Report by Directors

This Report by Directors is required under Australian Corporations Law.

The Directors of Telstra Corporation Limited (Telstra Entity), the Chief entity of the economic entity (Telstra or Telstra Group) constituted by the Telstra Entity and its controlled entities, present the following report made out in accordance with a resolution of the Directors for the year ended 30 June 1998.

Principal activity

Telstra's principal activity during the financial year was to provide telecommunications services for domestic and international customers.

Results of operations

Telstra's consolidated net profit for the year was A$3,004 million (1997: A$1,617 million). That amount is after:

- deducting income tax expenses of A$1,468 million (1997: A$464 million); and
- allowing for after tax losses attributable to outside equity interests in controlled entities of A$4 million (1997: A$8 million).

Dividends

Final dividend declared

The Directors have declared a fully franked (at 36 per cent) Class C final dividend of seven cents per share or instalment receipt totalling A$901 million to shareholders and instalment receipt holders. The dividend will be paid to shareholders and instalment receipt holders out of profits for the year ended 30 June 1998 on 30 October 1998.

Interim dividend declared and paid

For the year ended 30 June 1998, the Telstra Entity paid (on 31 March 1998) a fully franked (at 36 per cent) Class C interim dividend of seven cents per share or instalment receipt totalling A$901 million to shareholders and instalment receipt holders. It was paid out of that year's profits as declared by the Directors in the Directors' Report dated 18 February 1998 (for the half year ended 31 December 1997).

Last year end final dividend paid

For the year ended 30 June 1997, the Telstra Entity paid (on 31 October 1997) a final fully franked (at 36 per cent) Class C dividend of A$521 million to the Commonwealth as sole shareholder. That dividend was paid out of that year's profits as recommended by the Directors in the Directors' Report dated 29 August 1997 (for the year ended 30 June 1997).

Franking Credits

The balance of the Telstra Entity's Class C Franking Account at 30 June 1998 was A$315 million. As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year.

It is expected that for the 1998/99 financial year the Telstra Entity will be able to fully frank declared ordinary dividends. It is unlikely that, under current legislation, the Telstra Entity will be able to fully frank declared ordinary dividends out of 1999/2000 earnings.

On 13 May 1997, the Commonwealth Treasurer announced changes to income tax laws dealing with franking dividends. If they are enacted the franking credits of the Telstra Entity of 13 May 1997 will be cancelled and the equivalent amount of exempting credits will be created. Exempting credits will be equivalent to franking credits and do not affect the expectations in relation to ordinary dividends out of 1999/2000 earnings.

Arrangements have been put in place between the Commonwealth and the Telstra Entity in relation to the use of exempting credits in lieu of equivalent franking credits.

Review of Operations

For the year to 30 June 1998, Telstra's operating revenue increased by 8.3 per cent. Revenue from traditional products remained relatively flat while the principal growth was experienced in the following non- traditional areas:

- the strong growth in data and text services and mobiles telecommunications services;
- increased traffic in fixed to mobiles revenue;
- continued expansion in data and text services; and
- the consolidation of the 75 per cent owned Pacific Access for the first full year.

Intercarrier services revenue grew during the year, reflecting increased sales to other Carriers. However, revenue from fixed-to-fixed national long distance calls and international telephone services was lower due to continued competitive pressure.

Overall, Telstra's operating expenses (before interest expense and abnormals) increased by 4.7 per cent for the year but fell as a percentage of revenue.

Labour costs were reduced by 7.8 per cent as the impact of staff reductions announced in the prior year began to take effect. The Enterprise Agreement was not finalised during 1997/98 delaying both the wage adjustment for staff and the flexibility benefits for the Company. An additional provision for redundancy was also made for approximately 2,000 staff by the year 2001 in line with the revised three year plan.

Report by Directors

Direct cost of sales increased by 27 per cent mainly due to:

- increased transit traffic and payments to other Carriers for traffic terminating on their networks; and
- increased terminal subsidies and dealer bonuses as customers move to the digital mobiles network in anticipation of the closure of analogue before Year 2000.

Depreciation remained relatively flat as a combination of lower current year capital expenditure, annual service life reviews of existing assets and the flow on effects from increased capitalisation due to accounting policy changes adopted in 1996/97.

Other operating expenses increased by 10.2 per cent to A$3.6 billion due mainly to:

- increased costs of information technology and contract payments as a result of outsourcing;
- consolidation of Pacific Access for the first time;
- increase in promotion and advertising due to the new competitive environment mainly targeted at mobiles, long distance, Internet and special promotion for the new Calling Number Display product.

Borrowing costs rose during the current year as a result of the increased borrowings of approximately A$3 billion that occurred at the end of the prior year.

Income tax attributable to operating profit increased by A$1,004 million from A$464 million in the year to 30 June 1997 to A$1,468 million. This increase is primarily because of abnormal items that were recorded in the year ended 30 June 1997.

Telstra's capital expenditure amounted to A$3,973 million (1997: A$4,504 million) in the year ended 30 June 1998. The majority of this amount was spent on network modernisation and expansion.

Significant changes in the state of affairs

During the financial year, Telstra experienced the following significant changes in the state of its affairs:

- The Commonwealth of Australia (the Commonwealth) sold 33.33 per cent of its Shares in Telstra. Trading in these Shares (in the form of Instalment Receipts) began on 17 November 1997. The Commonwealth's sale involved a global offering of 4,283.9 million Telstra Shares.
- At the time of the partial sale of Telstra, approximately 137.6 million Shares (Instalment Receipts) were sold to approximately 55,748 Telstra employees. These employees chose to participate in the Telstra Employee Share Ownership Plan. The Plan was made available to all eligible employees at 20 September 1997. It involved Telstra providing interest free loans of approximately A$213 million to assist employees to pay for the first instalment. Of the 137.6 million Shares sold to employees, approximately 28.2 million were provided under the offer of one free extra Share for four Shares purchased.

Year 2000 date change disclosure

Potential Effect on Networks, Systems and Computer Chip Dependent Equipment

In common with businesses around the world, Telstra is investigating to what extent the date change from 1999 to 2000 may affect its networks, systems and computer chip dependent equipment. The objective of Telstra's Year 2000 Programme is to enable Telstra to manage its business operations with minimal risk and financial impact before, during and after the transition from the year 1999 to the year 2000. Telstra's Year 2000 Programme aims to ensure that Telstra's key networks and systems are Year 2000 compliant in accordance with Telstra's criteria by 31 December 1998, with lesser priority areas compliant by the end of 1999. In reviewing its systems, Telstra is placing priority on those systems which could have significant financial and legal effects on Telstra if they were to fail. Telstra has also incorporated Year 2000 considerations into its system development and maintenance plans. Telstra expects to spend up to A$500 million on its Year 2000 Programme by 30 June 2000.

While Telstra is making every effort to mitigate its risks, there can be no absolute assurance that Telstra's Year 2000 Programme will be completely successful, or that the date change from 1999 to 2000 will not materially affect its operations and financial results. Telstra's operations may also be affected by the ability of third parties, dealing with Telstra, to manage their Year 2000 date change requirements.

Events after the balance date

The Directors are not aware of any matter or circumstance that has arisen since the end of the year other than the matter noted below that (in their opinion) has significantly affected, or may significantly affect:

- Telstra's operations in later financial periods;
- the results of those operations; or
- the state of Telstra's affairs.

The Telstra Entity's past contributions to the Commonwealth Superannuation Scheme (CSS) has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the Telstra Superannuation Scheme (TSS) will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

Report by Directors

On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of A$121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the three year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above mentioned discussions and a consequential response from the Minister for Finance and Administration.

Likely Developments

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

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

Information on Directors

Telstra's Directors at the date of this report are listed on pages 59 to 61 and page 68 with:

- details of their qualifications and experience;
- their special responsibilities; and
- details of the Shares held by each of them.

Those details were required to be notified to the Australian Stock Exchange.

Directors' Benefits

The details of any benefit that a Director has received (or is entitled to receive) that might have to be reported under Section 309 of the Corporations Law are as follows (for further details refer to Notes 25 and 29 of the Financial Statements):

(a) Each Director (and any firms of which they are members and any entities in which they have a substantial financial interest) receives telecommunications services from Telstra. Some also enter into other minor transactions with Telstra; those transactions are on normal commercial terms and conditions.

(b) A. J. Clark is a partner in the accounting firm KPMG which provided professional services to Telstra during the period on normal commercial terms and conditions.

(c) A number of entities that are "Director related entities" of S. W. Vizard are involved in joint ventures with an associate entity of Telstra to provide pay television programming. Each party to the joint ventures has contributed capital in proportion to its equity interests. In accordance with the joint venture arrangements, the joint ventures have paid programming, licence and cable distribution fees to the Director related entities. All of the relevant transactions are on normal commercial terms and conditions. Those arrangements were established before S. W. Vizard became a Director of Telstra. The relevant companies are:

- Artist Services Pty Ltd;
- Artist Services Cable Pty Ltd; and
- Artist Cable Management Pty Ltd.

Also, during the year ended 30 June 1998, one of Telstra's controlled entities has provided funding (on normal commercial terms and conditions) to a Director related entity of S. W. Vizard. That entity is called Artsim. The funding is for Artsim to develop an Internet online service providing management and information services. This arrangement arose out of negotiations that began before S. W. Vizard became a Director of Telstra.

Telstra has entered into arrangements to indemnify (to the extent permitted by law) each Director in relation to all conduct arising in accordance with the Directors' duties. Those arrangements are contained in a Deed of Access, Indemnity and Insurance dated 27 November 1997 in favour of each Director.

Indemnification and insurance of officers

Articles of Association

Telstra's Articles of Association indemnify (to the extent permitted by law) each officer for any liability:

- incurred as an officer - as long as the liability does not arise out of conduct involving a lack of good faith; and
- for costs and expenses incurred in successfully defending civil or criminal proceedings in his or her capacity as an officer.

An "officer" is any person who is, or has been, a Director, Secretary or Executive Officer of any of:

- the Telstra Entity;
- a wholly owned subsidiary of Telstra; or
- a related body corporate of Telstra while also a Director or an employee of Telstra or a wholly owned subsidiary of Telstra.

The names of the Telstra Directors who are covered by this indemnity are listed on page 59. The name of the Secretary covered by this indemnity, and by the Deed of Indemnity referred to below, is Michael Montalto.

Report by Directors

Telstra's Articles of Association also indemnify any Telstra employee or officer who, at Telstra's request, is a Director of an entity that is not a related body corporate of Telstra. That indemnity applies:

- to any liability incurred by that person in his or her capacity as a Director of that entity; and
- only if that person complies with Telstra's policy on the appointment, conduct and indemnification of nominee Directors.

Telstra's Articles of Association also allow it to indemnify any person as Director, Secretary or executive officer of a related body corporate (that is not a wholly owned subsidiary of Telstra) even though he or she is not an employee or a Director of Telstra or of one of its wholly owned subsidiaries. However, as a matter of policy, Telstra will only do so if that Director, Secretary or Executive Officer acts as Telstra's nominee.

As a shareholder in related bodies corporate, Telstra is a party to the Articles of Association of those bodies corporate. The Articles of Association of those bodies corporate indemnify:

- officers of the related bodies corporate against all liability - other than liability to the Telstra Group, or liability arising from conduct involving a lack of good faith; and
- officers and auditors against liability for costs and expenses incurred in successfully defending civil or criminal proceedings in that capacity.

Indemnity Agreements

Since 1 July 1997, Telstra made the following arrangements indemnifying officers against liability:

- A Deed of Indemnity dated 3 July 1998 indemnifying each of its officers (but not Directors). That Deed is consistent with the indemnities provided under the Articles of Association. It replaces an earlier Deed of General Indemnity dated 17 October 1996.
- A Deed of Access, Indemnity and Insurance dated 27 November 1997 indemnifying each Director. The Deed provides an indemnity (to the extent permitted by law) for liabilities from conduct arising in connection with a Director's duties.
- A Deed of Indemnity dated 9 August 1997 indemnifying Telstra's (and its wholly owned subsidiaries') employees (but not Directors) and certain contractors. The indemnity applies to all their liability (other than limited exceptions) that arises in their capacity as employees or contractors in connection with the partial sale of Telstra.

Also, the trust deed of each superannuation scheme that Telstra has entered into indemnifies the Directors of the related body corporate that acts as trustee of the scheme. The indemnity applies to any liability (to the extent permitted by law) arising out of their being Directors. The cost of the indemnity is paid out of the scheme fund.

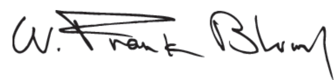
Insurance premiums and contracts

Since 1 July 1997, Telstra has (to the extent permitted by law) paid, or agreed to pay, a premium for a contract insuring any person who is or was a Director, Secretary or Executive Officer of Telstra or of its controlled entities for certain liabilities. The names of the Telstra Entity's Directors and Secretary insured under the contract are the persons named in relation to the indemnity agreement disclosed above. The contract prohibits disclosure of the premium and the nature of the liabilities insured.

Rounding off of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities & Investments Commission Class Order (97/1005) dated 9 July 1997 issued pursuant to Section 313(6) of the Corporations Law, and, in accordance with that Class Order, amounts in the financial statements and this report have been rounded off to the nearest million dollars unless specifically stated to be otherwise.

For and on behalf of the Board



David M. Hoare
Director
Date: 26 August 1998

W. Frank Blount
Director

Report by Directors

Attendance At Board and Board Committee Meetings During Financial Year Ended 30 June 1998

	Board		Committees					
			Finance		Audit and Compliance		Appointments and Compensation	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
D.M. Hoare	18	16	8	8	6	6	4	4
J.T. Ralph	18	18	8	7	6	5	4	4
W.F. Blount	18	18	8	8	6	6	4	4
N.R. Adler	18	15	-	-	6	6	-	-
A.J. Clark	18	17	8	7	-	-	-	-
M.H. Codd	18	16	-	-	6	6	-	-
M.G. Irving (c)	18	17	-	-	6	4	-	-
E.A. Nosworthy	18	18	8	7	-	-	-	-
C.I. Roberts	18	15	8	8	-	-	-	-
J.W. Stocker	18	14	-	-	6	6	-	-
S.W. Vizard	18	15	8	4	-	-	-	-

(a) Number of meetings held while a member.
(b) Number of meetings attended.
(c) M.G. Irving's appointment commenced on 10 July 1997.

Particulars Of Shares Held by Directors in the Telstra Entity As At 26 August 1998

	Direct Interest	Indirect interest	Total (a)
D.M. Hoare	11,720	16,000	27,720
J.T. Ralph	600	40,000	40,600
W.F. Blount (b)	12,700	-	12,700
N.R. Adler	8,000	42,000	50,000
A.J. Clark	8,000	40,000	48,000
M.H. Codd	8,000	-	8,000
M.G. Irving	8,000	8,000	16,000
E.A. Nosworthy	5,600	11,000	16,600
C.I. Roberts	16,000	30,360	46,360
J.W. Stocker	400	32,080	32,480
S.W. Vizard	-	16,000	16,000

(a) Instalment Receipts evidence full beneficial ownership of an ordinary Share. Refer Corporate Governance Statement or Note 29 of the Financial Statements for the policy relating to share dealings.

(b) Includes 2,000 Shares acquired with an interest free loan plus 500 free Shares under the terms of the Telstra Employee Share Ownership Plan. In addition, W. Frank Blount is entitled to 200 loyalty Shares obtained under the 1 for 10 loyalty offer available to all employees who participated in the public offer.