We also build "extranets" for corporate and business customers that extend their intranets to other authorised users. Our DialConnect® service provides employees of major businesses and government customers with remote network access to their main computer systems. We build customised solutions for businesses and organisational groups. We also offer web hosting and streaming services.

One of our key internet access services is Big Pond® Home internet service. Since 1997, Big Pond® Home has grown considerably both in terms of subscriber numbers and revenue. We believe that the recent rapid growth of the internet represents an opportunity for us to deliver a range of services to on-line users.

We offer Easymail™, an e-mail service that allows customers to send and receive e-mails globally for the price of a local call.

On-line services

We are providing more on-line services in response to the demands made by our customers, worldwide trends in this area and to maximise the benefits to us of providing these services.

We announced the availability of our on-line communication's hub, telstra.com (www.telstra.com) in March 2000. After registering on the site, a user may personalise the homepage to suit their particular needs and interests. By 30 June 2000 there were 100,000 registered users.

Types of on-line services provided on telstra.com are:

- web-based e-mail that may be accessed from any location;
- a text message to a designated mobile phone service when new e-mails are received;
- direct access to information on our products that may be purchased on-line;
- payment on-line of an account with us;
- direct access to our current directories data base in White Pages™ and Yellow Pages®; and
- news, finance, weather, travel and entertainment updates.

Transaction services and e-commerce

We offer low speed, switched data services used mainly for electronic funds transfer and point of sale applications. These services provide a low cost, dial-up or leased end-to end connection between remote terminals and central computers. We are currently migrating to a new transaction platform that provides a more flexible service based on the use of ISDN access, at a reduced cost.

We offer an expanding range of electronic commerce services for both large and small businesses:

- for business-to-consumer applications, we offer a variety of packaged components for building an internet based store, managing orders and secure authorisation of on-line payments; and

- for business-to-business applications, we offer services that support internet based procurement and trading environments between business buyers and their suppliers, as well as interconnections with existing electronic data interchange based trading networks.

Other data services

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

- games-based entertainment, children's education and on-line music services;
- Conferlink® services that provide audio, video and internet conferencing;
- V-commerce™ services based on interactive voice response technology; and
- administration and support services to funds managers for their back office administration and asset management operations.

Text services

Our text services consist mainly of facsimile products and services marketed under our FaxStream® brand name. We also offer enhanced FaxStream® services such as:

- holding, storing and forwarding facsimiles;
- forwarding facsimiles to alternative locations, such as fax to e-mail; and
- broadcast facilities.

In addition, our FaxStream® Duet® service supplies customers with an additional number with a distinctive ring that is recognised by the facsimile machine or pc fax modem. This service is provided on a single access line. We charge the same line rental fee for our FaxStream® service as we do for our basic access service. We also charge our customers fees for using additional features we offer. The facsimile market in Australia has been characterised by an increasing number of small business and residential users. Even though alternative technologies, such as e-mail and the internet, have taken off rapidly the FaxStream® base of customers has continued to grow.

Directory services

We are the main provider of directory services in Australia through our wholly owned controlled entity Pacific Access Pty Ltd. In early fiscal 2000, we bought out the two minority shareholders who previously held a 25% interest.

The directory services we offer include printed White Pages™ directories and Yellow Pages® directories which are also available through the telephone and internet media. Each telephone subscriber receives one free listing of name, address and telephone number in the White Pages™ directories and may purchase special listings, such as bolded printing or pay for an unlisted number. Businesses may list their business details in our Yellow Pages® directories free of charge, or purchase premium advertising and promotional space.

We operate four internet sites that are among the most frequently visited Australian internet sites:

- the Australian Yellow Pages® site (www.yellowpages.com.au);
- the White Pages™ site (www.whitepages.com.au);
- the recently enhanced and rebranded GOeureka™ site (www.goeureka.yellowpages.com.au); and
- the street atlas site Whereis™ (www.whereis.com.au).

Through our directories business we are positioning ourselves to become a leading internet transaction hub or portal for small and medium businesses. We are developing a range of electronic commerce and internet products and services based on our directory products with a concentration on areas such as advertising, contact lists, location and navigation applications, applications for small and medium businesses and electronic business solutions.

Customer premises equipment

Our customer premises equipment business consists of:

- sales of our branded telephones, answering machines, facsimile machines and other telecommunications products;
- telephone rental including rental under our universal service obligation (USO); and
- installation and maintenance of selected third party supplied PBX telephone systems.

We purchase from third party suppliers all of the equipment that we sell or rent.

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

Intercarrier services

In addition to providing services for resale, we provide a range of other services to carriers and carriage service providers. These include:

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

We provide CDMA, but not GSM telecommunication services, as a wholesale product.

Inbound calling products

We offer:

- 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 25 cents 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 25 cents per call 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.

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

Facilities management

We have developed facilities managed services for our business customers. Our Managed Solutions™ product refers to the services we provide through our management of all or part of a customer's information technology and / or telecommunications services and includes the following:

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

Payphones

We are the leading provider of payphones in Australia. As at 30 June 2000, we operated approximately 36,300 public payphones. Other operators have approximately 42,000 payphones that are connected to a payphone access line provided by us. Our USO requires us to make payphone services reasonably accessible throughout Australia, including in non-metropolitan and rural areas. Approximately half of our public payphones are in these areas.

Other sales and services

Our 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 teleconferencing and audio and video services.

We provide information and connection services through 52 call centres in Australia. In fiscal 2000, we responded to over 476 million calls with the majority of these basic operator services being provided without charge to the customer. In the first half of fiscal 2000, we introduced charging for directory assistance services provided to mobiles and business customers. We cannot charge or amend charges for our directory assistance services without the approval of the Communications Minister.

Pay television

We own 50% of FOXTEL, Australia's leading pay television provider with nearly 650,000 subscribers as at 30 June 2000. FOXTEL currently provides over 40 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. Each of Publishing and Broadcasting Ltd and The News Corporation Limited has 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.

FOXTEL has entered into various programme supply arrangements, including some with minimum subscriber commitments. At 30 June 2000, the amount of FOXTEL's commitment discounted to present value was A$1,870 million. To the extent that FOXTEL does not meet these commitments, the FOXTEL partners are jointly and severally liable for the shortfall.

We are the exclusive long-term supplier of cable distribution services for FOXTEL's cable pay television services in our cabled areas and we receive a share of FOXTEL's cable pay television revenues. We have agreed with FOXTEL that we will not supply pay television distribution services on our broadband cable network to anyone else unless we are required to do so by law. The Federal Court decided in August 2000 that this arrangement does not preclude third parties from obtaining access (pursuant to the telecommunications access regime under the Trade Practices Act (TPA)) to our broadband cable network for the delivery of analogue pay television services.

Following this decision by the Federal Court, we advised we would consider commercial negotiations with third parties seeking access to our broadband network. In the event that demand exceeds the availability of analogue channels, we intend to conduct an open auction among interested parties for any available capacity. Any negotiation or auction is subject to regulatory approval the availability of channel capacity and any application to appeal the recent decision of the Federal Court.

In addition, we can independently, or through partnerships and alliances, provide a broad range of other communications, data and information services using our broadband network.

Under arrangement with the FOXTEL partners, FOXTEL may provide, in addition to pay television services, a limited range of information and other services, but it may not supply telephony services. Within cabled areas, there are limitations on FOXTEL's ability to provide services, including on-line services. Outside cabled areas, FOXTEL may decide to provide a range of information and other services, including on-line services, but must give preference to us in partnering to develop those services.

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

International investments

A component of our strategy is to expand our business activities outside Australia, particularly in the areas of mobile telecommunications, data, the internet or content-based businesses through investment, acquisition or alliance opportunities generally.

On 13 October 2000, we announced execution of definitive agreements in respect of our strategic Pan-Asian alliance initially announced on 13 April 2000. The key features of the alliance are as follows:

- a merger of some of our businesses and assets with businesses and assets from PCCW to create a 50:50 joint venture operating a global Internet Protocol backbone business (IP Backbone Company). This IP Backbone Company will be a regional and global carrier of voice and data services;
- we will purchase a 60% stake in the mobiles business of PCCW for U.S.$1.68 billion (Wireless Co). Wireless Co is intended to be the primary vehicle for the execution of our and PCCW's wireless strategy in Asia;
- we will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres initially throughout Asia. IDC Co will initially focus on core hosting services; and
- we will invest U.S.$750 million in a PCCW convertible note, which is repayable to us, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

Completion of the alliance remains subject to a number of conditions precedent related to shareholder approval and regulatory consent. We are targeting completion early next calendar year.

This transaction will result in many of our existing offshore operations being transferred into the IP Backbone Company and our future international growth in wholesale and mobile telecommunications being driven primarily through these joint venture companies.

We also have a number of smaller offshore investments, which include:

- 17.1% equity interest in the data clearing house Extant Inc. Subsequent to 30 June 2000 there has been a corporate reorganisation of Extant Inc and we have agreed to sell our interest in Extant Inc. to Dynergy Inc. for a 20% interest in Dynergy Connect. Dynergy Connect will operate the Extant Inc. business;
- 35% equity interest in the satellite communications operator, Station 12 BV in the Netherlands;
- 50% of the New Zealand joint venture, Telstra Saturn Limited which has been established to provide a full service capability to retail and business customers in New Zealand; and
- 39.9% of Australia-Japan Cable Holdings Limited, a network cable provider, based in Bermuda.

Networks and systems

We operate fixed and mobile telecommunications networks to support our diverse range of products and services. An extensive national and international transmission infrastructure and largely centralised management support our networks. We have centralised the operational management of our core networks by establishing a single global operations centre. Our global operations centre has a disaster recovery back- up facility in an alternative location.

We invest a substantial amount of capital and other resources in our networks and systems. We have deployed a digital GSM mobile telecommunications network and a hybrid fibre co-axial cable broadband network. We are currently undertaking a project to reduce the level of faults in our customer access network. We also incur other expenditures to upgrade services available on the customer access network. We are currently deploying a new digital mobile network based on CDMA that will replace our analogue network. We also completed in fiscal 1999 a five-year programme to upgrade, rationalise and digitalise some of our fixed networks and improve many of our systems, including those relating to billing, sales and customer service. We have ongoing programmes to:

- improve work practices;
- streamline processes;
- eliminate duplication of overhead costs; and
- improve record keeping for property, plant and equipment.

In addition to our capital expenditure programme, we spent A$29 million in fiscal 2000, A$34 million in fiscal 1999 and A$43 million in fiscal 1998 on research and development. These amounts do not include labour and depreciation. Our research and development activities cover diverse areas of our business and focus on developing new competitive products for our customers.

We intend to continue to invest in our networks and systems, particularly to cater for the increasing demand for data services such as internet services. Growth in data traffic in our domestic network is driven largely by the internet that continues to grow significantly. Data traffic has grown to such an extent that there is now little difference between the volume of data traffic compared with voice traffic. We are undertaking a key initiative called DMO in order to:

- position ourselves for significant new revenue streams from on-line sources;
- develop a cost competitive network capable of handling the growing volume of data traffic;
- modify our 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 our expected future product and service mix; and
- establish a procedure to update our skill base.

We have recently commenced, as part of this initiative, the build of our new generation telephony (NTG) service that is based on internet protocol. This service is designed to allow bundled voice and data services to be delivered over any broadband access, such as ADSL or cable. It is intended that this service will be supported by our additional initiatives, including the DMO core network, service infrastructure and broadband access.

As part of our DMO project, we are also evaluating whether it would be feasible for us to shift much of our fixed network voice traffic to internet protocol and ATM based technology over the next ten years. We are also assessing whether we can use these technologies in our internal operations to help us control costs and improve productivity.

Our 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, we will need to make further investment in our systems.

We are increasing our support of services that require high bandwidth by using technologies, such as our hybrid fibre co-axial cable broadband network and ADSL technology. In remote areas, we may achieve this by using satellite or other wireless technologies.

We have established the position of chief technology officer to ensure that there is alignment across all systems and network related activity and to develop and oversee our network and information technology strategy and architecture.

Transmission infrastructure

Our domestic inter-exchange transmission infrastructure consists of both terrestrial and non-terrestrial transmission systems. Our domestic terrestrial systems are almost exclusively digital and use approximately 3.1 million kilometres of optical fibre and approximately 2,700 digital radio systems. Our major transmission routes incorporate synchronous digital hierarchy technology. We provide services between Tasmania and mainland Australia through one of the longest unrepeatered digital undersea cables in the world. We have implemented wave division multiplexing technology into our network between Melbourne and Sydney to increase capacity at reduced unit costs. We are planning to continue to implement new systems, particularly for inter-capital links.

The ownership structure of our international transmission infrastructure will change on consummation of our alliance with PCCW that is expected in the first half of calendar 2001.- (see "International investments"). Currently, our infrastructure includes both submarine cable and satellite transmission. We own substantial submarine cable capacity in the Asia- Pacific region and around the world. We also manage and partly own several cables landing on Australian shores.

We are an initial party to a new large capacity fibre optic cable called SEA-ME-WE3 that came into service in calendar 1999. This cable links Asian countries and Australia with the Middle East and Western Europe.

We are also an initial party to the China-U.S. cable consortium that links some Asian countries to the west coast of the United States. Part of this cable came into service in the latter half of fiscal

2000. We are also part owners of a Japan-U.S. cable venture that plans to link Japan to the west coast of the United States. We expect this cable to be in service in calendar 2001.

During the last quarter of fiscal 2000, we signed contracts for additional cables and these are expected to be in service in the first half of fiscal 2002. These contracts are for:

- a new cable from Australia to Japan, in which we are the major shareholder; and
- a new cable under construction called APCN2 that will connect a number of Asian countries. We are an initial party in APCN2.

We are a small shareholder in the international satellite operator INTELSAT and own a 35% interest in Station 12 B.V. a global satellite joint venture entity established in April 2000 with KPN Royal Dutch Telecom. Station 12 B.V. has approximately a 6% interest in the satellite operator INMARSAT as well as earth station facilities that provide global coverage communications to the maritime, rural and remote areas and aeronautical markets. We use these and other satellite systems to supplement our international traffic capacity where undersea cable capacity is limited or non-existent and also to provide route diversity and circuit redundancy as well as specialist satellite based applications.

We continue to evaluate broadband satellite proposals with a view to securing the capability to deliver equitable broadband services to rural and remote Australia.

Public switched telephone network

Our PSTN is fully digitalised and connects virtually all Australian homes. It concentrates traffic from more than 10,000 access sites to approximately 300 digital nodal switches across Australia. Our transmission infrastructure connects these digital switches and our two international gateway switches. It is intended that our international gateway switches will be transferred to IP Backbone Company - (See "International investments"). Additionally, our intelligent network platforms support advanced services, including card- based and toll-free products.

The access sites that connect our customers to our local access switches use:

- copper;
- fibre optic cable;
- radio; and
- satellite.

Australia has a large geographic area with concentrated population centres. In urban areas, most of our customers are within 2.5 kilometres of an access site. In provincial towns, approximately 50% of customers are within 2.5 kilometres of an access site. In rural areas, customers tend to be further from access sites. All our customers have single-party services.

A substantial proportion of our customer access network was constructed many years ago on a tapered basis and cable joints have been opened frequently to make alterations. A number of factors, including unusually adverse weather, have caused this network to experience relatively high fault rates by world standards. This has made it difficult for us to maintain high service levels and, in some cases, to meet our customer service charter commitments and legislated service standards.

During the last two years we have undertaken an access renewal project to reduce the level of faults in our customer access network. This capital expenditure has focused on improving the quality and reliability of our customer access network and reducing operating expenses. As a result of this work and after a review of various technologies that could be used in our customer access network, we commenced the rollout of ADSL in August 2000. Our ADSL product allows the transmission of data at very high rates, from 256 kilobits per second to 1.5 megabits per second from the network to the customer, and at lower rates in the reverse direction over our access network. Under ADSL there are three very fast options available to customers:

- an internet service that allows customers to use the internet without tying up the phone line or needing an additional line;
- flexible working options for home and branch office employees connecting to a corporate network; and
- a service available for internet service providers upgrading their customers to broadband internet.

We believe that the improvements in the quality of our customer access network will assist us in retaining our customers, increasing our operating efficiency and developing and deploying new products and technologies.

We are upgrading access for our customers in remote areas, typically served by radio- based access, through our remote Australia telecommunications enhancement programme. We undertook this programme to meet the demands of a growing number of customers for new services in rural and remote areas for improved access to high-speed data, facsimile services and the internet. Through this programme, we have been able to improve and broaden our services to approximately 20,000 customers in rural and remote areas of Australia.

We are deploying an expanded range of satellite-based services to continue our commitment to the rural and remote areas of Australia. These satellite services include telephony services, access to the internet and corporate data applications.

Our PSTN supports voice, facsimile and data products. The rapid growth in the popularity of the internet is quickly changing the combination of these products. Internet users tend to maintain local call connections with their internet service providers for longer periods of time than regular voice calls. These factors have the potential to affect the available capacity on our PSTN. We are monitoring the traffic flows and managing our network capacity accordingly.

In addition, we are actively promoting our ISDN service to our customers, including internet service providers, and have introduced alternative technologies to provide internet access without using our PSTN, such as through our broadband network and our other data networks.

Integrated services digital network

Our ISDN services are provided in two ways:

- through an overlay network; and
- through a new composite service integrated with our PSTN.

The overlay network has 28 nodes situated in capital and provincial cities in Australia. Our composite ISDN service is based on the ETSI (European) standard. We market this ISDN service under our OnRamp® trademark. We expect OnRamp® services eventually to replace the services we currently provide through the overlay network.

As at 30 June 2000, our OnRamp® service was available to 96% of the Australian population, either immediately or with the deployment of modular units.

Intelligent network platforms

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

- calling card (Telecard™);
- prepaid card (Phoneaway®);
- information services numbers;
- number portability;
- advanced network routing;
- screening functions; and
- inbound services such as Freecall™ 1800 and Priority® One3.

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

We also operate two additional intelligent network platforms, one which provides the full range of enhanced features which support our MobileNet® products and a selected range of intelligent network services supported by our wholly owned entity in the United Kingdom and our New Zealand associate, Telstra Saturn Limited.

We currently use multiple platforms to support our intelligent network services. We are in the process of reducing the number of platforms we use and this will assist us to reduce our operating costs in the future. However, it is unlikely that these savings will be realised before fiscal 2002.

Data networks

We operate a number of data networks, including:

- our switched data network;
- a national transaction switching network; and
- our digital data network.

Our switched data network provides:

- public packet switching data services suitable for a wide range of data applications;
- site-to-site and multi-site wide area network connectivity;
- frame relay from 64 kilobits per second up to 45 megabits per second; and
- ATM services supporting access rates from 64 kilobits per second to 155 megabits per second.

We also have a national transaction switching network suitable for electronic funds transfer and inventory applications. This network provides dedicated and dial-up access in a secure environment suitable for transmitting transactions.

Our digital data network provides dedicated site-to-site digital data services at speeds of up to 2 megabits per second. This network has extensive coverage across Australia.

Internet protocol networks

We deliver a diverse and broadly based range of internet products through a composite infrastructure of network platforms and computer servers. We operate two major internet data centres in Melbourne and Sydney. The computer server infrastructure in these centres controls access to the network and provides applications including e-mail, news, chat, web hosting and games. The server infrastructure supports real time activation of customers and also provides billing functionality, service monitoring and surveillance. Caching servers are deployed to store and serve often-requested internet content so that:

- customers receive faster web page delivery; and
- we are able to contain our internet traffic costs.

A range of transaction management information technology systems is deployed to deliver our e-commerce products. We also operate a financial switching network that provides transaction gateways into Australia's financial institutions to support our e-commerce business.

Big Pond® Home supports up to 56 kilobits per second modem access; Big Pond® Business and DialConnect® support up to 128 kilobits per second ISDN access. We are currently extending our access infrastructures to include a satellite option mainly for regional and remote internet users.

We also provide a dedicated internet access service under the brand of Big Pond® Direct. Big Pond® Direct has a number of fixed line access technology options up to 155 megabits per second and is used by other internet service providers and retail customers. In August 2000 we commenced the rollout of our ADSL service and we are evaluating the speed at which we deploy new broadband access technologies using ADSL.

We have a major connection point on the west coast of the United States and this traffic route dominates our international connections with over 90% of all our international internet traffic being carried between Australia and the U.S.

Broadband network

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

We designed the broadband network to provide two-way transmission for interactive services and high- speed data transfer. Presently, the broadband network transmits pay television services and, in some areas, provides high speed internet access.

Mobile telecommunications networks

We own and operate a number of networks for the provision of mobile telephone services that cover more than 95% of the Australian population. We serve over 4.1 million customers with these networks.

Our GSM digital network mainly operates in the 900MHz spectrum band but is being expanded in capital city areas using the newly acquired 1800MHz spectrum. As at 30 June 2000, our GSM digital network had 20 mobile switching centres, 13 home location registers and 3,158 base stations plus 600 micro cells. We are continuing to expand the capacity of the GSM network as well as focusing on improving depth of coverage in major cities, particularly in-building coverage. We have incorporated many value added services into our GSM network including:

- personalised answering services;
- voice and text messaging;
- voicemail;
- information services;
- WAP and SMS based information services;
- calling line and conference and call control and forwarding services; and
- international roaming to 75 countries.

In early fiscal 2001 we will launch a mobile packet data service on GSM using the GPRS. GPRS is intended to provide a higher speed packet accessed data capability on GSM mobile networks. This service will allow new mobile phones and data devices to access internet and other data networks on a packet basis. The devices can remain connected to the internet and send or receive data information and e-mail at any time. Initially the data speeds will be limited to around 20 kilobits per second and the main applications will be based around WAP. WAP is a system that works well on the small screens and slow data speeds of mobile devices.

Our second digital mobile telecommunications network based on CDMA technology operates in the 800MHz band that our analogue network has been using. The CDMA network provides coverage in areas that were served by the analogue network and in many additional areas giving it a footprint, which is already 50% larger than the original analogue network. At 30 June 2000, our CDMA network covered over 95% of the Australian population and comprised 8 switching centres and 1,827 base stations. It will expand to 2,100 base stations in fiscal 2001 at which time it will give cellular coverage to 500,000 more Australians than available under the former analogue network.

CDMA also has available a number of value added services that include voicemail and messaging. The CDMA network supports most of the same added services as GSM. It is planned to replicate the products fully once SMS sending and WAP are implemented on CDMA and suitable phones are available after July 2001. International roaming is more limited with CDMA. However, it will soon provide roaming with Japan and South Korea that are not served by the current extensive GSM roaming arrangements.

Our analogue network uses spectrum in the 800MHz band. At 30 June 2000 our analogue network had 12 switching centres and 295 base stations and decreasing as the analogue network closes. By law, we are required to close the analogue network and this is being undertaken progressively. The remaining analogue base stations which were in the north of Western Australia and Queensland and in the Northern Territory, closed in October 2000.

We also have a mobile radio packet data network operating to the Motorola DataTac protocol in major capital cities and in some large regional centres. This network services mobile electronic funds transfer systems and specialised data applications by allowing data to be sent to and received from large mainframe computer systems.

Information processes and systems

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

- introducing new products to the market faster;
- further integrating our customer access technology and systems across channels; and
- reducing our overall information technology total cost of ownership.

To achieve this strategy, we are maintaining centralised control of strategy and architecture through the office of the chief technology officer and are:

- decentralising responsibility for our information technology systems to our business units;
- rationalising our existing systems and related processes;
- developing and deploying new systems and processes;
- continuing to centrally operate and support our end-to-end information technology operations infrastructure;
- implementing new management disciplines; and
- outsourcing most of our remaining information technology applications development and maintenance functions.

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

- sales and marketing;
- customer ordering and provisioning;

- on-line access for customers;
- billing and credit management;
- service assurance;
- workforce management; and
- back office processes.

We have aligned our provisioning and billing databases and taken steps to improve validation of data entry. This action has reduced service order rejects and billing anomalies. We have also introduced an integrated credit management system for the management of mass market accounts.

Our flexible billing system called Flexcab® offers our customers customised billing options and formats. Flexcab® has allowed us to shorten the amount of time needed to market new products and services and provides improved support to our business operations. Flexcab® also supplies detailed local call records enabling us to reduce customer complaint levels substantially.

Our workforce management system aligns work tasks more efficiently so that we can give customers better service through more accurate and timely installations and repairs.

Through our DMO initiative we are commencing deployment of secure, integrated software to control the flow of tasks between applications and collect messages from one system and pass onto another. Our future systems architecture will use this middleware software to enable easier more efficient integration of application package solutions to meet our business needs. This new capability will also deliver greater flexibility and speed to market by allowing business process and data translation to be configured and easily customised externally from our information technology applications. Our intention is to use more "off the shelf" package solutions and move away from building information technology applications.

We are continuing to review and upgrade procedures relating to systems security, data integrity and disaster recovery. Under this programme, we have tested the use of facilities that would be used as an alternative data centre in the unlikely event of destruction or substantial impairment to the large data centre where our billing systems are primarily run. During the transition to these alternative facilities, there would be a delay in the billing of customers and the collection of related receipts.

Electromagnetic energy

Certain reports have suggested that electromagnetic energy emissions from mobile handsets may have adverse health consequences for users.

We comply with all relevant safety standards including those applicable to electromagnetic emissions. Together with other participants in the communications industry we rely on the expert judgement of public health authorities for assessments of safety and health impacts of electromagnetic energy associated with mobile base stations.

Several leading expert and advisory bodies, including:

- the World Health Organisation;
- the International Commission on Non-Ionising Radiation; and recently
- the United Kingdom Parliament Stewart Inquiry,

have concluded that there is no evidence that mobile base stations are harmful to human health. They consider that the level of radio signals around a base station are typically many times less than the safety limits set by international standards.

In addition, the Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) has conducted an extensive study of base station emissions in Australia and has found that base station emission levels in the community are significantly lower than the Australian safety standard. ARPANSA have also reported that the existing background emission levels from AM and FM radio or television are significantly higher than the emission levels from base stations.

Despite this evidence, lawsuits have been initiated against providers of mobile telecommunications services. Occasionally, studies are reported suggesting avenues for further research.

The Australian Government has established a Committee on Electromagnetic Energy Public Health Issues to advise on the issue. This Committee is funded by a levy on holders of radio-communications licences.

The ACA has set up a twin track process for developing new EME regulations. In this process, ARPANSA is developing a new national EME safety standard and the Australian Communications Industry Forum (ACIF) is developing a code of practice to implement the ARPANSA standard in the telecommunications industry.

The risk or the perception that a risk of adverse health consequences exists may adversely affect this sector of our business by causing reduced consumer growth, reduced usage per customer or the filing of compensation claims by customers or others.

Information technology alliances

We have a 22.6% equity interest in IBM Global Services Australia Limited (IBMGSA), also owned by IBM Australia (54.4%) and Lend Lease (23%). We have outsourced our data centre operations and most of our applications maintenance and enhancement activities to IBMGSA for a 10 year period from July 1997.

We have engaged IBMGSA to provide services during the contract period. We may terminate the agreement for services after 2001, subject to payment of potentially significant financial penalties. If we do so, IBM and Lend Lease may also require us to exit our investment.

During fiscal 2000 we acquired the remaining interests in the network services company, Advantra Pty Ltd. Prior to our acquisition of these interests, 30% was owned by IBM Australia and 20% by Lend Lease. At the same time, our interest in IBMGSA decreased from 26% to 22.6% and IBM Australia's interest increased from 51% to 54.4%.

Advantra supplies network facilities management, network systems integration services and network application services to major business and government customers in Australia. Advantra also supplies network services to IBMGSA's customers across Australia.

COMPETITIVE AND REGULATORY ENVIRONMENT

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

We have designed our marketing and distribution channels to focus on improving service to existing customers and attracting new customers. We seek to provide high quality services that deliver value to our customers. In particular, we offer 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 our 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 our analogue mobile telephone service and offering national long distance and international telephone services.

We started offering digital mobile telephone services over our 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. Since then there has been a significant increase in the number of carriage service providers that have entered the Australian telecommunications market. We supply services to nearly 100 wholesale customers who compete in the retail telecommunications market.

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

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

Regulation

Overview

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.

Reviews are expected to be undertaken in fiscal 2001 on some specific telecommunications regulations and industry codes with the most significant being:

- the Productivity Commission's review of telecommunications competition regulation; and
- the Australian Competition and Consumer Commission's review of retail price controls.

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 1999 to give binding directions to us to take specified action towards ensuring that we comply with that Act. This Ministerial direction power applies in addition to the Ministerial power in Part 3 of the Telstra Act to give such directions in relation to the exercise of powers by us as appear to the Minister to be necessary in the public interest.

The ACCC administers the Trade Practices Act 1974 (Cth) (TPA). 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 our retail price caps and price control arrangements.

The ACA 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 (CSG);
- preselection, numbering and number portability;
- the USO;
- the digital data service obligation;
- spectrum management; and
- industry codes and standards.

The ACA may give written directions to carriers, carriage service providers and content service providers requiring them to comply with various provisions of the Telecommunications Act, the Telecommunications (Consumer Protection and Service Standards) Act, their 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.

The industry also self-regulates through codes and standards

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

- consumers;
- inter-carrier operations;
- interconnection and performance of networks;

- radio issues;
- environmental issues; and
- customer equipment and cabling.

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

The codes registered with the ACA at 30 June 2000 are for:

- the protection of personal information to customers;
- the handling of life threatening and unwelcome calls;
- call charging and billing accuracy;
- end-to-end network performance;
- preselection; and
- commercial churn.

A code relating to calling number display has been registered since the end of fiscal 2000.

By 31 December 2000, we anticipate additional registered consumer codes will include:

- billing;
- complaints handling; and
- customer information about prices, terms and conditions.

The Telecommunications Access Forum (TAF), an industry body open to all carriers and carriage service providers, can recommend telecommunications services for declaration by the ACCC under the access regime. The TAF may also develop access codes to be submitted for approval and registration by the ACCC.

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

Carriers, carriage service providers and content service providers

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

- A carrier is any person holding a carrier licence. In general, the owner of network infrastructure must not use the infrastructure to supply telecommunications services to the public unless it holds a carrier licence.
- A carriage service provider supplies a telecommunications service to the public using network infrastructure owned by a carrier.
- A content service provider is a person who uses a telecommunications service to supply to the public a content service, such as a broadcasting service or an on-line information or entertainment service.

Competition regulation

Competition rule

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

To issue a competition notice (Part A or Part B) the ACCC need only have a "reason to believe" that there is a breach of the competition rule, rather than being affirmatively satisfied of a breach of the competition rule after full investigation (as it had to be before July 1999).

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

A carrier or 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.

In recent years, we have been issued with eight competition notices by the ACCC. In particular:

- we were issued with two competition notices by the ACCC in early calendar 1998 claiming that we were acting anti-competitively in the manner in which we charged internet service providers for access to our internet backbone. Although we considered the ACCC's claim to be unfounded, we resolved this matter by amending our conduct to overcome the ACCC's concerns; and

- between 10 August 1998 and 9 April 1999, we were issued with six competition notices by the ACCC claiming that we acted anti-competitively in the manner in which we provide competitors with services that facilitate customers switching between ourselves and those competitors (known in the industry as "commercial churn"). This matter has now been settled.

None of the competition notices remain in force.

The ACCC may issue further competition notices in the future if it believes we are acting anti-competitively.

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

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

Information gathering powers

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

The ACCC must report to the Communications Minister on matters relating to competition as required by the Communications Minister. The ACCC may require carriers and carriage service providers to provide it with information in connection with these reports. These reports may be public or confidential, but public reports must not contain information that would prejudice substantially the interests of any person.

Record-keeping rules

The ACCC is developing new record-keeping rules. These are accounting rules that require the reporting of non-public cost and revenue information in relation to our services.

The detailed requirements of these record-keeping rules are yet to be finalised. However, it is likely that we will be required to report on the detailed costs and revenues of wholesale and retail services.

The ACCC will be able to refer to this information on our costs and revenues in its market conduct and access investigations.

The ACCC also has power to disclose or require us to disclose reports prepared under the record-keeping rules to the industry, or specified other carriers, or to the public, subject to our very limited right of appeal to the Australian Competition Tribunal. This could result in sensitive cost information being published to our commercial detriment. Before exercising this power, the ACCC must have regard to our legitimate commercial interests.

2000 review

The Productivity Commission recently commenced a review of the industry specific competition regulation that is expected to continue until June 2001. The terms of reference include a review of Parts XIB and XIC of the TPA as well as issues such as preselection, number portability, facilities access and technical standards. The Government has not ruled out the introduction of additional regulation as a result of this review.

Retail price restrictions

The Government has set retail price controls on some of our services and groups of services that apply from 1 July 1999 to 30 June 2001. The Telstra Carriers Charges Price Control Arrangement, Notification and Disallowance Determination No 1 of 2000, amends the original determination and incorporates the goods and services tax, which came into effect from 1 July 2000, in the cap on standard and payphone local telephone call prices.

CPI-X price restriction

We 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 (CPI) over the previous year, less 5.5%. If the annual increase in CPI is less than 5.5%, we are required to reduce our prices accordingly. Previously this cap was set at CPI-7.5%.

We cannot increase prices beyond annual increases in CPI for a basket of line rentals and local calls and a basket of connection services. Previously we were constrained in increasing our prices for individual services under specific price caps, such as, residential line rental, national long distance calls and international calls. This change provided scope for rebalancing line rentals and call charges that we put into effect in March 2000.

A cap of CPI minus 1% applies to a basket of services for residential customers that 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 our preselected residential customers by bill size.

Line rentals for the bottom 10% of our preselected residential customers by bill size must not increase by more than CPI in one year unless we can satisfy the ACCC that we 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 our compliance with price controls.

Local call charges

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

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

We must offer a standard price for untimed local calls where we are required to provide these calls.

We must not charge more than A$0.40 for untimed local calls from payphones or more than A$0.25 for any other untimed local calls. The standard local call price is set at A$0.40 for calls from payphones and A$0.22 for other untimed local calls. Until 30 June 2001, we must also ensure that both:

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

Directory assistance service charges

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

Access

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

Declaration of services

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

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 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.

Current declared services

The ACCC has issued statements listing the following as declared or deemed services:

- originating and terminating access for domestic PSTN, ISDN, GSM and analogue-based mobile telecommunications networks;
- transmission capacity on all routes (except Melbourne - Canberra - Sydney) on bandwidths of 2, 4, 6, 8, 34/45, 140/155 or higher megabits per second;
- digital data access service (domestic carriage of data between exchange or other network facilities and customer premises);
- conditioned local loop service (a bundled service for the supply of unswitched transmission capacity in the local loop);
- the diversion of calls made to disused analogue numbers to the customers' new GSM-based numbers;
- an ULL service using unconditioned copper wire in our local loop;
- local PSTN originating and terminating services (which in our view is not materially different from the domestic PSTN originating and terminating access described above);
- local carriage services (in effect, this is local call resale); and
- analogue cable subscription television broadcast carriage service.

In August 2000, the Federal Court ruled as invalid a former June 1997 declaration for analogue broadcasting access services.

Terms and conditions of access

A carrier or carriage service provider may give the ACCC access undertakings which set forth the terms and conditions on which it will offer to supply declared services. If an access undertaking adopts terms and conditions set out in a telecommunications access code approved by the ACCC, the undertaking must be accepted by the ACCC. If not, the ACCC may accept an undertaking only if satisfied that its terms and conditions are reasonable. This requires, among other things, consideration of the long-term interests of end users and the access provider's legitimate business interests.

The terms and conditions (including price) of standard access obligations are to be resolved by commercial negotiations. If negotiations fail but an access undertaking, including the relevant terms and conditions, has been provided by the access provider and has been accepted by the ACCC, the access undertaking will apply. If there is no such undertaking, the ACCC may arbitrate the terms and conditions on which the standard access obligation will be met.

Access arbitrations

There is a detailed regime for ACCC arbitration of access disputes. We are currently involved in access arbitrations about declared services with Cable & Wireless Optus, AAPT, Primus Telecommunications, Television and Radio Services Australia, Flow Communications, Macquarie Corporate Telecommunications One.Tel, XYZed, RSL.Com, Dingo Blue and C7.

The ACCC must take into account a number of matters including the following in making a final arbitral determination:

- promoting the long-term interests of end-users;
- the legitimate business interests of the access provider and its investment in facilities;
- the direct costs of providing access; and
- any other matters that the ACCC considers relevant.

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

The ACCC has powers, if requested by a party, to give directions in relation to access negotiations even prior to the notification of a dispute, such as requiring one party to provide information to the other, or requiring a party to carry out research or investigations to obtain relevant information. This could lead to involvement by the ACCC well before the arbitration of an access dispute.

ACCC decisions in relation to undertakings and final arbitral determinations are subject to appeal on the merits to the Australian Competition Tribunal.

In conducting an access arbitration, the ACCC may make an interim determination which will bind the parties during the course of the arbitration, including on important matters such as access price. Unlike final determinations, for interim determinations there is no requirement that the ACCC take into account the statutory matters listed above, and there is no appeal on the merits to the Australian Competition Tribunal.

The ACCC has power to backdate the effect of a final determination to the date of notification of the access dispute, but not before 5 July 1999. Therefore should the ACCC determine that it wishes to reduce an access price, the benefit of that reduction can be made available to the access seeker from the date of notification of the dispute, unless the arbitration predates 5 July 1999, irrespective of the length of the arbitration.

Access pricing

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

The ACCC has published Access Pricing Principles setting out how the ACCC proposes to approach price issues when considering access undertakings and determining access disputes. Generally, the ACCC proposes that the prices of declared services which are:

- necessary for competition in a dependent market;
- supplied in markets where the forces of competition, or the threat of competition, work poorly to constrain the price of access to efficient levels; and
- well developed in the market,

should be cost-based; in particular, it proposes to require access prices for such services to be based on the total service long run incremental cost (TSLRIC) of providing the service. TSLRIC is generally regarded as the incremental cost incurred in the long term of providing a service assuming all of its other production activities remain unchanged. That is, the cost that would be avoided in the long term if a service were not provided. TSLRIC (as defined by the ACCC) consists of the on-going or forward-looking operating and maintenance costs incurred in providing a service using the most efficient means commercially available and valuing inputs using current prices, including common costs that are causally related to the service. In defining the TSLRIC standard, the ACCC states it has taken into account the legitimate business interests of the party providing the relevant service by including in TSLRIC a normal commercial return on capital.

Local call resale

The ACCC has stated that for local call resale, it is likely to adopt pricing on the basis of our retail price less avoidable costs (not TSLRIC) in any access dispute.

PSTN originating /terminating access

In July 2000, the ACCC rejected our proposed undertaking for domestic PSTN originating and terminating access. In rejecting the undertaking, the ACCC formed the view that the cost (including unrecovered capital USO cost and access deficit) an efficient firm will incur in providing such access is 1.77 cents per minute for fiscal 2000 and 1.53 cents per minute for fiscal 2001. This is substantially less than both the charges we had proposed in the undertaking based on our estimate of efficient costs and a normal return on capital, being 2.37 cents per minute for fiscal 2000 and 2.01 cents per minute for fiscal 2001. Although the view expressed by the ACCC is not binding on us, it is indicative of the costs and methodologies the ACCC may apply in determining future prices for access to our PSTN in arbitration.

The ACCC has recently made final determinations on PSTN access price for two arbitrations. We have appealed these decisions with the Australian Competition Tribunal.

The ACCC's view on PSTN access costs will also directly impact its view on the cost of provision of ULL and other PSTN based services.

Unconditioned local loop

In July 1999, the ACCC announced that the provision of ULL would be a declared service.

The ULL service was launched in August 2000 at the same time as we launched our wholesale and retail ADSL services. ACIF have developed draft codes governing the technical aspects of service provision and recently released them for industry comment. TAF are addressing network modernisation issues, particularly the right to replace copper with fibre in the customer access network even though this may alter the provision of the copper based ULL. We presented prices for the ULL to the ACCC and they released them to third party access seekers.

The ACCC has issued a discussion paper on the pricing of the declared ULL service. The ACCC analysis has produced ULL prices substantially lower than our indicative published prices. Some of this difference relates to our continued use of certain costs which the ACCC has previously rejected in the PSTN undertaking. This includes line provisioning and trench sharing, the cost of capital and the efficient level of indirect costs that should be included. In the short-term this is likely to adversely affect our ability to negotiate commercially with third parties and finalise agreements. We consider the key regulatory risks for ULL are:

- disputes on ULL prices being lodged with the ACCC - some disputes have been notified;
- arbitrated prices being substantially lower than our current cost-based offer price;
- anti-competitive conduct allegations from third parties for other products, such as wholesale and retail broadband access, which have prices that may be affected by the determination by the ACCC on ULL; and
- limits on the scope for network modernisation from ULL services in place.

We consider the loss of direct access to customers serviced by ULL-based services will be a significant commercial risk to us in the future.

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

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

Broadband access

Owners of broadband cable networks are carriers. Persons who supply carriage services using broadband cable networks, such as we supply, are carriage service providers.

Under the 1999 analogue cable subscription television broadcast carriage service declaration, broadcasters may claim access to our broadband network to deliver their subscription television services at prices which, in the absence of agreement, would be arbitrated by the ACCC.

The ACCC has decided not to declare a digital service at this stage.

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 that 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.

Carrier licences can be cancelled only on very limited grounds such as a failure to pay an annual licence charge or a universal service levy.

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

- provide operator and directory assistance services;
- annually produce, publish and provide an alphabetical telephone directory;
- establish and maintain an integrated public number database and provide access to the database to all carriage service providers;
- ensure reductions in connection and annual charges for certain basic telecommunications services of at least specified amounts if a customer does not rent a handset from us for use with that service;
- have in place and report against an approved industry development plan and comply with the plan to the extent it relates to research and development;

- provide resale (for a limited time) of, and/or roaming on, our analogue service to the operators of proposed new digital mobile networks on commercially negotiated or arbitrated terms and conditions; and
- extend an equivalent mobile service to those areas previously served by the analogue network. We are providing this through our CDMA network.

Carriage service provider obligations

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

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

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

Powers and immunities

A carrier may enter 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.

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

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

No limitation of tort liability

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

Number portability

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

The ACA numbering plan mandates number portability for some services

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

- local number portability was operational on a trial basis from November 1999 and fully operational by 1 January 2000 as mandated by the ACA. There are a few specific cases where an exemption has been granted; and
- freephone (eg 1800 numbers) and local rate (eg 13) number portability is scheduled to be operational by 16 November 2000.

Individual carriage service providers and the industry, are working to implement freephone and local rate services by the ACA's date. At the same time these are implemented, the ACA will change the way in which numbers are allocated to carriage service providers from the current block allocation to a centralised pool approach.

Terms and conditions of supply are negotiated or arbitrated

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

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

Mobile number portability

The ACCC has issued a direction to the ACA to mandate the implementation of mobile number portability. The ACA has mandated that mobile number portability must be available by September 2001. Compliance with this requirement is likely to require significant capital expenditure and the resolution of numerous technical issues. If the ACCC's draft pricing principles are not changed, we might not be able to recover our costs of providing mobile number portability in full from other carriers or carriage service providers.

Preselection and override codes

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

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

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

An override function for these voice calls must also be provided. The ACA may in the future require carriage service providers to provide for preselection of different carriage service providers for different call types or for preselection to be extended to other services such as mobile telecommunications preselection.

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

Analogue network closure

Subject to limited exceptions, we were required by law to close our analogue mobile telecommunications network by 31 December 1999. The exceptions apply in some non-metropolitan areas, where we may continue to operate our present network until 31 December 2000. Neither we nor any other carrier may install or operate any other analogue mobile telecommunications network after that date. This additional period has allowed us to deploy our CDMA network to meet our licence condition of providing reasonably equivalent mobile service in those non-metropolitan areas where there might otherwise be no alternative and equivalent mobile service. Our rollout plans for CDMA are well advanced and we anticipate that our analogue network will close in October 2000.

Interception

Carriers are required by law to cooperate with law enforcement agencies. They must, unless exempted by the Communications Minister, ensure that telecommunications services passing over their networks can be intercepted by agencies that hold an interception warrant. This requirement can lead to delay in the launch of particular carriage services until the services can be made interceptible. Moreover, carriers are required to bear the capital and ongoing costs of implementing interception capability in their networks. The Telecommunications Act 1997 requires a review to be undertaken of the longer term cost-effectiveness of telecommunications interception. This review was conducted by the ACA. The report is being considered by the Government and may lead to some changes to industry obligations to assist law enforcement agencies.

Universal service and digital data service obligations

We are currently the national universal service provider. This means that we must ensure that standard telephone services, payphones and any additional carriage services that might be prescribed by regulation are reasonably accessible to all people in Australia on an equitable basis. As part of this obligation, we must make prescribed equipment and services available for persons with a disability for use in connection with a standard telephone service. The current standard telephone service is primarily a carriage service for the purposes of voice telephony that passes a connectivity test. However, although this has not been done to date, additional purposes for the standard telephone service may be prescribed by regulation. If such regulations were made, this would be likely to result in substantial additional costs.

We have also been declared a "digital data service provider" which requires us to ensure that all people in Australia have reasonable access on an equitable basis to a 64 kilobits per second ISDN service or a broadly comparable satellite downlink service. Currently, 96% of the Australian population have access to ISDN services should they require this service. The remaining 4% of the population has access to the satellite downlink service. These customers may be entitled to a rebate of up to 50% of the price of purchasing and installing the necessary satellite receiving equipment.

In our roles as the national universal service provider and the digital data service provider, we are required to submit plans to the Communications Minister on how we will progressively fulfil our USO and the digital data service obligation. The Minister has approved our universal service plan and digital data service plans for ISDN and satellite.

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

New USO arrangements have recently been imposed. The new USO arrangements that were passed by Parliament in June 2000 provide for the Government to conduct a tender in Extended Zones in remote Australia for the provision of untimed local calls. The winning tenderer will receive up to A$150 million for the provision of untimed local calls and, in addition, will become the universal service provider for those areas attracting a USO-related subsidy. We intend to participate in this tender.

The losses that result from supplying loss-making services and from facilitating the satellite subsidy in the course of fulfilling the USO and digital data service obligation are required to be shared among all carriers. The Telecommunications Act 1997 provided that a universal service provider's net universal service cost as assessed by the ACA was to be shared amongst the universal service provider and other participating carriers on a basis proportional to the eligible revenue of each carrier.

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

However, current legislation does not ensure that the costs we incur in providing the USO will be fully recognised and funded by industry participants. In accordance with the Telecommunications Laws Amendment (Universal Service Cap) Act 1999, the Minister has determined that the net USO for fiscal 1999 was A$280 million and A$281 million for fiscal 2000. These amounts are significantly less than our own assessment of the USO costs. The other participating carriers were required to pay us A$51 million for fiscal 1999 based on the ACA assessment of eligible revenue for that year. The assessment for fiscal 2000 has not yet been made.

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

The Minister has also been given the power to determine the cost of the USO for up to three years in advance. This is a departure from current arrangements wherein the universal service provider makes a cost claim to the ACA within 90 days of the end of the relevant financial year makes. The intention is that the availability of forward estimates of USO costs will provide increased certainty to all industry participants in USO costing and funding.

In July 2000, further proposed USO amendments were introduced to Parliament. These provide for contestability in the supply of the USO, with multiple service providers (subsequent to authorisation by the ACA) able to compete for customers in defined geographic areas and to receive a per-customer subsidy. Importantly, carriage service providers (non-infrastructure owners) will be able to provide USO services in addition to carriers (infrastructure owners). Also, carriage service providers earning eligible revenue above a particular level may be required by Ministerial determination to contribute funding to the USO cost. However, it is not clear when the Minister will exercise this power and what eligible revenue threshold level (if any) he may determine. Where contestability is established in an area, it is proposed that one supplier will be designated the "carrier of last resort". In the first instance, and barring our exit from the areas on commercial or other grounds, we will be the carrier of last resort requiring us to provide back-up service in the event of exit or default by other carriers.

The draft legislation contains many Ministerial and regulatory agency discretions. These discretions may have a material impact on the nature of the USO, the determined cost of the USO, our share of that cost and industry funding requirements.

Customer service guarantee

At the direction of the Communications Minister, the ACA has made mandatory standards for carriage service providers in relation to the connection and restoration of basic telephone services and enhanced call-handling features. These customer service standards have been in effect since 1 January 1998. Following a direction by the Communications Minister, the ACA issued in May 2000, a new CSG standard that came into effect on 30 June 2000. The new standard only applies to customers with five or less specified services and tightens some connection and restoration timeframes.

The standards apply to the standard telephone service and specified enhanced call handling features. They set connection times, fault repair times and the keeping of appointments for these activities. The damages payable under the new standards are:

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

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

The ACA has power to give directions to a carriage service provider either to take specified action to avoid contravening a standard or to ensure that the carriage service provider's compliance with a standard reaches a specified target. Contravention of a direction can lead to penalties imposed by the Federal Court of up to A$10 million.

From August 2000, if a carriage service provider has reason to believe that an event has occurred that is reasonably likely to result in it being liable to pay damages to a customer for a breach of a standard, the carriage service provider must notify the customer and pay those damages, whether by account credit or otherwise, within a prescribed period, whether or not the customer has claimed those damages.

A carriage service provider has a right of contribution to damages where the contravention of a standard is wholly or partly attributable to the acts or omissions of another carriage service provider, for example, where a carrier such as we are provides services to the carriage service provider. This provision took effect from February 2000.

Supply terms and conditions

Under a determination made by the ACA, carriage service providers have been required since March 2000 to provide customers with concise summaries of the terms and conditions on which customers acquire their goods and services. We provide these summaries to existing and new customers.

Broadcasting regulation

The Broadcasting Services Act 1992 was amended in 1998 to provide for the introduction of digital television from 2001. It also established reviews of various broadcasting issues including:

- by 1 January 2000:
  - convergence between broadcasting services and other services, such as, telecommunications services;
  - retransmission by pay television operators of digital free-to-air services (currently, FOXTEL and Optus Vision each retransmit, without regulation or payment, the analogue services of the free- to-air broadcasters);

    - whether or not national broadcasters should be able to multi-channel;
    - the circumstances in which free-to-air broadcasters may be able to offer enhanced services; and
- by 31 December 2005:
    - the current restriction on commercial free-to-air broadcasters providing pay television services; and
    - the current restriction on commercial free-to-air broadcasters providing multi-channel services.

These reviews could lead to legislative changes that could adversely affect our business or FOXTEL's business.

Legislation has been introduced into Parliament including:

- provisions affecting the ability and basis on which pay television operators may retransmit free-to- air television services;
- provisions restricting pay television operators from providing metropolitan prime-time programmes in regional areas;
- provisions permitting free-to-air broadcasters to offer digital programme enhancements; and
- anti-hoarding rules which regulate the use of rights by the commercial and national television operators to televise major designated events.

Parliament has recently passed a bill governing the introduction of digital terrestrial television in Australia.

In 1998 legislation was amended to permit free-to-air television broadcasters to use 7MHz of loaned spectrum to supply digital television. Digital broadcasting, simulcast with analogue for at least eight years, must commence on 1 January 2001 in metropolitan licence areas and by 1 January 2004 in regional licence areas.

INVESTMENTS IN CONTROLLED ENTITIES

As at 4 December 2000

Name of entity	Country of incorporation	% of equity held by immediate parent
Parent entity:		
Telstra Corporation Limited	Australia	
Controlled Entities:		
On Australia Pty Ltd	Australia	100
Telecommunications Equipment Finance Pty Ltd (1)	Australia	-
Telstra Finance Limited	Australia	100
Telstra Corporate Services Pty Ltd (2)	Australia	100
Transport Communications Australia Pty Ltd	Australia	100
Telstra ESOP Trustee Pty Ltd	Australia	100
Telstra Growthshare Pty Ltd	Australia	100
Telstra Media Pty Ltd	Australia	100
Telstra Multimedia Pty Ltd	Australia	100
Telstra R&D Management Pty Ltd	Australia	100
Telstra OnAir Holdings Pty Ltd(3)	Australia	100
Advanced Network Management Pty Ltd (4)	Australia	100
Telstra Rewards Pty Ltd	Australia	100
• Telstra Visa Card Trust	Australia	100
• Qantas Telstra Card Trust	Australia	100
• Telstra Visa Business Card Trust	Australia	100
Telstra Media Holdings Pty Ltd	Australia	100
• Advantra Pty Ltd	Australia	100
Pacific Access Pty Ltd	Australia	100
• Goeureka.com.au Pty Ltd	Australia	100
• Search Direct 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 CB Holdings Limited	Australia	100
• Telstra CB.net Limited	Australia	100
• Telstra CB.Com Limited	Australia	100
• Telstra CB.fs Limited	Australia	100
• InsNet Pty Ltd	Australia	100
• Australasian Insurance Systems Pty Ltd	Australia	100
• TRC Computer Systems Pty Ltd	Australia	100
• DBA Limited	Australia	100
• Broker Link Pty Ltd	Australia	100
• DBA Computer Systems Pty Ltd.	Australia	100
• Unilink Group Pty Ltd	Australia	100
Network Design and Construction Limited	Australia	100
• NDC Global Holdings Pty Ltd	Australia	100
• NDC Global Services Pty Ltd.	Australia	100
• NDC New Zealand Limited(5)	New Zealand	100
• NDC Global Services (Thailand) Limited(6)	Thailand	100
Telstra International Limited	Australia	100
Telstra Communications Limited	Australia	100
• Telecom Australia (Saudi) Company Ltd	Saudi Arabia	50
Telstra Holdings Pty Ltd	Australia	100
• Telstra Global Networks Limited	Bermuda	100
• Telstra (Malaysia Holdings) Sdn.Bhd	Malaysia	100
• Telstra International (HK) Holdings Limited	Hong Kong	100
• Mobitel (pvt) Limited	Sri Lanka	60
• Telstra Limited	New Zealand	100
• Telstra Global Limited	United Kingdom	100
• Telstra Korea Limited	Korea	100
• Telstra (UK) Limited	United Kingdom	100
• Telstra Europe Limited(7)	United Kingdom	100

Name of entity	Country of incorporation	% of equity held by immediate parent
• PT Telstra Nusantara	Indonesia	100
• Telstra Germany GmbH	Germany	100
• Telstra France SA	France	100
• Telstra Inc	United States	100
• North Point Telecommunications Inc	United States	100
• Telstra eConnect LLC	United States	100
• Telstra Wholesale Trading Inc[8]	United States	100
• Telstra Vishesh Communications Ltd	India	47.1
• 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
• Telstra Wholesale (Bermuda) No.2 Limited [9]	Bermuda	100
• Telstra Holdings (Beruda) No.1 Limited [10]	Bermuda	100
• Telstra Wholesale Inc[11]	United States	100
• Telstra New Zealand Limited [12]	New Zealand	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 significant assets and no significant liabilities.*

(2) *Incorporated 16 August 2000.*

(3) *Incorporated 11 September 2000.*

(4) *Advanced Network Management Pty Ltd is in voluntary liquidation*

(5) *Incorporated 7 July 2000.*

(6) *Incorporated 1 November 2000.*

(7) *Formerly Telstra CB.UK Limited.*

(8) *Incorporated 11 October 2000.*

(9) *Incorporated 26 September 2000.*

(10) *Incorporated 18 September 2000.*

(11) *Incorporated 14 September 2000.*

(12) *Incorporated 6 July 2000.*

DIRECTORS AND MANAGEMENT

As at 4 December 2000, our directors were as follows:

Directors

Name	Age	Position	Year of initial appointment	Year last re-elected[1]
Robert C Mansfield	49	Chairman	1999	1999
John T Ralph	67	Deputy Chairman	1996	2000
Zygmunt E Switkowski	52	Chief Executive Officer, Director	1999	1999
N Ross Adler	55	Director	1996	1998
Sam Chisholm	61	Director	2000	2000
Anthony J Clark	61	Director	1996	1999
John Fletcher	49	Director	2000	2000
Malcolm G Irving	70	Director	1997	1999
Catherine Livingstone	45	Director	2000	2000
Donald G McGauchie	50	Director	1998	1998
Elizabeth A Nosworthy	54	Director	1991	1998
John W Stocker	55	Director	1996	1999

[1] *Other than the chief executive officer, one third of directors are subject to re-election by rotation each year.*

Mr Hoare retired as chairman during fiscal 2000 and Mr Mansfield succeeded Mr Hoare as chairman. Since the end of fiscal 2000, three directors i.e. Cecilia A Moar, Christopher I Roberts and Stephen W Vizard, decided not to seek re-election and therefore retired on 17 November 2000.

A brief biography as at 30 August 2000 for those directors who held office during fiscal 2000 and continue to hold office as at 4 December is as follows:

Robert C Mansfield – AO, BCom, FASA, CPA

Chairman
Director since November 1999 and Chairman since January 2000

Chairman, CDS Technologies Pty Ltd and Starlight Children's Foundation Australia; Director, McDonald's Australia Ltd, Datacraft Asia Ltd and Dimensions Data Holdings plc; formerly Chief Executive Officer of McDonald's Australia Ltd, Wormald International Ltd, Optus Communications Ltd and John Fairfax Holdings.

John T Ralph – AC, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melbourne and Queensland)

Deputy Chairman
Director and Deputy Chairman since October 1996

Chairman, Commonwealth Bank of Australia, Pacific Dunlop Ltd; Director, BHP Ltd; Chairman, Australian Foundation for Science; Deputy National Chairman, Foundation for Young Australians; Member, Board of Melbourne Business School, Board of Advisers of the Constitutional Centenary Foundation, Advisory Council of the Global Foundation and Global Corporate Governance Advisory Board Egon Zehnder International.

Zygmunt E Switkowski- BSc (Hons), PhD

Chief Executive Officer
Director and Chief Executive Officer since March 1999.

Dr Switkowski has been Chief Executive Officer of Optus Communications Ltd 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 since October 1996.

Chief Executive Officer and Managing Director, Santos Ltd (due to retire 30 September 2000); Chairman of the Board of the Art Gallery of South Australia; Director, Santos Group Companies, Commonwealth Bank of Australia and QCT Resources Ltd; Member, Business Council of Australia; Council Member, The University of Adelaide.

Anthony J Clark – AM, FCA, FCPA, FAICD

Director since October 1996

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

Malcolm G Irving – AM, BCom, Hon DLit

Director since July 1997

Chairman, Caltex Australia Ltd, ADI Ltd and Willis Australia Ltd Group; Director, Cabonne Ltd.

Donald G McGauchie

Director since September 1998

Senior Partner, C&E McGauchie – Terrick West; Chairman, WoolStock Australia Ltd; Director, Australian Wool Testing Authority Ltd, Farm Plan Pty Ltd, 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.

Elizabeth A Nosworthy – BA, LLB, LLM

Director since December 1991

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

John W Stocker – AO, MB, BS, BMedSc, PhD, FRACP, FTSE

Director since October 1996

Chairman, Grape and Wine Research and Development Corporation, Sigma Company Ltd; Director, Cambridge Antibody Technology Group plc, Circadian Technologies Ltd and Nufarm Ltd; Principal, Foursight Associates Pty Ltd; former Chief Scientist, Commonwealth of Australia.

A brief biography for directors who were appointed as new directors on 17 November 2000 is as follows:

Sam Chisholm
Age 61

Director since November 2000

Former Chief Executive and Managing Director of British Sky Broadcasting, former Executive Director of the News Corporation, former Managing Director, the Nine Network. For the past 25 years Mr Chisholm has held senior executive positions in the broadcasting industry.

John Fletcher - FCPA
Age 49

Director since November 2000

Chief Executive and Managing Director, Brambles Industries Ltd (due to retire on 31 March 2001). Mr Fletcher has been employed by Brambles in various management positions for the past 26 years including an assignment in Europe. Member, Australian-German Chamber of Industry and Commerce.

Catherine Livingstone - BA (Hons), CA
Age 45

Director since November 2000

Director, Q-Vis Limited and Export Finance and Insurance Corporation (EFIC); former Managing Director, Cochlear Limited; Board Member of the Australia China Council and of the Sydney Institute.

The executive officers who are not directors are:

Name	Position	Year appointed to position	Year appointed to Telstra
Bruce Akhurst	Group Managing Director, Legal & Regulatory	1999	1996
Doug Campbell	Group Managing Director, Telstra Country Wide	2000	1989
Robert Cartwright[(1)]	Group Managing Director, Employee Relations	1995	1995
Gerry Moriarty	Group Managing Director, Infrastructure Services & Wholesale	2000	1993
Ted Pretty	Group Managing Director, Telstra Retail	2000	1997
Paul Rizzo [(2)]	Group Managing Director, Finance & Administration	1993	1993
Dick Simpson	Group Managing Director, Telstra OnAir (including International)	2000	1999

(1) *Resigned in November 2000. Bill Scales joined Telstra on 20 November 2000 to take up a new appointment as Managing Director, Human Resources and Chief of Staff.*

(2) *Resignation announced on 29 November 2000 with likely departure from Telstra in mid-January 2001 and a search for his successor is to be undertaken.*

A brief biography of each of the executive officers who are not directors, is as follows:

Bruce Akhurst - BEc (Hons) LLB Barrister & Solicitor
Mr Akhurst joined Telstra in 1996 as General Counsel. Prior to joining Telstra he was a partner and managing partner of a leading Australian law firm.

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

Robert Cartwright - BA (Hons), MBA, FAIM
Mr Cartwright worked in the CRA Group of Companies for over 15 years, predominantly in manufacturing with a special focus on change management, operations, finance and strategy. He

was formerly President, An Mau Steel, Taiwan and Managing Director, Comalco Rolled Products. Mr Cartwright is a director of the Australian Graduate School of Management.

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

Ted Pretty - BA LLB (Hons)
Prior to joining Telstra, Mr Pretty was a director of Optus Communications and an adviser to BellSouth Corporation. Mr Pretty was previously a partner of one of Australia's leading telecommunications, regulatory and media law firms. Mr Pretty was initially appointed to the position of Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide and then Group Managing Director, Convergent Business.

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

Dick Simpson
Before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He was previously the Director, Residential Division at Cable & Wireless Optus and prior to that the Managing Director for Unisys Australia and New Zealand, having started his career in IBM. The OnAir Division was initially responsible for the mobile and wireless operations but has now been expanded to include most of the International operations.

During fiscal 2000, the following executive officers completed service with us

- Peter Shore, former Group Managing Director, Commercial & Consumer;
- Graeme Ward, former Group Managing Director, Public Affairs & Corporate Marketing; and
- Lindsay Yelland, former Group Managing Director, Telstra Business Solutions.

Business address

The business address for each of the above directors and officers is:

c/- the Company Secretary
Telstra Corporation Limited
Level 41, 242 Exhibition Street
Melbourne Vic 3000
Australia.

LEGAL PROCEEDINGS

We are involved in routine litigation. Governmental authorities and other parties frequently threaten us with legal proceedings. Of the three matters listed, which were disclosed in our annual report, Telstra considers that currently only the first matter, relating to the claim by Cable & Wireless Optus, may have a material adverse effect on our financial results, operations and competitive position.

Cable & Wireless Optus claims that we have breached the misuse of market power and competition rule provisions of the Trade Practices Act (TPA).

On 10 September 1997, Cable & Wireless Optus (then Optus Communications Pty Ltd) and two of its subsidiaries (Optus Networks Pty Ltd and Optus Vision Pty Ltd) commenced proceedings in the Federal Court of Australia against:

- the Telstra Entity;
- Telstra Media Pty Ltd (Telstra Media); and
- Sky Cable Pty Ltd (Sky Cable), a subsidiary of the News Corporation Ltd (News Corporation).

The claims made against Telstra Media and Sky Cable have since been withdrawn. The claims made against us asserted that we had acted in breach of section 46 of the TPA (misuse of market power provision). The asserted misconduct included an alleged refusal by us to supply local number portability and local call access and resale services to Cable & Wireless Optus on reasonable terms and conditions. These two claims were withdrawn during fiscal 2000 as a result of a confidential settlement of the action. This settlement did not have a material adverse effect on our financial results or position.

Cable &Wireless Optus also asserted that we have breached section 46 of the TPA, by reason of the arrangements for the supply of pay TV carriage services from us to FOXTEL and the construction of our broadband network. This claim remains in existence. A mediation in December 1999 failed to resolve the claims. Cable & Wireless Optus stated publicly at the commencement of the proceedings that it considers that its damages are in the order of A$900 million.

The trial has been fixed provisionally to commence in June 2001. A final litigation timetable is expected to be set by the Court in December 2000. We believe that we have substantial defences to these claims, and will continue to defend the action vigorously. At this stage it is not possible, on the information available, to reliably estimate the effect of the proceedings on us should Cable & Wireless Optus succeed in the litigation. However, such an outcome may have a material adverse effect on our financial results, operations and competitive position.

We are currently involved in litigation with a former wholesale customer - First Netcom Pty Ltd (First Netcom).

We claim that First Netcom has not paid us for telecommunications services we have provided to it. Our claim against First Netcom is for approximately A$15 million. First Netcom disputes that the amount claimed by us or any amount is owing by it and has made a cross-claim against Telstra for approximately A$37 million.

In relation to the amounts claimed by us, First Netcom has raised various disputes including that it did not receive all our bills, our bills were inaccurate and our billing and account management systems were defective in other ways.

First Netcom's cross-claim includes claims for damages and other relief by reason of alleged:

- breaches of contract and/or negligence in connection with the supply of services and the billing of those services;
- misrepresentations;
- breach of confidence;
- discrimination in contravention of the Telecommunications Act 1991;
- unconscionable conduct; and
- misuse of market power in contravention of section 46 of the TPA.

On 8 November 2000, First Netcom went into voluntary liquidation. Telstra's claim in the Federal Court proceedings is therefore automatically stayed and Telstra will now need to prove its debt in the liquidation as an ordinary unsecured creditor.

The liquidation does not, however, necessarily mean the end of First Netcom's cross-claim against Telstra. The Liquidator could either pursue the cross-claim himself or sell/assign the right of action as an asset of the company, possibly back to the directors. In either event, Telstra would have the right to raise its debt claim by way of set off to the cross-claim.

It is unclear at this stage whether the Liquidator intends to pursue or sell the cross-claim.

At this stage it is not possible, on the information available, to reliably measure the effect on us of any proceedings successfully brought by the Liquidator or an assignee. However, we consider that such an outcome would not have a material adverse effect on our financial results, operations and competitive position.

Legal proceedings settled

The legal proceedings in the Federal Court of Australia involving us and AAPT Limited (AAPT) were settled in September 2000. The proceedings involved claims by us for unpaid charges and cross-claims by AAPT, including cross-claims for misuse of market power. The settlement did not have a material adverse effect on our financial results or position.

RELATIONSHIP WITH THE COMMONWEALTH OF AUSTRALIA

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

The Commonwealth as shareholder

At the end of fiscal 2000, the Commonwealth owned 50.1% of our shares after reducing its shareholding by 16.6% in the first half of fiscal 2000. 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 effect of this is that we cannot introduce a dividend reinvestment plan or raise new equity capital in a way that would reduce the Commonwealth's ownership below this level. There can be no assurance that the Commonwealth would be willing to subscribe for additional shares in us and our ability to raise additional equity capital could be constrained as a result. The current Government's policy is the eventual full privatisation of Telstra, subject to passage of enabling legislation. The main opposition party, the Australian Labor Party, has stated that it is opposed to further privatisation of Telstra.

We are required under the Telstra Act to provide the Commonwealth with certain information that we would not generally be required to disclose concurrently, if at all, to other shareholders. This information includes:

- annual provision of our 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 venture and partnership activities.

We are also required to keep the Communications Minister and the Minister for Finance and Administration generally informed about our operations and to give them such information about our operations as they require. Our 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 us, after consultation with our 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. Our board of directors must ensure that we comply 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 us. The Communications Minister, however, has some discretionary powers in relation to charges. The Communications Minister also has the power to direct us under the Telecommunications (Consumer Protection and Service Standards) Act.

The Australian Labor 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 USOs or CSG matters.

The Telstra Act deems the Commonwealth Auditor-General to have been appointed as our 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 our shares, like any other majority shareholder in an Australian company, has the ability to control us. 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 through the Telstra Act, the Commonwealth Authorities and Companies Act and our constitution.

The Commonwealth as regulator

We are 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.

The Australian Labor Party has stated that it is committed to a competitive communications industry environment. It supported, on a bipartisan basis, the Government's 1999 legislative changes to the regulatory regime. However, like other regulatory regimes, the Australian Labor Party does not expect the current communications regime to remain static. It will change over time in light of experience and new developments in the industry and a future Labor Government's policies will address that continuously changing regulatory environment in the national interest.

We are also subject to a range of other Commonwealth legislation, some of which does not apply to our 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 our services and we estimate its approximate recent annual expenditures on our services have been around A$400 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 us.

CAPITALISATION AND INDEBTEDNESS

The table below shows our consolidated capitalisation and indebtedness in accordance with Australian GAAP at 30 June 2000.(1)

	As at 30 June 2000 (in A$ millions)
Short-term debt(2)(3)(4)	3,316
Long-term debt	
Telstra/Telecom bonds	2,219
Loans	4,249
Finance leases	37
Total long-term debt(3)(4)(5)	6,505
Total debt(3)(4)(5)	9,821
Shareholders' equity	
Ordinary shares (12,866,600,200 ordinary shares issued)(6)	6,433
Reserves	(8)
Retained profits	5,170
Minority interests	7
Total shareholders' equity	11,602
Total capitalisation and indebtedness(4)(7)	21,423

(1) *This financial information has been extracted from our consolidated audited accounts dated 30 June 2000.*

(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$7 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 27 October 2000, we paid the final dividend for fiscal 2000 of A$1,287 million.*

(5) *No borrowings are guaranteed by third parties.*

(6) *As Australian Corporations Law has abolished the concept of authorised share capital, there is no limit on the number of shares we may issue. In Australia, there is also no longer any concept of a par or nominal value for a share. This means that we may issue its shares at any price. Our 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 our contingent liabilities and guarantees as at 30 June 2000 are shown in the section headed "Contingent liabilities and guarantees" on page 57.*

(9) *Except as described above, there has been no material change in the capitalisation, indebtedness, contingent liabilities or guarantees of the Telstra Group since 30 June 2000.*

CONTINGENT LIABILITIES AND GUARANTEES

We detail below information extracted from our audited financial statements for fiscal 2000 on contingent liabilities. The details of these contingent liabilities generally show, where reasonable estimates may be made, the maximum amount of contingent liability. Where the contingent liability refers to a legal action we have made estimates and approximations of the contingent liability.

Telstra Entity

Legal actions

Details of legal proceedings that could adversely affect our overall business or financial position are included in the section headed "Legal Proceedings" on pages 52 and 53. In addition to these, certain common law claims by employees and third parties are yet to be resolved. The maximum amount of these contingent liabilities cannot be reasonably estimated. We consider that the resolution of these contingencies will not have a material adverse effect on our financial position, results of operations or cash flows.

Indemnities, performance guarantees and support

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

- Indemnities to financial institutions to support bank guarantees to the value of A$342 million for the performance of contracts;
- Indemnities to financial institutions for the obligations of controlled entities to the financial institutions. The maximum amount of our contingent liabilities for this purpose was A$158 million;
- Financial support for certain controlled entities to the amount necessary to enable those entities to meet their obligations as and when they fall due. The financial support is subject to conditions including individual monetary limits totalling A$2 million and a requirement that the entity remains our controlled entity;
- Guarantee of the performance of joint venture entities under contractual agreements to a maximum amount of A$356 million;
- Guarantee of the performance of a third party for lease payments to be made by the third party, on our behalf, over the 16 year term of the finance leases. The lease payments over the remaining period of the lease amount to A$1,036 million;
- During fiscal 1998, we resolved to provide our associated entity, IBM Global Services Australia Limited (IBMGSA), with our 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's bankers, or directly to IBMGSA's customers. For fiscal 2000, these guarantees had been reduced to our new pro rata shareholding of 22.6% in IBMGSA. We issued a shareholder guarantee of A$68 million on behalf of IBMGSA during fiscal 2000. As at 30 June 2000 A$142 million of the A$210 million facility remains unused.

Controlled entities

Indemnities provided by our controlled entities

At 30 June 2000, our controlled entities had outstanding indemnities for obligations to financial institutions and corporations. The maximum amount of our controlled entities' contingent liabilities for these indemnities was A$9 million.

The P.T. Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement (JVA) was renegotiated during fiscal 2000. The revised JVA reduced the amount of base equity to be contributed by shareholders from U.S.$340 million to U.S.$208 million (which has now been contributed). This has removed Telstra Global Limited's 30 June 1999 commitment to contribute additional equity of U.S.$28 million and a contingent liability to contribute U.S.$112 million of additional capital should the other shareholders of MGTI default from contributing their share.

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

Telstra Global Limited has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a U.S.$480 million loan agreement dated 23 September 1996 between MGTI and various lenders. As a result of new agreements with lenders reached in September 1999 the facility is now limited to the debt drawn and outstanding. The outstanding debt under this facility is currently U.S.$154 million. Repayments are being made on schedule. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by Telstra Global Limited).

Other

As at 30 June 2000 we do not have any contingent liabilities for termination benefits under service agreements with directors or persons who take part in the management of our group.

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

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

Telstra Corporation Limited, 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, Pacific Access Pty Ltd, Telstra CB Holdings Limited, Telstra CB.net Limited, Telstra CB.Com Limited, Telstra CB.fs Limited, InsNet Pty Ltd, Australasian Insurance Systems Pty Ltd, TRC Computer Systems Pty Ltd, DBA Limited, BrokerLink Pay Ltd, DBA Computer Systems Pty Ltd, Unilink Group Pty Ltd, Telstra Media Pty Ltd, Advantra Pty Ltd and Telstra Finance Limited (as trustee to the deed of cross guarantee). 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 our[1] audited consolidated financial information for fiscal 1996 to fiscal 2000.

The table below shows historical profit and loss information from our 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				
	2000	1999	1998	1997	1996
	(in A$ millions, except per share amounts)				
Profit and loss statement data					
Amounts in accordance with Australian GAAP:					
Operating revenue	**19,840**	18,218	17,302	15,983	15,239
Operating expense (excluding depreciation and amortisation, interest expense, and abnormals)	**10,643**	9,818	9,878	9,301	9,113
Depreciation and amortisation	**2,646**	2,502	2,322	2,353	2,351
Operating profit before net interest expense, abnormals and income tax expense	**6,551**	5,898	5,102	4,329	3,775
Operating profit before abnormals and income tax expense	**5,921**	5,320	4,468	3,805	3,242
Operating profit before income tax expense	**5,349**	5,320	4,468	2,073	3,447
Operating profit after income tax expense	**3,673**	3,488	3,000	1,609	2,302
Operating profit attributable to shareholders	**3,677**	3,486	3,004	1,617	2,305
Earnings per share[2]	**0.29**	0.27	0.23	0.13	0.18
Dividends provided for or paid[3]	**2,316**	4,247	1,802	4,146	1,368
Dividends per share[2], [3]	**0.18**	0.33	0.14	0.32	0.11
Balance sheet data (at year end)					
Amounts in accordance with Australian GAAP:					
Total assets	**30,339**	27,682	26,470	25,858	24,362
Current borrowings	**3,316**	2,265	2,935	1,560	793
Non-current borrowings	**6,505**	4,946	4,787	6,421	4,350
Shareholders' equity	**11,602**	10,294	11,079	9,938	12,668

(1) *Refers to Telstra Corporation Limited and its controlled entities as a whole. 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 after abnormals. Earnings per share for each year was the same as earnings per share fully diluted.*

(3) *During the year ended 30 June 2000, we declared and paid dividends of A$4,375 million (2000 interim dividend and 1999 final dividend paid during the year ended 30 June 2000, of which A$2,059 million was paid as a special dividend). During the year ended 30 June 1999, we 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, we 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 admission of the Programme to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange is expected to be granted on or around 6 December 2000.

2 With the exception of the disclosures made under "Legal Proceedings" on pages 52 and 53, in relation to Cable and Wireless Optus, 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) that 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 2000, the last day of the financial period for which the most recent audited financial statements of the Issuer have been prepared, there has, with the exception of disclosures made in the Information Memorandum, been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of the Issuer and its subsidiaries taken as a whole.

4. Independent public auditors have audited the Issuer's financial statements for the three fiscal years ended 30 June 2000 and unqualified opinions have been received. While the auditor for Australian financial reporting purposes was the Australian National Audit Office for the three-year period, the auditor for filings outside Australia has been as follows:

- Ernst &Young were auditors for filings outside Australia for fiscal 2000; and
- PricewaterhouseCoopers of 333 Collins Street, Melbourne performed this role for fiscal 1998 and fiscal 1999.

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 Dealership Agreement;

(f) the most recent accounts and consolidated accounts of the Issuer beginning with the accounts for the years ended 30 June 1999 and 30 June 2000 together with any unaudited interim accounts and consolidated accounts of the Issuer beginning with the 31 December 1999 accounts and consolidated accounts; and

(g) any Pricing Supplement relating to Instruments which are admitted to listing, trading and/ or quotation by any listing authority, stock exchange and/or quotation system. (In the case of any Instruments which are not admitted to listing, trading and/or quotation by any listing authority, stock exchange and/quotation system, copies of the relevant Pricing Supplement will only be available for inspection by an Instrumentholder (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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