# Telstra Corporation Limited and controlled entities

Australian Company Number (ACN): 051 775 556
Australian Business Number (ABN): 33 051 775 556

## Financial Report

as at 30 June 2000

Page Number

### Financial Statements



### Notes to the Financial Statements



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

# Profit and Loss Statement

for the year ended 30 June 2000

| | | Telstra Group | | | | Telstra Entity | |
|---|---|---|---|---|---|---|---|
| | | Year ended 30 June | | | | Year ended 30 June | |
| | Note | 2000 $m | 2000 US$m | 1999 $m | 1998 $m | 2000 $m | 1999 $m |
| **Operating revenue** | | | | | | | |
| Sales revenue | 2 | **18,609** | **11,111** | 17,571 | 16,703 | **17,982** | 17,094 |
| Other revenue | 2 | **1,231** | **735** | 647 | 599 | **1,419** | 777 |
| | | **19,840** | **11,846** | 18,218 | 17,302 | **19,401** | 17,871 |
| **Operating expenses** | | | | | | | |
| Labour | | **3,228** | **1,927** | 3,270 | 3,665 | **2,975** | 3,037 |
| Direct cost of sales | | **3,329** | **1,988** | 3,002 | 2,582 | **2,857** | 2,671 |
| Depreciation and amortisation | 3(a) | **2,646** | **1,580** | 2,502 | 2,322 | **2,497** | 2,379 |
| Other operating expenses | 3(a) | **4,086** | **2,440** | 3,546 | 3,631 | **4,507** | 3,681 |
| Borrowing costs | 3(a) | **630** | **376** | 578 | 634 | **625** | 550 |
| | | **13,919** | **8,311** | 12,898 | 12,834 | **13,461** | 12,318 |
| Operating profit before abnormals and income tax expense | 3(a) | **5,921** | **3,535** | 5,320 | 4,468 | **5,940** | 5,553 |
| Abnormals | 3(c) | **(572)** | **(342)** | - | - | **(572)** | - |
| **Operating profit before income tax expense** | | **5,349** | **3,193** | 5,320 | 4,468 | **5,368** | 5,553 |
| Income tax expense on operating profit | 4 | **1,848** | **1,103** | 1,832 | 1,468 | **1,920** | 1,967 |
| Effect of decrease in tax rates on deferred tax balances | 4(i) | **(172)** | **(103)** | - | - | **(195)** | - |
| Income tax expense | 4 | **1,676** | **1,000** | 1,832 | 1,468 | **1,725** | 1,967 |
| **Operating profit after income tax expense** | | **3,673** | **2,193** | 3,488 | 3,000 | **3,643** | 3,586 |
| Outside equity interests in operating (profit)/ loss after income tax expense | | **4** | **2** | (2) | 4 | **-** | - |
| **Operating profit after income tax expense available to Telstra Entity shareholders** | | **3,677** | **2,195** | 3,486 | 3,004 | **3,643** | 3,586 |
| Retained profits at the beginning of the financial year available to Telstra Entity shareholders | | **3,809** | **2,274** | 4,570 | 3,368 | **3,559** | 4,220 |
| **Total available for distribution to Telstra Entity shareholders** | | **7,486** | **4,469** | 8,056 | 6,372 | **7,202** | 7,806 |
| Dividends provided for or paid | 7 | **2,316** | **1,383** | 4,247 | 1,802 | **2,316** | 4,247 |
| **Retained profits at the end of the financial year available to Telstra Entity shareholders** | | **5,170** | **3,086** | 3,809 | 4,570 | **4,886** | 3,559 |
| | | **¢** | **US ¢** | ¢ | ¢ | | |
| **Basic earnings per share (cents)** | 6 | | | | | | |
| Before abnormals | | **31.4** | **19.0** | 27.1 | 23.3 | | |
| After abnormals | | **28.6** | **17.0** | 27.1 | 23.3 | | |
| **Dividends per share (cents)** | 7 | | | | | | |
| Interim dividend | | **8.0** | **4.8** | 7.0 | 7.0 | | |
| Final dividend | | | | | | | |
| - ordinary dividend | | **10.0** | **6.0** | 10.0 | 7.0 | | |
| - special dividend | | **-** | **-** | 16.0 | - | | |
| Total final dividend | | **10.0** | **6.0** | 26.0 | 7.0 | | |
| Total dividend | | **18.0** | **10.8** | 33.0 | 14.0 | | |

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

# Balance Sheet

as at 30 June 2000

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 2000 US$m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|---|
| **Current assets** | | | | | | |
| Cash | 8 | **751** | **448** | 979 | **644** | 882 |
| Receivables | 9 | **3,587** | **2,142** | 3,245 | **3,952** | 3,522 |
| Inventories | 10 | **295** | **176** | 204 | **162** | 201 |
| Other assets | 14 | **256** | **153** | 125 | **246** | 119 |
| Total current assets | | **4,889** | **2,919** | 4,553 | **5,004** | 4,724 |
| **Non current assets** | | | | | | |
| Receivables | 9 | **258** | **154** | 293 | **483** | 401 |
| Inventories | 10 | **15** | **9** | 16 | **15** | 16 |
| Investments | 11 | **885** | **528** | 266 | **1,268** | 465 |
| Property, plant and equipment | 12 | **22,316** | **13,324** | 20,881 | **21,831** | 20,409 |
| Future income tax benefit | 4 | **111** | **66** | 366 | **-** | - |
| Intangible assets | 13 | **536** | **320** | 452 | **415** | 423 |
| Other assets | 14 | **1,329** | **794** | 855 | **1,290** | 852 |
| Total non current assets | | **25,450** | **15,195** | 23,129 | **25,302** | 22,566 |
| **Total assets** | | **30,339** | **18,114** | 27,682 | **30,306** | 27,290 |
| **Current liabilities** | | | | | | |
| Accounts payable | 15 | **2,528** | **1,509** | 2,507 | **2,380** | 2,369 |
| Borrowings | 16 | **3,316** | **1,980** | 2,265 | **3,942** | 2,526 |
| Provisions | 17 | **2,842** | **1,697** | 4,727 | **2,678** | 4,532 |
| Revenue received in advance | | **735** | **439** | 654 | **720** | 643 |
| Total current liabilities | | **9,421** | **5,625** | 10,153 | **9,720** | 10,070 |
| **Non current liabilities** | | | | | | |
| Accounts payable | 15 | **728** | **435** | 745 | **698** | 710 |
| Borrowings | 16 | **6,505** | **3,884** | 4,946 | **6,470** | 4,952 |
| Provisions | 17 | **1,346** | **804** | 1,089 | **1,097** | 810 |
| Deferred income tax | | **737** | **440** | 455 | **725** | 454 |
| Total non current liabilities | | **9,316** | **5,563** | 7,235 | **8,990** | 6,926 |
| **Total liabilities** | | **18,737** | **11,188** | 17,388 | **18,710** | 16,996 |
| **Net assets** | | **11,602** | **6,926** | 10,294 | **11,596** | 10,294 |
| **Shareholders' equity** | | | | | | |
| **Telstra Entity** | | | | | | |
| Share capital | 18 | **6,433** | **3,841** | 6,433 | **6,433** | 6,433 |
| Reserves | | **(8)** | **(5)** | 14 | **277** | 302 |
| Retained profits | | **5,170** | **3,086** | 3,809 | **4,886** | 3,559 |
| Shareholders' equity available to Telstra Entity shareholders | | **11,595** | **6,922** | 10,256 | **11,596** | 10,294 |
| **Outside equity interests** | | | | | | |
| Share capital | | **24** | **14** | 64 | **-** | - |
| Reserves | | **(2)** | **(1)** | (3) | **-** | - |
| Retained losses | | **(15)** | **(9)** | (23) | **-** | - |
| Total outside equity interests | | **7** | **4** | 38 | **-** | - |
| **Total shareholders' equity** | | **11,602** | **6,926** | 10,294 | **11,596** | 10,294 |

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

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

# Statement of Cash Flows

for the year ended 30 June 2000

| | Telstra Group | | | | Telstra Entity | |
|---|---|---|---|---|---|---|
| | Year ended 30 June | | | | Year ended 30 June | |
| | 2000 $m | 2000 US$m | 1999 $m | 1998 $m | 2000 $m | 1999 $m |
| **Cash flows from operating activities** | | | | | | |
| Receipts from trade and other debtors | **18,533** | **11,065** | 17,603 | 16,709 | **18,759** | 16,986 |
| Payments of accounts payable and to employees | **(10,493)** | **(6,266)** | (9,628) | (9,807) | **(10,596)** | (9,098) |
| Interest received | **60** | **36** | 50 | 48 | **86** | 49 |
| Borrowing costs paid | **(622)** | **(371)** | (558) | (575) | **(638)** | (552) |
| Dividends received | **16** | **10** | 23 | 29 | **75** | 135 |
| Income taxes paid | **(947)** | **(565)** | (916) | (769) | **(892)** | (885) |
| **Net cash provided by operating activities (a)** | **6,547** | **3,909** | 6,574 | 5,635 | **6,794** | 6,635 |
| **Cash flows from investing activities** | | | | | | |
| Payments for: | | | | | | |
| - property, plant and equipment | **(4,006)** | **(2,392)** | (3,707) | (3,286) | **(3,904)** | (3,618) |
| - internal use software assets | **(577)** | **(345)** | (502) | (227) | **(571)** | (500) |
| - patents, trademarks and licences | **(101)** | **(60)** | (58) | (228) | **(98)** | (58) |
| - deferred expenditure | **(21)** | **(13)** | (7) | - | **(6)** | (7) |
| Capital expenditure (before investments) | **(4,705)** | **(2,810)** | (4,274) | (3,741) | **(4,579)** | (4,183) |
| - shares in listed corporations | **(227)** | **(136)** | (84) | - | **-** | (84) |
| - shares in other corporations | **(36)** | **(21)** | (4) | - | **(1)** | - |
| - shares in controlled entities | **(163)** | **(97)** | - | - | **(916)** | (251) |
| - satellite consortia investments | **(4)** | **(2)** | (2) | (24) | **(4)** | (2) |
| - investment in joint venture entities | **(37)** | **(22)** | (22) | (125) | **(1)** | (2) |
| - investment in associated entities | **(131)** | **(78)** | - | - | **(10)** | - |
| Investment expenditure | **(598)** | **(356)** | (112) | (149) | **(932)** | (339) |
| Total capital expenditure | **(5,303)** | **(3,166)** | (4,386) | (3,890) | **(5,511)** | (4,522) |
| Proceeds from: | | | | | | |
| - sale of property, plant and equipment | **243** | **145** | 246 | 255 | **240** | 253 |
| - sale of business | **-** | **-** | 50 | - | **139** | 50 |
| - sale of patents, trademarks and licences | **-** | **-** | - | 11 | **-** | - |
| - sale of listed securities and shares in other corporations | **129** | **77** | 14 | - | **129** | 1 |
| - sale of shares in controlled entities | **27** | **16** | 1 | - | **-** | 4 |
| - satellite consortia investments | **1** | **1** | 11 | 7 | **1** | 11 |
| - deferred expenditure | **-** | **-** | - | 8 | **-** | - |
| - sale of joint venture operation | **7** | **4** | - | - | **7** | - |
| **Net cash used in investing activities** | **(4,896)** | **(2,923)** | (4,064) | (3,609) | **(4,995)** | (4,203) |
| **Cash flows from financing activities** | | | | | | |
| Proceeds from: | | | | | | |
| - borrowings | **15,396** | **9,192** | 8,884 | 8,708 | **15,452** | 8,831 |
| - Telstra bonds | **495** | **296** | - | - | **495** | - |
| Repayment of: | | | - | - | **-** | - |
| - Telecom/Telstra bonds | **(81)** | **(48)** | (359) | (192) | **(81)** | (359) |
| - borrowings | **(13,290)** | **(7,936)** | (9,038) | (8,834) | **(13,503)** | (8,995) |
| - finance leases principal amount | **(26)** | **(16)** | (169) | (68) | **(25)** | (97) |
| Dividends paid | **(4,375)** | **(2,612)** | (1,802) | (1,422) | **(4,375)** | (1,802) |
| **Net cash used in financing activities** | **(1,881)** | **(1,124)** | (2,484) | (1,808) | **(2,037)** | (2,422) |
| **Net increase/(decrease) in cash** | **(230)** | **(138)** | 26 | 218 | **(238)** | 10 |
| **Cash at the beginning of the year** | **974** | **582** | 948 | 730 | **882** | 872 |
| **Cash at the end of the year (b)** | **744** | **444** | 974 | 948 | **644** | 882 |

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

# Statement of Cash Flows (continued)

for the year ended 30 June 2000

| | Note | Telstra Group Year ended 30 June 2000 $m | 2000 US$m | 1999 $m | 1998 $m | Telstra Entity Year ended 30 June 2000 $m | 1999 $m |
|---|---|---|---|---|---|---|---|
| **Cash flow notes** | | | | | | | |
| **(a) Reconciliation of operating profit after income tax expense to net cash inflows provided by operating activities** | | | | | | | |
| Operating profit after income tax expense | | **3,673** | **2,193** | 3,488 | 3,000 | **3,643** | 3,586 |
| **Add/(subtract) transactions that do not involve cash** | | | | | | | |
| Depreciation and amortisation | 3(a) | **2,646** | **1,581** | 2,502 | 2,322 | **2,497** | 2,379 |
| Deferred mobile phone handset subsidies | | **(174)** | **(104)** | - | - | **(174)** | - |
| Dividends received from associated entities | 24 | **4** | **2** | 9 | 8 | **-** | - |
| Reduction in value of property, plant and equipment | 3(a) | **-** | **-** | 2 | 16 | **-** | 2 |
| (Profit)/loss on sale of controlled entities | | **(97)** | **(58)** | 1 | - | **(24)** | - |
| (Profit) on sale of associated entities | | **(25)** | **(15)** | - | - | **-** | - |
| (Profit) on sale of listed securities and other corporations | | **(133)** | **(79)** | (11) | - | **(140)** | (1) |
| (Profit) on sale of business | | **(58)** | **(35)** | (33) | - | **(87)** | (33) |
| Deferred expenditure adjustments due to interest rate swaps | | **-** | **-** | - | - | **-** | - |
| Net (profit)/loss on sale of property, plant and equipment | 3(a) | **(26)** | **(16)** | 13 | 58 | **(18)** | 1 |
| Profit on sale of patents, trademarks and licences | 3(a) | **-** | **-** | - | (11) | **-** | - |
| Increase in net taxes payable | | **729** | **436** | 915 | 740 | **463** | 912 |
| Stocktake adjustment to property, plant and equipment | | **-** | **-** | 4 | 7 | **-** | 4 |
| Borrowing costs included in the cost of constructed assets | 3(a) | **(125)** | **(75)** | (92) | (83) | **(125)** | (91) |
| Share of joint venture entities' net losses | 3(a) | **51** | **30** | 39 | 83 | **-** | - |
| Share of associated entities' net losses/(profits) | 2,24 | **7** | **4** | 2 | (14) | **-** | - |
| Loss of value from investment in partnership | | **-** | **-** | 8 | - | **-** | - |
| Provision for reduction in value of investments | 3(a) | **39** | **23** | (1) | 34 | **287** | 255 |
| Net foreign currency conversion differences | | **(20)** | **(12)** | - | (9) | **(15)** | - |
| **Movements in operating activity assets and liabilities** | | | | | | | |
| (Increase)/decrease in trade debtors and other debtors | | **(253)** | **(151)** | 30 | 183 | **(255)** | (199) |
| (Increase)/decrease in inventories | | **(90)** | **(54)** | 40 | 3 | **(20)** | 38 |
| Decrease in prepayments | | **13** | **8** | 11 | 3 | **17** | 10 |
| Increase/(decrease) in accounts payable and other creditors | | **151** | **90** | 141 | (265) | **453** | 276 |
| Increase/(decrease) in provisions | | **232** | **139** | (486) | (447) | **292** | (504) |
| Movement in foreign currency conversion reserve | | **3** | **2** | (8) | 7 | **-** | - |
| **Net cash inflows from operating activities** | | **6,547** | **3,909** | 6,574 | 5,635 | **6,794** | 6,635 |
| **(b) Reconciliation of cash** | | | | | | | |
| Cash at the end of the year as shown in the statement of cash flows agrees to the net amount of the following items in the notes to the financial statements: | | | | | | | |
| Cash | 8 | **751** | **448** | 979 | 953 | **644** | 882 |
| Bank overdraft | 16 | **(7)** | **(4)** | (5) | (5) | **-** | - |
| | | **744** | **444** | 974 | 948 | **644** | 882 |

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

# Statement of Cash Flows (continued)

for the year ended 30 June 2000

## Cash flow notes (continued)

### (c) Financing and investing activities that do not involve cash

**Property, plant and equipment**

Our property, plant and equipment includes borrowing costs of $102 million (1999: $81 million; 1998: $78 million) which have been included in the cost of constructed assets.

We acquired plant and equipment with a fair value of $23 million using finance leases during fiscal 2000 (1999: $Nil; 1998: $Nil). As these acquisitions did not involve cash, they are not reported in the statement of cash flows. Our finance lease liability also includes $9 million (1999: $9 million; 1998: $1 million) relating to non cash, foreign currency revaluations.

**Sale and leaseback transactions**

In June 2000 we entered into a sale and leaseback of certain communication plant totalling $463 million. In June 1999 we entered into a similar transaction for $517 million. As the two sale and leasebacks entered into are finance leases, the gains on sale (which were not significant) were deferred and no sales revenue was recognised. Under the terms of the agreements, we prepaid all amounts due under the leases by offsetting them against the sale proceeds. As no cash flows resulted from these transactions they are not reported in the statement of cash flows.

**Software assets (Internal use software assets)**

Our software assets include borrowing costs of $23 million (1999: $11 million; 1998: $5 million) which have been included in the cost of constructed assets.

**Share buy-back - fiscal 1998**

On 25 July 1997, the Commonwealth of Australia (Commonwealth) accepted a share buy-back offer from the Telstra Entity for the 2,000 million partly paid shares in the Telstra Entity held by the Commonwealth as at that date. The $1,500 million proceeds from this buy-back were used by the Commonwealth to buy 1,500 million ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash, they were not recorded in the statement of cash flows.

### (d) Financing facilities

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

### (e) Purchases and disposals of businesses

In fiscal 2000 we were involved in the following significant transactions that did not involve cash:

- on 6 April 2000 we sold Telstra New Zealand and its wholly owned controlled entity Netlink Limited in exchange for a 50% interest in Telstra Saturn Limited. We received shares valued at A$195 million.
- on 17 May 2000 we sold our 60% interest in our controlled entity Lawpoint Pty Ltd for $26 million in exchange for shares in Solution 6 Holdings Limited; and
- on 15 May 2000 we sold our global satellite business with tangible assets of $75 million (including our investment in INMARSAT HOLDINGS PLC), to Station 12 B.V., a joint venture entity, in exchange for shares in Station 12 B.V. valued at $170 million (a 35% interest). Cash was not received for this sale and no cash was used to pay for the shares in Station 12 B.V.

## Statement of Cash Flows (continued)

for the year ended 30 June 2000

### (e) Purchases and disposals of businesses (continued)

The amount of cash, other assets and liabilities of Telstra New Zealand and Netlink Limited (as a consolidated group), Modi Telstra Limited, Lawpoint Pty Ltd and the sale of assets to Station 12 B.V. by Telstra are presented in the table below:

| | Disposals of controlled entities and business |
|---|---|
| | Year ended 30 June |
| | 2000 |
| | A$m |
| **Proceeds on disposal** | |
| Cash (a) (b) | 27 |
| Issue of shares | 391 |
| | 418 |
| **Carrying amounts of assets and liabilities disposed of by major class** | |
| Cash net of bank overdrafts held by the entities on disposal (a) | 27 |
| Receivables | 81 |
| Investments | 23 |
| Property, plant and equipment | 93 |
| Intangible assets | 20 |
| Other assets | 3 |
| Accounts payable | (50) |
| Borrowings | (12) |
| Provisions | (4) |
| Net assets disposed | 181 |
| (a) Net inflow of cash on disposals | - |

(b) Cash proceeds of $27 million were received from the sale of our 49% interest in Modi Telstra Limited on 31 May 2000.

There were no significant purchases of businesses during fiscal 2000. There were no significant purchases or disposals of businesses during fiscal 1999 or 1998.

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

# Statement of Changes in Shareholders' Equity

for the year ended 30 June 2000

**Telstra Group**

| | Share capital (i) $m | Reserves (a) Asset revaluation $m | Foreign currency conversion (ii) $m | General (ii) $m | Retained profits $m | Outside equity interests $m | Total $m |
|---|---|---|---|---|---|---|---|
| **Balance at 30 June 1997** . . . . . . . . . . . . . . . . . | 6,433 | 81 | 4 | - | 3,368 | 52 | 9,938 |
| - change in outside equity interests capital, reserves and retained profits (apart from operating loss after income tax benefit) . . . . . . . . . . . . . . . . . . . . | - | - | - | - | - | (2) | (2) |
| - operating profit/(loss) after income tax expense/ benefit . . . . . . . . . . . . . . . . . . . . . . . . . . | - | - | - | - | 3,004 | (4) | 3,000 |
| - reduction in value of property, plant and equipment | - | (16) | - | - | - | - | (16) |
| - share of associated entity's reserves (equity accounted) . . . . . . . . . . . . . . . . . . . . . . . . | - | - | (47) | 1 | - | - | (46) |
| - adjustment on conversion of non-Australian controlled entities financial statements . . . . . . . | - | - | 7 | - | - | - | 7 |
| - dividends (Note 7) . . . . . . . . . . . . . . . . . . . . | - | - | - | - | (1,802) | - | (1,802) |
| **Balance at 30 June 1998** . . . . . . . . . . . . . . . . . | 6,433 | 65 | (36) | 1 | 4,570 | 46 | 11,079 |
| - change in outside equity interests capital, reserves and retained profits (apart from operating profit after income tax benefit) . . . . . . . . . . . . . . . . . . . . | - | - | - | - | - | (10) | (10) |
| - operating profit after income tax expense/benefit | - | - | - | - | 3,486 | 2 | 3,488 |
| - reduction in value of property, plant and equipment | - | (8) | - | - | - | - | (8) |
| - adjustment on conversion of non-Australian controlled entities financial statements . . . . . . . | - | - | (8) | - | - | - | (8) |
| - dividends (Note 7) . . . . . . . . . . . . . . . . . . . . | - | - | - | - | (4,247) | - | (4,247) |
| **Balance at 30 June 1999** . . . . . . . . . . . . . . . . . | 6,433 | 57 | (44) | 1 | 3,809 | 38 | 10,294 |

(continued over page)

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

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

### Telstra Group

| | Share capital (i) $m | Reserves (a) Asset revaluation (ii) $m | Foreign currency conversion (iii) $m | General (iii) $m | Retained profits $m | Outside equity interests $m | Total $m |
|---|---|---|---|---|---|---|---|
| **Balance at 30 June 1999** | **6,433** | **57** | **(44)** | **1** | **3,809** | **38** | **10,294** |
| - change in outside equity interests capital, reserves and retained profits (apart from operating loss after income tax benefit) | - | - | - | - | - | (27) | (27) |
| - operating profit/(loss) after income tax expense/ benefit | - | - | - | - | 3,677 | (4) | 3,673 |
| - reduction in value of property, plant and equipment | - | (25) | - | - | - | - | (25) |
| - share of joint venture entities' reserves (equity accounted) | - | - | (9) | - | - | - | (9) |
| - adjustment on conversion of non-Australian controlled entities financial statements | - | - | 12 | - | - | - | 12 |
| - dividends (Note 7) | - | - | - | - | (2,316) | - | (2,316) |
| **Balance at 30 June 2000** | **6,433** | **32** | **(41)** | **1** | **5,170** | **7** | **11,602** |
| **Balance at 30 June 2000 US$m** | **3,841** | **19** | **(25)** | **1** | **3,086** | **4** | **6,926** |

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

(ii) From 1 July 2000, as allowed by AASB 1041, 'Revaluation of Non-Current Assets', we have deemed the carrying value of our property, plant and equipment assets at valuation (refer to note 12 for assets carried at valuation) to be cost. As a result, the asset revaluation reserve can no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the profit and loss statement (refer note 1.9).

(iii) The amounts of reserves and retained profits applicable to joint venture and associated entities are shown in note 24.

(a) Other comprehensive income is calculated by totalling movements in shareholders' equity that are not related to contributions from/ payments to owners or operating profit.

Other comprehensive income/(loss) was ($22) million in fiscal 2000, ($16) million in fiscal 1999 and ($55) million in fiscal 1998.

Total comprehensive income is calculated by adding operating profit and other movements in shareholders' equity that are not related to contributions from/payments to owners. This totalled $3,655 million for fiscal 2000 (fiscal 1999: $3,470 million; fiscal 1998: $2,949 million).

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

# Statement of Changes in Shareholders' Equity (continued)

for the year ended 30 June 2000

**Telstra Entity**

| | | Reserves (a) | | |
|---|---|---|---|---|
| | Share capital (i) $m | Asset revaluation (ii) $m | Retained profits $m | Total $m |
| Balance at 30 June 1997 | 6,433 | 326 | 3,179 | 9,938 |
| - operating profit after income tax benefit | - | - | 2,843 | 2,843 |
| - reduction in value of property, plant and equipment | - | (16) | - | (16) |
| - dividends (Note 7) | - | - | (1,802) | (1,802) |
| Balance at 30 June 1998 | 6,433 | 310 | 4,220 | 10,963 |
| - operating profit after income tax benefit | - | - | 3,586 | 3,586 |
| - reduction in value of property, plant and equipment | - | (8) | - | (8) |
| - dividends (Note 7) | - | - | (4,247) | (4,247) |
| Balance at 30 June 1999 | **6,433** | **302** | **3,559** | **10,294** |
| - operating profit after income tax benefit | **-** | **-** | **3,643** | **3,643** |
| - reduction in value of property, plant and equipment | **-** | **(25)** | **-** | **(25)** |
| - dividends (Note 7) | **-** | **-** | **(2,316)** | **(2,316)** |
| Balance at 30 June 2000 | **6,433** | **277** | **4,886** | **11,596** |

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

(ii) $245 million of the Telstra Entity's asset revaluation reserve cannot be used by the Telstra Entity to record decreases to previously revalued assets or to distribute to shareholders. The amount was used by the Telstra Group to record a reduction in the value of the broadband network in fiscal 1997.

From 1 July 2000, as allowed by AASB 1041, 'Revaluation of Non-Current Assets', we have deemed the carrying value of our property, plant and equipment assets at valuation (refer to note 12 for assets carried at valuation) to be cost. As a result, the asset revaluation reserve can no longer be used to record the writedowns of these assets assets to recoverable amount. Any writedowns of these assets to recoverable amount from 1 July 2000 must be made through the profit and loss statement (refer note 1.9).

(a) Other comprehensive income is calculated by totalling movements in shareholders' equity that are not related to contributions from/ payments to owners or operating profit.

Other comprehensive income/(loss) was ($25) million in fiscal 2000, ($8) million in fiscal 1999 and ($16) million in fiscal 1998.

Total comprehensive income is calculated by adding operating profit and other movements in shareholders' equity that are not related to contributions from/payments to owners. This totalled $3,618 million for fiscal 2000 (fiscal 1999: $3,577 million; fiscal 1998: $2,827 million).

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

# Notes to the Financial Statements

## 1. Summary of accounting policies

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

Our financial or fiscal year ends on 30 June. Unless we state differently, the following applies:
- year, fiscal year or financial year means the year ended 30 June;
- balance date means the date 30 June; and
- 2000 means fiscal 2000 and similarly for other fiscal years.

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

### 1.1 Basis of preparation of the financial report

This financial report is a general purpose financial report prepared in accordance with:
- Australian Corporations Law;
- Australian Accounting Standards;
- other authoritative pronouncements of the Australian Accounting Standards Board;
- Urgent Issues Group Consensus Views; and
- Australian generally accepted accounting principles.

We prepared this financial report using historical cost for all assets apart from some categories of investments and property, plant and equipment where we used current valuations. Cost is the fair value of the consideration given in exchange for assets.

We review the recorded amounts of non-current assets at least annually to ensure that they do not exceed their recoverable amounts. In assessing recoverable amounts, relevant cash flows are discounted to present value.

We have prepared this financial report using Australian dollars. For convenience of our international readers we show some information in United States dollars and this is clearly highlighted.

In preparing this financial report, we had to make estimates and assumptions that affect:
- the reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities; and
- revenues and expenses for the period.

Actual results could differ from those estimates.

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

### 1.2 Preparing the financial report of the Telstra Group

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

Where we do not control an entity for the whole year, results and cash flows for those entities are only included for that part of the year where control existed.

Our consolidated retained profits include controlled entities' retained profits/accumulated losses since the time they became a controlled entity. Outside equity interests in the results and equity of controlled entities are shown separately in our consolidated profit and loss statement and balance sheet.

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

### 1.3 Foreign currency transactions and overseas investments

#### (a) Transactions

Transactions made using foreign currency are converted into Australian currency at market exchange rates applicable at the date of the transactions. Amounts payable or receivable in foreign currencies at balance date are converted into Australian currency at market exchange rates at balance date. Currency conversion gains and losses are included in our profit or loss for the year.

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

Where we enter into a hedge for general expenditure commitments or for the construction of a non-qualifying asset, currency conversion gains and losses are recorded in the profit and loss statement in the same period as the currency conversion differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract.

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

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.3 Foreign currency transactions and overseas investments (continued)

#### (b) Conversion of non-Australian entities' financial reports

**Non-Australian entities that operate with us**

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

Under this method:
- monetary balance sheet items such as cash and receivables are converted into Australian dollars using market exchange rates at balance date;
- non monetary balance sheet items (including equity at the date of investment) are converted at market exchange rates applicable at the date of the transactions (or at the date of revaluation);
- profit and loss statements are converted into Australian dollars at average exchange rates for the year unless there are significant identifiable transactions which are converted at the exchange rate that existed on the date of the transaction; and
- currency conversion gains and losses are recorded in the profit and loss statement.

**Non-Australian entities that operate on their own**

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

Under this method:
- balance sheets are converted into Australian dollars using market exchange rates at balance date;
- profit and loss statements are converted into Australian dollars at average exchange rates for the year unless there are significant identifiable transactions which are converted at the exchange rate that existed on the date of the transaction; and
- currency conversion gains and losses are recorded in the foreign currency conversion reserve.

### 1.4 Year 2000 computer costs

We have recorded costs relating to the modification of internal-use computer software for Year 2000 compatibility as expenses in the period in which they have been incurred.

### 1.5 Insurance

We specifically carry the following types of insurance:
- property;
- fidelity (crime);
- general liability;
- travel/personal accident;
- general third party;
- director and officers';
- company reimbursement; and
- we also carry other insurance from time to time.

For those risks where we have no insurance, any losses are charged to the profit and loss statement in the year in which the loss is reported.

The Telstra Entity and certain Australian wholly owned controlled entities are self insured for workers compensation. Further details are provided in note 1.24(b).

### 1.6 Rounding

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

### 1.7 United States dollar conversions

This financial report has been prepared using Australian dollars (A$m). For the convenience of readers outside Australia we have converted our profit and loss statement, balance sheet, statement of cash flows and United States generally accepted accounting principles disclosures from A$ to US$ for fiscal 2000.

These conversions appear under columns headed "US$m" and represent rounded millions of US dollars. The conversion has been made using the noon buying rate in New York City for cable transfers in non-US currencies. This rate is certified for custom purposes by the Federal Reserve Bank of New York. The rate on 30 June 2000 was A$1.00 = US$0.5971.

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

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.8 Change in accounting policies

The following accounting policy change occurred during fiscal 2000.

**Deferral of mobile handset subsidies**

We changed our accounting policy associated with the treatment of mobile handset subsidies for fiscal 2000. From 1 July 1999, where mobile handsets are sold as part of service contracts lasting two years or greater, the cost of the subsidy is deferred and written off over the contract term. Prior to 1 July 1999, we expensed the cost of the subsidy in the year the contract was signed. The reason for the change in the accounting policy is to recognise that the provision of the subsidy is a cost of entering into the contract with a customer. This cost should be recognised over the life of the contract when the revenue is earned. As a result of the change in accounting policy, our net profit after tax for fiscal 2000 has been increased as follows:

| | Telstra Group and Telstra Entity |
|---|---|
| | Year ended 30 June |
| | 2000 $m |
| Deferral of mobile handset subsidies . . . . . . | 255 |
| Less amount charged to direct cost of sales. . . . . . . . . . . . . . . . . . . . . | (81) |
| Net mobile handset subsidies deferred . . . . . | 174 |
| Tax effect at 36%. . . . . . . . . . . . . . . . . . | (63) |
| | 111 |

We review the deferred subsidy balance at each reporting date to determine that it is not carried in excess of its recoverable amount.

### 1.9 Recently issued Australian Accounting Standards

The following is a summary of the new Australian Accounting Standards that apply to Telstra from 1 July 2000.

Australian Accounting Standard **AASB 1041**: ‘Revaluation of Non-Current Assets’ applies to Telstra from 1 July 2000. The standard allows a number of alternative transitional options. Essentially we could choose to adopt a fair value method of valuing non-current assets; or deem carrying amounts as at 1 July 2000 to be the cost of the assets (this could be done by reversing previous asset revaluations or by deeming the current carrying amount as its cost). The standard also allows a combination of these methods for different classes of non-current assets. On 1 July 2000 we made an election to:

- apply the cost basis of recording property, plant and equipment in our financial statements;
- discontinue our policy of revaluing property, plant and equipment upwards; and
- deem all of our revalued property, plant and equipment carrying amounts as at 30 June 2000 to be their cost going forward. This means that the asset revaluation reserve is fixed at its current amount and writedowns of previously revalued assets can no longer be made through the asset revaluation reserve.

This election does not change our policy of writing down the value of our property, plant and equipment to recoverable amount when its carrying value is above recoverable amount. Any writedown to recoverable amount from 1 July 2000 must go through the profit and loss statement.

As well as this standard we will also need to apply the following accounting standards from 1 July 2000:

- Revised AASB 1010: ‘Recoverable Amount of Non-Current Assets’;
- Revised AASB 1015: ‘Acquisitions of Assets’;
- Revised AASB 1018: ‘Statement of Financial Performance’;
- Revised AASB 1033: ‘Presentation and Disclosure of Financial Instruments’;
- AASB 1034: ‘Financial Report Presentation and Disclosure’; and
- AASB 1040: ‘Statement of Financial Position’.

The main effect of these standards are described below:

**AASB 1010** - the recoverable amount test contained in the revised standard only applies to assets held at cost (or deemed cost) with any asset considered to be carried at a value higher than its recoverable amount to immediately be written down and the amount recorded as an expense. This revised standard is not expected to have a significant impact on us as we continually assess recoverable amounts and already use discounted cash flows to determine recoverable amount.

**AASB 1015** - requires all acquisitions (including internal reconstructions) to be recorded at fair value along with any resulting goodwill or discount on acquisition. Transaction costs arising on the issue of equity must be recognised by the issuer directly in equity. There are also other minor new disclosure items. We already record acquisitions at fair value and therefore this revised standard is not expected to have a significant impact on us.

**AASB 1018** - this revised standard refers to the ‘Profit and Loss Statement’ as the ‘Statement of Financial Performance’. The most significant change to this statement will be the disclosures relating to non-owner changes to equity. For example the net exchange difference recognised in the foreign currency conversion reserve and reserve movements due to equity accounting. These disclosures will appear on the face of the Profit and Loss Statement and as a result the current reconciliation of retained earnings will appear in the Statement of Changes in Shareholders’ Equity.

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.9 Recently issued Australian Accounting Standards (continued)

**AASB 1018 (continued)** In addition our share of net profits and losses from equity accounted investments will be shown on the face of the Profit and Loss Statement. Abnormal items have been removed from this revised standard. However, disclosure of the nature and amount of revenues and expenses within the profit and loss is required to be made where their size, nature or incidence is relevant to explaining the performance of the entity.

**AASB 1033** - deals with specific rules addressing the classification of converting instruments for issuers. The standard requires the classification of a financial instrument as a liability or equity to be based on the holder's perspective, not the issuer's perspective. This revised standard is not expected to have a significant impact on us.

**AASB 1034** - some of the new disclosures required by this revised standard are disclosure of domicile and legal form of the entity, country of incorporation, address of registered office, description of operations and principal activities, name of the parent entity and number of employees at the end of the financial year.

These details are not required to be disclosed in the financial statements if they are provided in other documents published with the financial report (e.g. Directors' Report). The remaining disclosure requirements from the existing standard have been moved to either AASB 1040 or AASB 1018.

**AASB 1040** - this new standard refers to the 'Balance Sheet' as the 'Statement of Financial Position'. The most significant change to this statement is that long-term interest-bearing liabilities are to be classified as non-current (even if they are due to be paid within 12 months) where both of the following conditions apply:
- the original term was for a period of more than 12 months; and
- the entity is committed to an agreement to refinance or to reschedule payments prior to the time of completion of the financial report.

In addition, our equity accounted investments will be shown on the face of the Balance Sheet. Apart from these reclassifications, the new standard is not expected to have a significant impact on us.

### 1.10 Comparative figures

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

### Other specific accounting policies

Accounting policies that relate to specific notes to the financial statements appear below.

### 1.11 Revenue accounting policies (note 2)

#### Sales revenue

Our categories of sales revenue listed in note 2 are recorded after deducting sales returns, trade allowances, duties and taxes.

(a) Delivery of services

Revenue from the provision of our telecommunications services includes:
- access to retail and wholesale fixed and mobile networks;
- telephone calls; and
- other services and facilities provided such as internet and data.

We record revenue earned from:
- providing access to the network over the period of access provided;
- telephone calls on completion of the call; and
- other services generally at completion, or over the period of service provided.

(b) Sale of goods

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

(c) Rent

We earn rent mainly from the rent of dedicated lines, customer equipment, property, plant and equipment and other facilities provided. The revenue is recorded on an accrual basis over the rental period.

(d) Revenue from construction contracts

We record construction revenue on a percentage of contract completion basis. The percentage of completion of contracts is calculated based on estimated costs to complete the contract (refer note 1.16 for further information).

(e) Directory services

Our directory advertising revenue represents commission earned on sale of directory advertising space and revenue arising from the use of the Yellow Pages® trademark. Commission revenue is recorded on signing advertising agreements with customers. We record revenue from the use of the Yellow Pages® trademark on publication of the directories.

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.11 Revenue accounting policies (note 2) (continued)

#### Other revenue

(f) Dividend revenue

We record dividend revenue in the profit and loss statement from the following entities when declared by them:
- controlled entities;
- joint venture entities and associated entities (prior to equity accounting when received by the Telstra Entity); and
- listed investments and other investments.

We record distributions from trusts when we are presently entitled to the distribution.

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

(g) Interest revenue

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

(h) Revenue from the sale of non current assets

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

(i) Share of associated entities net profits/(losses)

We record our share of the associates' net profits/(losses) by taking up the associates' profit after tax multiplied by our ownership interest after adjusting for:
- amortisation of goodwill;
- deferral and subsequent reversal of unrealised profits after tax arising from transactions and the sale of assets from us to our associates; and
- deferral and subsequent reversal of unrealised profits after tax arising from trading and the sale of assets from our associates to us.

Where:
- we trade with our associates or our associates trade with us; and
- either party records the amount traded as an asset in the balance sheet; then
- the profit after tax amount that is recorded in the balance sheet is removed to the extent of our ownership percentage in the associate.

We apply the same accounting treatment for our investment in joint venture entities. However, our joint venture entities are in a net loss position for fiscal 2000, fiscal 1999 and fiscal 1998, therefore our share of those net losses are recorded and disclosed as other operating expenses in note 3.

#### Revenue received in advance

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

#### Accrued revenue

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

### 1.12 Income tax accounting policies (note 4)

We use the liability method to calculate income tax. Income tax is calculated on accounting profit after allowing for permanent differences and is recorded as an expense. Permanent differences are:
- items of revenue or expense that are included in taxable income but will never be included in accounting profit; or
- items of revenue and expense that are included in accounting profit but will never be included in taxable income.

Deferred income tax assets and liabilities are:
- recorded at the tax rates that are expected to apply at the time these items are expected to be used; and
- are based on certain timing differences between the recorded amounts of assets and liabilities for accounting purposes and the recorded amounts used for tax purposes.

We do not record the future income tax benefit relating to tax losses as an asset unless the benefit is virtually certain of being used.

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.13 Cash accounting policies (note 8)

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

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

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

**Statement of cash flows**

When preparing our statement of cash flows, cash is shown net of outstanding bank overdrafts. Bank overdrafts are shown in note 16.

### 1.14 Receivables accounting policies (note 9)

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

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

### 1.15 Inventories accounting policies (note 10)

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

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

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

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

### 1.16 Construction contracts accounting policies (note 10 and note 15)

#### (a) Valuation

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

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

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

#### (b) Recognition of profit

Profit is recognised on an individual project basis using the percentage of completion method. The percentage of completion is calculated based on estimated costs of completion (refer to note 1.11(d) for more information).

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

#### (c) Disclosure

Progress billings are deducted from the construction work in progress balance and recorded in current inventories (refer note 10). Where progress billings exceed the balance of construction work in progress balance the net amount is shown as a current liability within other creditors. This was the case in fiscal 1999. Refer to note 15 for amounts recorded in fiscal 1999.

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.17 Investments accounting policies (note 11)

#### (a) Controlled entities

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

#### (b) Equity method of accounting

Our investments in associated entities and joint venture entities are accounted for using the equity method of accounting. Equity accounting adjustments are only recorded in the Telstra Group financial statements, except for partnerships, which are also recorded in the Telstra Entity financial statements. For the Telstra Entity we record equity accounted investments (other than partnerships) at cost less any amount provided for permanent reduction in the value of the investment.

For equity accounting we adjust the initial recorded amount of the investment for our share of:
- net profits or losses after tax since the date of investment;
- reserve movements since the date of investment;
- unrealised profits or losses and adjustments to asset values;
- notional goodwill amortisation; and
- any dividends or distributions received.

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

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

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

#### (c) Joint venture entities

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

**(i) Joint venture entities that are partnerships**

Our interest in partnerships (joint venture entities) is measured by applying the equity method of accounting in both the Telstra Group's and Telstra Entity's financial report. This involves adjusting the cost of the investment by our share of the partnership profit or loss. Our share of partnership profit or loss is calculated by multiplying the partnership profit or loss by our ownership interest and this amount is recorded in the profit and loss statement. Any goodwill that exists on acquisition of an interest in a partnership is amortised over the expected period of benefit. The amortisation is recorded in the share of joint venture profits and losses line in the profit and loss statement. This period is subject to a maximum of 20 years from the date of acquisition (refer to note 1.17(b) for further description of the equity method of accounting).

**(ii) Joint venture entities that are not partnerships**

The Telstra Entity uses the cost method of accounting for joint venture entities that are not partnerships and the Telstra Group records the equity accounted entries as described in note 1.17(b).

Any goodwill that exists on acquisition of an interest in a joint venture entity that is not a partnership is amortised over the expected period of benefit. The amortisation is recorded in the share of joint venture profits and losses line in the profit and loss statement. This period is subject to a maximum of 20 years from the date of acquisition.

#### (d) Joint venture operations

A joint venture operation means a contractual arrangement (that is not a joint venture entity) whereby two or more parties undertake an economic activity which is governed by joint control. This usually involves the shared use of assets. Joint control involves the contractually agreed sharing of control where two or more parties must consent to all major decisions. Where the investment is significant, we record assets and liabilities relating to our share in each asset and liability used in the joint venture operation (refer property, plant and equipment accounting policies note 1.18(a). We record expenses based on our percentage interest in the joint venture. We record revenue from the sale or use of our share of the output as described in our revenue policy (refer note 1.11(a)).

#### (e) Associated entities

Where we hold an interest in the equity of an entity and are able to apply significant influence to the decisions of the entity, that entity is an associated entity. The Telstra Entity uses the cost method of accounting for associated entities and the Telstra Group records the equity accounted entries as described in note 1.17(b).

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.17 Investments accounting policies (note 11) (continued)

#### (e) Associated entities (continued)

Any goodwill that arises on acquisition of an interest in an associated entity is amortised over the expected period of benefit. The amortisation is included in the share of associates profits and losses line in the profit and loss statement. This period is subject to a maximum of 20 years from the date of acquisition.

#### (f) Satellite consortium investment

Our participation in the INTELSAT satellite consortium is recorded as an investment. This investment is made in US dollars. INTELSAT's value is based on our share of INTELSAT's net assets at balance date, converted to Australian currency at the exchange rate at balance date. Any gain or loss is taken to the profit and loss statement.

The main activity of the INTELSAT satellite consortium investment is the provision of satellite capacity to equity members and external customers. Our ownership interest in the INTELSAT satellite consortium investment at 30 June 2000 was 1.71% (1999: 1.71%).

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

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

For our disclosure, net fair values of investments are calculated on the following bases:

(i) For listed securities traded in an organised financial market we use the current quoted market bid price at balance date; and
(ii) For investments in unlisted securities not traded in an organised financial market, we record these at cost. Where the investment cost is greater than its recoverable amount the investment value is reduced to recoverable amount. Fair value is determined by reference to the net assets of the unlisted security.

### 1.18 Property, plant and equipment accounting policies (note 12)

#### (a) Acquisition and disposal

Items of property, plant and equipment are recorded at cost and depreciated as described in note 1.18(c) below. The cost of our constructed property, plant and equipment includes:

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

Our weighted average capitalisation interest rate for borrowing costs for fiscal 2000 was 8.4% (1999: 8.93%; 1998: 8.06%). Interest revenue is not deducted in the calculation of borrowing costs included in the cost of constructed assets.

**Joint venture operations - under sea cables**

We participate in a number of under sea cable joint venture operations with other telecommunication companies. Our ownership in these under sea cables varies from less than 1% to 93.6% depending on the particular cable. Our interest in these cables is recorded at cost and included as part of our "Communication assets". The cables are depreciated as described in note 1.18(c) below. As at 30 June 2000 the value of our interest in all of these cables was:

| | Telstra Group | |
|---|---|---|
| | As at 30 June | |
| | **2000** | 1999 |
| | **$m** | $m |
| **Telstra's interest in under sea cable communication assets** | | |
| Cost. . . . . . . . . . . . . . . . . . . . . . | **861** | 847 |
| Accumulated depreciation . . . . . . . . | **(452)** | (413) |
| Net book value. . . . . . . . . . . . . . . | **409** | 434 |

#### (b) Revaluation

We obtain valuations of all our land and buildings at least once every three years, or more frequently if necessary, in accordance with normal commercial practice. In the past we have sometimes revalued our property, plant and equipment in our financial statements. From 1 July 2000, we will no longer revalue our property, plant and equipment upwards. Refer to note 1.9 for details of this change in treatment from 1 July 2000.

We always reduce the value of our property, plant and equipment to its recoverable amount where our carrying amount is greater than recoverable amount.

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

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

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.18 Property, plant and equipment accounting policies (continued)

#### (c) Depreciation and amortisation

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

| | Telstra Group | |
|---|---|---|
| | As at 30 June | |
| | **2000** | 1999 |
| **Property, plant and equipment** | **Service life (years)** | Service life (years) |
| **Buildings** - general purpose | **55** | 55 |
| - fitout | **10 - 21** | 10 - 21 |
| **Communication assets** | | |
| Buildings - network | **55** | 55 |
| - fitout | **15 - 25** | 15 - 25 |
| Customer premises equipment | **3 - 8** | 3 - 6 |
| Transmission equipment | **10 - 16** | 5 - 16 |
| Switching equipment | **3 - 10** | 3 - 10 |
| Cables | **9 - 25** | 9 - 25 |
| Ducts and pipes - main cables | **40** | 40 |
| - distribution | **25** | 25 |
| Other communications plant | **4 - 18** | 4 - 18 |
| **Other assets** | | |
| Leasehold plant and equipment | **10** | 10 |
| Other plant, equipment and motor vehicles | **4 - 15** | 4 - 15 |

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

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

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

### 1.19 Leased plant and equipment accounting policies (note 12)

#### (a) Where we are the lessee

We account for leases in accordance with Accounting Standard AASB 1008 'Leases'. We distinguish between finance leases, which effectively transfer substantially all the risks and benefits incidental to ownership of the leased asset from the lessor to the lessee, from operating leases under which the lessor effectively retains all such risks and benefits. Where we acquire non-current assets by using a finance lease, the present value of future minimum lease payments are recorded as non-current assets at the beginning of the lease term. These are amortised on a straight line basis over the shorter of the lease term or the expected useful life of the assets to us. A corresponding liability is also established and each lease payment is allocated between the liability and finance charges.

Operating lease payments are charged to the profit and loss statement in the periods in which they are incurred. Operating lease rental expense is disclosed in note 3(a).

Where we lease properties, costs of improvements to these properties are recorded as a non current asset and amortised over the lower of the useful life of the property or the term of the lease.

### 1.20 Intangible assets accounting policies (note 13)

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

#### (a) Goodwill

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

For the purchase of a controlled entity, the amount of goodwill is recorded in intangible assets. Goodwill is amortised on a straight line basis over the period of expected benefit. This period is subject to a maximum of 20 years from the date of gaining control. The carrying amount of goodwill is reviewed annually and adjusted to the extent that future benefits are not considered probable. The weighted average goodwill amortisation period for fiscal 2000 was 6 years (1999: 5 years).

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.20 Intangible assets accounting policies (note 13) (continued)

#### (a) Goodwill (continued)

We also calculate goodwill when we buy joint venture entities and associated entities. However, for these entities the goodwill amount is included as part of the cost of the investment and not shown separately as intangible assets. The amortisation of this goodwill is recorded in the share of joint venture entities and associated entities net profits line in the profit and loss statement. Refer to note 1.17 for information regarding goodwill for joint venture entities and associates.

#### (b) Patents, trademarks and licences

Patents, trademarks and licences mainly include licences to use network and business software and spectrum licences. Where the costs spent on patents, trademarks and licences have a benefit or relationship to more than one accounting period, these costs are deferred and amortised. They are amortised on a straight line basis over the periods of their expected benefit which average 13 years for fiscal 2000 (1999: 12 years). The recoverable amount of patents, trademarks and licences is reviewed annually and the carrying amount is adjusted where considered necessary.

### 1.21 Other assets accounting policies (note 14)

#### (a) Research and development costs

Research and development costs are recorded as an expense as incurred.

#### (b) Deferred expenditure

Deferred expenditure mainly includes upfront payments for the use of international cable systems and loan flotation costs.

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

We amortise deferred expenditure over the average period in which the related benefits are expected to be realised. This period is a weighted average of 10 years for fiscal 2000 (1999: 8 years). Each year we also review expenditure deferred in previous periods to determine the amount (if any) that is no longer recoverable. The amount of deferred expenditure that is no longer recoverable is written off as an expense in the profit and loss statement.

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

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

Costs included in software assets developed for internal use are:
- external direct costs of materials and services consumed;
- payroll and direct payroll-related costs for employees (including contractors) directly associated with the project; and
- borrowing costs incurred while developing the software.

Software assets developed for internal use are amortised on a straight line basis over their useful lives to us, generally 5 years (1999: 5 years). Amortisation starts once the software is ready for use.

### 1.22 Accounts payable accounting policies (note 15)

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

### 1.23 Borrowings accounting policies (note 16)

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

**Bank loans** are carried at cost.

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

**Other loans** are carried at cost, or adjusted cost. Discounts and premiums are amortised on a straight line basis over the period to maturity. Interest is calculated on a yield to maturity basis. Amounts denominated in foreign currency are revalued daily. Any exchange gains or losses are taken to the profit and loss statement.

Other loans include Australian dollar loans and foreign currency loans. They also include the net (receivable)/payable on currency swaps entered into to hedge these borrowings. A description of the objectives and significant terms and conditions relating to cross currency swaps used to hedge the foreign currency loans is detailed in note 29.

# Notes to the Financial Statements (continued)

## 1. Summary of accounting policies (continued)

### 1.24 Provisions accounting policies (note 17)

#### (a) Employee entitlements

We accrue liabilities for employee entitlements to wages and salaries, annual leave and other current employee entitlements at actual amounts to be paid. These are calculated on the basis of current wage and salary rates and include related on costs.

Telstra Entity employees who have been employed by the Telstra Entity for at least ten years are entitled to an extended leave of absence of three months (or more depending on the actual length of employment). This leave of absence is called long service leave and is included in other employee entitlements. Similar benefits are available to employees of our controlled entities.

We accrue liabilities for other employee entitlements not expected to be paid or settled within twelve months of balance date at the present values of future amounts expected to be paid. This is based on projected increases in wage and salary rates over an average of ten years. For fiscal 2000, this rate was 4.0% (1999: 4.0%). We calculate present values using appropriate rates based on government guaranteed securities with similar due dates to our liabilities. The weighted average discount rate (before tax) used for fiscal 2000 was 6.17% (1999: 6.30%).

#### (b) Workers' compensation

The Telstra Entity and a controlled entity self insure their workers' compensation liabilities. We take up a provision for the present value of these estimated liabilities, based on an actuarial review of the liability. This review includes assessing actual accidents and estimating claims incurred but not reported. Present values are calculated using appropriate rates based on government guaranteed securities with similar due dates (refer note 1.24(a) above). The majority of our controlled entities do not self insure but pay annual premiums to third party insurance companies for their workers' compensation liabilities.

### 1.25 Superannuation accounting policies (note 22)

**Defined benefit funds**

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

**Accumulation schemes**

Our commitment to accumulation type benefits is limited to making the contributions specified in the trust deed.

**All superannuation schemes**

Contributions to employee superannuation schemes are recorded as an expense as the contributions become payable.

### 1.26 Derivative financial instruments accounting policies (note 29)

Gains and losses on derivatives are accounted for on the same basis as the underlying physical transactions. Therefore, hedge gains and losses are recorded in the profit and loss statement when the gains or losses arising from the related physical exposures are recorded in the profit and loss statement.

The foreign exchange gains and losses on the principal value of the cross currency swaps are recorded in the profit and loss statement using the spot rate which offsets the foreign exchange gains and losses recorded on the underlying hedged transaction.

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

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

Gains and losses on futures contracts are deferred and amortised over the life of the underlying hedged asset or liability.

Forward foreign exchange contracts are accounted for as outlined in note 1.3(a). Gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions are deferred and recognised when the anticipated future transaction occurs.

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

# Notes to the Financial Statements (continued)

| | | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|---|
| | | Year ended 30 June | | | Year ended 30 June | |
| | | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **Note** | **$m** | $m | $m | **$m** | $m |

## 2. Revenue

### Our operating revenue is made up of revenue from the following operating activities:

| | Note | 2000 $m | 1999 $m | 1998 $m | 2000 $m | 1999 $m |
|---|---|---|---|---|---|---|
| **Sales revenue** | | | | | | |
| Delivery of services (1.11(a)) | | **15,096** | 14,530 | 13,945 | **15,037** | 14,467 |
| Sale of goods (1.11(b)) | | **371** | 370 | 254 | **360** | 344 |
| Rent of network facilities (1.11(c)) | | **1,876** | 1,537 | 1,426 | **1,818** | 1,496 |
| Revenue from construction contracts (1.11(d)) | | **145** | 56 | 49 | **4** | 51 |
| Directory services (1.11(e)) | | **1,121** | 1,078 | 1,029 | **763** | 736 |
| | | **18,609** | 17,571 | 16,703 | **17,982** | 17,094 |
| **Other revenue** | | | | | | |
| **Dividend revenue (1.11(f))** | | | | | | |
| - controlled entities | 27 | **-** | - | - | **63** | 122 |
| - associated entities | 27 | **-** | - | - | **4** | - |
| - other entities | | **12** | 13 | 20 | **12** | 13 |
| | | **12** | 13 | 20 | **79** | 135 |
| **Interest revenue (1.11(g))** | | | | | | |
| - controlled entities | 27 | **-** | - | - | **34** | 7 |
| - associated entities | 27 | **2** | 1 | - | **2** | 1 |
| - other entities | | **60** | 48 | 49 | **52** | 41 |
| | | **62** | 49 | 49 | **88** | 49 |
| **Revenue from the sale of (1.11(h))** | | | | | | |
| - property, plant and equipment | | **243** | 246 | 255 | **240** | 253 |
| - investments in controlled entities | | **248** | - | - | **26** | - |
| - investments in joint venture entities | | **-** | - | - | **170** | - |
| - investments in associated entities | | **25** | - | - | **-** | - |
| - investments in listed entities and other corporations | | **177** | 15 | - | **179** | 23 |
| - patents, trademarks and licences | | **-** | - | 11 | **-** | - |
| - business | 27 | **149** | 69 | - | **288** | 69 |
| | | **842** | 330 | 266 | **903** | 345 |
| **Other sources of revenue** | | | | | | |
| Share of associated entities net (losses)/profits (1.11(i)) | 24 | **(7)** | (2) | 14 | **-** | - |
| Rent from property and motor vehicles (1.11(c)) | | **61** | 54 | 28 | **61** | 54 |
| Other revenue | | **261** | 203 | 222 | **288** | 194 |
| | | **315** | 255 | 264 | **349** | 248 |
| | | **1,231** | 647 | 599 | **1,419** | 777 |
| **Operating revenue** | | **19,840** | 18,218 | 17,302 | **19,401** | 17,871 |

## Notes to the Financial Statements (continued)

| | | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|---|
| | | Year ended 30 June | | | Year ended 30 June | |
| | | **2000** | 1999 | 1998 | **2000** | 1999 |
| | Note | **$m** | $m | $m | **$m** | $m |
| **3. Operating profit** | | | | | | |
| **(a) Our operating profit before income tax has been calculated after charging/(crediting) the following items:** | | | | | | |
| **Depreciation and amortisation** | | | | | | |
| Depreciation of: | | | | | | |
| - general purpose buildings | | **43** | 42 | 45 | **43** | 42 |
| - communication assets | | **2,067** | 1,990 | 1,802 | **1,956** | 1,895 |
| - other plant, equipment and motor vehicles | | **233** | 258 | 316 | **219** | 244 |
| | | **2,343** | 2,290 | 2,163 | **2,218** | 2,181 |
| Amortisation of: | | | | | | |
| - assets under finance lease | | **12** | 21 | 25 | **11** | 21 |
| - patents, trademarks and licences | | **42** | 35 | 25 | **41** | 35 |
| - goodwill | | **20** | 13 | 11 | **-** | - |
| - leasehold improvements | | **29** | 27 | 28 | **28** | 26 |
| - deferred expenditure | | **7** | 7 | 7 | **7** | 7 |
| - software assets | | **193** | 109 | 63 | **192** | 109 |
| | | **303** | 212 | 159 | **279** | 198 |
| | | **2,646** | 2,502 | 2,322 | **2,497** | 2,379 |
| **Other operating expenses** | | | | | | |
| Net book value of investments sold: | | | | | | |
| - controlled entities | | **151** | - | - | **2** | - |
| - joint venture entities | | **-** | - | - | **170** | - |
| - listed securities and other corporations | | **44** | 13 | - | **39** | 22 |
| - businesses | | **91** | 36 | - | **201** | 36 |
| Total net book value of investments sold/disposed | | **286** | 49 | - | **412** | 58 |
| Net book value of property, plant and equipment sold/disposed | | **217** | 259 | 313 | **222** | 254 |
| Rental expense on operating leases | | **403** | 264 | 216 | **381** | 256 |
| Share of joint venture entity losses | 24 | **51** | 39 | 83 | **-** | - |
| Reduction in value of property, plant and equipment | | **-** | 2 | 16 | **-** | 2 |
| Bad debts written off - trade debtors | | **191** | 182 | 175 | **181** | 175 |
| Movement in provisions - increase/(decrease): | | | | | | |
| - doubtful debts - trade debtors | | **-** | 69 | 182 | **(16)** | 51 |
| - reduction in value of inventories (finished goods) | | **(6)** | 1 | (15) | **(5)** | 2 |
| - reduction in value of investments | | **39** | (1) | 34 | **287** | 255 |
| - other provisions | | **(19)** | - | 21 | **-** | - |
| Foreign currency conversion losses/(gains) | | **5** | 6 | (9) | **3** | (2) |
| Auditors' fees | 3(b) | **4** | 6 | 6 | **3** | 4 |
| Other operating expenses | | **2,915** | 2,670 | 2,609 | **3,039** | 2,626 |
| | | **4,086** | 3,546 | 3,631 | **4,507** | 3,681 |
| **Borrowing costs** | | | | | | |
| - controlled entities | 27 | **-** | - | - | **27** | 8 |
| - joint venture and associated entities | | **-** | 1 | - | **-** | 1 |
| - other entities | | **754** | 660 | 701 | **723** | 629 |
| - finance charges relating to finance leases | | **1** | 9 | 16 | **-** | 3 |
| | | **755** | 670 | 717 | **750** | 641 |
| - borrowing costs included in the cost of constructed assets | | **(125)** | (92) | (83) | **(125)** | (91) |
| | | **630** | 578 | 634 | **625** | 550 |

# Notes to the Financial Statements (continued)

## 3. Operating profit (continued)

### (a) Our operating profit before income tax has been calculated after charging/(crediting) the following items: (continued)

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | Year ended 30 June | | | Year ended 30 June | |
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| **Other disclosures** | | | | | |
| Research and development expenses (before crediting any grants) | **29** | 34 | 43 | **29** | 34 |
| Movement in provisions - increase/(decrease): | | | | | |
| - employee entitlements | **62** | 62 | 116 | **59** | 63 |
| - workers' compensation | **(8)** | (1) | 68 | **(8)** | (1) |
| Net (profit)/loss we have made on the sale of: | | | | | |
| - property, plant and equipment | **(26)** | 13 | 58 | **(18)** | 1 |
| - investments in controlled entities | **(97)** | - | - | **(24)** | - |
| - investments in associated entities | **(25)** | - | - | **-** | - |
| - investments in listed entities and other corporations | **(133)** | (2) | - | **(140)** | (1) |
| - patents, trademarks and licences | **-** | - | (11) | **-** | - |
| - business | **(58)** | (33) | - | **(87)** | (33) |

### (b) Auditors' fees

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| The Australian statutory auditor of the Telstra Entity has charged the following amounts for: | | | | | |
| Auditing and reviewing the financial reports (i) | **3.208** | 4.325 | 4.741 | **2.703** | 3.875 |
| Other services (i) | **0.268** | 0.733 | 0.692 | **0.268** | 0.306 |
| Auditors other than the Australian statutory auditor have charged the following amounts for: | | | | | |
| Auditing and reviewing the financial reports | **0.915** | 0.616 | 0.243 | **-** | - |
| Total auditors' fees | **4** | 6 | 6 | **3** | 4 |

(i) Our Australian statutory auditor is the Australian National Audit Office (ANAO). The audit and other services provided by the ANAO have been subcontracted (through a tender process) to Ernst & Young (EY) for fiscal 2000. PricewaterhouseCoopers (PwC) was subcontracted by the ANAO to complete the audit of our 30 June 1999 and 1998 financial statements.

In addition, other services have been provided by both EY and PwC in their own right as follows:

- EY during fiscal 2000 - $12.936 million (a);
- PwC during fiscal 1999 - $18.762 million; and
- PwC during fiscal 1998 - $10.536 million.

(a) Of this amount, $1.724 million related to contracts awarded prior to EY's appointment as ANAO sub-contractor.

# Notes to the Financial Statements (continued)

## 3. Operating profit (continued)

### (c) Abnormals

Our operating profit before income tax expense has been calculated after charging/(crediting) the following abnormals:

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | Year ended 30 June | | | Year ended 30 June | |
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| **Abnormal items:** | | | | | |
| Revenue from JORN contract (i) | **(734)** | - | - | **(734)** | - |
| Expenses in performing obligations under JORN contract (i) | **734** | - | - | **734** | - |
| | **-** | - | - | **-** | - |
| Amount charged for income tax expense | **-** | - | - | **-** | - |
| | **-** | - | - | **-** | - |
| Redundancy and restructuring provision (ii) | **572** | - | - | **572** | - |
| Amount credited for income tax expense | **(206)** | - | - | **(206)** | - |
| | **366** | - | - | **366** | - |
| Total abnormal items before income tax expense | **572** | - | - | **572** | - |
| Total amount credited for income tax expense | **(206)** | - | - | **(206)** | - |
| Total abnormal items after income tax | **366** | - | - | **366** | - |

# Notes to the Financial Statements (continued)

## 3. Operating profit (continued)

### (c) Abnormals (continued)

Abnormal items

(i) On 13 June 1991, we entered into a contract with the Commonwealth to design, construct, install and maintain the Jindalee Operational Radar Network (JORN). Over the period of the contract we have recorded provisions for losses of $585 million (with $394 million disclosed as an abnormal item in the 1997 financial report).

On 14 February 1997, we entered into arrangements with Lockheed Martin Corporation and Tenix Defence Pty Ltd to manage the JORN project.

As Lockheed Martin and Tenix Defence Pty Ltd have assumed full responsibility for the JORN project, we have recorded both the revenue (progress billings) and the expenses (net of provision of $585 million) associated with this project. Due to the size of the amounts they have been recognised as an abnormal item in the profit and loss statement. There is no amount charged for income tax expense.

(ii) The redundancy and restructuring abnormal item of $572 million before tax consists of two components:

- $86 million relates to amounts paid to 1,374 staff made redundant from 1 March 2000 to 30 June 2000; and
- A provision of $486 million has been raised in the financial statements and relates to the 8,272 staff to be made redundant over the two years to 30 June 2002. The two year redundancy plan was approved prior to 30 June 2000 and the amount raised represents the estimated redundancy and associated costs to be paid as a result of the implementation of this plan.

The amount credited for income tax expense was $206 million with a net amount after income tax expense of $366 million.

## Notes to the Financial Statements (continued)

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | Year ended 30 June | | | Year ended 30 June | |
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| **4. Income tax expense** | | | | | |
| **Notional income tax expense on operating profit agrees to actual income tax expense recorded as follows:** | | | | | |
| Operating profit before income tax expense | **5,349** | 5,320 | 4,468 | **5,368** | 5,553 |
| Australian statutory rate of taxation | **36%** | 36% | 36% | **36%** | 36% |
| Notional income tax expense on operating profit calculated at 36% | **1,926** | 1,915 | 1,608 | **1,932** | 1,999 |
| **Which is adjusted by the tax effect of:** | | | | | |
| Research and development concessions | **(8)** | (29) | (18) | **(4)** | (20) |
| General investment/development allowance | **(11)** | (11) | (11) | **(11)** | (11) |
| Share of joint venture entities' net losses | **3** | - | - | **-** | - |
| Share of associated entities' net losses/(profits) | **3** | 1 | (5) | **-** | - |
| Profit on sale of property, plant and equipment | **(14)** | (12) | (3) | **(14)** | (11) |
| Depreciation of revalued assets | **(11)** | (36) | (39) | **(2)** | (27) |
| Inventory adjustments | **-** | - | 2 | **-** | - |
| Reduction in the value of investments | **107** | (1) | 12 | **102** | 92 |
| Rebateable dividends (non taxed dividends) | **(16)** | (21) | - | **(24)** | (47) |
| Transfer of tax losses | **(23)** | (1) | - | **-** | - |
| Tax refunds from prior years | **(35)** | (21) | (103) | **(35)** | (2) |
| Over provision of tax in prior years | **9** | 13 | (10) | **7** | (1) |
| Other adjustments | **(82)** | 35 | 35 | **(31)** | (5) |
| Income tax expense on operating profit | **1,848** | 1,832 | 1,468 | **1,920** | 1,967 |
| Effect of decrease in tax rates on deferred tax balances (i) | **(172)** | - | - | **(195)** | - |
| Income tax expense | **1,676** | 1,832 | 1,468 | **1,725** | 1,967 |
| **Our income tax expense contains the following items:** | | | | | |
| Current taxation provision | **1,544** | 1,184 | 955 | **1,501** | 1,153 |
| Movement in future income tax benefit | **(106)** | 180 | 524 | **-** | 361 |
| Movement in deferred income tax liability | **229** | 455 | (1) | **217** | 454 |
| Over provision of tax in prior years | **9** | 13 | (10) | **7** | (1) |
| | **1,676** | 1,832 | 1,468 | **1,725** | 1,967 |
| **Future income tax benefits as at 30 June that we have not recorded in the balance sheet for:** | | | | | |
| Income tax losses (ii) | **1** | 47 | 20 | **-** | - |
| Capital losses | **-** | 37 | 28 | **-** | 13 |
| | **1** | 84 | 48 | **-** | 13 |

(i) During fiscal 2000 the Commonwealth lowered the income tax rates applicable to companies from 36% to 30% in two stages. From 1 July 2000 the income tax rates were lowered from 36% to 34%. From 1 July 2001 the income tax rate is to be lowered from 34% to 30%. As a result we have restated our deferred tax balance to the rates applicable when the timing difference are expected to reverse. This has had the effect of lowering our deferred tax balances by $172 million for the group and $195 million for the Telstra Entity.

## Notes to the Financial Statements (continued)

### 4. Income tax expense (continued)

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

(a) our controlled entities have sufficient future assessable income to enable the tax losses to be offset against the assessable income or if the tax losses can be transferred to one of our other eligible controlled entities;

(b) our controlled entities continue to satisfy the conditions required by tax legislation to be able to use the tax losses; and

(c) there are no future changes in tax legislation that will adversely affect us in using the tax losses benefit.

Our future income tax benefit (recorded on the balance sheet) contains the following tax losses carried forward:

| | Telstra Group | | |
|---|---|---|---|
| | As at 30 June | | |
| | **2000** | 1999 | 1998 |
| | **$m** | $m | $m |
| Future income tax benefit balance . . . . . . . . . . . . . | **111** | 366 | 787 |
| Amount of future income tax benefit related to tax losses carried forward . . . . . . . . . | **4** | 157 | 133 |

# Notes to the Financial Statements (continued)

## 5. Segment information

### Industry segments

We operate mainly in the telecommunications industry which makes up more than 90% of our consolidated operating revenue, operating profit before income tax expense, and net assets.

### Geographical segments

Although our business units are managed on a worldwide basis, they operate mainly in one geographical location, being Australia. Overseas business operations do not form a significant part of our consolidated operations.

### Business segments

We announced a new business structure in the second half of the financial year ended 30 June 1999. This structure was effective for reporting purposes from 1 July 1999. The comparative amounts for fiscal 1999 and 1998 have been changed to reflect the structure in place for fiscal 2000. Our business units under this structure are described below:

- ***Commercial & Consumer***:
    - provides telecommunications services to more than seven million residential and small business customers;
    - manages sales, customer service installation and repairs, and billing;
    - manages information, connection and payphone services; and
    - builds and maintains the customer access network on behalf of the Network & Technology Group.
- ***Telstra Business Solutions*** is responsible for:
    - sales and services to larger businesses, the Commonwealth, State and Territory governments; and
    - from 1 April 2000 our investment in Advantra Pty Ltd.
- ***Telstra OnAir*** is responsible for:
    - mobile and wireless communications; and
    - managing the launch of the CDMA digital service.
- ***Wholesale & International*** is responsible for:
    - providing wholesale products and services to other carriers, carriage service providers and major domestic internet service providers;
    - development of wholesale products and pricing strategies; and
    - global wholesale and international retail businesses, including most overseas investments.
- ***Convergent Business*** manages:
    - data, internet, e-commerce, directories and multimedia businesses; and
    - our investments in the FOXTEL Partnerships, IBM Global Services Australia Limited, Advantra Pty Ltd (up to 31 March 2000), Computershare Limited, Solution 6 Holdings Limited and Sausage Software Limited.
- ***Network & Technology Group's*** responsibilities include:
    - planning, design and operation of our fixed and mobile networks in Australia;
    - the associated systems and processes required to deliver products, services and customer support; and
    - research and development.
- ***Network Design and Construction Limited*** is responsible for:
    - design, construction and maintenance of networks on behalf of Telstra and the external market.
- ***Corporate Centre*** is responsible for:
    - finance and administration, legal and regulatory, employee relations, public affairs and corporate marketing.

We manage these business units separately based on differences in types of customer or strategic objectives.

Network Design and Construction and the Corporate Centre are not reportable segments and have been added together in the "Other" segment for reconciliation and disclosure purposes.

### Inter-segment transfers

Segment revenues, segment expenses and segment results include transfers between business segments. Generally most internal charges between business segments are made on a direct cost recovery basis.

We account for all international transactions made between Australian and non-Australian businesses at market value. All internal telecommunications usage of our own products is also accounted for at market value.

Certain regulatory, compliance and strategic functions are not charged to the reportable segments.

### New business structure announced in the second half of fiscal 2000

We announced a new business unit structure in May 2000 including the formation of Telstra Country Wide to better serve regional, rural and remote customers. This new reporting structure is effective from 1 July 2000 and will appear in our financial report for fiscal 2001.

# Notes to the Financial Statements (continued)

## 5. Segment information (continued)

### Information about business segments

**Telstra Group**

| | Commercial & Consumer $m | Telstra Business Solutions $m | Telstra OnAir # $m | Wholesale & Interna-tional $m | Convergent Business $m | Network & Technology Group $m | Other $m | Elimina-tions $m | Total of all segments $m |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 2000** | | | | | | | | | |
| Segment revenue | | | | | | | | | |
| Sales revenue from external customers . . . . . . . . . . | 5,791 | 5,392 | 3,002 | 2,895 | 1,354 | 3 | 142 | 30 | 18,609 |
| Inter-segment revenue . . | 719 | 445 | 35 | 1,048 | 79 | 5,003 | 2,464 | (1,933) | 7,860 |
| Earnings before interest, abnormals and tax (a) . . | 1,600 | 2,288 | 832 | 1,202 | 196 | 245 | 77 | 49 | 6,489 |
| **Segment result has been calculated after charging/(crediting) the following:** | | | | | | | | | |
| Share of joint venture entities net losses . . . . . . . . . . | - | 14 | - | (2) | 39 | - | - | - | 51 |
| Share of associated entities net (profits)/losses. . . . . | - | (6) | - | - | 6 | 3 | - | 4 | 7 |
| Depreciation and amortisation . . . . . . . . | 52 | 32 | 1 | 84 | 76 | 2,118 | 283 | - | 2,646 |
| Non-cash items excluding depreciation and amortisation . . . . . . . . | 1 | (26) | (174) | (193) | (35) | 9 | 46 | (118) | (490) |
| Property, plant and equipment acquired . . . | 106 | 18 | 2 | 119 | 59 | 3,349 | 476 | (20) | 4,109 |
| **As at 30 June 2000** | | | | | | | | | |
| Segment assets (b) . . . . | 9,404 | 13,797 | 2,312 | 4,121 | 1,023 | 15,681 | (14,832) | (1,167) | 30,339 |
| **Segment assets include the following:** | | | | | | | | | |
| Investment in joint venture entities. . . . . . . . . . . . | 3 | 103 | - | 139 | 39 | - | - | - | 284 |
| Investment in associated entities. . . . . . . . . . . . | - | 18 | - | 3 | 134 | 11 | - | - | 166 |

# In fiscal 2000 we changed our accounting policy associated with the treatment of mobile handset subsidies (refer note 1.8). This has increased the EBIT for Telstra OnAir in fiscal 2000 by $174 million.

# Notes to the Financial Statements (continued)

## 5. Segment information (continued)

### Information about business segments (continued)

**Telstra Group**

| | Commercial & Consumer $m | Telstra Business Solutions $m | Telstra OnAir $m | Wholesale & International $m | Convergent Business $m | Network & Technology Group $m | Other $m | Eliminations $m | Total of all segments $m |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 1999** | | | | | | | | | |
| Segment revenue | | | | | | | | | |
| Sales revenue from external customers | 5,882 | 5,254 | 2,655 | 2,458 | 1,241 | 1 | 46 | 34 | 17,571 |
| Inter-segment revenue | 757 | 471 | 50 | 911 | 1 | 4,586 | 1,285 | (143) | 7,918 |
| Earnings before interest, abnormals and tax (a) | 1,593 | 2,376 | 732 | 722 | 103 | 289 | (42) | 76 | 5,849 |
| **Segment result has been calculated after charging/(crediting) the following:** | | | | | | | | | |
| Share of joint venture entities net losses | - | - | - | - | 39 | - | - | - | 39 |
| Share of associated entities net losses/(profits) | - | 10 | - | - | (4) | - | - | (4) | 2 |
| Depreciation and amortisation | 79 | 33 | 1 | 74 | 66 | 2,001 | 248 | - | 2,502 |
| Non-cash items excluding depreciation and amortisation | 5 | (48) | - | 29 | 9 | 14 | 80 | (97) | (8) |
| Property, plant and equipment acquired | 62 | 37 | - | 48 | 31 | 3,190 | 425 | (5) | 3,788 |
| **As at 30 June 1999** | | | | | | | | | |
| Segment assets (b) | 7,731 | 12,015 | 842 | 2,776 | 892 | 15,123 | (11,357) | (340) | 27,682 |
| **Segment assets include the following:** | | | | | | | | | |
| Investment in joint venture entities | 2 | - | - | 1 | 46 | - | - | - | 49 |
| Investment in associated entities | - | 16 | - | - | - | - | - | 4 | 20 |

# Notes to the Financial Statements (continued)

## 5. Segment information (continued)

### Information about business segments (continued)

**Telstra Group**

| | Commercial & Consumer $m | Telstra Business Solutions $m | Telstra OnAir $m | Wholesale & Interna-tional $m | Convergent Business $m | Network & Technology Group $m | Other $m | Elimina-tions $m | Total of all segments $m |
|---|---|---|---|---|---|---|---|---|---|
| **Year ended 30 June 1998** | | | | | | | | | |
| Segment revenue | | | | | | | | | |
| Sales revenue from external customers . . . . . . . . . . | 5,789 | 5,021 | 2,135 | 2,457 | 1,214 | 1 | 45 | 41 | 16,703 |
| Inter-segment revenue . . | 910 | 458 | 74 | 781 | 80 | 4,625 | 1,281 | (243) | 7,966 |
| Earnings before interest, abnormals and tax (a) . . | 1,561 | 2,156 | 485 | 567 | (48) | 719 | (538) | 151 | 5,053 |
| **Segment result has been calculated after charging/(crediting) the following:** | | | | | | | | | |
| Share of joint venture entities net losses . . . . . . . . . . | - | - | - | - | 83 | - | - | - | 83 |
| Share of associated entities net (profits) . . . . . . . . . | - | - | - | (1) | (13) | - | - | - | (14) |
| Depreciation and amortisation . . . . . . . . | 94 | 43 | 2 | 71 | 67 | 1,786 | 258 | 1 | 2,322 |
| Non-cash items excluding depreciation and amortisation . . . . . . . . | 13 | 31 | - | - | 28 | 16 | 168 | (153) | 103 |
| Property, plant and equipment acquired . . . | 211 | 59 | - | 44 | 157 | 2,712 | 180 | 1 | 3,364 |
| **As at 30 June 1998** | | | | | | | | | |
| Segment assets (b) . . . . | 6,074 | 11,009 | 110 | 2,398 | 618 | 14,703 | (8,126) | (316) | 26,470 |
| **Segment assets include the following:** | | | | | | | | | |
| Investment in joint venture entities. . . . . . . . . . . . | - | - | - | 1 | 65 | - | - | - | 66 |
| Investment in associated entities. . . . . . . . . . . . | - | - | - | - | 5 | - | - | - | 5 |

# Notes to the Financial Statements (continued)

## 5. Segment information (continued)

| | Note | Telstra Group<br>Year ended/As at 30 June<br>2000<br>$m | <br><br>1999<br>$m | <br><br>1998<br>$m |
|---|---|---|---|---|
| **Reconciliation of total of all segments to our profit before income tax** | | | | |
| **(a) Earnings before interest, abnormals and tax (segment result)** | | | | |
| Total of all segments | | **6,489** | 5,849 | 5,053 |
| Add interest revenue | | **62** | 49 | 49 |
| Less borrowing costs | | **(630)** | (578) | (634) |
| Operating profit before abnormals and income tax expense | | **5,921** | 5,320 | 4,468 |
| Abnormals | | **(572)** | - | - |
| **Operating profit before income tax expense** | | **5,349** | 5,320 | 4,468 |

(b) Segment assets are those assets that are used by a segment in its operating activities and can be allocated directly to that segment. The segment assets of the "Other" segment include the cashflow funding requirements of the six disclosed operating business segments.

| | Note | 2000 $m | 1999 $m | 1998 $m |
|---|---|---|---|---|
| **Information about our products and services** | | | | |
| **Sales revenue from** | | | | |
| Basic access | | **2,020** | 1,855 | 1,770 |
| Local calls | | **2,650** | 2,727 | 2,664 |
| National long distance calls | | **2,626** | 2,775 | 2,594 |
| International telephone services | | **987** | 1,103 | 1,380 |
| Mobile telecommunication services | | **2,859** | 2,538 | 2,154 |
| Data, text and internet services | | **2,838** | 2,483 | 2,197 |
| Directory services | | **1,122** | 1,078 | 1,029 |
| Customer premises equipment | | **336** | 368 | 538 |
| Intercarrier services | | **819** | 617 | 582 |
| Inbound calling products | | **432** | 400 | 337 |
| Facilities management | | **235** | 183 | 120 |
| Other sales and services | | **1,685** | 1,444 | 1,338 |
| | 2 | **18,609** | 17,571 | 16,703 |
| **Information about our geographic operations** | | | | |
| **Sales revenue from** | | | | |
| Customers in Australia | | **18,035** | 17,018 | 16,228 |
| Customers in non Australian countries | | **574** | 553 | 475 |
| | 2 | **18,609** | 17,571 | 16,703 |
| **Property, plant and equipment** | | | | |
| Located in Australia | | **22,170** | 20,346 | 19,136 |
| Located in non Australian countries | | **146** | 535 | 620 |
| | 12 | **22,316** | 20,881 | 19,756 |

# Notes to the Financial Statements (continued)

## 6. Earnings per share

| | Telstra Group | | |
|---|---|---|---|
| | Year ended 30 June | | |
| | **2000** | 1999 | 1998 |
| | **¢** | ¢ | ¢ |
| **Basic earnings per share (cents)** | | | |
| - before abnormals (a) | **31.4** | 27.1 | 23.3 |
| - after abnormals (a) | **28.6** | 27.1 | 23.3 |
| Diluted earnings per share is the same as basic earnings per share. | | | |
| | | **Number (millions)** | |
| Weighted average number of issued ordinary shares used in the calculation of basic earnings per share (b) | **12,867** | 12,867 | 12,867 |

(a) Change in accounting policy - fiscal 2000

The change in our accounting policy for mobile phone subsidies is described in note 1.8. This change had the effect of increasing the earnings per share calculations by 0.9 of a cent to 31.4 cents before abnormals and to 28.6 cents after abnormals.

(b) The number of issued and paid up ordinary shares is 12,866,600,200. From 1 July 1998, changes to the Australian Corporations Law removed the par value from shares.

| | | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|---|
| | | Year ended 30 June | | | Year ended 30 June | |
| | | **2000** | 1999 | 1998 | **2000** | 1999 |
| | Note | **$m** | $m | $m | **$m** | $m |
| **7. Dividends** | | | | | | |
| **Ordinary shares** | | | | | | |
| Interim dividend paid | | **1,029** | 901 | 901 | **1,029** | 901 |
| Final dividend | | | | | | |
| - ordinary dividend provided for or paid | | **1,287** | 1,287 | 901 | **1,287** | 1,287 |
| - special dividend paid | | **-** | 2,059 | - | **-** | 2,059 |
| Total final dividend provided for or paid | 17 | **1,287** | 3,346 | 901 | **1,287** | 3,346 |
| | | **2,316** | 4,247 | 1,802 | **2,316** | 4,247 |
| **Dividends per share (cents)** | | **¢** | ¢ | ¢ | | |
| Interim dividend | | **8.0** | 7.0 | 7.0 | | |
| Final dividend | | | | | | |
| - ordinary dividend | | **10.0** | 10.0 | 7.0 | | |
| - special dividend | | **-** | 16.0 | - | | |
| Total final dividend | | **10.0** | 26.0 | 7.0 | | |
| Total | | **18.0** | 33.0 | 14.0 | | |

# Notes to the Financial Statements (continued)

## 7. Dividends (continued)

**We have paid dividends as listed in the table below:**

| | Telstra Group | | |
|---|---|---|---|
| | Year ended 30 June | | |
| | **2000** | 1999 | 1998 |
| | **$m** | $m | $m |
| **Dividends paid** | | | |
| Interim dividend | **1,029** | 901 | 901 |
| Previous year final ordinary dividend paid in the current year | **1,287** | 901 | 521 |
| Previous year final special dividend paid in the current year | **2,059** | - | - |
| Total dividends | **4,375** | 1,802 | 1,422 |

The final dividend for fiscal 2000 is due to be paid on 27 October 2000.

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

| | Telstra Group | | |
|---|---|---|---|
| | Year ended 30 June | | |
| | **2000** | 1999 | 1998 |
| | **%** | % | % |
| **C class franking credit percentages** | | | |
| Interim dividend | **49.17** | 100 | 100 |
| Final ordinary dividend | **(ii) 100** | (i) 100 | 100 |
| Final special dividend | **-** | (i) 0 | - |

(i) If the fiscal 1999 final ordinary and final special dividends are combined, this produces a C class franking percentage of 38.46%.

(ii) The tax rate at which the fiscal 2000 final ordinary dividend will be franked is 34%. The tax rate at which all other franked dividends were franked was 36%.

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | Year ended 30 June | | | Year ended 30 June | |
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| **The combined amount of exempting and franking credits available to us for the next fiscal year are:** | | | | | |
| Combined exempting and franking account balance as at 30 June | **74** | 223 | 479 | **-** | 158 |
| Franking credits and exempting credits that will arise from the payment of income tax payable as at 30 June | **1,439** | 896 | 769 | **1,412** | 871 |
| Franking debits that will arise when we pay our final dividend provided for as at 30 June (iii) | **(1,287)** | (1,287) | (901) | **(1,287)** | (1,287) |
| Franking credits and exempting credits that we may be prevented from distributing in the next fiscal year | **(14)** | (16) | (8) | **-** | - |
| | **212** | (184) | 339 | **125** | (258) |

(iii) Franking credits for the fiscal 2000 disclosure including those that will arise during fiscal 2001 from the payment of income tax are expressed at the 34% tax rate. Franking credits that will arise from the payment of income tax in fiscal 2002 are expressed at the 30% tax rate (refer note 17 for further information). Franking credits for prior years are expressed at the 36% tax rate.

Exempting credits, which have been converted by the Commonwealth Treasurer's declaration are the same as franking credits. As at 30 June 2000 the Telstra Entity had a deficit in its C class franking account of $141 million (1999 $158 million; 1998 $315 million) and a surplus of $141 million (1999 $158 million; 1998 $315 million) in its C class exempting credit account. We have obtained the Commonwealth Treasurer's approval to convert the Telstra Entity's exempting credits balance as at 30 June 2000 to franking credits and accordingly the deficit in the C class franking credit account has been reduced to zero. As at 30 June 2000 our wholly owned controlled entities had $1 million of exempting credits which may only be transferred on the payment of dividends by these entities.

Additional franking credits (not exempting credits) will arise when the Telstra Entity and its Australian controlled entities pay tax instalments during fiscal 2001 relating to the fiscal 2001 income tax year.

# Notes to the Financial Statements (continued)

## 8. Cash

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| Cash at bank and on hand | **193** | 145 | **87** | 89 |
| Bank deposits, bills of exchange and promissory notes (a) | **558** | 834 | **557** | 793 |
| | **751** | 979 | **644** | 882 |

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

## 9. Receivables

| | Note | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|---|
| | | As at 30 June | | As at 30 June | |
| | | **2000** | 1999 | **2000** | 1999 |
| | | **$m** | $m | **$m** | $m |
| **Current** | | | | | |
| Trade debtors (a) | | **2,467** | 2,272 | **1,779** | 1,658 |
| Provision for doubtful debts | | **(227)** | (241) | **(198)** | (220) |
| | | **2,240** | 2,031 | **1,581** | 1,438 |
| Accrued revenue | | **1,010** | 1,029 | **929** | 979 |
| Bank deposits, bills of exchange and promissory notes (b) | | **193** | 114 | **191** | 114 |
| Share loans to employees (c) | 19,27 | **69** | 56 | **69** | 56 |
| Amounts owed by controlled entities (other than trade debtors) | 27 | **-** | - | **1,113** | 925 |
| Loans to joint venture entities and associated entities | | **34** | - | **34** | - |
| Other receivables | | **41** | 15 | **35** | 10 |
| | | **3,587** | 3,245 | **3,952** | 3,522 |
| **Non current** | | | | | |
| Bank deposits and bills of exchange (b) | | **15** | 70 | **11** | 38 |
| Share loans to employees (c) | 19,27 | **228** | 223 | **228** | 223 |
| Amounts owed by controlled entities (other than trade debtors) | 27 | **-** | - | **229** | 140 |
| Other receivables (d) | | **15** | - | **15** | - |
| | | **258** | 293 | **483** | 401 |

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

(b) Bank deposits, bills of exchange and promissory notes as at 30 June 2000 include $14 million current (1999: $11 million) and $12 million non current (1999: $70 million) Japanese yen deposits. These relate to our Japanese finance lease liabilities and are held to satisfy our requirements under the leases. The carrying amount of bank deposits, bills of exchange and promissory notes with an original maturity date over three months and less than one year and the non current amounts are approximately equal to net fair value.

(c) Share loans to employees represent amounts receivable from employees under all employee share plans. Refer to note 19 for details regarding the share plans. The carrying amount of share loans to employees is approximately equal to net fair value. The loan balance that relates to TESOP99 is fully recoverable over the period of the employee share scheme.

# Notes to the Financial Statements (continued)

## 9. Receivables (continued)

(d) Included in Other receivables is an amount of $14 million receivable from Telstra Growthshare (a senior executive equity participation scheme). Refer to note 19 for further information on Telstra Growthshare.

| | | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|---|
| | | As at 30 June | | As at 30 June | |
| | | **2000** | 1999 | **2000** | 1999 |
| | Note | **$m** | $m | **$m** | $m |
| **10. Inventories** | | | | | |
| **Current** | | | | | |
| Raw materials and stores recorded at cost | | **10** | 8 | **10** | 8 |
| Construction contracts (a) | 1.16 | **69** | - | **-** | - |
| Finished goods recorded at cost | | **171** | 135 | **107** | 132 |
| Finished goods recorded at net realisable value | | **45** | 61 | **45** | 61 |
| Total finished goods | | **216** | 196 | **152** | 193 |
| | | **295** | 204 | **162** | 201 |
| **Non current** | | | | | |
| Finished goods recorded at cost | | **-** | 13 | **-** | 13 |
| Finished goods recorded at net realisable value | | **15** | 3 | **15** | 3 |
| | | **15** | 16 | **15** | 16 |

(a) Construction contract disclosures for fiscal 2000 are shown in the table below. For fiscal 1999 construction contracts were classified as other creditors - current in note 15. This was because progress billings exceeded construction work in progress.

| | | | | |
|---|---|---|---|---|
| Gross amount of construction work in progress | **121** | - | **-** | - |
| Profits recognised to date | **9** | - | **-** | - |
| | **130** | - | **-** | - |
| Progress billings and advances received (i) | **(61)** | - | **-** | - |
| | **69** | - | **-** | - |
| (i) Includes progress billings billed but not received at balance date (included in trade debtors) | **37** | - | **-** | - |

## Notes to the Financial Statements (continued)

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|
| **11. Investments** | | | | | |
| **Listed securities** | | | | | |
| Investment in listed corporations (at cost) | 28 | **323** | 86 | **11** | 84 |
| Total listed securities excluding investment in associated entity (a) (1.17(g)) | | **323** | 86 | **11** | 84 |
| **Unlisted securities and other investments** | | | | | |
| Investment in controlled entities (at cost) (1.17(a)) | 23 | **-** | - | **3,551** | 2,412 |
| Provision for reduction in value (1.17(a)) | | **-** | - | **(2,415)** | (2,148) |
| | | **-** | - | **1,136** | 264 |
| Investment in joint venture entities (b) (1.17(b)) (1.17(c)) | 24 | **284** | 49 | **3** | 2 |
| Investment in associated entities (b) (c) (1.17(b)) (1.17(e)) | 24 | **166** | 20 | **67** | 26 |
| Investment in joint venture operation (1.17(d)) | | **-** | 6 | **-** | 6 |
| | | **450** | 75 | **70** | 34 |
| Investment in other corporations (at cost) (b) | | **64** | 59 | **2** | 37 |
| Provision for reduction in value (b) | | **(3)** | (2) | **(2)** | (2) |
| | | **61** | 57 | **-** | 35 |
| Satellite consortium investment (b) (1.17(f)) | | | | | |
| INTELSAT | | **51** | 48 | **51** | 48 |
| | | **885** | 266 | **1,268** | 465 |

(a) The net fair value of our listed securities excluding our listed associate, Solution 6 Holdings Limited, as at 30 June 2000 was $1,213 million (1999: $118 million) excluding transaction disposal costs.

(b) The net fair value of these investments is approximately equal to their carrying amounts.

(c) Our associated entity, Solution 6 Holdings Limited is a listed entity. Its equity accounted value at 30 June 2000 was $103 million and is recorded as part of the total investment in associated entities. Its net fair value at 30 June 2000 was $103 million (market price excluding transaction disposal costs).

# Notes to the Financial Statements (continued)

## 11. Investments (continued)

Listed securities and investments in other corporations are shown as follows:

| Name of investment | Principal activities | Ownership interest As at 30 June 2000 % | Ownership interest As at 30 June 1999 % | Telstra Group's recorded amount of investment (*) As at 30 June 2000 $m | Telstra Group's recorded amount of investment (*) As at 30 June 1999 $m | Telstra Entity's recorded amount of investment (*) As at 30 June 2000 $m | Telstra Entity's recorded amount of investment (*) As at 30 June 1999 $m |
|---|---|---|---|---|---|---|---|
| **(i) Listed securities** | | | | | | | |
| Computershare Limited (a) . | Operation of computer bureau, share registries and provision of related software | **15.01** | 5.0 | **292** | 84 | **-** | 84 |
| Sausage Software Limited . . | Software development, internet development and eCommerce solutions | **4.94** | - | **20** | - | **-** | - |
| Infonet Services Corporation (b). . . . . . . . . . . . . . . . | International communications and computing services | **5.3** | - | **11** | - | **11** | - |
| Other listed investments | | **-** | - | **-** | 2 | **-** | - |
| | | | | **323** | 86 | **11** | 84 |
| **(ii) Investments in other corporations** | | | | | | | |
| New Skies Satellites, N.V. . . | Provision of satellite capacity | **1.81** | 1.64 | **21** | 19 | **-** | - |
| INMARSAT HOLDINGS PLC (c). | Provision of satellite capacity | **-** | 2.03 | **-** | 23 | **-** | 23 |
| Extant Inc.. . . . . . . . . . . . | Data transport and clearing house | **17.12** | - | **35** | - | **-** | - |
| Infonet Services Corporation (b). . . . . . . . . . . . . . . . | International communications and computing services | **-** | 7.61 | **-** | 12 | **-** | 12 |
| Other investments. . . . . . . | | | | **5** | 3 | **-** | - |
| | | | | **61** | 57 | **-** | 35 |

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

(a) After balance date, Telstra sold two thirds of its shareholding in Computershare Limited (refer to note 28 for further details of this transaction).

(b) Infonet Services Corporation was listed on the New York stock exchange during fiscal 2000. Our ownership interest equates to a voting interest of 12.5% due to the terms that apply to the shares held.

(c) Sold to Station 12 B.V. (joint venture entity) on 15 May 2000.

# Notes to the Financial Statements (continued)

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |

## 12. Property, plant and equipment

### General purpose land and buildings

| | | | | |
|---|---|---|---|---|
| **Land and site improvements** | | | | |
| At cost | **5** | 4 | **5** | 4 |
| At Directors' valuation - 31 March 1996 (a) | **140** | 164 | **140** | 164 |
| At Directors' valuation - 31 March 1998 (a) | **17** | 23 | **17** | 23 |
| At Directors' valuation - 31 March 1999 (a) | **12** | 20 | **12** | 20 |
| At Directors' valuation - 31 March 2000 (a) | **11** | - | **11** | - |
| | **185** | 211 | **185** | 211 |
| **Buildings (including leasehold improvements)** | | | | |
| At cost | **571** | 500 | **554** | 481 |
| Accumulated depreciation | **(244)** | (201) | **(234)** | (193) |
| | **327** | 299 | **320** | 288 |
| At Directors' valuation - 31 March 1996 (a) | **652** | 669 | **652** | 669 |
| At Directors' valuation - 31 March 1998 (a) | **9** | 21 | **9** | 21 |
| At Directors' valuation - 31 March 1999 (a) | **2** | 4 | **2** | 4 |
| At Directors' valuation - 31 March 2000 (a) | **7** | - | **7** | - |
| | **670** | 694 | **670** | 694 |
| Accumulated depreciation | **(107)** | (90) | **(107)** | (90) |
| | **563** | 604 | **563** | 604 |
| | **890** | 903 | **883** | 892 |
| | **1,075** | 1,114 | **1,068** | 1,103 |
| **Communication assets (including leasehold improvements)** | | | | |
| At cost | **29,586** | 27,302 | **29,081** | 26,801 |
| Accumulated depreciation | **(12,075)** | (11,269) | **(11,769)** | (11,030) |
| | **17,511** | 16,033 | **17,312** | 15,771 |
| At Independent valuation - 1988 (b) | **229** | 228 | **229** | 228 |
| At Directors' valuation: | | | | |
| - 31 January 1992 (b) | **854** | 888 | **854** | 888 |
| - 30 June 1992 (b) | **650** | 703 | **650** | 703 |
| - 31 March 1994 (b) | **746** | 756 | **746** | 756 |
| - 30 June 1995 (b) | **-** | 3 | **-** | 3 |
| - 30 June 1997 (b) | **210** | 210 | **-** | - |
| - 31 March 1998 (b) | **2** | 5 | **2** | 5 |
| - 31 March 1999 (b) | **19** | 19 | **19** | 19 |
| - 31 March 2000 (b) | **17** | - | **17** | - |
| | **2,727** | 2,812 | **2,517** | 2,602 |
| Accumulated depreciation | **(806)** | (724) | **(743)** | (685) |
| | **1,921** | 2,088 | **1,774** | 1,917 |
| | **19,432** | 18,121 | **19,086** | 17,688 |
| **Communication assets under finance lease** | | | | |
| At cost | **954** | 572 | **954** | 572 |
| Accumulated depreciation | **(117)** | (96) | **(117)** | (96) |
| | **837** | 476 | **837** | 476 |
| | **20,269** | 18,597 | **19,923** | 18,164 |

# Notes to the Financial Statements (continued)

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

| | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|
| **Other plant and equipment** | | | | |
| **Other plant, equipment and motor vehicles** | | | | |
| At cost | **2,316** | 2,485 | **2,056** | 2,409 |
| Accumulated depreciation | **(1,381)** | (1,331) | **(1,221)** | (1,283) |
| | **935** | 1,154 | **835** | 1,126 |
| At Independent valuation 1988 (b) | **-** | 2 | **-** | 2 |
| Accumulated depreciation | **-** | (2) | **-** | (2) |
| | **-** | - | **-** | - |
| | **935** | 1,154 | **835** | 1,126 |
| **Equipment under finance lease** | | | | |
| At cost | **62** | 56 | **24** | 55 |
| Accumulated amortisation | **(25)** | (40) | **(19)** | (39) |
| | **37** | 16 | **5** | 16 |
| **Net book value of property, plant and equipment** | **22,316** | 20,881 | **21,831** | 20,409 |
| Assets under construction included in the above assets at cost: | | | | |
| Communication assets | **908** | 1,068 | **891** | 1,053 |
| General purpose land and buildings | **9** | 22 | **9** | 22 |
| | **917** | 1,090 | **900** | 1,075 |
| **As at 30 June, the cost/valuation and accumulated depreciation of all land and buildings was:** | | | | |
| Land | | | | |
| At cost | **36** | 19 | **36** | 19 |
| At valuation (a) (b) | **646** | 698 | **646** | 698 |
| | **682** | 717 | **682** | 717 |
| Buildings (including leasehold improvements) | | | | |
| At cost | **1,194** | 1,087 | **1,173** | 1,065 |
| Accumulated depreciation | **(383)** | (327) | **(370)** | (315) |
| | **811** | 760 | **803** | 750 |
| At valuation (a) (b) | **1,905** | 1,936 | **1,905** | 1,936 |
| Accumulated depreciation | **(476)** | (412) | **(476)** | (412) |
| | **1,429** | 1,524 | **1,429** | 1,524 |
| | **2,240** | 2,284 | **2,232** | 2,274 |
| | **2,922** | 3,001 | **2,914** | 2,991 |

**Communication assets**

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

**Current value of all land and buildings**

Our directors consider the current value of all land and buildings as at 30 June 2000 to be:

- $3,300 million for the Telstra Group (fiscal 1999: $3,430 million); and
- $3,292 million for the Telstra Entity (fiscal 1999: $3,420 million).

# Notes to the Financial Statements (continued)

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

When we reduce the value of our property, plant and equipment to recoverable amount we use the following valuation methods:

(a) For general purpose land and buildings:
- Market value.

(b) For communication assets and other plant and equipment:
(i) Communication assets that are network land and buildings:
- Market value for network land and depreciated replacement cost or recoverable amount for network buildings.
(ii) Other communication assets and other assets:
- Depreciated replacement cost or recoverable amount.

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

# Notes to the Financial Statements (continued)

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| **13. Intangible assets** | | | | |
| Goodwill (1.20(a)) | **147** | 40 | **-** | - |
| Accumulated amortisation | **(32)** | (14) | **-** | - |
| | **115** | 26 | **-** | - |
| Patents, trademarks and licences (1.20(b)) | **562** | 533 | **555** | 526 |
| Accumulated amortisation | **(141)** | (107) | **(140)** | (103) |
| | **421** | 426 | **415** | 423 |
| | **536** | 452 | **415** | 423 |

As at 30 June 2000 the net goodwill balance was from investments made in the following controlled entities:

| | Telstra Group | |
|---|---|---|
| | As at 30 June | |
| | **2000** | 1999 |
| | **$m** | $m |
| Pacific Access Pty Ltd | **46** | 25 |
| Atlas Travel Technologies Pty Ltd | **1** | 1 |
| Advantra Pty Ltd | **53** | - |
| InsNet Pty Ltd | **15** | - |
| Net goodwill | **115** | 26 |

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| **14. Other assets** | | | | |
| **Current** | | | | |
| Net deferred mobile phone handset subsidies (1.8) | **144** | - | **144** | - |
| Prepayments | **112** | 125 | **102** | 119 |
| | **256** | 125 | **246** | 119 |
| **Non current** | | | | |
| Deferred expenditure (1.21(b)) | **97** | 115 | **81** | 114 |
| Accumulated amortisation | **(56)** | (75) | **(55)** | (75) |
| | **41** | 40 | **26** | 39 |
| Software assets developed for internal use (1.21(c)) | **1,652** | 1,012 | **1,623** | 1,010 |
| Accumulated amortisation | **(394)** | (197) | **(389)** | (197) |
| | **1,258** | 815 | **1,234** | 813 |
| Net deferred mobile phone handset subsidies (1.8) | **30** | - | **30** | - |
| | **1,329** | 855 | **1,290** | 852 |

# Notes to the Financial Statements (continued)

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|
| **15. Accounts payable** | | | | | |
| **Current** | | | | | |
| Trade creditors (a) | | **771** | 647 | **614** | 562 |
| Accrued expenses | | **1,305** | 1,264 | **1,150** | 1,037 |
| Other creditors (a) (b) | | **331** | 475 | **308** | 432 |
| Amounts owed to controlled entities (other than trade creditors) | | **-** | - | **187** | 217 |
| Amounts owed to the Telstra Superannuation Scheme | 22 | **121** | 121 | **121** | 121 |
| | | **2,528** | 2,507 | **2,380** | 2,369 |
| **Non current** | | | | | |
| Other creditors | | **124** | 109 | **94** | 74 |
| Amounts owed to the Telstra Superannuation Scheme | 22 | **604** | 636 | **604** | 636 |
| | | **728** | 745 | **698** | 710 |

(a) We generally pay trade creditors and other creditors (excluding a long term construction contract) within 30 days of the date of invoice for electronic funds transfer payments, or 30 days from the end of the month of invoice for other payments.

(b) For fiscal 1999, other creditors includes long term construction contracts including one with the Commonwealth of Australia (Commonwealth) Department of Defence. For fiscal 2000 construction contracts are recorded as current inventories (note 10). Disclosures for fiscal 1999 appear in the table below:

| | Telstra Group 2000 $m | Telstra Group 1999 $m | Telstra Entity 2000 $m | Telstra Entity 1999 $m |
|---|---|---|---|---|
| Gross amount of construction work in progress | **-** | (1,313) | **-** | (1,310) |
| Recorded profits to date (#) | **-** | (6) | **-** | (5) |
| Provisions for expected losses | **-** | 605 | **-** | 605 |
| | **-** | (714) | **-** | (710) |
| Progress billings and advances received (i) | **-** | 756 | **-** | 753 |
| | **-** | 42 | **-** | 43 |
| (i) Includes progress billings billed but not received at balance date (included in trade debtors) | **-** | 2 | **-** | - |

(#) The recognised profits to date relate to construction contracts with entities other than the Commonwealth Department of Defence.

# Notes to the Financial Statements (continued)

## 16. Borrowings

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|
| **Current** | | | | | |
| **Short term debt** | | | | | |
| Bank overdrafts (a) | | **7** | 5 | **-** | - |
| Loan from joint venture entity (b) | | **3** | 16 | **3** | 16 |
| Bills of exchange and promissory notes (c) | | **2,724** | 2,139 | **2,724** | 2,091 |
| | | **2,734** | 2,160 | **2,727** | 2,107 |
| **Long term debt - current portion** | | | | | |
| Bank loans (d) | | **2** | 9 | **-** | - |
| Loans from controlled entities | | **-** | - | **643** | 326 |
| Telecom/Telstra bonds (e) | | **558** | 68 | **558** | 68 |
| Finance leases (g) | 20 | **22** | 28 | **14** | 25 |
| | | **582** | 105 | **1,215** | 419 |
| | | **3,316** | 2,265 | **3,942** | 2,526 |
| **Non current** | | | | | |
| **Long term debt** | | | | | |
| Bank loans (d) | | **13** | 17 | **-** | - |
| Loans from controlled entities | | **-** | - | **7** | 32 |
| Telecom/Telstra bonds (e) | | **2,219** | 2,279 | **2,219** | 2,279 |
| Other loans (f) | | **4,236** | 2,624 | **4,232** | 2,620 |
| Finance leases (g) | 20 | **37** | 26 | **12** | 21 |
| | | **6,505** | 4,946 | **6,470** | 4,952 |
| **Total debt payable** | | | | | |
| **Short term debt** | | | | | |
| Bank overdrafts (a) | | **7** | 5 | **-** | - |
| Loan from joint venture entity (b) | | **3** | 16 | **3** | 16 |
| Bills of exchange and promissory notes (c) | | **2,724** | 2,139 | **2,724** | 2,091 |
| | | **2,734** | 2,160 | **2,727** | 2,107 |
| **Long term debt (including current portion)** | | | | | |
| Bank loans (d) | | **15** | 26 | **-** | - |
| Loans from controlled entities | | **-** | - | **650** | 358 |
| Telecom/Telstra bonds (e) | | **2,777** | 2,347 | **2,777** | 2,347 |
| Other loans (f) | | **4,236** | 2,624 | **4,232** | 2,620 |
| Finance leases (g) | 20 | **59** | 54 | **26** | 46 |
| | | **7,087** | 5,051 | **7,685** | 5,371 |
| | | **9,821** | 7,211 | **10,412** | 7,478 |

Our borrowings are unsecured, except for:

- finance leases which are secured, as the rights to the leased asset transfer to the lessor in the event of a default by us;
- a bank overdraft of $7 million (1999: $4 million); and
- a bank loan of $8 million (1999: $8 million) held by a non-Australian controlled entity. Refer to notes (a) and (d) below.

As at 30 June 2000 there are no borrowings guaranteed by the Commonwealth of Australia. As at 30 June 1999 the Commonwealth had guaranteed $37 million of our borrowings.

## Notes to the Financial Statements (continued)

### 16. Borrowings (continued)

Our long term debt is repayable over the next five years ending 30 June and after as follows:

| | Telstra Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 $m | 2002 $m | 2003 $m | 2004 $m | 2005 $m | after 2005 $m | Total $m |
| Long term debt payable | **584** | **65** | **713** | **641** | **2,205** | **2,924** | **7,132** |
| Unamortised discount | | | | | | | **(45)** |
| | | | | | | | **7,087** |

#### (a) Bank overdrafts

As at 30 June 2000, our bank overdrafts are unsecured except for a $7 million (1999: $4 million) bank overdraft of a non-Australian controlled entity. This is secured against certain fixed and floating assets of that controlled entity. Interest on bank overdrafts is charged at the bank's current benchmark rate. The effective interest rate was 16.1% for fiscal 2000 (1999: 16.7%). This rate was mainly for the non-Australian controlled entity's overdraft. The bank overdrafts are payable on demand and are subject to review by the banks.

#### (b) Loan from joint venture entity

As at 30 June 2000, we owed a joint venture entity $3 million (1999: $16 million) for an amount deposited with the Telstra Entity. The amount is repayable on demand and has an interest rate of 5.95% (1999: 4.8%).

#### (c) Bills of exchange and promissory notes

We have issued bills of exchange and promissory notes of $2,724 million (1999: $2,139 million) to financial institutions with an original maturity of less than 180 days.

At 30 June 2000, $2,724 million (1999: $2,139 million) of these bills of exchange and promissory notes mature in less than three months. The weighted average effective interest rate applicable to these bills of exchange and promissory notes at 30 June 2000 was 6.3% (1999: 4.9%).

# Notes to the Financial Statements (continued)

## 16. Borrowings (continued)

### (d) Bank loans

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

| | A$ amount | | Interest rates | |
|---|---|---|---|---|
| | As at 30 June | | Year ended 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **A$m** | A$m | **%** | % |
| Indian rupees bank loans (i) | **8** | 17 | **16.1%** | 18.4% |
| Sri Lankan rupees bank loans | **7** | 9 | **15.3%** | 17.0% |
| Total bank loans including current portion | **15** | 26 | | |

(i) $8 million (1999: A$8 million) of this loan held by a non-Australian controlled entity is secured against certain fixed and floating assets of that controlled entity.

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

| | Telstra Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | after 2005 | Total |
| | $m | $m | $m | $m | $m | $m | $m |
| Bank loans | **2** | **8** | **3** | **1** | **1** | **-** | **15** |

# Notes to the Financial Statements (continued)

## 16. Borrowings (continued)

### (e) Telecom/Telstra bonds

During fiscal 2000, we issued an extra $495 million of Telstra bonds. Telecom/Telstra bonds have been issued to both retail and wholesale investors and have effective interest rates ranging from 4.2% to 14.3% (1999: 4.2% to 14.3%). They mature up until the year 2020 (1999: 2020). Our Telecom/Telstra bonds are repayable over the next five years ending 30 June and after as follows:

| | Telstra Group | | | | | |
|---|---|---|---|---|---|---|
| Coupon interest rate | up to 6.0% $m | up to 8.0% $m | up to 10.0% $m | up to 12.0% $m | up to 16.0% $m | Total $m |
| Due in the year ending June 30 | | | | | | |
| 2001 | 9 | 3 | 37 | 19 | 492 | 560 |
| 2002 | 3 | 2 | 2 | 31 | - | 38 |
| 2003 | - | - | 64 | 514 | - | 578 |
| 2004 | 145 | 44 | 6 | - | - | 195 |
| 2005 | 1 | 250 | 3 | 18 | - | 272 |
| After 2005 | 35 | 510 | 41 | 548 | 32 | 1,166 |
| | 193 | 809 | 153 | 1,130 | 524 | 2,809 |
| Unamortised discount | | | | | | (32) |
| | | | | | | 2,777 |

### (f) Other loans

Details of our other loans are presented in the table below:

| Telstra Group - Other loans details | A$ amount As at 30 June 2000 A$m | 1999 A$m | Interest rates Year ended 30 June 2000 % | 1999 % | Maturity dates As at 30 June 2000 | 1999 |
|---|---|---|---|---|---|---|
| US dollar loans | 1,160 | 1,055 | 6.5% to 7.1% | 6.5% to 7.1% | between July 2003 and November 2005 | between July 2003 and November 2005 |
| Euro eurobond loan | 1,583 | - | 6.0% | - | June 2005 | - |
| Deutschemark eurobond loan | 807 | 795 | 5.2% | 5.2% | April 2008 | April 2008 |
| French franc loan | 361 | 356 | 6.1% | 6.1% | December 2006 | December 2006 |
| Swiss franc eurobond loan | 307 | 293 | 3.5% | 3.5% | June 2005 | June 2005 |
| Japanese yen loans | 158 | 126 | 5.1% to 5.6% | 5.1% to 5.6% | between October 2002 and May 2003 | between October 2002 and May 2003 |
| Controlled entity loan from its minority shareholder | 4 | 4 | 7.33% | 8.0% | before 30 June 2002 | before 30 June 2002 |
| Net (receivable)/payable on currency swaps entered to hedge these borrowings | (144) | (5) | | - | - | - |
| Total other loans including current portion | 4,236 | 2,624 | | | | |

# Notes to the Financial Statements (continued)

## 16. Borrowings (continued)

### (f) Other loans (continued)

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

| | Telstra Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 $m | 2002 $m | 2003 $m | 2004 $m | 2005 $m | after 2005 $m | Total $m |
| Other loans | - | 4 | 120 | 440 | 1,927 | 1,758 | 4,249 |
| Unamortised discount | | | | | | | (13) |
| | | | | | | | 4,236 |

### (g) Finance leases

Our Australian dollar finance leases have interest rates ranging from 7.0% to 9.9% (1999: 7.0% to 12.5%). The majority are repayable by September 2000 and January 2001 (1999: July 1999 and January 2001).

Our Japanese yen finance leases have interest rates ranging from 1.5% to 3.2% (1999: 1.5% to 3.2%). They are repayable by July 2002 (1999: July 1999 and July 2002). Two controlled entities have finance leases with repayments by June 2005. Details of minimum lease payments due under finance leases are presented as follows:

| | Telstra Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 $m | 2002 $m | 2003 $m | 2004 $m | 2005 $m | after 2005 $m | Total $m |
| Finance leases | 22 | 15 | 12 | 5 | 5 | - | 59 |

# Notes to the Financial Statements (continued)

## 16. Borrowings (continued)

### Net fair values

We determine net fair values of fixed rate loans and bonds issued using current risk adjusted market rates. The carrying amounts of bank overdrafts, bills of exchange and promissory notes, bank loans and finance lease liabilities, are approximately equal to net fair value.

The net fair values of other borrowings where the carrying amounts (including accrued interest) are significantly different to their net fair values are shown below:

| | Telstra Group Carrying amount (i) As at 30 June | | Telstra Group Net fair value As at 30 June | |
|---|---|---|---|---|
| | **2000 $m** | 1999 $m | **2000 $m** | 1999 $m |
| Telecom/Telstra bonds | **2,833** | 2,397 | **3,099** | 2,769 |
| Other loans (ii) | **4,448** | 2,684 | **4,431** | 2,707 |

The difference between the carrying amounts and net fair values relates mainly to interest rate movements.

(i) The carrying amount includes accrued interest.

(ii) The carrying amount and net fair value of other loans excludes cross currency swaps which are disclosed in note 29.

| | Telstra Group As at 30 June | | Telstra Entity As at 30 June | |
|---|---|---|---|---|
| | **2000 $m** | 1999 $m | **2000 $m** | 1999 $m |
| **Our financing arrangements** | | | | |
| We have access to the following lines of credit: | | | | |
| **Credit standby arrangements** | | | | |
| Unsecured committed cash standby facilities which are subject to annual review | **924** | 902 | **917** | 902 |
| Amount of credit unused | **924** | 902 | **917** | 902 |
| An unsecured bill acceptance facility reviewed annually for extension | **-** | 80 | **-** | - |
| Amount of credit unused | **-** | 32 | **-** | - |
| Secured bank overdraft and term loan facilities | **14** | 12 | **-** | - |
| Amount of credit unused | **-** | - | **-** | - |
| **Loan facilities** | | | | |
| Unsecured bank term loan facilities | **2,011** | 2,024 | **2,000** | 2,000 |
| Amount of credit unused | **2,003** | 2,000 | **2,000** | 2,000 |

We have commercial paper facilities in place with financial institutions under which we may issue up to $5,344 million (1999: $5,032 million). As at 30 June 2000, we had drawn down $2,719 million (1999: $2,091 million) of these commercial paper facilities. These facilities are not committed and we have no guaranteed access to the funds. None of the facilities are underwritten.

# Notes to the Financial Statements (continued)

## 17. Provisions

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Dividends payable | 7 | **1,287** | 3,346 | **1,287** | 3,346 |
| Taxation (b) | | **527** | 515 | **506** | 490 |
| Employee entitlements (a) | | **784** | 594 | **723** | 545 |
| Workers' compensation (1.24(b)) | | **46** | 47 | **45** | 47 |
| Other provisions | | **198** | 225 | **117** | 104 |
| | | **2,842** | 4,727 | **2,678** | 4,532 |
| **Non current** | | | | | |
| Employee entitlements (a) | | **684** | 581 | **613** | 515 |
| Workers' compensation (1.24(b)) | | **259** | 264 | **257** | 264 |
| Taxation (b) | | **184** | - | **184** | - |
| Other provisions | | **219** | 244 | **43** | 31 |
| | | **1,346** | 1,089 | **1,097** | 810 |

(a) Employee entitlements consist of amounts for annual leave, long service leave and redundancy payments to employees (refer to note 1.24(a)).

| | | | | |
|---|---|---|---|---|
| Total employee entitlements | **1,468** | 1,175 | **1,336** | 1,060 |

(b) Under the Pay-as-you-go transitional rules, we will pay the final instalment of income tax for fiscal 2000 over 10 equal quarterly instalments to 30 June 2003. As a result we have reclassified $184 million, representing 8 of these instalments, from current to non current.

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

# Notes to the Financial Statements (continued)

| | Telstra Group & Telstra Entity | | | |
|---|---|---|---|---|
| | As at 30 June | | | |
| | **2000** | **2000** | 1999 | 1998 |
| | **$m** | **US$m** | $m | $m |

## 18. Share capital

| | | | | |
|---|---|---|---|---|
| Issued and paid up share capital | | | | |
| 12,866,600,200 fully paid ordinary shares (a) (b) (c) | **6,433** | **3,841** | 6,433 | 6,433 |
| Movement in paid up share capital (b) | | | | |
| Issued and paid up share capital at beginning of year | **6,433** | **3,841** | 6,433 | 6,433 |
| Fiscal 1998: buyback by the Commonwealth of 2,000 million partly paid ordinary shares of $1.00 each paid to $0.75 (a) | **-** | **-** | - | (1,500) |
| Fiscal 1998: issued 1,500 million ordinary shares with a par value of $1.00 each (a) | **-** | **-** | - | 1,500 |
| Issued and paid up share capital at end of year (b) (c) | **6,433** | **3,841** | 6,433 | 6,433 |

(a) Fiscal 1998: On 25 July 1997, the Commonwealth accepted a share buy-back offer from the Telstra Entity for all of the 2,000 million partly paid (to $0.75) shares in the Telstra Entity held by the Commonwealth as at that date. The proceeds of this buy-back of $1,500 million were applied by the Commonwealth to buy 1,500 million ordinary shares in the Telstra Entity with a par value of $1.00 each. As these transactions did not involve cash paid or received, they were not recorded in our cash flows from financing activities.

(b) Fiscal 1998: On 6 August 1997, a share split was approved so that all ordinary shares issued by the Telstra Entity on this date with a par value of $1.00 each were divided into two ordinary shares with a par value of $0.50 each. Authorised share capital of the Telstra Entity changed from 20,000 million shares with a par value of $1.00 each to 40,000 million shares with a par value of $0.50 each. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a par value of $1.00 each, to 12,866,600,200 ordinary shares with a par value of $0.50 each.

(c) The Australian Corporations Law was amended from 1 July 1998 to remove par values from shares.

# Notes to the Financial Statements (continued)

## 19. Employee share plans

### (a) TESOP99 and TESOP97

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

These share plans were:
- the Telstra Employee Share Ownership Plan II (TESOP99); and
- the Telstra Employee Share Ownership Plan (TESOP97).

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

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

While a participant remains an employee of the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, there is no date by which the employee has to repay the loan, although early repayment can be made. The loan shares, extra shares and in the case of TESOP99, the loyalty shares, are generally subject to a restriction on the sale of the shares or transfer to the employee for three years, or until the relevant employment ceases (as well as full loan repayment for loan shares and TESOP97 extra shares). Approximately 80% of the dividends on the loan shares and TESOP97 extra shares held for the employees under the plans are used to repay their loans.

If a participating employee leaves the Telstra Entity, a company in which Telstra owns greater than 50% equity or the company which was their employer when the shares were acquired, the employee may be required to repay their loan within two months of leaving. This is the case except where:
- the restriction period has ended because of the employee's death or disablement (in this case the loan must be repaid within 12 months); or
- for TESOP99 loan shares, the restricted period ends while instalment receipts are still on issue (in this case the loan must be repaid within 2 months of the date for payment of the final instalment).

If the employee does not repay the loan when required above, the shares can be sold and the proceeds of sale used to repay the loan. Also, for TESOP99, the Government guaranteed allocation of up to 5,000 shares for employees using their own funds to purchase shares in the public offer. These shares are directly held by the employees. Further details on each of the plans are highlighted in the table below in section (c).

### (b) Telstra Growthshare executive equity plan

Telstra Growthshare started in fiscal 2000. The purpose of Telstra Growthshare is to align key executives' rewards with shareholders' interests, and rewarding performance improvement supporting business plans and corporate strategies. The plan is operated through the Telstra Growthshare Trust and Telstra Growthshare Pty Ltd acts as trustee. This company is 100% owned by us. The board determines who is invited to participate. Allocations are in the form of options and restricted shares.

An option or restricted share represents a right to acquire a share in Telstra. Generally, options or restricted shares may only be exercised to acquire Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options a payment of the exercise price is made. Refer to the table in section (c) below for more information.

#### Performance hurdle for options and restricted shares

The performance hurdle for options and restricted shares allocated is that the average Telstra Accumulation Index must exceed the average All Industrials Accumulation Index for thirty consecutive days within the performance period. Generally, in the event of leaving Telstra, the options and restricted shares may lapse.

#### Options

An executive is not entitled to Telstra shares before the options are exercised. This means that the executive cannot use options to vote or receive dividends. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the expiry date otherwise they will lapse. Once the options are exercised, Telstra shares will be transferred to the executive. Telstra provides loans to the trustee to enable it to purchase shares on market to underpin the options. When exercised, the executive pays for the shares at the exercise price and the loan is repaid to us. We receive interest on the loans to the trust.

# Notes to the Financial Statements (continued)

## 19. Employee share plans (continued)

### (b) Telstra Growthshare executive equity plan (continued)

#### Restricted Shares

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

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

- 13 September 2004 (for the fiscal 2000 plan);
- the executive finishes employment with Telstra; or
- a date nominated by the board.

The restricted trust shares may be transferred to the executive at a cost of $1 in total for all shares. These shares are recorded as an expense to us when we provide funding to the trust to purchase them.

### (c) Share plan information

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

| | TESOP 99 | TESOP 97 |
|---|---|---|
| Date used to determine number of eligible employees | 27 August 1999 | 20 September 1997 |
| Date the plan started | 16 October 1999 | 15 November 1997 |
| Number of employees eligible to participate | 53,900 | 64,309 |
| Price paid by employee - first instalment | (16 October 1999) $4.50 | (15 November 1997) $1.95 |
| Price paid/payable by employee - second instalment | (i) $2.90 | (17 November 1998) $1.35 |
| Total price paid/payable by employee and market price on date of issue | $7.40 | $3.30 |
| Number of shares each eligible employee was able to buy with interest free loan (loan shares) | 400 | 2,000 |
| Number of extra shares received by each eligible employee | one extra share for every four guaranteed allocation shares purchased up to a limit of 200 | one extra share for every four loan shares or non-loan shares purchased up to a limit of 500 |
| The date participating employees have full ownership of the loan shares and extra shares (ii) | 16 October 2002 | 15 November 2000 |
| Number of employees who purchased loan shares | 42,439 | 55,748 |
| Total number of loan shares initially purchased | 16,939,000 | 109,979,100 |
| Total number of extra shares initially acquired relating to loan shares | (iii) | 27,494,775 |
| Number of employees who used their own funds to buy shares in TESOP and received extra shares | 21,424 | 2,282 |
| Number of shares initially purchased under TESOP with own funds | (iv) | 3,776,732 |
| Number of extra shares initially acquired by employees from using their own funds | (iii) 3,903,314 | 944,183 |
| Total market value of shares at issue date (including extra shares) | $93,790,413 (first instalment) second instalment outstanding | $277,279,841 (first instalment) $181,936,265 (second instalment) |
| Total initial loan made to employees | $76,225,500 (first instalment) second instalment outstanding | $221,823,872 (first instalment) $144,401,940 (second instalment) |
| Loan discount paid on behalf of employees ($1 per loan) | $42,439 | $55,748 |
| Number of Commonwealth loyalty shares available to each eligible employee at no additional cost (shares need to be held for 12 months to qualify) | one for every 10 shares purchased in the Commonwealth component limited to 80 | one for every 10 shares purchased in the public offer limited to 200 |
| Number of employees who received Commonwealth loyalty shares | (v) | 21,761 |
| Number of loyalty shares issued | (v) | 3,162,222 |
| Market value of Commonwealth loyalty shares issued | (v) | $20,363,290 ($6.46 per share) |

## Notes to the Financial Statements (continued)

# 19. Employee share plans (continued)

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

(i) Second instalment is due to be paid by 2 November 2000.

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

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

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

(v) TESOP99 loyalty shares to be issued to eligible employees who are still holding their Commonwealth component shares on 2 November 2000 and have not prepaid the final instalment.

We provide the following information about Telstra Growthshare:

| | **Growthshare 2000 options (i) (vi)** | **Growthshare 2000 restricted shares (i) (vi)** |
|---|---|---|
| Number of executives who were allocated options and restricted shares | 45 | 45 |
| Effective allocation date of options and restricted shares | 13 September 1999 | 13 September 1999 |
| Performance hurdle period - i.e. over what time period executives have to satisfy performance hurdle to be eligible for shares | period between 13 September 2002 and 13 September 2004 | period between 13 September 2002 and 13 September 2004 |
| Number of options and restricted shares issued | 3,370,000 | 573,500 |
| Exercise price | $8.02 per option | $1 in total per holding as long as performance hurdle is met |
| Market value of shares on allocation date | $8.02 | $8.02 |
| Exercise date (once performance hurdle is met) | any time before 13 September 2009 | any time before 13 September 2004 |

(vi) Both the restricted shares and options are subject to a performance hurdle. If this hurdle is not achieved they will have a nil value and will lapse. As the achievement of the performance hurdle is uncertain a remuneration value is not attributed to the restricted shares or options. Under Telstra's USGAAP disclosures (refer note 30) the binomial pricing model was used to determine the fair value for options for the purpose of inclusion in the potential compensation expenses. The value for the September 1999 allocation is $1.38 per option. The value for the restricted share on the date of allocation was $5.64 per share.

## Notes to the Financial Statements (continued)

# 19. Employee share plans (continued)

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

We provide the following information about all of our share plans:

| | All employee share plans As at 30 June 2000 | All employee share plans As at 30 June 1999 |
|---|---|---|
| Market price of Telstra shares and instalment receipts | **instalment receipts $3.80 shares $6.78** | shares $8.66 |
| Employee shares loan balance (total including current and non current excluding Growthshare option loans - note 9) | **$297 million** | $279 million |
| Loan to Telstra Growthshare (other receivables non current - note 9) | **$14 million** | - |
| **TESOP99** | | |
| Remaining employees with loan shares | **42,131** | (i) |
| Remaining number of loan shares | **16,816,400** | (i) |
| Remaining number of extra shares | **3,663,764** | (i) |
| **TESOP97** | | |
| Remaining employees with loan shares | **39,888** | 45,813 |
| Remaining employees with non loan shares | **1,003** | 1,203 |
| Remaining number of loan shares | **78,838,100** | 90,519,600 |
| Remaining number of extra shares | **19,709,525** | 22,629,900 |
| **Growthshare 2000** | | |
| Number of executives with Growthshare 2000 options (ii) | **37** | (i) |
| Number of executives with Growthshare 2000 restricted shares (ii) | **37** | (i) |
| Number of Growthshare 2000 options outstanding (ii) | **2,708,000** | (i) |
| Number of Growthshare 2000 restricted shares outstanding (ii) | **463,500** | (i) |

(i) Shares were not issued under these plans as at 30 June 1999.

(ii) 662,000 options and 110,000 restricted shares lapsed in relation to 8 executives who left our employment in fiscal 2000.

# Notes to the Financial Statements (continued)

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |

## 20. Expenditure commitments

### (a) Capital expenditure commitments

| | | | | |
|---|---|---|---|---|
| Total capital expenditure commitments contracted for at balance date but not recorded in the financial statements: | | | | |
| Within 1 year | **662** | 647 | **944** | 621 |
| Within 1-2 years | **159** | 219 | **161** | 161 |
| Within 2-3 years | **143** | 124 | **143** | 124 |
| Within 3-4 years | **131** | 121 | **131** | 121 |
| Within 4-5 years | **131** | 120 | **131** | 120 |
| After 5 years | **265** | 360 | **265** | 360 |
| | **1,491** | 1,591 | **1,775** | 1,507 |
| Included in the amounts above are capital commitments relating to information technology services (i) | **853** | 990 | **853** | 990 |

(i) These capital commitments relate to amounts to be spent on software assets developed for internal use under a 10 year contract with IBM Global Services Australia Limited (IBMGSA) (Refer Note 20(d)(ii) for other commitments relating to IBMGSA).

### (b) Operating lease commitments

| | | | | |
|---|---|---|---|---|
| Future lease payments for non-cancellable operating leases not recorded in the financial statements: | | | | |
| Within 1 year | **313** | 251 | **309** | 236 |
| Within 1-2 years | **256** | 158 | **253** | 146 |
| Within 2-3 years | **224** | 115 | **220** | 102 |
| Within 3-4 years | **102** | 81 | **102** | 80 |
| Within 4-5 years | **57** | 62 | **57** | 62 |
| After 5 years | **232** | 175 | **232** | 175 |
| | **1,184** | 842 | **1,173** | 801 |

In addition, we have commitments under cancellable operating leases of $235 million for fiscal 2001 (1999: $95 million for fiscal 2000). The Telstra Entity has commitments under cancellable operating leases of $200 million for fiscal 2001 (1999: $82 million for fiscal 2000).

**Description of our operating leases**

We have operating leases for the following major services:
- rental of land and buildings;
- rental of motor vehicles, caravan huts and trailers and mechanical aids; and
- rental of personal computers, laptops and printers that are used in non communications plant activities.

The average lease term is:
- five and a half years for land and buildings;
- three years for motor vehicles and related equipment; and
- three to four years for personal computers and related equipment.

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

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

Operating leases related to our personal computers and associated equipment had average interest rates of 6.66% for fiscal 2000 and 1999.

# Notes to the Financial Statements (continued)

## 20. Expenditure commitments (continued)

| | Note | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|---|
| **(c) Finance lease commitments** | | | | | |
| Within 1 year | | **25** | 29 | **15** | 26 |
| Within 1-2 years | | **16** | 16 | **6** | 13 |
| Within 2-3 years | | **14** | 7 | **6** | 4 |
| Within 3-4 years | | **5** | 5 | **-** | 5 |
| Within 4-5 years | | **5** | - | **-** | - |
| Total minimum lease payments | | **65** | 57 | **27** | 48 |
| Future finance charges on finance leases | | **(6)** | (3) | **(1)** | (2) |
| Present value of net future minimum lease payments | | **59** | 54 | **26** | 46 |
| Recorded as current borrowings | 16 | **22** | 28 | **14** | 25 |
| Recorded as non current borrowings | 16 | **37** | 26 | **12** | 21 |
| Total finance lease liabilities | 16 | **59** | 54 | **26** | 46 |

Included in finance lease commitments of the Telstra Entity are finance leases with a controlled entity of $16 million (1999: $17 million). The current amount of these finance leases is $4 million (1998: $4 million). The non current amount is $12 million (1998: $13 million).

**Description of our finance leases**

We have finance leases for the following major services:
- communications exchange equipment leases in both Australian dollars and Japanese yen;
- communications exchange equipment made in US dollars; and
- computer mainframes, computer processing equipment and other related equipment.

The average lease term is:
- until July 2002, for communications exchange equipment made in Australian dollars and Japanese yen;
- 16 years for communications exchange equipment made in US dollars; and
- three years for computer mainframe and associated equipment.

Communications exchange equipment leases in both Australian dollars and Japanese yen have purchase options at 10% of the lease value.

We entered into US finance leases for communications exchange equipment in fiscal 2000 and fiscal 1999. Under the terms of the leases Telstra has prepaid all lease rentals due under the leases. We have guaranteed that the lease payments will be paid as scheduled over the lease term to the ultimate lessor. We received guarantee fees of $39 million in fiscal 2000 and $37 million for fiscal 1999. These fees are recorded in revenue received in advance and are being released to the profit and loss over the term of the leases being 16 years.

Interest rates for our finance leases are:
- Australian dollar communication assets between 7% and 9%;
- Japanese yen communication assets between 4.25% and 5.06%;
- US dollar communication assets between 4.25% and 5.06%; and
- computer mainframe and associated equipment between 7% and 8.5%.

The Australian dollar and Japanese yen leases for communications assets contain general restrictions on creating negative liens over or sale of the communication assets under lease.

# Notes to the Financial Statements (continued)

## 20. Expenditure commitments (continued)

### (d) Other commitments

| | Telstra Group As at 30 June 2000 $m | Telstra Group As at 30 June 1999 $m | Telstra Entity As at 30 June 2000 $m | Telstra Entity As at 30 June 1999 $m |
|---|---|---|---|---|
| Other expenditure commitments, other than commitments dealt with in (a), (b) and (c) above, which have not been recorded in the financial statements are: | | | | |
| Within 1 year | **964** | 829 | **849** | 665 |
| Within 1-2 years | **778** | 594 | **702** | 512 |
| Within 2-3 years | **731** | 573 | **658** | 493 |
| Within 3-4 years | **640** | 505 | **564** | 427 |
| Within 4-5 years | **507** | 406 | **421** | 329 |
| After 5 years | **1,094** | 1,262 | **599** | 733 |
| | **4,714** | 4,169 | **3,793** | 3,159 |
| The other expenditure commitments above include contracts for printing, engineering and operational support services, software maintenance, agency fees and building maintenance. The above commitments also include commitments relating to our investment in joint venture entities (refer note 24) and commitments relating to information technology services as follows: | | | | |
| Joint venture entity commitments (i) | **935** | 925 | **-** | - |
| Commitments relating to information technology services (ii) | **1,860** | 2,188 | **1,860** | 2,188 |

(i) Joint venture entity commitments of approximately A$1,870 million (US$1,120 million) (1999: A$1,850 million, US$1,207 million) mainly refer to our share of minimum subscriber guarantees for pay television programming agreements. These agreements are for periods of between 1 and 20 years (1999: 1 and 21 years) and are based on current prices and costs under agreements entered into between the FOXTEL Partnership and various other parties. These minimum subscriber payments fluctuate in accordance with price escalation/ reduction formulas contained in the agreements. Refer to note 21 'FOXTEL minimum subscriber guarantees', for further information.

(ii) Commitments for information technology (IT) services result from a contract with IBMGSA. Under this contract, IBMGSA will provide IT services to the Telstra Entity and selected Australian controlled entities for a period of 10 years from 30 June 1998. The Telstra Entity is committed to a total amount of $2,713 million (1999: $3,178 million) over the period, of which $853 million (1999: $990 million) relates to a capital commitment (refer note 20(a)).

### Telstra Employee Share Ownership Plan II (TESOP99)

To complete its obligations under the rules of the Telstra Employee Share Ownership Plan II (TESOP99) Trust Deed and Loan Scheme, we are required to provide further interest free loans of approximately $49 million to eligible employees. These will be provided when called upon by the Telstra Instalment Receipt Trustee on or before 2 November 2000. This will enable the second instalment on the eligible employee's Telstra shares to be advanced. This amount is included in the amounts due within 1 year in the table above. Refer to note 19 for further information about TESOP99 and the loans made to employees under TESOP99.

# Notes to the Financial Statements (continued)

## 21. Contingent liabilities

The details and maximum amounts (where reasonable estimates can be made) are set out below for contingent liabilities of:

### Telstra Entity

**Legal actions**

Reseller billing cases

We are currently involved in significant litigation with two of our wholesale customers - AAPT Limited (AAPT) and First Netcom Pty Ltd (First Netcom). AAPT is a wholesale customer of Telstra and First Netcom was a wholesale customer.

We claim that AAPT and First Netcom have not paid us for telecommunications services we have provided to them. Our claim against AAPT is for approximately A$127 million and our claim against First Netcom is for approximately A$15 million. Both AAPT and First Netcom dispute that the amounts claimed by us or any amounts are owing by them.

AAPT and First Netcom have both cross-claimed and seek to offset their claims against amounts claimed by us. AAPT's cross-claim is for losses which it estimates to be in the order of A$870 million. First Netcom has estimated its losses to be up to approximately A$37 million.

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

AAPT's and First Netcom's cross-claims include claims for damages and other relief 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 Trade Practices Act 1974 (TPA).

AAPT also makes cross-claims unrelated to the quality or timing of Telstra's resale billing, including claims about Telstra's alleged failure to provide preselection and CCS7 signalling to AAPT from July 1994, and claims about access to international cable consortia. The trial of Telstra's debt claim in the Federal Court is expected to commence on 24 October 2000. The trial of the debt and cross-claims is expected to take approximately one year.

While at this stage it is not possible, on the information available, to reliably measure the effect of the proceedings on the Telstra Entity should both AAPT and First Netcom succeed in the litigation, such an outcome may have a material adverse effect on the Telstra Entity's financial results, operations and competitive position.

Optus section 46 litigation

On 10 September 1997 Cable & Wireless Optus Ltd (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 the Telstra Entity asserted that the Telstra Entity had acted in breach of section 46 of the TPA by taking advantage of a substantial degree of power in various markets for prohibited purposes.

The asserted misconduct included an alleged refusal by the Telstra Entity to supply local number portability and local call access and resale services to Cable & Wireless Optus Ltd on reasonable terms and conditions. These two claims were withdrawn during fiscal 2000 as a result of a confidential settlement of the action. The results of this settlement are not considered by us to be significant.

Cable and Wireless Optus Ltd also asserted that the Telstra Entity has breached section 46 of the TPA, by reason of the arrangements for the supply of pay TV carriage services from the Telstra Entity to FOXTEL and the construction of the Telstra Entity's broadband network. This claim remains in existence. A mediation in December 1999 failed to resolve the claims although it is expected that settlement discussions will resume later this calendar year. Cable & Wireless Optus Ltd has stated publicly that it considers its damages are in the order of $900 million.

The proceedings are in the interlocutory stages. The trial has been fixed provisionally to commence in June 2001. A final litigation timetable is expected to be set in November 2000 following the review by Telstra of witness statements served very recently by Cable & Wireless Optus Ltd. The Telstra Entity continues to believe that it has substantial defences to these claims, and will continue to defend the action vigorously. While at this stage it is not possible, on the information available, to reliably measure the effect of the proceedings on the Telstra Entity should Cable and Wireless Optus Ltd succeed in the litigation, such an outcome may have a material adverse effect on the Telstra Entity's financial results, operations and competitive position.

# Notes to the Financial Statements (continued)

## 21. Contingent liabilities (continued)

### Telstra Entity (continued)

**Litigation that has been settled in fiscal 2000**

The following litigation was settled during fiscal 2000:

- The commercial churn litigation which was disclosed in the fiscal 1999 financial report was settled in fiscal 2000. The Australian Competition & Consumer Commission (ACCC) has discontinued the legal proceedings against us and withdrawn the outstanding competition notices. We have not admitted liability and no fines have been imposed. We have not paid any compensation to any third party. We have paid for our own legal costs. The ACCC will pay their own legal costs. We agreed and have provided a fund (administered by the ACCC) of $4.5 million to assist service providers to upgrade their systems and technical capabilities to deal with us and each other on-line. Fees for the use of the churn service were reduced from 1 March 2000.

- The withdrawal of two claims in relation to the Optus section 46 litigation as noted on the previous page.

The settlement of these claims did not have a significant effect on our financial results, operations or competitive position.

**Other claims**

In addition to the above, 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. Management believes that the resolution of these contingencies will not have a significant effect on the Telstra Entity's financial position, results of operations or cash flows.

# Notes to the Financial Statements (continued)

## 21. Contingent liabilities (continued)

### Telstra Entity (continued)

**Indemnities, performance guarantees and financial support**

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

- Indemnities to financial institutions to support bank guarantees to the value of $342 million (1999: $383 million) in respect of the performance of contracts.
- Indemnities to financial institutions in respect of the obligations of our controlled entities. The maximum amount of our contingent liabilities for this purpose was $158 million (1999: $22 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 $2 million (1999: $59 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 $356 million (1999: $100 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 terms of the finance leases. The lease payments over the remaining period of the lease amount to $1,036 million ($US 620 million) (1999: $517 million ($US 341 million)).
- During fiscal 1998, we resolved to provide our associated entity, IBMGSA, with our pro rata 26% share of shareholder guarantees on a several basis up to $210 million through to the end of the calendar year 2000. These guarantees may be made with IBMGSA bankers, or directly to IBMGSA 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 $68 million on behalf of IBMGSA during fiscal 2000. As at 30 June 2000 $142 million of the $210 million facility remains unused.

### Controlled entities

**Indemnities provided by our controlled entities**

At 30 June 2000, our controlled entities had outstanding indemnities in respect of obligations to financial institutions and corporations. The maximum amount of our controlled entities' contingent liabilities in respect of these indemnities was $9 million (1999: $9 million).

The P.T. Mitra Global Telekomunikasi Indonesia (MGTI) joint venture agreement (JVA) was renegotiated during the financial year ending 30 June 2000. The revised JVA reduced the amount of base equity to be contributed by shareholders from $US340 million to US$208 million (which has now been contributed). This has removed Telstra Global Limited's (TGL) 30 June 1999 commitment to contribute additional equity of $42 million (US$28 million) and a contingent liability to contribute $170 million (US$112 million) of additional capital should the other shareholders of MGTI default from contributing their share.

However, TGL, under the JVA, may be severally liable for calls against standby equity that would be made by MGTI if certain conditions are met. Should this equity be called, TGL will be liable to contribute additional equity of $28 million (US$17 million) (1999: $21 million; US$14 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 $114 million (US$68 million) (1999: $82 million; US$54 million) as standby equity.

TGL executed a guarantee on 31 October 1995 for $62 million (US$37 million) (1999: $56 million; US$37 million), to guarantee that certain operational performance targets would be achieved by MGTI, against which indemnities of $42 million (US$25 million) (1999: $38 million; US$25 million) have been issued by certain shareholders of MGTI in favour of TGL. To date the performance targets have been met and there is no indication that they will be breached.

TGL has granted a limited recourse pledge over its shares in MGTI in support of MGTI's obligations under a $802 million (US$480 million) (1999: $728 million; US$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 $258 million (US$154 million) (1999: $243 million (US$160 million). Repayments are being made on schedule. The lenders have no recourse under the pledge to the assets of Telstra Global Limited other than to its shares in MGTI (except in the case of a breach of representation, warranty or covenant by TGL).

### Other

As at 30 June 2000 and 1999, 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.

# Notes to the Financial Statements (continued)

## 21. Contingent liabilities (continued)

### Other (continued)

**FOXTEL minimum subscriber guarantees**

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

**ASIC deed of cross guarantee**

A list of the companies that are part of our deed of cross guarantee appear in note 23(1). Each of these companies (except Telstra Finance Limited) guarantees the payment in full of the debts of the other named companies in the event of their winding up. Refer to note 23(1) for further information.

# Notes to the Financial Statements (continued)

## 22. Superannuation commitments

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

### Commonwealth Superannuation Scheme (CSS) and Telstra Superannuation Scheme (TSS)

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

On 1 July 1990, the Telstra Superannuation Scheme (TSS) was established. The TSS has both defined benefit and accumulation divisions. A majority of our CSS members transferred to the TSS when it was first established. As CSS members transferred, the liability for benefits for their past service was transferred to the TSS.

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

S Schubert FIAA completed actuarial investigations of the CSS and the two defined benefit divisions of the TSS as at 30 June 1997. The actuarial investigation of the TSS reported that a surplus existed in the TSS.

The actuary recommended that we temporarily stop employer contributions to the defined benefit divisions of the TSS due to this surplus. Based on this advice, from 1 December 1998 we stopped making employer contributions to the defined benefit divisions of the TSS other than the additional contributions under the arrangement described below. The trustee of the scheme agreed to make this effective from 1 July 1998, which gave us a contribution holiday for fiscal 1999.

The CSS actuarial investigation as at 30 June 1997, which was later reviewed by the Australian Government Actuary, was completed in fiscal 1999. This investigation calculated that our notional fund assets for our CSS members exceeded CSS liabilities by $1,428 million. This surplus was also available to be transferred to the TSS. In June 1999 the Minister for Finance and Administration signed a document which allowed the CSS surplus to be transferred to the TSS over a 40 year period. By signing this document and receiving advice from our actuary, we made a decision to continue on a contribution holiday for the TSS for both fiscal 2000 and fiscal 2001. This contribution holiday included the accumulation divisions of the TSS.

The CSS investigation by the actuary has also confirmed that we do not need to contribute employer contributions to the CSS. We will review our contribution rate for both schemes at the next actuarial reviews, which are both due to be completed by 30 June 2001. More recent actuarial advice from the fund actuary indicates that we can continue on an employer contribution holiday for the TSS until at least 30 June 2003, provided the performance of the TSS is satisfactory over this period.

The suspension of our employer contributions to the TSS does not affect the ongoing arrangement where we are committed to pay an additional $121 million each year to the TSS over 16 years ending 30 June 2011. We have recorded in accounts payable (refer note 15) the net present value of our obligation to the TSS. As each payment is made under the agreement, we partly reduce the accounts payable balance and record the remainder as an expense in borrowing costs. The borrowing cost arises from the difference between the actual amount we are required to pay to the TSS and the recorded amount of the discounted accounts payable. Refer to employer contributions below for details of these payments. The commitment started in fiscal 1996 (this amount is recorded in accounts payable - note 15). Subsequent to year end we have been released from this obligation. Refer to note 28 for further information.

### Financial Position

The financial position of the defined benefit divisions of the TSS, our notional fund in the CSS and the Pacific Access Superannuation scheme (PA Scheme) is shown as follows at 30 June:

| | TSS (1) | | CSS (2) | | PA Scheme (3) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June | | As at 30 June | | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m | **$m** | $m | **$m** | $m |
| Accrued benefits | **3,387** | 3,658 | **7,090** | 7,090 | **39** | 24 | **10,516** | 10,772 |
| Scheme assets | **6,795** | 6,623 | **8,319** | 8,319 | **43** | 39 | **15,157** | 14,981 |
| Net surplus | **3,408** | 2,965 | **1,229** | 1,229 | **4** | 15 | **4,641** | 4,209 |
| Vested benefits | **4,093** | 4,362 | **6,049** | 6,049 | **38** | 33 | **10,180** | 10,444 |

# Notes to the Financial Statements (continued)

## 22. Superannuation commitments (continued)

### Financial Position (continued)

(1) Amounts for the defined benefit divisions of the TSS have been taken from the financial report of the scheme as at 30 June. The scheme assets are stated at net market values, and have not taken into account the removal of our obligation since 30 June 2000 (refer note 28).

(2) The CSS amounts show our share of the benefit liability in respect of our employees and former employees who are members of the CSS. The CSS amounts are as at the last actuarial valuation dated 30 June 1997. The surplus of $1,229 million will be used to cover future service accruals for existing members.

(3) The PA Scheme provides both defined benefits and accumulation benefits.

**Employer contributions**

Employer contributions made to:
- the defined benefits divisions of the TSS for fiscal 2000 were $Nil (1999: $Nil; 1998: $294 million);
- the CSS have been $Nil for the past three years ended 30 June 2000;
- the accumulation divisions of the TSS and the PA Scheme for fiscal 2000 totalled $6 million (1999: $16 million; 1998: $15 million); and
- TSS additional contributions of $121 million (1999: $121 million; 1998: $121 million) of which $89 million (1999: $93 million; 1998 $96 million) was recorded in borrowing cost expenses, with $32 million (1999: $28 million; 1998: $25 million) reducing the amount payable.

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities

Below is a list of our investments in controlled entities.

| Name of entity | Country of incorporation | Telstra Entity's recorded amount of investment (a) | | % of equity held by immediate parent | |
|---|---|---|---|---|---|
| | | As at 30 June | | As at 30 June | |
| | | **2000** | 1999 | **2000** | 1999 |
| | | **$m** | $m | **%** | % |
| **Parent entity** | | | | | |
| Telstra Corporation Limited (1) | Australia | | | | |
| **Controlled entities** | | | | | |
| Telstra Technologies Pty Ltd (2) * | Australia | **-** | 13 | **-** | 100.0 |
| On Australia Pty Ltd (1) | Australia | **11** | 11 | **100.0** | 100.0 |
| Telecommunications Equipment Finance Pty Ltd (4) * | Australia | **-** | - | **-** | - |
| Telstra Finance Limited (1) (3) (19) | Australia | **-** | - | **100.0** | 100.0 |
| Transport Communications Australia Pty Ltd * | Australia | **4** | 4 | **100.0** | 100.0 |
| Telstra ESOP Trustee Pty Ltd (3) (7) * | Australia | **-** | - | **100.0** | 100.0 |
| Telstra Growthshare Pty Ltd (3) (7) (9) * | Australia | **-** | - | **100.0** | - |
| Telstra Media Pty Ltd (1) | Australia | **273** | 250 | **100.0** | 100.0 |
| Telstra Multimedia Pty Ltd (1) | Australia | **1,720** | 1,590 | **100.0** | 100.0 |
| Lawpoint Pty Ltd (16) | Australia | **-** | 2 | **-** | 60.0 |
| Telstra R&D Management Pty Ltd (1) | Australia | **1** | 1 | **100.0** | 100.0 |
| Telstra Ventures Pty Ltd (2) | Australia | **-** | - | **-** | 100.0 |
| Advanced Network Management Pty Ltd (2) * | Australia | **1** | 1 | **100.0** | 100.0 |
| Telstra Rewards Pty Ltd (3) * | Australia | **-** | - | **100.0** | 100.0 |
| • Telstra Visa Card Trust | Australia | **-** | - | **100.0** | 100.0 |
| • Qantas Telstra Card Trust | Australia | **-** | - | **100.0** | 100.0 |
| • Telstra Visa Business Card Trust (9) | Australia | **-** | - | **100.0** | - |
| Telecom Messagetech Pty Ltd (2) * | Australia | **-** | 4 | **-** | 51.1 |
| • Sarzeau (NSW) Pty Ltd (2) * | Australia | **-** | - | **-** | 100.0 |
| • Sparad (No.27) Pty Ltd (2) * | Australia | **-** | - | **-** | - |
| Telstra Media Holdings Pty Ltd (1) (3) (19) | Australia | **29** | - | **100.0** | 100.0 |
| • Advantra Pty Ltd (1) (12) | Australia | **-** | - | **100.0** | - |
| Pacific Access Pty Ltd (1) (10) (19) | Australia | **121** | 58 | **100.0** | 75.0 |
| • Goeureka.com.au Pty Ltd (9) * | Australia | **-** | - | **100.0** | - |
| • Search Direct Pty Ltd (9) * | Australia | **-** | - | **100.0** | - |
| • Pacific Access Enterprises Pty Ltd * | Australia | **-** | - | **100.0** | 100.0 |
| • WorldCorp Holdings (S) Pte Ltd (8) | Singapore | **-** | - | **100.0** | 100.0 |
| • WorldCorp Publishing Pte Ltd (8) | Singapore | **-** | - | **100.0** | 100.0 |
| Telstra CB Holdings Limited (1) (3) (20) * | Australia | **433** | - | **100.0** | 100.0 |
| • Telstra CB.net Limited (1) (9) | Australia | **-** | - | **100.0** | - |
| • Telstra CB.Com Limited (1) (9) | Australia | **-** | - | **100.0** | - |
| • Telstra CB.fs Limited (1) (9) | Australia | **-** | - | **100.0** | - |
| • InsNet Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • Australasian Insurance Systems Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • TRC Computer Systems Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • DBA Limited (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • BrokerLink Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • DBA Computer Systems Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |
| • Unilink Group Pty Ltd (1) (8) (13) | Australia | **-** | - | **100.0** | - |

(continued over page)

## Notes to the Financial Statements (continued)

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

| Name of entity | Country of incorporation | | Telstra Entity's recorded amount of investment (a) As at 30 June 2000 $m | 1999 $m | % of equity held by immediate parent As at 30 June 2000 % | 1999 % |
|---|---|---|---|---|---|---|
| **Controlled entities (continued)** | | | | | | |
| Atlas Travel Technologies Pty Ltd | Australia | | **21** | 16 | **67.74** | 67.74 |
| • Atlas Travel Technologies Inc. (8) | United States | | **-** | - | **100.0** | 100.0 |
| • Moneydirect International Limited (8) | United Kingdom | | **-** | - | **100.0** | 100.0 |
| • Moneydirect Pty Ltd * | Australia | | **-** | - | **100.0** | 100.0 |
| • Moneydirect Limited (8) | New Zealand | | **-** | - | **100.0** | 100.0 |
| Network Design and Construction Limited (1) (3) | Australia | | **174** | - | **100.0** | 100.0 |
| • NDC Global Holdings Pty Ltd (9) (20) * | Australia | | **-** | - | **100.0** | - |
| • NDC Global Services Pty Ltd (9) (20) * | Australia | | | | **100.0** | - |
| Telstra International Limited (1) (19) | Australia | | **84** | 84 | **100.0** | 100.0 |
| • Modi Telstra Limited (5) (8) (18) | India | | **-** | - | **-** | 49.0 |
| Telstra Communications Limited (1) | Australia | | **29** | 29 | **100.0** | 100.0 |
| • Telecom Australia (Saudi) Company Ltd (5) (6) (8) | Saudi Arabia | | **-** | - | **50.0** | 50.0 |
| Telstra Holdings Pty Ltd (1) | Australia | | **650** | 349 | **100.0** | 100.0 |
| • Telstra Global Networks Limited (8) (9) | Bermuda | | **-** | - | **100.0** | - |
| • Telstra (Malaysia Holdings) Sdn. Bhd. (8) | Malaysia | | **-** | - | **100.0** | 100.0 |
| • Telstra International (HK) Holdings Limited (8) | Hong Kong | | **-** | - | **100.0** | 100.0 |
| • Mobitel (pvt) Limited (8) | Sri Lanka | | **-** | - | **60.0** | 60.0 |
| • Telstra New Zealand Limited (8) (17) | New Zealand | | **-** | - | **-** | 100.0 |
| • Netlink Limited (8) (11) (17) | New Zealand | | **-** | - | **-** | - |
| • Telstra Limited (8) (15) (20) | New Zealand | | **-** | - | **100.0** | 100.0 |
| • Telstra Global Limited (8) | United Kingdom | | **-** | - | **100.0** | 100.0 |
| • Telstra Korea Limited (8) (9) | Korea | | **-** | - | **100.0** | - |
| • Telstra CB.UK Limited (8) (9) | United Kingdom | | **-** | - | **100.0** | - |
| • Telstra (UK) Limited (8) | United Kingdom | | **-** | - | **100.0** | 100.0 |
| • PT Telstra Nusantara (8) | Indonesia | | **-** | - | **100.0** | 100.0 |
| • Telstra Germany GmbH (8) | Germany | | **-** | - | **100.0** | 100.0 |
| • Telstra France SA (8) | France | | **-** | - | **100.0** | 100.0 |
| • Telstra Inc. (8) | United States | | **-** | - | **100.0** | 100.0 |
| • North Point Telecommunications Inc. (8) | United States | | **-** | - | **100.0** | 100.0 |
| • Telstra eConnect LLC (8) (20) | United States | | **-** | - | **100.0** | 100.0 |
| • Telstra Vishesh Communications Ltd (5) (6) (8) (14) | India | | **-** | - | **47.1** | 40.0 |
| • Telstra South Asia Holdings Limited (8) | Mauritius | | **-** | - | **100.0** | 100.0 |
| • Telstra India Private Limited (8) | India | | **-** | - | **100.0** | 100.0 |
| • Telstra Singapore Pte Ltd (8) | Singapore | | **-** | - | **100.0** | 100.0 |
| • Telstra Japan K.K (8) | Japan | | **-** | - | **100.0** | 100.0 |
| Total investment in controlled entities (at cost) | | note 11 | **3,551** | 2,412 | | |
| Provision for reduction in value | | note 11 | **(2,415)** | (2,148) | | |
| | | note 11 | **1,136** | 264 | | |

(a) The amounts recorded are before any provision for reduction in value (refer note 11).

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

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities (continued)

**ASIC deed of cross guarantee**

(1) The following companies have entered into a deed of cross guarantee dated 4 June 1996 (or have been 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 (added 10 January 2000);
- Telstra CB Holdings Limited (added 9 June 2000);
- Telstra CB.net Limited (added 9 June 2000);
- Telstra CB.Com Limited (added 9 June 2000);
- Telstra CB.fs Limited (added 9 June 2000);
- InsNet Pty Ltd (added 9 June 2000);
- Australasian Insurance Systems Pty Ltd (added 9 June 2000);
- TRC Computer Systems Pty Ltd (added 9 June 2000);
- DBA Limited (added 9 June 2000);
- BrokerLink Pty Ltd (added 9 June 2000);
- DBA Computer Systems Pty Ltd (added 9 June 2000);
- Unilink Group Pty Ltd (added 9 June 2000);
- Telstra Media Pty Ltd (added 9 June 2000); and
- Advantra Pty Ltd (added 9 June 2000).

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

The deed of cross guarantee was formed under ASIC Class Order 98/1418, including amendments made to this class order. This class order was dated 13 August 1998 and has been amended by class orders 98/2017 and 00/0321. Under this class order and the deed of cross guarantee, the companies listed above, except for Telstra Finance Limited:

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

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities (continued)

**ASIC deed of cross guarantee (continued)**

(1) (continued) The consolidated assets and liabilities of the closed group and extended closed group at 30 June 2000 and 1999 is presented according to ASIC class order 98/1418 (as amended) as follows. This excludes Telstra Finance Limited. All significant transactions between members of the closed group have been eliminated.

**Closed Group Balance Sheet**

| | Closed Group | |
|---|---|---|
| | As at 30 June | |
| | **2000 $m** | 1999 $m |
| **Current assets** | | |
| Cash | **655** | 944 |
| Receivables | **3,710** | 2,947 |
| Inventories | **293** | 203 |
| Other assets | **253** | 121 |
| Total current assets | **4,911** | 4,215 |
| **Non current assets** | | |
| Receivables | **109** | 290 |
| Inventories | **14** | 16 |
| Investments | **1,027** | 428 |
| Property, plant and equipment | **22,234** | 20,767 |
| Future income tax benefit | **106** | 353 |
| Intangible assets | **532** | 423 |
| Other assets | **1,313** | 851 |
| Total non current assets | **25,335** | 23,128 |
| **Total assets** | **30,246** | 27,343 |
| **Current liabilities** | | |
| Accounts payable | **2,144** | 2,208 |
| Borrowings | **3,446** | 2,344 |
| Provisions | **2,863** | 4,692 |
| Revenue received in advance | **730** | 650 |
| Total current liabilities | **9,183** | 9,894 |
| **Non current liabilities** | | |
| Accounts payable | **729** | 742 |
| Borrowings | **6,606** | 4,924 |
| Provisions | **1,346** | 1,539 |
| Deferred income tax | **737** | 2 |
| Total non current liabilities | **9,418** | 7,207 |
| **Total liabilities** | **18,601** | 17,101 |
| **Net assets** | **11,645** | 10,242 |
| **Shareholders' equity** | | |
| Share capital | **6,433** | 6,433 |
| Reserves | **26** | 57 |
| Retained profits | **5,186** | 3,752 |
| **Shareholders' equity available to the closed group** | **11,645** | 10,242 |

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities (continued)

### ASIC deed of cross guarantee (continued)

(1) (continued) The consolidated net profit after income tax expense of the Closed Group and Extended Closed Group for the fiscal years ended 30 June 2000 and 1999 is presented according to ASIC class order 98/1418 (as amended) as follows:

This excludes Telstra Finance Limited. All significant transactions between members of the Closed Group have been eliminated.

**Closed Group Profit and Loss**

| | Closed Group Year ended 30 June | |
|---|---|---|
| | **2000** | 1999 |
| | **$m** | $m |
| Operating profit before income tax expense | **5,420** | 5,272 |
| Income tax expense on operating profit | **1,679** | 1,818 |
| Operating profit after income tax expense available to the closed group | **3,741** | 3,454 |
| Retained profits at the beginning of the financial year available to the closed group | **3,752** | 4,545 |
| Effect on retained profits from additions of new entities to the closed group | **9** | - |
| Total available for distribution | **7,502** | 7,999 |
| Dividends provided for or paid | **2,316** | 4,247 |
| Retained profits at the end of the financial year available to the closed group | **5,186** | 3,752 |

### Liquidations and deregistrations

(2) As at 30 June 2000, the following companies were in voluntary liquidation:
- Advanced Network Management Pty Ltd.

The following companies were liquidated during fiscal 2000:
- Telstra Technologies Pty Ltd on 25 February 2000; and
- Telstra Ventures Pty Ltd on 21 July 1999.

Telecom Messagetech Pty Ltd has been deconsolidated from the Telstra Group financial statements as at 30 June 2000 as voluntary liquidation procedures have been completed in substance as at 30 June 2000.

Sarzeau (NSW) Pty Ltd and Sparad (No.27) Pty Ltd (i) are wholly owned controlled entities of Telecom Messagetech Pty Ltd. These controlled entities have also been deconsolidated from the Telstra Group financial statements as deregistration procedures have been completed in substance as at 30 June 2000.

(i) Sparad (No.27) Pty Ltd was acquired during fiscal 2000 as a result of a settlement of a research and development syndication agreement.

### Rounded investments

(3) The cost of the Telstra Entity's investments in controlled entities, which is not shown when rounded to the nearest million dollars is as follows:

| | As at 30 June | |
|---|---|---|
| | **2000** | 1999 |
| | **$** | $ |
| Telstra Rewards Pty Ltd | **2** | 2 |
| Telstra Finance Limited | **5** | 5 |
| Telstra ESOP Trustee Pty Ltd | **2** | 2 |
| Telstra Growthshare Pty Ltd | **1** | - |
| Telstra Media Holdings Pty Ltd | **#** | 2 |
| Telstra CB Holdings Limited | **#** | 1 |
| Network Design and Construction Limited | **#** | 100 |

# Investments greater than $1 million as at 30 June 2000.

### Controlled entities with no equity ownership

(4) We do not have an equity investment in Telecommunications Equipment Finance Pty Ltd. As we have effective control over this entity through economic dependency we have consolidated it into the group financial report. This company does not have any significant assets or liabilities.

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities (continued)

**Controlled entities where we own less than 50% equity**

(5) We own 47.1% of the issued capital of Telstra Vishesh Communications Limited, 50% of the issued capital of Telecom Australia (Saudi) Co. Ltd and until 2 June 2000 we owned 49% of the issued capital of Modi Telstra Limited. We can exercise control over the boards of directors of these entities in perpetuity, and therefore these entities have been consolidated into our financial report.

**Controlled entities with different balance dates**

(6) The following companies have different balance dates to our balance date of 30 June: Telstra Vishesh Communications Ltd - 31 March; Telecom Australia (Saudi) Co. Limited - 31 December. Financial reports prepared as at 30 June are used for consolidation purposes. We intend to dispose of our investment in Telecom Australia (Saudi) Co. Limited.

**Trusts which are not consolidated**

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

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

For the reasons mentioned above we have not consolidated these trusts into our group financial report.

**Controlled entities not individually audited by the Australian National Audit Office**

(8) Companies not audited by the Australian National Audit Office, our Australian statutory auditor.

**New incorporations and investments**

(9) We have invested in or incorporated the following entities during fiscal 2000:

- Telstra Visa Business Card Trust - 6 October 1999;
- Telstra Growthshare Pty Ltd - 1 October 1999;
- Telstra Korea Limited - 5 July 1999;
- Telstra CB.UK Limited - 10 September 1999;
- Telstra Global Networks Limited - 25 February 2000;
- Telstra CB.net Limited - 29 February 2000;
- Telstra CB.Com Limited - 26 August 1999;
- Telstra CB.fs Limited - 29 February 2000;
- NDC Global Holdings Pty Ltd - 28 February 2000;
- NDC Global Services Pty Ltd - 28 February 2000;
- Goeureka.com.au Pty Ltd - 21 June 2000; and
- Search Direct Pty Ltd - 21 June 2000.

The amounts initially invested were not significant.

(10) In July 1999, we bought the remaining 25% ownership interest from the minority shareholders of Pacific Access Pty Ltd for $63 million taking our ownership interest to 100%. This created additional goodwill of $36 million.

(11) Telstra New Zealand purchased Netlink Limited on 12 October 1999 for $21 million. We recorded goodwill of $20 million as a result of this purchase. Netlink Limited has since been sold. Refer (17) below.

(12) We purchased an additional 50% equity in Advantra Pty Ltd on 31 March 2000 for $52 million and recorded goodwill of $55 million. On that date our ownership interest increased to 100% and we consolidated Advantra Pty Ltd into the group. Before this date Advantra Pty Ltd was a joint venture entity and was equity accounted.

(13) On 16 March 2000 we purchased InsNet Pty Ltd and all of its controlled entities for $22 million. We recorded goodwill of $15 million as a result of this purchase.

(14) We increased our ownership interest in Telstra Vishesh Communications Limited during the year from 40% to 47.1%. This was due to the default by a minority shareholder in paying equity contributions to the company.

(15) Telstra Holdings Pty Ltd purchased Telstra Limited on 6 April 2000 for $80. Also refer to (20) for change of name.

**Sale of controlled entities**

(16) We sold our 60% shareholding in Lawpoint Pty Ltd on 17 May 2000. We sold this to our associated entity, Solution 6 Holdings Pty Ltd for $26 million. We recorded a profit to the group of $18 million ($24 million less unrealised profit after tax of $6m) from the sale.

(17) On 6 April 2000 we sold 100% of Telstra New Zealand Limited and its controlled entity, Netlink Limited to our joint venture entity, Telstra Saturn Limited for $195 million. We recorded a profit to the group of $52 million ($104 million less unrealised profit after tax of $52m) from the sale. We have a 50% investment in Telstra Saturn Limited and this investment has been classified as a joint venture entity as we have joint control over decision making. Refer to note 24(6) for details of Telstra Saturn Limited.

(18) We sold our 49% shareholding in Modi Telstra Limited on 2 June 2000 for $27 million. We made a profit of $25 million on this sale.

# Notes to the Financial Statements (continued)

## 23. Investments in controlled entities (continued)

**Dividends received by the Telstra Entity**

(19) Dividends were received by the Telstra Entity during fiscal 2000 from the following entities:
- Telstra Media Holdings Pty Ltd $Nil (1999: $10 million);
- Pacific Access Pty Ltd $41 million (1999: $32 million);
- Telstra International Limited $2 million (1999: $80 million); and
- Telstra Finance Limited $0.3 million (1999: $Nil).

**Change of company names**

(20) The following entities changed their names during fiscal 2000:
- Telstra Development LLC changed its name to Telstra eConnect LLC on 12 February 2000;
- Telstra Pay TV Investments changed its name to Telstra CB Holdings Limited on 11 October 1999. This company also changed from a proprietary company to a public company on the same date;
- Navigator Communications (NZ) Limited changed its name to Telstra Limited on 6 April 2000;
- NDC Global Holdings Pty Ltd was formerly named Votraint No.1221 Pty Ltd. The name was changed on 3 May 2000; and
- NDC Global Services Pty Ltd was formerly named Votraint No.1220 Pty Ltd. The name was changed on 3 May 2000.

# Notes to the Financial Statements (continued)

## 24. Investments in joint venture entities and associated entities

Our investments in joint venture entities are listed below:

| Name of joint venture entity | Principal activities | Ownership interest As at 30 June 2000 % | Ownership interest As at 30 June 1999 % | Telstra Group's recorded amount of investment (*) As at 30 June 2000 $m | Telstra Group's recorded amount of investment (*) As at 30 June 1999 $m | Telstra Entity's recorded amount of investment (*) As at 30 June 2000 $m | Telstra Entity's recorded amount of investment (*) As at 30 June 1999 $m |
|---|---|---|---|---|---|---|---|
| **(i) Joint venture entities** | | | | | | | |
| FOXTEL Partnerships (#) | Pay television | **50.0** | 50.0 | **39** | 46 | **-** | - |
| Customer Services Pty Ltd (1) | Customer service | **50.0** | 50.0 | **-** | - | **-** | - |
| FOXTEL Management Pty Ltd (1) | Management services | **50.0** | 50.0 | **-** | - | **-** | - |
| FOXTEL Cable Television Pty Ltd (1) (3) | Pay television | **80.0** | 80.0 | **-** | - | **-** | - |
| Advantra Pty Ltd (1) (5) | Network services | **-** | 50.0 | **-** | - | **-** | - |
| Stellar Call Centres Pty Ltd | Call centre services and solutions | **50.0** | 50.0 | **3** | 2 | **3** | 2 |
| Telstra Saturn Limited (incorporated in New Zealand) (c) (6) | Telecommunications carrier and service provider | **50.0** | - | **103** | - | **-** | - |
| Station 12 B.V. (incorporated in The Netherlands) (c) (7) | Global satellite communications | **35.0** | - | **137** | - | **-** | - |
| Investment 2000 Pty Ltd (1) | Olympic business investment opportunities | **25.0** | 25.0 | **-** | - | **-** | - |
| Telecom Services Kiribati Limited (incorporated in Kiribati) (a) (2) | Telecommunications services | **49.0** | 49.0 | **2** | 1 | **-** | - |
| Telstra Hewlett-Packard (R&D) Pty Ltd (b) (1) | Computer services | **50.0** | 50.0 | **-** | - | **-** | - |
| | | | **note 11** | **284** | 49 | **3** | 2 |

(#) This includes both the FOXTEL Partnership and the FOXTEL Television Partnership combined.

(a) Balance date is 31 March.
(b) Balance date is 31 October.
(c) Balance date is 31 December.

Unless noted above, all investments have a balance date of 30 June. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting.

(*) The Telstra Group carrying amounts are equity accounted. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.17(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

# Notes to the Financial Statements (continued)

## 24. Investments in joint venture entities and associated entities (continued)

Our investments in associated entities are listed below:

| Name of associated entity | Principal activities | Ownership interest | | Telstra Group's recorded amount of investment (*) | | Telstra Entity's recorded amount of investment (*) | |
|---|---|---|---|---|---|---|---|
| | | As at 30 June | | As at 30 June | | As at 30 June | |
| | | **2000** | 1999 | **2000** | 1999 | **2000** | 1999 |
| | | **%** | % | **$m** | $m | **$m** | $m |
| **(ii) Associated entities** | | | | | | | |
| IBM Global Services Australia Limited (a) (1) (2) (5) . . | Information technology services | **22.6** | 26.0 | **-** | - | **-** | - |
| Australian-Japan Cable Holdings Limited (incorporated in Bermuda) (a) (8) . . . . . . . . . . . | Network cable provider | **39.9** | - | **11** | - | **-** | - |
| Solution 6 Holdings Limited (10) . | Business software system provider | **23.86** | - | **103** | - | **10** | - |
| ECard Pty Ltd (11) . . . . . . . . . . | Smart card transaction processing | **41.0** | - | **31** | - | **31** | - |
| PT Mitra Global Telekomunikasi Indonesia (incorporated in Indonesia) (a) (1) (9). . . . . . . . . | Telecommunications services | **20.37** | 20.0 | **3** | - | **-** | - |
| Telstra Super Pty Ltd (1) (4). . . . . . . . . . . . . . . . . . | Superannuation trustee | **100.0** | 100.0 | **-** | - | **-** | - |
| PlesTel Pty Ltd (1) . . . . . . . . | Trustee company | **30.0** | 30.0 | **-** | - | **-** | - |
| PlesTel Operating Trust (2) . | Communication systems provider | **30.0** | 30.0 | **18** | 20 | **26** | 26 |
| | | | **note 11** | **166** | 20 | **67** | 26 |

(a) Balance date is 31 December.

Unless noted above, all investments have a balance date of 30 June. Where there is a different balance date, financial reports prepared as at 30 June are used for equity accounting.

(*) The Telstra Group carrying amounts are equity accounted. The Telstra Entity's carrying amounts are at cost less any provision for reduction in value. Refer note 1.17(b) for details of our equity accounting policy. All amounts recorded are net of provision for reduction in value.

## Notes to the Financial Statements (continued)

## 24. Investments in joint venture entities and associated entities (continued)

**Joint venture entities and associated entities notes**

**Rounded investments**

(1) The carrying amount of our investment in joint venture entities and associated entities which is not shown when rounded to the nearest million dollars:

| | Carrying amount of investment | | | |
|---|---|---|---|---|
| | Telstra Group | | Telstra Entity | |
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$** | $ | **$** | $ |
| (i) Joint venture entities | | | | |
| Customer Services Pty Ltd | * | * | - | - |
| FOXTEL Management Pty Ltd | **1** | 1 | - | - |
| FOXTEL Cable Television Pty Ltd | * | * | - | - |
| Advantra Pty Ltd | - | * | - | - |
| Investment 2000 Pty Ltd | * | * | **12** | 12 |
| Telstra Hewlett-Packard (R&D) Pty Ltd | **1** | 1 | **1** | 1 |
| (ii) Associated entities | | | | |
| IBM Global Services Australia Limited | * | * | - | - |
| PT Mitra Global Telekomunikasi Indonesia | ** | * | - | - |
| Telstra Super Pty Ltd | * | * | **2** | 2 |
| PlesTel Pty Ltd | **30** | 30 | **30** | 30 |

* Equity accounted amount of investment is suspended and the investment is recorded at zero due to losses made by the entities or as a result of reducing the equity accounted amount to zero.

** Equity accounted amount of investment is suspended due to uncertainties which currently exist in the Indonesian economy and the investment is now greater than $1 million.

**Dividends received from joint venture and associated entities**

(2) We received or were presently entitled to receive dividends and distributions from the following entities during fiscal 2000:

- Telecom Services Kiribati Limited $0.468 million (1999: $0.402 million);
- IBMGSA $Nil (1999: $9 million); and
- PlesTel Operating Trust $4 million (1999: $Nil).

**Associated entities where we own more than 50% equity**

(3) We own 80% of the equity of FOXTEL Cable Television Pty Ltd. This entity is disclosed as a joint venture entity, as the outside equity shareholders have participating rights that prevent us from dominating the decision making of the board of directors. Effective voting power is restricted to 50%.

(4) We own 100% of the equity of Telstra Super Pty Ltd, the Trustee for the Telstra Superannuation Scheme. We do not consolidate Telstra Super Pty Ltd, as we do not control the board of directors. The board has equal representation with employee representatives.

**New incorporations and investments**

(5) We purchased an additional 50% ownership in Advantra Pty Ltd on 31 March 2000 for $52 million. On that date, Advantra Pty Ltd became a controlled entity. At the same time we sold 3.4% of our investment in IBM Global Services Australia Limited (IBMGSA) for $25 million and made a profit of $25 million on this sale. This reduced our investment in IBMGSA from 26% to 22.6%.

(6) On 6 April 2000, we sold our investment in Telstra New Zealand Limited and Netlink Limited for $195 million to Telstra Saturn Limited. These amounts were exchanged for a 50% interest in Telstra Saturn Limited, which was created on the same date. Refer to note 23(17) for further details.

# Notes to the Financial Statements (continued)

## 24. Investments in joint venture entities and associated entities (continued)

**Joint venture entities and associated entities notes (continued)**

**New incorporations and investments (continued)**

(7) We purchased our 35% investment in Station 12 B.V. on 15 May 2000 for $170 million. This investment was made by the sale of assets to Station 12 B.V. As we have joint decision making with the other shareholders we have recorded the investment as a joint venture entity.

(8) We purchased our 39.9% investment in Australian-Japan Cable Holdings Limited on 7 March 2000 for $13 million. As we have significant influence over the operating and financial policies of the entity, we have recorded the investment as an associated entity.

(9) Due to the default by another shareholder of an equity call during the year our investment in PT Mitra Global Telekomunikasi Indonesia increased from 20.0% to 20.37%.

(10) We purchased our initial 10% investment in Solution 6 Holdings Limited on 8 November 1999 for $50m and an additional investment of 15% on 16 December 1999 for $50 million. We have also sold our 60% shareholding in Lawpoint Pty Ltd for $26 million under a script for script arrangement. Our current investment is 23.86% as at 30 June 2000. As we have significant influence over the operating and financial policies of the entity, we have recorded the investment as an associated entity.

(11) We purchased our 41% investment in ECard Pty Ltd on 1 June 2000 for $31 million. As we have significant influence over the operating and financial policies of the entity, we have recorded the investment as an associated entity.

### Joint venture and equity accounting information

Included in the consolidated financial report of the Telstra Group are:

| | Joint venture entities Telstra Group | | Associated entities Telstra Group | |
|---|---|---|---|---|
| | As at 30 June | | As at 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| Amount of our recorded retained (losses) balance relating to equity accounting our joint venture entities and associated entities (i) | **(469)** | (309) | **(51)** | (1) |
| Amount of our recorded foreign currency conversion reserve (debit) balance relating to equity accounting our joint venture entities and associated entities. | **(9)** | - | **(47)** | (47) |
| Amount of our recorded general reserve balance relating to equity accounting our joint venture entities and associated entities. | **-** | - | **1** | 1 |

(i) The following items are included in this amount:

- share of net (losses)/profits;
- initial unrealised inter-entity profit after tax adjustment;
- dividends and distributions received; and
- reduction in value of investments to recoverable amount.

## Notes to the Financial Statements (continued)

# 24. Investments in joint venture entities and associated entities (continued)

**Joint venture and equity accounting information (continued)**

The movements in the consolidated equity accounted amount of our joint venture and associated entity investments are summarised as follows:

| | | Joint venture entities | | Associated entities | |
|---|---|---|---|---|---|
| | | Telstra Group | | Telstra Group | |
| | | Year ended/As at 30 June | | Year ended/As at 30 June | |
| | | **2000** | 1999 | **2000** | 1999 |
| | **Note** | **$m** | $m | **$m** | $m |
| **Carrying amount of investments at beginning of year** | | **49** | 66 | **20** | 5 |
| Additional investments made during the year to 30 June | | **402** | 22 | **179** | 26 |
| | | **451** | 88 | **199** | 31 |
| Share of operating (losses)/profits before income tax expense | | **(51)** | (39) | **(1)** | 12 |
| Share of income tax expense on operating profits | | **-** | - | **-** | (4) |
| Share of operating (losses)/profits after income tax expense | | **(51)** | (39) | **(1)** | 8 |
| Amortisation of unrealised inter-entity profits after income tax | | **2** | - | **(2)** | (10) |
| Amortisation of notional goodwill | | **(2)** | - | **(4)** | - |
| **Share of net (losses)** | 3(a),2 | **(51)** | (39) | **(7)** | (2) |
| Adjusted for initial unrealised inter-entity profits after income tax | | **(85)** | - | **(6)** | - |
| Dividends and distributions received | | **-** | - | **(4)** | (9) |
| Share of foreign currency conversion reserve | | **(9)** | - | **-** | - |
| Carrying amount of investment before reduction to recoverable amount | | **306** | 49 | **182** | 20 |
| Reduction in value of investment to recoverable amount | | **(22)** | - | **(16)** | - |
| **Carrying amount of investments at end of year** | 11 | **284** | 49 | **166** | 20 |
| Our share of contingent liabilities of joint venture entities and associated entities - we are not directly liable for these | | **1** | - | **-** | 40 |
| Our share of capital commitments contracted for, by our joint venture entities and associated entities - we are not directly liable for these | | **44** | 26 | **281** | 22 |
| Our share of other expenditure commitments contracted for (other than the supply of inventories), by our joint venture entities and associated entities - we are not directly liable for these | | **73** | 70 | **85** | 94 |
| Summarised presentation of our share of all of our associates' assets, liabilities and net profit after income tax expense (including equity accounted investments that have been suspended) (a): | | | | | |
| Net (losses)/profits after income tax expense | | | | **(17)** | 22 |
| Assets | | | | **393** | 223 |
| Liabilities | | | | **231** | 174 |

(a) These disclosures only apply to associated entities. Refer below for the disclosures that apply to joint venture entities.

# Notes to the Financial Statements (continued)

## 24. Investments in joint venture entities and associated entities (continued)

**Joint venture and equity accounting information (continued)**

(a) Other disclosures for joint venture entities (continued)

Summarised presentation of our share of all joint venture entities' assets, liabilities and profit and loss items (including equity accounted investments where equity accounting has been suspended):

| | Joint venture entities | |
|---|---|---|
| | **Telstra Group** | |
| | **Year ended/As at 30 June** | |
| | **2000 $m** | 1999 $m |
| Current assets | **124** | 80 |
| Non current assets | **437** | 124 |
| Total assets | **561** | 204 |
| Current liabilities | **123** | 100 |
| Non current liabilities | **126** | 57 |
| Total liabilities | **249** | 157 |
| Net assets | **312** | 47 |
| Total revenues | **595** | 489 |
| Total expenses | **647** | 525 |
| Operating losses before income tax expense | **(52)** | (36) |
| Income tax (expense) on operating losses | **-** | (1) |
| Operating losses after income tax expense | **(52)** | (37) |

# Notes to the Financial Statements (continued)

## 25. Directors' remuneration - salaries and other benefits

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | Year ended 30 June | | Year ended 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| Total income and benefits of all directors of the Telstra Entity (a) | | | **2.516** | 4.916 |
| Total income and benefits of all directors of the Telstra Entity and all of the Australian based directors of our controlled entities (a) | **3.124** | 5.821 | | |

The income brackets of Telstra Entity directors are displayed below together with the number of Telstra Entity directors with income in those brackets:

| | **Number** | Number |
|---|---|---|
| $10,000 - $19,999 | **1** | - |
| $40,000 - $49,999 | **-** | 2 |
| $50,000 - $59,999 | **-** | 8 |
| $60,000 - $69,999 | **9** | - |
| $70,000 - $79,999 | **1** | 1 |
| $90,000 - $99,999 | **1** | - |
| $110,000 - $119,999 | **1** | - |
| $120,000 - $129,999 | **-** | 1 |
| $490,000 - $499,999 | **-** | 1 |
| $1,650,000 - $1,659,999 | **1** | - |
| $3,700,000 - $3,709,999 | **-** | 1 |

(a) Directors' remuneration also includes employer contributions made to superannuation funds.

# Notes to the Financial Statements (continued)

## 26. Executives' remuneration - salaries and other benefits

An executive officer is a person who is a member of our senior management team and is involved in our strategic direction and operational management. This includes the chief executive officer (CEO), those who report direct to the CEO and the next level of executives who have a direct reporting relationship to the CEO's direct reports.

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | Year ended 30 June | | Year ended 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **$m** | $m | **$m** | $m |
| Total income and benefits of all Australian based executive officers of the Telstra Entity where their income is $100,000 or more (a) (b) (c) | | | **45.791** | 32.678 |
| Total income and benefits of all Australian based executive officers of the Telstra Entity and our controlled entities where their income is $100,000 or more (a) (b) (c) | **52.631** | 37.780 | | |

The income brackets of all Australian based executives whose income is $100,000 or more are displayed below, together with the number of executives with income in those brackets:

| | **Number** | Number | **Number** | Number |
|---|---|---|---|---|
| $100,000 - $109,999 | **1** | 2 | **-** | - |
| $110,000 - $119,999 | **-** | 2 | **-** | - |
| $120,000 - $129,999 | **1** | 1 | **-** | - |
| $130,000 - $139,999 | **-** | 1 | **-** | 1 |
| $140,000 - $149,999 | **-** | 4 | **-** | 2 |
| $160,000 - $169,999 | **2** | 2 | **-** | 1 |
| $170,000 - $179,999 | **6** | 3 | **3** | 1 |
| $180,000 - $189,999 | **4** | 3 | **2** | 2 |
| $190,000 - $199,999 | **4** | 2 | **-** | 2 |
| $200,000 - $209,999 | **2** | 1 | **2** | - |
| $210,000 - $219,999 | **6** | - | **4** | - |
| $220,000 - $229,999 | **3** | 6 | **-** | 5 |
| $230,000 - $239,999 | **5** | 4 | **3** | 2 |
| $240,000 - $249,999 | **5** | 3 | **5** | 2 |
| $250,000 - $259,999 | **5** | 4 | **5** | 3 |
| $260,000 - $269,999 | **6** | 4 | **5** | 4 |
| $270,000 - $279,999 | **1** | 2 | **1** | 2 |
| $280,000 - $289,999 | **2** | 3 | **2** | 2 |
| $290,000 - $299,999 | **-** | 3 | **-** | 3 |
| $300,000 - $309,999 | **1** | 2 | **1** | 2 |
| $310,000 - $319,999 | **4** | 3 | **4** | 3 |
| $320,000 - $329,999 | **2** | 4 | **2** | 3 |
| $330,000 - $339,999 | **2** | - | **2** | - |
| $340,000 - $349,999 | **1** | 1 | **-** | 1 |
| $350,000 - $359,999 | **2** | 1 | **2** | 1 |
| $360,000 - $369,999 | **-** | 2 | **-** | 2 |
| $370,000 - $379,999 | **3** | - | **3** | - |
| $380,000 - $389,999 | **-** | 1 | **-** | - |
| $400,000 - $409,999 | **1** | 2 | **-** | 2 |
| $410,000 - $419,999 | **1** | 4 | **1** | 4 |

(continued over page)

## Notes to the Financial Statements (continued)

### 26. Executives' remuneration - salaries and other benefits (continued)

| | Telstra Group | | Telstra Entity | |
|---|---|---|---|---|
| | Year ended 30 June | | Year ended 30 June | |
| | **2000** | 1999 | **2000** | 1999 |
| | **Number** | Number | **Number** | Number |
| $420,000 - $429,999 | **1** | 4 | **-** | 4 |
| $430,000 - $439,999 | **4** | 1 | **4** | 1 |
| $440,000 - $449,999 | **4** | 2 | **4** | 2 |
| $450,000 - $459,999 | **2** | 1 | **2** | 1 |
| $460,000 - $469,999 | **1** | - | **1** | - |
| $470,000 - $479,999 | **1** | 1 | **1** | - |
| $480,000 - $489,999 | **2** | 1 | **2** | 1 |
| $490,000 - $499,999 | **1** | - | **1** | - |
| $500,000 - $509,999 | **1** | - | **1** | - |
| $510,000 - $519,999 | **1** | 1 | **1** | 1 |
| $520,000 - $529,999 | **1** | - | **1** | - |
| $530,000 - $539,999 | **-** | 1 | **-** | 1 |
| $550,000 - $559,999 | **-** | 2 | **-** | 2 |
| $560,000 - $569,999 | **2** | - | **2** | - |
| $590,000 - $599,999 | **1** | - | **1** | - |
| $600,000 - $609,999 | **1** | - | **1** | - |
| $610,000 - $619,999 | **-** | 1 | **-** | 1 |
| $620,000 - $629,999 | **1** | - | **1** | - |
| $630,000 - $639,999 | **1** | 1 | **1** | 1 |
| $690,000 - $699,999 | **2** | 1 | **2** | - |
| $710,000 - $719,999 | **1** | - | **-** | - |
| $780,000 - $789,999 | **-** | 1 | **-** | 1 |
| $800,000 - $809,999 | **-** | 1 | **-** | 1 |
| $830,000 - $839,999 | **1** | - | **1** | - |
| $860,000 - $869,999 | **1** | - | **-** | - |
| $890,000 - $899,999 | **1** | - | **1** | - |
| $920,000 - $929,999 | **2** | 1 | **2** | 1 |
| $930,000 - $939,999 | **-** | 1 | **-** | 1 |
| $990,000 - $999,999 | **-** | 1 | **-** | 1 |
| $1,000,000 - $1,009,999 | **-** | 1 | **-** | 1 |
| $1,030,000 - $1,039,999 (d) | **1** | - | **1** | - |
| $1,070,000 - $1,079,999 | **-** | 1 | **-** | 1 |
| $1,120,000 - $1,129,999 (d) | **1** | - | **1** | - |
| $1,160,000 - $1,169,999 | **1** | - | **1** | - |
| $1,170,000 - $1,179,999 | **1** | 1 | **1** | 1 |
| $1,190,000 - $1,199,999 | **1** | - | **1** | - |
| $1,260,000 - $1,269,999 | **1** | - | **1** | - |
| $1,520,000 - $1,529,999 (d) | **1** | - | **1** | - |
| $1,650,000 - $1,659,999 | **1** | - | **1** | - |
| $1,870,000 - $1,879,999 (d) | **1** | - | **1** | - |
| $2,030,000 - $2,039,999 (d) | **1** | - | **1** | - |
| $2,150,000 - $2,159,999 (d) | **1** | - | **1** | - |
| $3,700,000 - $3,709,999 (d) | **-** | 1 | **-** | 1 |

# Notes to the Financial Statements (continued)

## 26. Executives' remuneration - salaries and other benefits (continued)

(a) Income and benefits of executives includes:
- base salary;
- management incentives;
- notional interest charges for interest free employee share loans described in note 19;
- market value of extra shares received as part of Telstra share plans described in note 19 (TESOP);
- market value of shares provided by Commonwealth loyalty share offers described in note 19;
- superannuation and retirement/redundancy payments totalling \$11.411 million (1999: \$4.603 million) for the Telstra Group; and
- superannuation and retirement/redundancy payments totalling \$10.637 million (1999: \$3.497 million) for the Telstra Entity.

(b) Income for our executives includes amounts from two incentive plans. The Manager Incentive Plan (MIP) is an annual plan open to all of our executives. The amount of remuneration at risk (target incentive) varies between 13% and 25% of the total remuneration package depending on the executive's role. The plan is based on performance against set targets for Corporate, Business Unit and individual measures. The measures include financial, customer service and individual measures that support our key business objectives. Before any MIP is payable, a threshold must be reached, according to the predefined measures. The plan also provides that payments are capped at a specified level.

Selected senior executives who contributed significantly to our future long term profitability and success also participate in a Long Term Incentive Plan (LTI). This cash-based long term incentive is being phased out, ceasing in 2001. At target, the LTI comprises 12% to 21% (1999: 16% to 19%) of the total remuneration package depending on the executive's level. Any payment made under this plan depends on the achievement of return on investment targets over a three year period. The plan, which began in 1994, also includes an annual payment based on the dividend declared in respect of earnings. In fiscal 2000, the LTI was replaced by the Telstra Growthshare Plan.

Selected senior executives who contribute significantly to our future long term profitability participate in Telstra Growthshare. Executives in Growthshare can receive an allocation of options, restricted shares or both. The options and restricted shares can only be exercised to normal ordinary shares between certain time periods and if performance hurdles have been achieved. Refer to note 19 for more details on Telstra Growthshare. Both the restricted shares and options are subject to a performance hurdle. If this hurdle is not achieved they will have a nil value and will lapse. As the achievement of the performance hurdle is uncertain a remuneration value is not attributed to the restricted shares or options. Under Telstra's USGAAP disclosures (refer note 30) the Black-Scholes pricing model was used to determine the fair value for options for the purpose of inclusion in the potential compensation expenses. The value for the September 1999 allocation is \$1.38 per option. The value for the restricted share on the date of allocation was \$5.64 per share.

(c) During fiscal 1999, the board reviewed the level of remuneration of the most senior executive team to achieve alignment with market remuneration levels.

(d) Includes payments relating to completion of employment with us.

# Notes to the Financial Statements (continued)

## 27. Related entity transactions

### Ultimate controlling entity

The Commonwealth is the ultimate parent and controlling entity of the Telstra Group. Telstra Corporation Limited is the parent entity in the group comprising the Telstra Entity and its controlled entities.

We supply telecommunications services to, and acquire other services from, the Commonwealth, its Departments of State, trading and other agencies. These transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers or suppliers. There are no exclusive rights to supply any of these services. Services provided to any one governmental department or agency or the combination of all of these services in total, do not represent a significant component of our operating revenues. For these reasons, the financial reports do not disclose transactions relating to the purchase and sale of goods and services from or to the Commonwealth, its Departments of State, trading and other agencies.

### Directors of the Telstra Entity

The names of each person who held office as a director of the Telstra Entity for the whole of fiscal 2000 were:

| | | |
|---|---|---|
| Zygmunt E Switkowski | John T Ralph | John W Stocker |
| Elizabeth A Nosworthy | N Ross Adler | Anthony J Clark |
| Christopher I Roberts | Malcolm G Irving | Stephen W Vizard |
| Donald G McGauchie | Cecilia A Moar | |

- David M Hoare retired as chairman and director on 31 December 1999.
- Robert C Mansfield was appointed as director on 12 November 1999 and chairman from 1 January 2000.
- Michael H Codd retired as director on 12 November 1999.

Details of directors' remuneration, superannuation and retirement payments are listed in note 25.

### Loans to directors of the Telstra Entity

No non-executive director of the Telstra Entity had a loan with the Telstra Entity or any of its controlled entities at any time during fiscal 2000, 1999 or 1998.

In fiscal 1998, W F Blount and Z E Switkowski (before being appointed chief executive officer and managing director) were provided with a loan from the Telstra Entity as part of their participation in the Telstra Employee Share Ownership Plan (TESOP97). The loans were provided interest free and on the same conditions as all other eligible employees who participated in TESOP97. During fiscal 2000 Z E Switkowski also participated in the Telstra Share Ownership Plan II (TESOP99). Further details of the share plans are contained in note 19.

The total loan provided during fiscal 2000 was $1,799, being the first instalment for the shares acquired under TESOP99 (1999: $5,400; 1998: $7,798). The total amounts repaid during the fiscal 2000 were $560 (1999: $6,739 including full repayment by W F Blount; 1998: $282). At 30 June 2000, the outstanding balance of the loan to Z E Switkowski was $7,416 (1999: $6,177).

### Other transactions with directors of the Telstra Entity and their director related entities

Each of the directors of the Telstra Entity have telecommunications services transactions with the Telstra Group which are not significant and are both trivial and domestic in nature. Director related entities also have telecommunications services which are on normal commercial terms and conditions.

### Loan to Telstra Growthshare

During fiscal 2000 Telstra created Telstra Growthshare (a senior executive equity participation plan). We advanced $17 million to Telstra Growthshare to enable it to purchase shares in the Telstra Entity. Of the $17 million loan $3 million was to acquire restricted shares. This amount has been written off to the profit and loss as it is not repayable to Telstra. The balance of $14 million was used to acquire Telstra Entity shares over which certain senior executives are granted options (refer note 19 for further information).

### Loans to employees

We have two employee shares schemes, being TESOP97 and TESOP99. During fiscal 2000 $76.183 million was advanced to participating employees to enable the purchase of Telstra shares. Loans under TESOP97 and TESOP99 are provided interest free. During fiscal 2000 $58.535 million of the loans under TESOP97 and TESOP99 were repaid. At 30 June 2000 the outstanding loan balance for both schemes was $296.623 million (1999 $278.975 million). Refer to note 19 for further information.

# Notes to the Financial Statements (continued)

## 27. Related entity transactions (continued)

### Directors of the Telstra Entity interests in shares of the Telstra Entity

As at 30 June 2000 and 1999, the directors, family members and their related entities had interests in the share capital of the Telstra Entity as follows:

**Telstra Entity - shares (a)**

| | **As at 30 June 2000** | | | As at 30 June 1999 | | |
|---|---|---|---|---|---|---|
| | **Direct** | **Indirect** | **Total** | Direct | Indirect | Total |
| R C Mansfield . . . | **9,000** | **82,400** | **91,400** | - | - | - |
| D M Hoare (c) . . . | **-** | **-** | **-** | 11,720 | 19,120 | 30,840 |
| J T Ralph. . . . . . | **1,000** | **73,500** | **74,500** | 600 | 59,600 | 60,200 |
| Z E Switkowski (b) | **29,620** | **83,410** | **113,030** | 8,020 | 75,260 | 83,280 |
| N R Adler. . . . . . | **49,600** | **57,560** | **107,160** | 8,000 | 46,800 | 54,800 |
| A J Clark . . . . . . | **10,000** | **69,500** | **79,500** | 8,000 | 40,000 | 48,000 |
| M H Codd (c) . . . | **-** | **-** | **-** | 8,000 | - | 8,000 |
| M G Irving . . . . . | **24,000** | **40,400** | **64,400** | 8,000 | 15,000 | 23,000 |
| D G McGauchie . . | **-** | **18,700** | **18,700** | - | 2,200 | 2,200 |
| C A Moar. . . . . . | **-** | **4,080** | **4,080** | - | 5,000 | 5,000 |
| E A Nosworthy . . | **7,000** | **29,200** | **36,200** | 5,600 | 11,000 | 16,600 |
| C I Roberts. . . . . | **16,000** | **80,360** | **96,360** | 16,000 | 30,360 | 46,360 |
| J W Stocker . . . . | **800** | **54,325** | **55,125** | 400 | 32,080 | 32,480 |
| S W Vizard. . . . . | **-** | **39,200** | **39,200** | - | 16,000 | 16,000 |

(a) As at 30 June 2000, some of the directors' holdings were instalment receipts (purchased in the Telstra 2 Commonwealth share offering). Instalment receipts give rights to beneficial ownership of an ordinary share once the final instalment is paid by 2 November 2000. After final payment the instalment receipts convert to ordinary shares.

(b) Fiscal 2000 includes 400 shares acquired with an interest free loan and 200 free extra shares under the terms of TESOP99. Fiscal 2000 and 1999 includes 2,000 shares acquired with an interest free loan plus 500 free extra shares under the terms of TESOP97 (refer to note 19 for details on TESOP97 and TESOP99).

(c) Retired during fiscal 2000.

**Telstra Entity - options and restricted shares issued under Telstra Growthshare**

| | **As at 30 June 2000** | | As at 30 June 1999 | |
|---|---|---|---|---|
| | **Options** | **Restricted shares** | Options | Restricted shares |
| Z E Switkowski . (d) | **300,000** | **50,000** | - | - |

(d) Refer to note 19 for details of Telstra Growthshare terms and conditions.

### Directors of controlled entities

Each of our controlled entity directors and their director related entities have telecommunications services transactions with us, which are on normal commercial terms and conditions and are trivial and domestic in nature.

We sold Lawpoint Pty Ltd (Lawpoint) during fiscal 2000 to Solution 6 Holdings Limited. Lawpoint was partially owned by Alloway Investments Pty Ltd (Alloway) prior to this sale. The directors of Alloway are E F Griffin, D Griffin and A C Griffin, who were also directors of Lawpoint. Lawpoint paid a dividend during fiscal 1998 of $504,000 to Alloway. No dividends were paid in fiscal 1999 or 2000. Lawpoint participated in other transactions with Alloway and its directors which are on normal terms and conditions and are trivial in nature.

### Loans to directors of controlled entities

Certain employees of the Telstra Group who were eligible to participate in TESOP99 and TESOP97 (refer note 19) were also directors of controlled entities. The directors of the controlled entities were provided with an interest free loan to enable the purchase of shares from the Commonwealth on the same terms and conditions as all other employees eligible to participate in TESOP99 and TESOP97. During the fiscal 2000, certain employees became directors of controlled entities in the Telstra Group. These directors brought with them existing loans of $98,824.

The amount of new loans advanced during fiscal 2000 for the first instalment due for the purchase of shares in TESOP99 was $138,523 (1999: $105,300; 1998: $152,061). Loan repayments of $99,602 (1999: $29,513; 1998: $5,493) were made including 10 directors who left the Telstra Group during the year and repaid their TESOP97 loans in full (their TESOP99 loans are not repayable until after the second instalment has been advanced). The balance of the loans outstanding at 30 June 2000 was $360,640 (1999: $222,355; 1998: $146,569). All directors listed below were either provided with or made loan repayments during fiscal 2000 and 1999:

| | | |
|---|---|---|
| B Abell | G Fidler | C Petersen |
| B Akhurst | P Frueh | P I Pickering |
| C Barrett | E F Griffin | D Pitt |
| H Bradlow | A Griffin | P Rizzo |
| K Bradshaw | A Hamit | D M Rocca |
| J Burke | P Hastings | J Rolland |
| C Cameron | J Hibbard | S Ruddock |
| D Campbell | S Lee | L Saly |
| R Cartwright | J Losco | G Shepherd |
| S Cole | D Lowes | J V Stanhope |
| C B Davis | M Montalto | D Stokes-Mckeon |
| A Day | G Moriarty | C C Wilkinson |
| G Day | G Nicholson | L Wood |
| A Dix | T O'Malley | |

# Notes to the Financial Statements (continued)

## 27. Related entity transactions (continued)

### Loans to directors of controlled entities (continued)

The ten directors who repaid their TESOP97 loan in full during the year were G Avard, R Horgan, A Polmear, P Shore, P Sykes, R Verco, C VonWiller, T Wulfse, R Wyss and L Yelland. Subsequent to year end, C Petersen and T O'Malley resigned as directors.

### Telstra shares owned by the Telstra Superannuation Scheme

The Telstra Superannuation Scheme owns shares in Telstra Corporation Limited. As at 30 June 2000 the TSS owned 8,253,167 (1999: 9,801,090) shares with a cost of $49 million (1999: $53 million) and a market value of $56 million (1999: $85 million). In fiscal 2000 the TSS also owns instalments receipts in the Telstra Entity of 5,183,485 with a cost of $27 million and market value of $20 million at the end of fiscal 2000. All purchases and sales of Telstra shares by the TSS are determined by the trustee and/or its investment managers on behalf of the members of the TSS.

In fiscal 1998 the TSS owned 11,273,313 instalment receipts with a cost of $30 million and a market value of $47 million.

# Notes to the Financial Statements (continued)

## 27. Related entity transactions (continued)

### Wholly owned group and other related entity disclosures

Amounts receivable from and payable to entities in the wholly owned group and other related entities:

| | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|
| | As at 30 June | | | As at 30 June | |
| | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **$m** | $m | $m | **$m** | $m |
| **Total amounts receivable (including trade debtors) at 30 June from:** | | | | | |
| **Current** | | | | | |
| Wholly owned controlled entities (i) | **-** | - | - | **1,112** | 677 |
| Other controlled entities | **-** | - | - | **1** | 248 |
| Joint venture and associated entities | **80** | 21 | 33 | **66** | 9 |
| **Non current** | | | | | |
| Wholly owned controlled entities | **-** | - | - | **223** | 135 |
| Other controlled entities | **-** | - | - | **6** | 5 |
| **Total amounts payable (including accounts payable) at 30 June to:** | | | | | |
| **Current** | | | | | |
| Wholly owned controlled entities (i) | **-** | - | - | **984** | 547 |
| Other controlled entities | **-** | - | - | **-** | - |
| Joint venture and associated entities | **83** | 56 | 72 | **79** | 47 |
| **Non current** | | | | | |
| Wholly owned controlled entities | **-** | - | - | **18** | 45 |

(i) During fiscal 2000 Telstra commenced charging interest on all amounts receivable and payable to controlled entities. Therefore during fiscal 2000 there were no interest free transactions undertaken between the Telstra Entity and its controlled entities.

During fiscal 1999 and fiscal 1998, the Telstra Entity participated in interest free transactions with its controlled entities as follows:

As at balance date for fiscal 1999 and 1998:

- the total amounts receivable from controlled entities amounted to $676 million for 1999 (1998: $379 million);
- the total amounts payable to controlled entities amounted to $234 million for 1999; (1998: $198 million); and
- the interest free amounts payable to the wholly owned controlled entities amounted to $217 million for 1999 (1998: $155 million) as payment for the transfer of tax losses.

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Wholly owned group and other related entity disclosures (continued)

In fiscal 2000, a number of purchase and sale transactions occurred between the Telstra Entity and its wholly owned controlled entities and other related parties.

- During fiscal 2000, communication assets were sold by the Telstra Entity to a controlled entity in the wholly owned group at cost of $32 million (1999: $9 million; 1998: $88 million).
- The Telstra Entity sold services, purchased goods and communications assets, paid fees and received dividends from, and received and paid interest to entities in the wholly owned group during the year. These transactions are in the normal course of business and are on normal commercial terms and conditions.
- Network Design and Construction Limited (NDC) constructs communication assets on our behalf. During fiscal 2000 we purchased communication assets from NDC totalling $1,157 million (1999: $Nil; 1998: $Nil).
- Assets with a book value of $137 million (including property, plant and equipment $61 million, inventory $60 million and software license of $16 million) were sold to NDC, a wholly owned controlled entity for $139 million in cash.
- Lawpoint Pty Ltd, a partly owned controlled entity was sold to Solution 6 Holdings Limited (Solution 6), an associated entity in exchange for 10 million shares at $2.60 each ($26 million) in Solution 6. A profit of $24 million was earned on the sale with $6 million being deferred into the cost of the Solution 6 investment.
- Our global satellite business with net tangible assets of $75 million (including the investment in INMARSAT HOLDINGS PLC) was sold by the Telstra Entity to Station 12 B.V., a joint venture entity, in exchange for shares of Station 12 valued at $170 million (a 35% interest). Of the $170 million in shares, $42 million related to INMARSAT and $128 million for the rest of the global satellite business. $33 million of the $96 million profit earned on the sale was deferred into the cost of the Station 12 investment. The Telstra Entity subsequently sold its investment in Station 12 B.V. to Telstra Global Limited, a wholly owned controlled entity for $170 million, in exchange for shares.
- Telstra acquired a 41% investment in ECard Pty Ltd (an associated entity) at a cost of $31 million made up by $10 million cash and $21 million tangible assets.

Included in the revenue received in advance amount at 30 June 2000 is $286 million (1999: $281 million; 1998: $294 million) received from a controlled entity for the use of our Yellow Pages ® trademark. These amounts are not recorded as revenue until the directories are published according to our accounting policy described in note 1.11(e).

Included in software assets for fiscal 2000 is $218 million (1999: $212 million; 1998: $111 million) paid to IBMGSA. During fiscal 1998, $23 million was paid to IBMGSA for the transfer of employee entitlements and other transition costs. No similar amount was paid in fiscal 1999 or 2000.

Included in deferred expenditure for the year ended 30 June 2000 is $14 million (1999: $Nil, 1998: $Nil) paid to Australian-Japan Cable as a payment for future cable capacity purchases.

## Notes to the Financial Statements (continued)

### 27. Related entity transactions (continued)

#### Wholly owned group and other related entity disclosures (continued)

During fiscal 2000, 1999 and 1998 the Telstra Entity had the following transactions between members of the wholly owned group:

| | | Telstra Group | | | Telstra Entity | |
|---|---|---|---|---|---|---|
| | | Year ended 30 June | | | Year ended 30 June | |
| | | **2000** | 1999 | 1998 | **2000** | 1999 |
| | **Note** | **$m** | $m | $m | **$m** | $m |
| **Our transactions with entities in the wholly owned group and other related entities** | | | | | | |
| Operating profit before income tax expense for the year includes the following transactions: | | | | | | |
| **Interest revenue from:** | | | | | | |
| Wholly owned controlled entities | 2 | **-** | - | - | **34** | 7 |
| Joint venture and associated entities | | **2** | 1 | - | **2** | 1 |
| **Borrowing costs:** | | | | | | |
| Wholly owned controlled entities | 3(a) | **-** | - | - | **27** | 8 |
| Joint venture and associated entities | | **-** | 1 | - | **-** | 1 |
| **Dividend revenue from:** | | | | | | |
| Wholly owned controlled entities | 2 | **-** | - | - | **63** | 90 |
| Other controlled entities | 2 | **-** | - | - | **-** | 32 |
| Joint venture and associated entities | | **5** | - | - | **4** | - |
| **Sale of goods and services to:** | | | | | | |
| Wholly owned controlled entities | | **-** | - | - | **1,386** | 613 |
| Other controlled entities | | **-** | - | - | **1** | 564 |
| Joint venture and associated entities | | **155** | 128 | 91 | **95** | 70 |
| **Purchase of goods and services from:** | | | | | | |
| Wholly owned controlled entities | | **-** | - | - | **268** | 95 |
| Other controlled entities | | **-** | - | - | **-** | 41 |
| Joint venture and associated entities | | **416** | 453 | 395 | **409** | 440 |

# Notes to the Financial Statements (continued)

## 28.Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 30 June 2000 that, in their opinion, has significantly affected or may significantly affect in future years:

- our operations;
- the results of those operations; or
- the state of our affairs;

other than:

### Computershare Limited

On 13 July 2000, our controlled entity, Telstra CB.com Limited, sold approximately 53.3 million ordinary shares in Computershare Limited (Computershare) at $7.25 per share, representing 10% of the issued capital of Computershare.

Every two shares sold by us in Computershare had 'attached' to it an exchange traded warrant over one further share. The warrants have a strike price of $8.25 and can be exercised on 26 July 2001.

Revenue received from the sale of 53.3 million ordinary shares was approximately $386 million, representing profit before tax of $187 million to us.

If all the warrants are exercised, our remaining shareholding in Computershare will be sold. In such a case, we would receive $220 million further revenue and would remove the remaining investment from our balance sheet.

As a result of this transaction, our voting interest in Computershare was reduced on 18 July 2000 to 26,636,460 ordinary shares. Under the transaction arrangements, we will retain an approximate 5% shareholding in Computershare for a minimum period of 12 months. We believe we can continue to pursue opportunities with Computershare which are of mutual interest without the need to retain our pre-existing level of shareholding.

### Keycorp Limited

On 21 July 2000, the Telstra Entity and Keycorp Limited, a listed Australian public company (Keycorp), announced the signing of a term sheet between the parties to build a global full service end-to-end internet payments service provision business. Combined, the two companies will be able to offer integrated payment and internet solutions to better meet the needs of financial institutions and their merchant customers.

We have agreed to subscribe for 38.7 million shares representing approximately 51% of the enlarged fully diluted share capital of Keycorp for a total consideration of approximately $515 million (equating to $13.30 per Keycorp share). As part of this relationship and the consideration for the above subscription, our EFTPOS payments carriage, installation and maintenance business will be combined with Keycorp's business. Keycorp will operate as an independent company and continue to service its customers. As Keycorp is a listed company, at a 51% ownership level we would consolidate Keycorp into the Telstra Group subject to the conditions being reached with Keycorp as outlined below.

Our investment in Keycorp is conditional upon the satisfactory completion of legal, regulatory and commercial requirements.

Telstra or Keycorp may terminate the term sheet if any of those conditions are not satisfied by 15 November 2000 or, if at any time prior to subscription, the All Industries Index of the Australian Stock Exchange ('Index') rises or falls by more than 15% relative to the level of the Index as at the close of business on 20 July 2000 (the day before the date of the term sheet).

### Removal of additional contributions to the TSS

Subsequent to balance date, the Trustee of the Telstra Superannuation Scheme and the Commonwealth (who guaranteed Telstra's payments) have agreed to release Telstra from its obligation to contribute $121 million per annum to the TSS to 30 June 2011. As part of the terms of the release, Telstra has agreed to provide future employer contributions to the TSS sufficient to maintain the vested benefits index (VBI - the ratio of fund assets to members vested benefits) in the range of 100-110 percent. The Trustee agreed to the release of the obligation based on actuarial advice that the removal of these additional contributions, coupled with the employer contribution commitment from Telstra, will maintain the solvency level of the TSS at a satisfactory level. We do not expect to commence contributions to the TSS until at least 30 June 2003 provided the performance of the TSS is satisfactory over this period.

# Notes to the Financial Statements (continued)

## 28. Events after balance date (continued)

### Removal of additional contributions to the TSS (continued)

The additional contributions to the TSS are recorded as a liability on our balance sheet as at 30 June 2000 (refer note 15). As the release occurred after 30 June 2000 the liability as at 30 June 2000 will be written back to the profit and loss statement in fiscal 2001 and will increase our result as follows:

| | Telstra Group and Telstra Entity |
|---|---|
| | Year ended 30 June |
| | 2001 |
| | $m |
| Writeback of TSS additional contribution liability | 725 |
| Tax effect at 34% | (247) |
| | 478 |

The removal of this obligation will reduce the assets of the TSS and will result in the VBI of the defined benefit divisions reducing from approximately 166% to approximately 146%.

### PCCW

On 24 August 2000, Telstra and Pacific Century CyberWorks Limited (PCCW) the Hong Kong based telecommunications company announced that subject to definitive agreements and certain other conditions including the obtaining of all necessary regulatory, shareholder and third party approvals, they have reached agreement in principle on the key terms relating to their strategic Pan-Asian alliance announced on 13 April 2000. The parties have reached agreement in principle on the following aspects of the alliance:

- A merger of some of the businesses and assets of Telstra and 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 and PCCW and Telstra will inject debt of up to US$1.125 billion and US$0.625 billion respectively, subject to IP Backbone Company retaining an investment grade rating;

- Telstra will purchase a 40% stake in the mobiles business of PCCW for US$1.5 billion (Wireless Co). Wireless Co is intended to be the primary vehicle for the execution of Telstra's and PCCW's wireless strategy in Asia;

- Telstra will invest in a 50:50 internet data centre joint venture (IDC Co) with PCCW that will develop a network of internet data centres throughout Asia. IDC Co will initially focus on core hosting services; and

- Telstra will invest US$1.5 billion (A$2.5 billion) in a PCCW convertible note, which is repayable to Telstra, with interest, if redeemed. The note is convertible into PCCW shares. The convertible note is transferable after 24 months.

Telstra and PCCW expect to sign the alliance definitive documents later this year and are targeting completion by the end of this calendar year.

## Notes to the Financial Statements (continued)

# 29. Additional financial instruments disclosures

### Derivative financial instruments

### Objectives and significant terms and conditions

We use derivative financial instruments to manage financial risks associated with changes in interest rates and foreign currency exchange rates. Instruments that we use to do this include:
- forward foreign currency contracts;
- cross-currency swaps;
- interest rate swaps; and
- interest rate futures contracts.

We do not speculatively trade in these instruments. All derivative transactions are entered into to hedge the risks relating to underlying physical transactions.

As we use the derivative transactions to hedge underlying physical transactions relating to:
- interest rate risk;
- currency risk; or
- other market risk;

the potential for loss or gain is minimal. Gains or losses on the physical transactions are offset by the gains and losses on the related derivative instrument to reduce the risk we are exposed to.

In this note, **interest rate risk** refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. **Foreign currency risk** refers to the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates.

### Liquidity risk and credit risk

**Liquidity risk** includes the risk that, as a result of our future liquidity requirements:
- we will be forced to sell financial assets or derivative instruments at a value which is less than what they are worth; or
- we may be unable to exit the derivative instruments at all; or
- we will not have sufficient funds to settle a transaction on the due date.

To help reduce these risks we:
- generally use derivative instruments that are tradeable in highly liquid markets;
- have readily accessible standby facilities and other funding arrangements in place; and
- have a liquidity policy which requires a minimum liquidity level to be maintained.

**Credit risk** includes the risk that a contracting entity will not complete its obligations under a financial instrument and cause us to make a financial loss. To help reduce this risk we make sure that we do not have any significant exposure to individual entities we undertake derivatives with. We also have a conservative policy in establishing credit limits for the entities we deal with.

### Forward foreign currency contracts

We enter into forward foreign currency contracts to hedge the exchange rate risk on definite or anticipated purchase commitments and short term borrowings made in foreign currencies.

A key purpose of foreign currency hedging activities is to minimise the volatility of our cash flows due to changes in foreign currency exchange rates.

We enter into, and hedge transactions in the following significant foreign currencies:
- United States dollars;
- British pounds sterling;
- German deutschemarks;
- Euro;
- Japanese yen; and
- Canadian dollars.

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

The settlement dates, net Australian dollar amounts receivable and contractual forward exchange rates of our significant outstanding contracts are listed in Table A below. These include forward foreign currency exchange contracts relating to short term borrowings at 30 June.

| Table A | Telstra Group | |
|---|---|---|
| | As at 30 June | |
| | **2000** | 1999 |
| | **A$m** | A$m |
| United States dollars | | |
| - less than three months, at rates averaging United States dollars $0.5978 (1999: US$0.6444) | **1,240** | 807 |
| - 3 to 12 months, at rates averaging United States dollars $0.6200 (1999: US$0.6234) | **48** | 71 |
| - 12 to 18 months, at rates averaging United States dollars $0.6042 (1999: US$0.6400) | **13** | 9 |
| - over 18 months, at rates averaging United States dollars $0.6044 (1999: US$0.6487) | **45** | 8 |
| | **1,346** | 895 |
| British pounds sterling | | |
| - less than three months, at rates averaging British pounds sterling 0.3970 (1999: British Pounds Sterling 0.4085) | **3** | 10 |
| - 3 to 12 months, at rates averaging British pounds sterling 0.3957 (1999: British Pounds Sterling 0.3863) | **11** | 4 |
| | **14** | 14 |
| German deutschemarks | | |
| - less than three months, at rates averaging German deutschemarks 1.2177 (1999: German deutschemarks 1.2084) | **14** | 9 |
| - 3 to 12 months, at rates averaging German deutschemarks 1.2174 (1999: German deutschemarks 1.2302) | **40** | - |
| | **54** | 9 |
| Euro | | |
| - less than three months, at rates averaging Euro 0.6128 (1999: Euro 0.5705) | **1** | 2 |
| - 3 to 12 months, at rates averaging Euro 0.6060 (1999: Euro 0.5709) | **4** | 8 |
| - 12 to 18 months, at rates averaging Euro 0.5783 (1999: Euro 0.5927) | **1** | 1 |
| -over 18 months, at rates averaging Euro 0.5731 (1999: Euro 0.5808) | **-** | 3 |
| | **6** | 14 |
| Japanese yen | | |
| - less than three months, at rates averaging Japanese yen 65.4556 (1999: Japanese yen 78.1351) | **2** | 11 |
| - 3 to 12 months, at rates averaging Japanese yen 62.9426 (1999: Japanese yen 72.2437) | **10** | 3 |
| | **12** | 14 |
| Canadian dollars | | |
| - (1999: less than three months, at rates averaging Canadian dollars 0.9611) | **-** | 3 |
| - (1999: 3 to 12 months, at rates averaging Canadian dollars 0.9639) | **-** | 9 |
| | **-** | 12 |

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

We have a net foreign currency exchange exposure on equipment, material and currency conversion exposures, excluding borrowings, as presented in Table B below.

**Table B**

| | Telstra Group | | | |
|---|---|---|---|---|
| | **Exposure before hedging** | | **Exposure after hedging** | |
| | **As at 30 June** | | **As at 30 June** | |
| | **2000 A$m** | 1999 A$m | **2000 A$m** | 1999 A$m |
| Net anticipated future transactions (amounts payable) | **115** | 184 | **58** | 92 |
| Net transaction exposure (on amounts payable recorded in the balance sheet) | **399** | 274 | **193** | 123 |
| Translation exposure (offshore investments) on amounts receivable | **(819)** | (272) | **(763)** | (224) |
| | **(305)** | 186 | **(512)** | (9) |
| The due dates of the anticipated future transactions are as follows: | | | | |
| Within 1 year | **115** | 184 | | |
| | **115** | 184 | | |

Our hedging policy provides effective hedging for all our foreign currency exchange exposures. As at 30 June 2000 and 1999 the net deferred gain on hedges of anticipated foreign currency commitments is not significant to our financial report.

**Net fair value - forward foreign currency contracts**

There is no significant difference between the carrying amount and net fair value as at 30 June 2000. The carrying amount for forward foreign currency contracts at 30 June 2000 is a $1 million loss (1999: $27 million loss).

Cross currency swaps and interest rate swaps

We borrow funds in foreign currencies. It is our policy to hedge all currency exposure on these borrowings with foreign currency derivative transactions such as cross currency swaps and forward currency exchange contracts. The terms and conditions of the swaps are similar to the terms and conditions of the underlying hedged borrowings in note 16.

We enter into interest rate swaps to adjust interest rate exposures on our debt portfolio to match the ratio of fixed interest debt to variable interest debt, as required by our debt management policy. Under this policy our debt is managed on a portfolio basis. The due dates of interest rate swaps match the due dates of the underlying debt within the requirements of our debt management policy. Net interest receipts and payments are recognised as an adjustment to borrowing costs.

At 30 June 2000 and 1999, the Australian dollar interest rates varied as shown in Table C below.

**Net fair value - interest rate and cross currency swaps**

Derivative transactions are only used for the purpose of managing financial exposures that are present in underlying business transactions. Therefore net market values should not be assessed on their own. Their overall impact should take into account the underlying exposures being hedged.

**Table C**

| | Telstra Group | |
|---|---|---|
| **Cross currency swaps** | | |
| Fixed | **- 2000 7.86%** | (1999: 7.86%) |
| Variable | **- 2000 from 6.15% to 7.13%** | (1999: from 4.87% to 5.17%) |
| **Interest rate swaps** | | |
| Fixed | **- 2000 from 4.78% to 10.64%** | (1999: from 4.77% to 13.58%) |
| Variable | **- 2000 from 4.78% to 7.11%** | (1999: from 4.69% to 6.25%) |

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

### Interest rate swaps

The notional amounts of interest rate swaps shown below represent the face values of these swap transactions entered into by us at balance date. The notional amounts do not represent amounts exchanged or to be exchanged by the parties to the contract.

They are not a true reflection of the credit risk and are therefore not recorded on the balance sheet. The due dates, net notional principal amounts, net fair value and carrying amounts of our outstanding interest rate swaps at balance date are shown in Table D below.

The gross notional principal of interest rate swaps was $6,192 million for fiscal 2000 (1999: $6,697 million). The gross notional amount of interest rate swaps is significantly larger than the net notional amounts shown. This is due to the gross positions being modified over time as volumes and positions have changed.

This approach is undertaken to manage our fixed to variable ratio on net debt, where net debt is defined as financial liabilities less financial assets.

### Cross currency swaps

The remaining due dates, net principal amounts, net fair values and carrying amounts of our outstanding cross currency swaps at balance date are shown in Table E below.

### Interest rate swaps and cross currency swaps - fair value

For cross currency and interest rate swaps where the carrying amount is in excess of net fair value at balance date, no reduction to net fair value is made since these derivatives act as hedges of underlying physical transactions.

**Table D**

| | Telstra Group | | | | | |
|---|---|---|---|---|---|---|
| | Net notional principal amount (a) | | Net fair value | | Carrying amount (b) | |
| | As at 30 June | | | | | |
| | **2000 A$m** | 1999 A$m | **2000 A$m** | 1999 A$m | **2000 A$m** | 1999 A$m |
| **Interest rate swaps with floating interest rates** | | | | | | |
| - Less than one year (payable) | **(261)** | (211) | **(3)** | (1) | **(1)** | - |
| - One to five years receivable/(payable) | **623** | 78 | **5** | 24 | **(2)** | 2 |
| - Greater than five years (payable) | **(1,600)** | (1,830) | **(42)** | (22) | **(4)** | (8) |
| | **(1,238)** | (1,963) | **(40)** | 1 | **(7)** | (6) |

(a) At 30 June 2000 and 30 June 1999 we had a net interest rate swap position of pay fixed. This means that we receive interest on the interest rate swap at variable rates and pay interest on the interest rate swaps at fixed rates. As a result our exposure to movements in interest rates is reduced.

(b) The carrying amount represents the accrued interest payable on interest rate swaps which is included in current accounts payable.

**Table E**

| | Telstra Group | | | | | |
|---|---|---|---|---|---|---|
| | Net notional principal amount | | Net fair value | | Carrying amount (a) | |
| | As at 30 June | | | | | |
| | **2000 A$m** | 1999 A$m | **2000 A$m** | 1999 A$m | **2000 A$m** | 1999 A$m |
| **Cross currency swaps** | | | | | | |
| - One to five years | **2,486** | 559 | **51** | 13 | **62** | 20 |
| - Greater than five years | **1,749** | 2,064 | **62** | 6 | **120** | 17 |
| | **4,235** | 2,623 | **113** | 19 | **182** | 37 |

(a) The carrying amount represents principal which is recorded in borrowings and accrued interest which is recorded in current receivables.

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

### Interest rate risk

Our exposure to interest rate risk and the effective interest rates on financial instruments at 30 June 2000 are shown in Table F below. The information as at 30 June 1999 is shown in Table G.

**Table F** — Telstra Group, As at 30 June 2000

| | Weighted average effective interest rate | Interest rate: Floating | Fixed due dates: 1 yr. or less | Fixed due dates: 2 to 5 yrs. | Fixed due dates: over 5 yrs. | Non interest bearing | Total (c) | Note |
|---|---|---|---|---|---|---|---|---|
| | % | $m | $m | $m | $m | $m | $m | |
| **Assets** | | | | | | | | |
| Cash . . . . . . . . . . . . . . . . . . . (a) | 6.22 | 558 | - | - | - | 193 | 751 | 8 |
| Trade debtors and accrued revenue . . | - | - | - | - | - | 3,250 | 3,250 | 9 |
| Bank deposits, bills of exchange and promissory notes . . . . . . . . (a) | 6.14 | - | 193 | 15 | - | - | 208 | 9 |
| Share loan to employees . . . . . . (a) | - | - | - | - | - | 297 | 297 | 9 |
| Other receivables . . . . . . . . . . . (a) | - | - | - | - | - | 56 | 56 | 9 |
| Investments . . . . . . . . . . . . . . (b) | - | - | - | - | - | 435 | 435 | 11 |
| **Total financial assets as at 30 June 2000** . . . . . . . . . . . . . . . . | | 558 | 193 | 15 | - | 4,231 | 4,997 | |
| **Liabilities** | | | | | | | | |
| Trade creditors and accrued expenses | - | - | - | - | - | 2,076 | 2,076 | 15 |
| Other creditors . . . . . . . . . . . . . . . | - | - | - | - | - | 455 | 455 | 15 |
| Amounts owed to the Telstra Superannuation Scheme. . . . . . . . . | 11.80 | - | 121 | 189 | 415 | - | 725 | 15 |
| Bank overdraft . . . . . . . . . . . . . (a) | 16.10 | 7 | - | - | - | - | 7 | 16 |
| Loan from joint venture entity . . . (a) | 5.95 | - | 3 | - | - | - | 3 | 16 |
| Bills of exchange and promissory notes . . . . . . . . . . . . . . . . . . . (a) | 6.34 | 2,724 | - | - | - | - | 2,724 | 16 |
| Bank loans . . . . . . . . . . . . . . . (a) | 15.73 | 15 | - | - | - | - | 15 | 16 |
| Telecom/Telstra bonds . . . . . . . . (a) | 8.91 | - | 558 | 1,082 | 1,137 | - | 2,777 | 16 |
| Other loans . . . . . . . . . . . . . . . (a) | 7.29 | - | - | 2,559 | 1,828 | - | 4,387 | 16 |
| Cross currency swaps . . . . . . . . . (a) | - | 3,796 | - | (2,109) | (1,838) | - | (151) | 16 |
| Finance lease liabilities. . . . . . . . (a) | 5.39 | - | 22 | 37 | | - | 59 | 16 |
| Interest rate swaps . . . . . . . . . . (a) | - | (1,238) | 261 | (623) | 1,600 | - | - | - |
| **Total financial liabilities as at 30 June 2000** . . . . . . . . . . . . . . . . | | 5,304 | 965 | 1,135 | 3,142 | 2,531 | 13,077 | |
| **Net financial assets/(liabilities) as at 30 June 2000** . . . . . . . . . . . . . | | (4,746) | (772) | (1,120) | (3,142) | 1,700 | (8,080) | |

(a) The effective yield (effective interest rate) on our net debt at 30 June 2000 is 8.2%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities and associated entities.

(c) Carrying amount as per balance sheet.

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

### Interest rate risk (continued)

**Table G**

| | Telstra Group As at 30 June 1999 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted average effective interest rate | Interest rate | | | | Non interest bearing | Total (c) | |
| | | Floating | Fixed due dates | | | | | |
| | | | 1 yr. or less | 2 to 5 yrs. | over 5 yrs. | | | |
| | % | $m | $m | $m | $m | $m | $m | note |
| **Assets** | | | | | | | | |
| Cash . . . . . . . . . . . . . . . . . . . . . . (a) | 5.00 | 834 | - | - | - | 145 | 979 | 8 |
| Trade debtors and accrued revenue . . . . . | - | - | - | - | - | 3,060 | 3,060 | 9 |
| Bank deposits, bills of exchange and promissory notes . . . . . . . . . . . . . (a) | 4.59 | - | 114 | 51 | 19 | - | 184 | 9 |
| Share loan to employees . . . . . . . . . (a) | - | - | - | - | - | 279 | 279 | 9 |
| Other receivables . . . . . . . . . . . . . . (a) | - | - | - | - | - | 15 | 15 | 9 |
| Investments . . . . . . . . . . . . . . . . . (b) | - | - | - | - | - | 191 | 191 | 11 |
| **Total financial assets as at 30 June 1999** . . . . . . . . . . . . . . . . . . | | 834 | 114 | 51 | 19 | 3,690 | 4,708 | |
| **Liabilities** | | | | | | | | |
| Trade creditors and accrued expenses . . . | - | - | - | - | - | 1,911 | 1,911 | 15 |
| Other creditors . . . . . . . . . . . . . . . . . . | - | - | - | - | - | 584 | 584 | 15 |
| Amounts owed to the Telstra Superannuation Scheme. . . . . . . . . . . . | 11.80 | - | 121 | 169 | 467 | - | 757 | 15 |
| Bank overdraft . . . . . . . . . . . . . . . . (a) | 16.70 | 5 | - | - | - | - | 5 | 16 |
| Loan from joint venture entity . . . . . . (a) | 4.80 | - | 16 | - | - | - | 16 | 16 |
| Bills of exchange and promissory notes . . . . . . . . . . . . . . . . . . . . . (a) | 4.93 | 2,139 | - | - | - | - | 2,139 | 16 |
| Bank loans . . . . . . . . . . . . . . . . . . (a) | 17.91 | 26 | - | - | - | - | 26 | 16 |
| Telecom/Telstra bonds . . . . . . . . . . . (a) | 10.71 | - | 68 | 1,372 | 907 | - | 2,347 | 16 |
| Other loans . . . . . . . . . . . . . . . . . . (a) | 5.57 | - | - | 583 | 2,046 | - | 2,629 | 16 |
| Cross currency swaps . . . . . . . . . . . (a) | - | 2,184 | - | (139) | (2,050) | - | (5) | 16 |
| Finance lease liabilities. . . . . . . . . . (a) | 4.27 | - | 28 | 26 | - | - | 54 | 16 |
| Interest rate swaps . . . . . . . . . . . . . (a) | - | (1,963) | 211 | (78) | 1,830 | - | - | - |
| **Total financial liabilities as at 30 June 1999** . . . . . . . . . . . . . . . . . | | 2,391 | 444 | 1,933 | 3,200 | 2,495 | 10,463 | |
| **Net financial assets/(liabilities) as at 30 June 1999** . . . . . . . . . . . . . . . | | (1,557) | (330) | (1,882) | (3,181) | 1,195 | (5,755) | |

(a) The effective yield (effective interest rate) on our net debt at 30 June 1999 was 7.9%, after taking into account the impact of interest rate swaps and cross currency swaps.

(b) This excludes investments in joint venture entities, associated entities and joint venture operation.

(c) Carrying amount as per balance sheet.

# Notes to the Financial Statements (continued)

## 29. Additional financial instruments disclosures (continued)

### Credit risk

We receive collateral (mainly in the form of secured financial assets) on all money market deposits except those deposited with licensed banks.

The recorded amounts of financial assets included in the consolidated balance sheet represent our maximum exposure to credit risk for these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been recorded in the financial statements on a net basis.

Our credit risk exposure values shown in Table H below include all transactions where the net fair value is favourable. For credit purposes there is only a credit risk where the contracting entity is liable to pay us in the event of a closeout. The amounts disclosed in Table H are different from those shown in the net fair value amounts in Tables D and E as these show the net fair value after netting favourable against unfavourable transactions. Table H only shows the favourable transactions.

| **Table H** | **Telstra Group** | |
|---|---|---|
| | **Net fair value** | |
| | **As at 30 June** | |
| | **2000** | 1999 |
| | **A$m** | A$m |
| Interest rate swaps . . . . . . . . . . . . . | **48** | 207 |
| Cross currency swaps . . . . . . . . . . . . | **198** | 140 |
| Forward foreign currency contracts . . . | **4** | - |
| | **250** | 347 |

### Credit risk - concentrations

We do not have significant exposure to any individual contracting entity. The major concentrations of credit risk that arise from our financial instrument transactions (including money market, forward foreign currency contracts, cross currency and interest rate swaps) by country of financial institution are shown in Table I below.

| **Table I** | **Telstra Group** | | | |
|---|---|---|---|---|
| | **Credit risk concentrations** | | | |
| | **As at 30 June** | | | |
| | **2000** | | 1999 | |
| | **%** | **A$m** | % | A$m |
| Australia. . . . . . | **29** | **1,329** | 39 | 2,116 |
| United States . . . | **38** | **1,773** | 28 | 1,497 |
| Japan . . . . . . . | **-** | **12** | 1 | 80 |
| Europe . . . . . . . | **30** | **1,404** | 31 | 1,673 |
| Hong Kong . . . . | **3** | **117** | - | - |
| Other . . . . . . . . | **-** | **17** | 1 | 39 |
| | **100** | **4,652** | 100 | 5,405 |

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures

### Reconciliation to financial reports prepared using USGAAP

Australian generally accepted accounting principles (AGAAP) vary in certain significant respects from generally accepted accounting principles in the United States (USGAAP). We use AGAAP to prepare our financial report. If we had used USGAAP to prepare our financial report for fiscal 2000, 1999 and 1998, this would be different to our AGAAP financial report.

In this note, operating profit after income tax expense available to the Telstra Entity shareholders is defined as net income. The reconciliations of net income and shareholders' equity contained in this note are based on the financial report of the Telstra Group.

The significant differences between AGAAP and USGAAP are presented below.

### (a) Property, plant and equipment

#### Revaluations

AGAAP allows property, plant and equipment to be revalued. Increases in revalued amounts are recorded in an asset revaluation reserve (shareholders' equity), unless they reverse a previous revaluation decrease charged to the profit and loss statement. Impairments (decreases) to asset values are recorded in the profit and loss statement, unless they reverse a previous increase still recorded in the asset revaluation reserve.

Revaluations of property, plant and equipment are not allowed under USGAAP, except for impairments (decreases in asset values) which are permanent. Adjustments to reduce revalued property, plant and equipment to historical cost for revaluations and impairments included in the reconciliation of shareholders' equity to USGAAP were $371 million for fiscal 2000 (1999: $361 million; 1998: $317 million). Adjustments included in the reconciliation of net income to USGAAP for fiscal 2000 (including the impairments listed below) were $37 million expense (1999: $53 million expense; 1998: $62 million expense).

Under USGAAP, Statement of Financial Accounting Standards No.121 (SFAS 121), "Accounting for the Impairment on Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", an impairment loss can only be recorded when the future undiscounted cash flows are less than the recorded amount of the asset. Impairment losses are recorded under AGAAP when discounted future cash flows are less than the recorded amount of the asset. Under AGAAP we recorded a $Nil impairment loss during fiscal 2000 (1999: $Nil impairment loss; 1998: $16 million impairment loss relating to the broadband network).

**Impairment loss - broadband network**: As future undiscounted cash flows of our broadband network were greater than the recorded amount of the asset, a $342 million impairment loss was adjusted in the reconciliation of net income and shareholders' equity to USGAAP for fiscal 1997 and additional depreciation of $62 million was recorded in the reconciliation of net income to USGAAP in fiscal 2000 (1999: $62 million; 1998: $59 million). Additional impairment losses for USGAAP were $Nil for fiscal 2000 (1999: $2 million; 1998: $10 million).

#### Profits/(losses) on disposal of non current assets

Under AGAAP, proceeds on sale of assets are recorded as revenue. For USGAAP, only the net profit or net loss on sale of non current assets is recorded as revenue.

AGAAP reported profits or losses on the sale of revalued assets are based on revenue received less revalued net book value. For USGAAP, profits or losses are based on revenue received less historical net book value. These differences are disclosed in the reconciliations of net income and shareholders' equity to USGAAP.

#### Depreciation expense

Depreciation expense for AGAAP and USGAAP has been calculated using the straight line method of depreciation. Under AGAAP, depreciation expense is based on the recorded amount of the asset and is therefore higher for assets that have been revalued upwards. USGAAP does not allow assets to be revalued above original historical cost. Depreciation expense has been adjusted to reflect depreciation based on original cost in the reconciliations of net income and shareholders' equity to USGAAP.

#### Indirect overheads included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996 we recorded overhead costs directly associated with the construction of our communication assets as part of the cost of those assets. We expensed all indirect overhead costs as incurred. From 1 July 1996, indirect overhead costs associated with operations and management personnel directly involved in the construction of our communication assets have been recorded as part of the cost of those assets. This policy is the same as USGAAP.

To reflect this policy before 1 July 1996 in the reconciliation of net income and shareholders' equity to USGAAP we recorded $2,788 million as constructed assets and accumulated depreciation $1,228 million. Depreciation of $157 million on the amount above has been included in the reconciliation of net income and shareholders' equity for fiscal 2000 (1999: $155 million; 1998: $157 million).

#### Borrowing costs included as part of the cost of constructed assets

Under AGAAP, before 1 July 1996 we expensed all borrowing costs when incurred. From 1 July 1996 borrowing costs relating to the construction of property, plant and equipment for internal use are recorded as part of the cost of the asset. This policy is the same as USGAAP.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

**Reconciliation to financial reports prepared using USGAAP (continued)**

### (a) Property, plant and equipment (continued)

**Borrowing costs included as part of the cost of constructed assets (continued)**

To reflect this policy before 1 July 1996 in the reconciliation to net income and shareholders' equity to USGAAP we recorded $638 million as constructed assets and accumulated depreciation $228 million. Depreciation of $32 million on the amount above has been included in the reconciliation of net income and shareholders' equity for fiscal 2000 (1999: $37 million; 1998: $41 million).

### (b) Investments

**Equity securities (excluding Satellite consortium investment, joint venture entities and associated entities)**

AGAAP does not require an increase in the fair value of an equity security to be recorded in the financial statements. AGAAP does require a permanent reduction in the value of an equity security to be taken to the profit and loss statement. An adjustment has been made in the reconciliation of AGAAP to USGAAP to revalue equity securities classified as available for sale to fair market value. This has been made according to Statement of Financial Accounting Standards No.115 (SFAS 115) "Accounting for Certain Investments in Debt and Equity Securities".

Under USGAAP, securities held to their due date are reduced to fair value when the decline in fair value is not temporary. This reduction is recorded in the profit and loss statement. Securities classified as available for sale are recorded at fair value with changes in fair value, other than a permanent reduction, recorded in a separate component of shareholders' equity until realised. Realised gains and losses are then recorded in the profit and loss statement.

Refer to the "Other Disclosures" section of this note for details of the dollar amount of these differences.

**Investments in joint venture entities and associated entities**

USGAAP requires companies to account for investments in associates and joint venture entities using the equity method of accounting. Before 1 July 1997, we accounted for our investments in associates and joint venture entities using the cost basis. The effect of this difference was not significant and no differences have been included in the reconciliation of USGAAP for fiscal 1997. From 1 July 1997, we adopted the equity method of accounting consistent with USGAAP requirements (refer note 1.17(b)). Under AGAAP, equity accounting is suspended where the cumulative share of losses and reserve movements have reduced the participating equity investment to zero.

Under USGAAP, equity accounted losses are required to be recognised in net income to the extent that we have other non participating investments in the equity accounted entity (i.e. preference shares or loans). The effect of these losses is not significant for the three years ending 30 June 2000, therefore no adjustment has been made in the USGAAP reconciliation.

### (c) Dividend payable recognition

Under AGAAP, dividends declared after balance date and before approval of the financial reports are currently recognised as a liability in those financial statements. Under USGAAP provisions for dividends are only recognised as liabilities if the dividends are formally declared before balance date. The effect of this adjustment is disclosed in the reconciliation of shareholders' equity to USGAAP. The dividends per share for USGAAP (including the employee options (refer l below) as issued shares) using Australian dollars that would be disclosed for the year ended 30 June 2000 would be 34.0 cents per share (1999: 14.0; 1998: 11.0). The fiscal 2000 USGAAP dividend included a special dividend of 16.0 cents per share.

### (d) Retirement benefits

Pension costs (superannuation expense) for our defined benefit plans are based on contributions payable to the plans for the year, at rates determined by the actuary of the defined benefit plans. For USGAAP disclosures, the CSS is a multiple employer plan under Statement of Financial Accounting Standards No.87 (SFAS 87) "Employers' Accounting for Pensions". Refer to note 22 for details of our superannuation plans.

For our defined benefit schemes where there has been a shortfall in prior years of the net market value of the scheme assets when compared to members' vested entitlements, we have provided for the present value of any shortfall. This has been to the extent that the shortfall represents a present obligation.

For USGAAP, pension costs for defined benefit superannuation plans are calculated by an actuary using the projected unit credit method. This method includes current service cost, interest cost, return on plan assets and amortisation of transition assets. Unrecorded gains and losses exceeding 10% of the greater of the projected benefit obligation or the market value of the plan assets are amortised over the average expected service period of active employees expected to receive benefits under the plan.

We adopted SFAS 87 on 1 July 1992, as it was not feasible to adopt SFAS 87 from the effective date of the Standard, being 1 July 1989. The transition asset recorded under SFAS 87 is being amortised from 1 July 1992 over 11 years. On 1 July 1992, $331 million of amortisation was recorded directly in shareholders' equity for the USGAAP reconciliation.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### (d) Retirement benefits (continued)

We adopted Statement of Financial Accounting Standards No.132 (SFAS 132) "Employers' Disclosures about Pensions and Other Post Retirement Benefits" from 1 July 1998. This standard does not change the measurement or recognition of pension costs or other post retirement benefits.

The standard changed the USGAAP disclosures for retirement benefits. Certain comparatives in fiscal 1998 have changed to comply with the revised disclosure.

The effect of the adjustments required by SFAS 87 to retirement benefit expense has been disclosed in the reconciliation of net income and shareholders' equity to USGAAP. If we had reported our net periodic pension cost and the funded status of the defined benefit superannuation plans in accordance with the accounting principles and actuarial assumptions under USGAAP, the disclosures required would have been as follows:

| | Telstra Group | | | |
|---|---|---|---|---|
| | Year ended 30 June | | | |
| | **2000 $m** | **2000 US$m** | 1999 $m | 1998 $m |
| **Net periodic pension cost** | | | | |
| The components of net periodic pension cost for our defined benefit superannuation plans are as follows: | | | | |
| Service cost on benefits earned | **437** | **261** | 420 | 465 |
| Interest cost on projected benefit obligation | **713** | **426** | 683 | 744 |
| Expected return on assets | **(1,210)** | **(722)** | (1,118) | (1,129) |
| Expenses and taxation | **61** | **36** | 55 | 104 |
| Member contributions for defined benefits | **(149)** | **(89)** | (142) | (153) |
| Amortisation of transition asset | **(88)** | **(53)** | (91) | (97) |
| Curtailment (gain) | **-** | **-** | (102) | (12) |
| Settlement (gain)/loss | **(124)** | **(74)** | (4) | 22 |
| **Net periodic pension cost** | **(360)** | **(215)** | (299) | (56) |
| We used the following major assumptions to account for our defined benefit superannuation plans for the years ended 30 June: | | | | |
| Discount rate | **6.50%** | **6.50%** | 6.00% | 6.00% |
| Rate of increase on compensation levels | **4.00%** | **4.00%** | 4.00% | 4.00% |
| Expected long-term rate of return on assets | **8.50%** | **8.50%** | 8.50% | 8.50% |
| **Reconciliation of change in benefit obligation** | | | | |
| Projected benefit obligation at beginning of year | **11,469** | **6,848** | 12,049 | 10,937 |
| Service cost | **437** | **261** | 420 | 465 |
| Interest cost | **713** | **426** | 683 | 744 |
| Member contributions | **50** | **30** | - | - |
| Benefit payments | **(811)** | **(484)** | (2,063) | (1,477) |
| Curtailments (i) | **(36)** | **(21)** | (16) | (12) |
| Inclusion of accumulation liabilities (ii) | **-** | **-** | 1,025 | - |
| Actuarial (gain)/loss | **209** | **125** | (629) | 1,392 |
| Projected benefit obligation at end of year | **12,031** | **7,185** | 11,469 | 12,049 |

## Notes to the Financial Statements (continued)

# 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### (d) Retirement benefits (continued)

| | Telstra Group | | | |
|---|---|---|---|---|
| | Year ended 30 June | | | |
| | **2000 $m** | **2000 US$m** | 1999 $m | 1998 $m |
| **Reconciliation of change in fair value of plan assets** | | | | |
| Fair value of plan assets at beginning of year | **14,512** | **8,665** | 14,032 | 13,867 |
| Actual return on plan assets | **1,743** | **1,041** | 1,641 | 1,294 |
| Employer contributions | **8** | **5** | 25 | 299 |
| Member contributions for defined benefits | **148** | **88** | 142 | 153 |
| Transfers/member contributions for accumulation benefits | **50** | **30** | - | - |
| Benefit payments | **(811)** | **(484)** | (2,063) | (1,477) |
| Plan expenses | **(16)** | **(10)** | (11) | (10) |
| Contribution tax | **(45)** | **(27)** | (44) | (94) |
| Inclusion of accumulation assets (ii) | **-** | **-** | 1,025 | - |
| Deferred tax liability on notional fund surplus | **-** | **-** | (235) | - |
| **Fair value of plan assets at end of year (iii)** | **15,589** | **9,308** | 14,512 | 14,032 |
| **Reconciliation of funded status of plan** | | | | |
| Projected benefit obligation | **(12,031)** | **(7,185)** | (11,469) | (12,049) |
| Plan assets at fair value | **15,589** | **9,308** | 14,512 | 14,032 |
| Funded status | **3,558** | **2,123** | 3,043 | 1,983 |
| Unrecognised net transition asset (iv) | **(348)** | **(208)** | (440) | (553) |
| Unrecognised net actuarial loss/(gain) (iv) | **(210)** | **(125)** | 29 | 877 |
| **Prepaid pension cost** | **3,000** | **1,790** | 2,632 | 2,307 |

(i) Fiscal 2000 curtailment losses of $Nil (1999: $86 million; 1998: $Nil) were not recorded as an unrecognised gain existed at the time of curtailment.

(ii) The accumulation assets and liabilities have been included in fiscal 1999 as employer contributions are to be funded from the existing surplus in the TSS (refer note 22).

(iii) The difference between the fair market value of scheme assets for AGAAP and USGAAP is mainly due to the value of the additional contributions payable by us to the TSS. The amount of $725 million is not considered to be a scheme asset for the purposes of SFAS 87 at 30 June 2000 (1999: $757 million; 1998: $785 million).

(iv) Settlements recorded in net periodic pension cost have effected the unrecognised net transition asset and the unrecognised (gain)/loss as follows:
(a) unrecognised transition (asset); fiscal 2000: $4 million loss; fiscal 1999: $22 million loss; fiscal 1998: $29 million loss.
(b) unrecognised (gain)/loss; fiscal 2000: $120 million (gain); fiscal 1999: $18 million (gain); fiscal 1998: $51 million (gain).

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

Under AGAAP, before 1 July 1996, we did not record costs associated with software developed for internal use as software assets. From 1 July 1996, we recorded costs (including interest) associated with software developed for internal use as software assets. This policy is the same as USGAAP. These costs include direct labour (both internal and external) and other directly associated costs.

To reflect this policy before 1 July 1996 in the reconciliation of net income and shareholders' equity to USGAAP we recorded $1,370 million as software assets and accumulated amortisation $732 million. Amortisation of $81 million on the amount above has been included in the reconciliation of net income and shareholders' equity for fiscal 2000 (1999: $134 million; 1998: $181 million).

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

**Reconciliation to financial reports prepared using USGAAP (continued)**

### (f) Income tax

Under AGAAP, timing differences are recorded in the balance sheet as deferred tax assets and liabilities using the liability method of tax effect accounting. Future income tax benefits relating to tax losses and timing differences are not recorded as an asset unless the benefit is virtually certain of being realised.

Under USGAAP, deferred tax assets and liabilities are created for all temporary differences between the accounting and tax bases of assets and liabilities that will reverse during future taxable periods, including tax losses. Deferred tax assets are reduced by a valuation allowance if, in the opinion of management, it is more likely than not that some portion, or all of the deferred tax asset, will not be realised. We increase or decrease our deferred tax balances for the income tax effect of accounting differences calculated under USGAAP. We include these in our reconciliation of AGAAP to USGAAP.

AGAAP requires the effect of a change in the income tax rate to be included in the calculation of deferred tax balances when the change has been announced by the Treasurer of the Commonwealth. USGAAP requires the tax rate change to be recognised in the year that the Australian Parliament has approved the legislation and it has received royal assent from the Governor General of Australia (Head of State).

For AGAAP, we classify all deferred tax balances as non current. For USGAAP, the classification between current and non current is based on the balance sheet classification of the underlying asset or liability. Where there is no underlying asset or liability the classification is based on when the temporary difference is expected to reverse. The effect of this has been disclosed in the balance sheet prepared in accordance with USGAAP.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### (f) Income tax (continued)

| | Telstra Group | | | |
|---|---|---|---|---|
| | As at 30 June | | | |
| | **2000** | **2000** | 1999 | 1998 |
| | **$m** | **US$m** | $m | $m |
| **Deferred tax assets** | | | | |
| Foreign exchange translation, hedge and other finance costs | **10** | **6** | 1 | 17 |
| Employee entitlements | **128** | **76** | 487 | 296 |
| Income received in advance | **30** | **18** | - | - |
| Inventory valuation | **11** | **7** | 21 | 22 |
| Provisions | **356** | **213** | 310 | 634 |
| Tax losses | **5** | **3** | 241 | 181 |
| Other | **38** | **23** | 33 | 75 |
| **Total deferred tax assets under USGAAP** | **578** | **346** | 1,093 | 1,225 |
| Valuation allowance | **(1)** | **(1)** | (84) | (48) |
| **Deferred tax assets under USGAAP after valuation allowance** | **577** | **345** | 1,009 | 1,177 |
| **Deferred tax liabilities** | | | | |
| Property, plant and equipment | **1,738** | **1,038** | 1,474 | 785 |
| Foreign exchange translation, hedge and other finance costs | **15** | **9** | 11 | 36 |
| Prepaid pension cost | **900** | **537** | 948 | 830 |
| Software assets | **84** | **50** | 221 | 316 |
| Prepayments | **11** | **7** | 27 | 35 |
| Finance leases | **-** | **-** | - | 10 |
| Marketable securities | **278** | **166** | 12 | 1 |
| Other | **1** | **1** | 72 | 18 |
| **Total deferred tax liabilities under USGAAP** | **3,027** | **1,808** | 2,765 | 2,031 |
| **Net deferred tax liability under USGAAP** | **(2,450)** | **(1,463)** | (1,756) | (854) |
| **Represented by:** | | | | |
| Net deferred tax (liability)/asset recorded under AGAAP | **(626)** | **(374)** | (89) | 785 |
| USGAAP/AGAAP differences | **(1,824)** | **(1,089)** | (1,667) | (1,639) |
| **Net deferred tax liability under USGAAP** | **(2,450)** | **(1,463)** | (1,756) | (854) |
| **The components of income tax expense for USGAAP are:** | | | | |
| Current tax expense | **1,544** | **922** | 1,205 | 1,058 |
| Deferred tax expense | **15** | **9** | 651 | 549 |
| Under provision in prior year | **9** | **5** | (8) | (113) |
| **Income tax expense for USGAAP** | **1,568** | **936** | 1,848 | 1,494 |

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

**Reconciliation to financial reports prepared using USGAAP (continued)**

### (g) Minority interests (defined as outside equity interests per AGAAP)

Under USGAAP, minority interests are not included in shareholders' equity. The effect of this adjustment has been disclosed in the reconciliation of shareholders' equity to USGAAP.

### (h) Financial instruments

USGAAP does not allow deferral of gains and losses on forward foreign exchange contracts intended to hedge anticipated future transactions. The effect of this difference is not significant and no adjustment has been made in the USGAAP reconciliation.

### (i) Employee entitlements

Our employee entitlement provisions include a liability for long service leave. Refer to note 1.24(a) for a definition of long service leave. The assumptions used to calculate this liability are consistent with those used under SFAS 87 for USGAAP.

### (j) Share split

On 6 August 1997 a share split of ordinary shares of the Telstra Entity was approved. The number of issued and paid up ordinary shares changed from 6,433,300,100 ordinary shares with a value of $1.00 each to 12,866,600,200 ordinary shares with a value of $0.50 each.

The number of shares restated for the share split at 30 June 1997 would be 12,866,600,200 according to USGAAP.

### (k) Direct cost of sales

Included in direct cost of sales for AGAAP are dealer commissions and bonuses, as they are directly related to our sales revenue.

For USGAAP, dealer commissions and bonuses are not considered to be direct costs of sales. In the USGAAP profit and loss statement, dealer commissions and bonuses of $296 million for fiscal 2000 (1999: $234 million; 1998: $283 million) have been reclassified from direct cost of sales to other operating expenses.

### (l) Employee compensation expense

Our employee share plans, which are described in note 19, are treated differently for USGAAP compared to AGAAP as they meet USGAAP requirements. Therefore we are required to make a USGAAP adjustment for employee compensation expense.

AGAAP does not require employee compensation expenses to be recorded in the profit and loss statement for our employee share schemes.

USGAAP requires that shares issued in conjunction with non-recourse loans be accounted for as options. In calculating compensation expense under USGAAP, we have adopted the accounting principles of Statement of Financial Accounting Standards No.123 (SFAS 123) "Accounting for Stock Based Compensation", utilising the fair value method. Under this method, compensation expense is calculated based on the fair value of options on the date of grant and recognised over the associated service period, which is usually the vesting period.

The compensation expense is recorded in the balance sheet under share capital as additional paid in capital for USGAAP. In addition, the outstanding balance of the loans provided to the employees is deducted from shareholders' equity (share capital) rather than classified as an asset.

**Details of options granted under each scheme are as follows:**

**TESOP97**

**Fiscal 1998** options granted in conjunction with the one-third privatisation on 17 November - 137,473,875. 502,000 options were exercised to 30 June 1998 resulting in 136,971,875 options outstanding at 30 June 1998.

**Fiscal 1999** options exercised - 23,822,375 - resulting in 113,149,500 options outstanding at 30 June 1999.

**Fiscal 2000** options exercised 14,601,875 - resulting in 98,547,625 options outstanding at 30 June 2000.

**TESOP99**

**Fiscal 2000** options granted 16,939,000, options exercised 122,600 - resulting in 16,816,400 options outstanding at 30 June 2000.

In relation to the options allocated to employees under TESOP99 and TESOP97, all vest immediately upon grant and will expire at the earlier of repayment of the loan balance and the termination of employment. These options are dilutive for earnings per share calculations (refer to earnings per share calculations below).

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### (l) Employee compensation expense (continued)

#### Telstra Growthshare

Telstra Growthshare commenced in fiscal 2000.

Options granted 3,370,000, options lapsed 662,000 - resulting in 2,708,000 options outstanding at 30 June 2000. In addition restricted shares options of 573,500 were granted with 110,000 lapsing - resulting in 463,500 restricted share options outstanding at 30 June 2000.

The options allocated under Telstra Growthshare vest when the performance hurdle  has been reached and the executives pays the conversion price of $8.02 per share.  The restricted shares allocated under Telstra Growthshare vest when the performance hurdle has been reached.

**Valuation methodology and assumptions**

#### TESOP97

For **fiscal 1998**, the binomial option valuation model was used to estimate the fair value of the options (being $1.58) at the date of grant, utilising the following weighted average assumptions:
- risk-free interest rate of 5.8%;
- dividends yield of 0% as dividends are reinvested to reduce the price of the option;
- expected stock market price volatility factor of 30%; and
- a weighted average expected life of options of 7 years.

At 30 June 2000, the weighted average expected life of the options was 5 years.  The weighted average price of the option at 30 June 2000, 30 June 1999 and 30 June 1998 was A$1.58.

There were no shares/options issued to employees in fiscal 1999 and therefore there is no compensation expense recorded in fiscal 1999.

#### TESOP99

The binomial option valuation model was used to estimate the fair value of the options (being $3.53) at the date of grant utilising the following weighted average assumptions:
- risk free interest rate 6.99%;
- dividend yield of 0% as dividends are reinvested to reduce the price of the option;
- expected stock volatility of 30%; and
- an expected life of 7 years.  The weighted average price of the option at 30 June 2000 was A$3.53.

#### Telstra Growthshare

An approach consistent with the binomial valuation model was used to estimate the fair value of the options (being $1.38) at the date of grant for the Growthshare options and restricted shares (being $5.64) using the following weighted average assumptions:

| | Growthshare options | Growthshare restricted shares |
|---|---|---|
| Risk free rate . . . . . . . . . . . | 6.35% | 6.35% |
| Dividend yield . . . . . . . . . . | 2.0% | 2.0% |
| Expected stock volatility. . . . | 30% | 30% |
| Expected life . . . . . . . . . . . | 5 years | 5 years |
| Probability that performance hurdle is met . . . . . . . . . . . | 55% | 55% |

The weighted average price of the option at 30 June 2000 was A$1.38. For the restricted shares the weighted average price was A$5.64 at 30 June 2000.

**Taxation of employee compensation expense**

There is no income tax effect on the compensation expense for USGAAP as it is a permanent difference (non taxable).

### (m) Mobile phone subsidies

Under AGAAP from 1 July 1999 we changed our accounting policy relating to subsidies provided to our customers when they purchase mobile phones.  From this date, we are deferring the subsidy provided to customers who enter into mobile phone contracts with a length of two years or greater.  This policy is not consistent with USGAAP.  This has been adjusted for in the reconciliation of net income to USGAAP and shareholders' equity to USGAAP.

### (n) Redundancy and restructuring provision - fiscal 2000

Under AGAAP, we have recorded a provision for redundancy and restructuring of $486 million before tax.  The amount charged for income tax expense was $175 million with a net amount after tax of $310 million.  We have satisfied the Australian requirements for recording this provision.  However, under USGAAP we have not met the stricter requirements imposed on us to be able to record the provision.  Therefore, we have adjusted this amount and the associated tax effect in the reconciliation of net income and shareholders' equity to USGAAP.

### (o) Enterprise bargaining agreements

(i) Our two year enterprise and customer field workforce agreements expire in December 2000 and we have commenced discussion with unions for replacement agreements.

## Notes to the Financial Statements (continued)

# 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### Operating profit reconciliation

The following is a reconciliation of net income according to AGAAP to net income calculated under USGAAP, for the following years ended 30 June:

| | | Telstra Group | | | |
|---|---|---|---|---|---|
| | | Year ended 30 June | | | |
| | | **2000** | **2000** | 1999 | 1998 |
| | **Note** | **$m** | **US$m** | $m | $m |
| Net income reported in the Telstra Group profit and loss statement according to AGAAP | | **3,677** | **2,195** | 3,486 | 3,004 |
| **Adjustments required to agree with USGAAP:** | | | | | |
| Property, plant and equipment | 30(a) | **(226)** | **(134)** | (245) | (260) |
| Retirement benefit expense | 30(d) | **368** | **220** | 325 | 354 |
| Amortisation of software assets | 30(e) | **(81)** | **(48)** | (134) | (181) |
| Mobile phone subsidies | 30(m) | **(174)** | **(104)** | - | - |
| Redundancy and restructuring provision - fiscal 2000 | 30(n) | **486** | **290** | - | - |
| Employee compensation expense | 30(l) | **(66)** | **(39)** | - | (217) |
| Income tax expense | 30(f) | **109** | **65** | (16) | (26) |
| **Net income per USGAAP** | | **4,093** | **2,445** | 3,416 | 2,674 |

Profit and loss account information measured and classified according to USGAAP is presented as follows:

| | 2000 $m | 2000 US$m | 1999 $m | 1998 $m |
|---|---|---|---|---|
| Operating revenue | **18,609** | **11,111** | 17,571 | 16,703 |
| Operating expenses | | | | |
| Labour | **3,012** | **1,798** | 2,945 | 3,882 |
| Direct cost of sales | **3,033** | **1,811** | 2,768 | 2,299 |
| Depreciation and amortisation | **2,953** | **1,763** | 2,880 | 2,763 |
| Other operating expenses | **4,052** | **2,419** | 3,473 | 3,247 |
| **Total operating expenses** | **13,050** | **7,791** | 12,066 | 12,191 |
| **Operating income** | **5,559** | **3,320** | 5,505 | 4,512 |
| Interest expense, net | **(568)** | **(339)** | (529) | (585) |
| Dividend income | **12** | **7** | 13 | 20 |
| Other income | **654** | **391** | 277 | 217 |
| **Net income before income tax expense and minority interests** | **5,657** | **3,379** | 5,266 | 4,164 |
| Income tax expense | **1,568** | **936** | 1,848 | 1,494 |
| **Net income before minority interests** | **4,089** | **2,443** | 3,418 | 2,670 |
| Minority interests in operating income | **4** | **2** | (2) | 4 |
| **Net income** | **4,093** | **2,445** | 3,416 | 2,674 |

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

### Operating profit reconciliation (continued)

| | Telstra Group | | | |
|---|---|---|---|---|
| | Year ended 30 June | | | |
| | **2000** | **2000** | 1999 | 1998 |
| | **$m** | **US$m** | $m | $m |
| Presenting information according to USGAAP involves reclassifying the presentation adopted for AGAAP. The reconciliation of net income, other income and interest expense net for AGAAP to USGAAP is provided below: | | | | |
| **Operating revenue per AGAAP** | **19,840** | **11,846** | 18,218 | 17,302 |
| Less: | | | | |
| Dividend income | **12** | **7** | 13 | 20 |
| Interest income | **62** | **37** | 49 | 49 |
| Revenue from sale of property, plant and equipment and patents, trademarks and licences | **243** | **145** | 246 | 266 |
| Revenue from sale of businesses | **149** | **89** | 69 | - |
| Revenue from sale of investments | **450** | **269** | 15 | - |
| Other revenue | **315** | **188** | 255 | 264 |
| **Operating revenue per USGAAP** | **18,609** | **11,111** | 17,571 | 16,703 |
| **Net Interest expense per AGAAP** | | | | |
| Net interest expense (borrowing costs) | **(630)** | **(376)** | (578) | (634) |
| Interest revenue | **62** | **37** | 49 | 49 |
| **Net interest expense per USGAAP** | **(568)** | **(339)** | (529) | (585) |
| **Other revenue per AGAAP** | **315** | **188** | 255 | 264 |
| Net profit/(loss) on sale of: | | | | |
| - property, plant and equipment and patents, trademarks and licences | **26** | **16** | (13) | (47) |
| - businesses | **58** | **35** | 33 | - |
| - investments | **255** | **152** | 2 | - |
| **Other income per USGAAP** | **654** | **391** | 277 | 217 |

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

| | Telstra Group | | | |
|---|---|---|---|---|
| | Year ended 30 June | | | |
| | **2000 $m** | **2000 US$m** | 1999 $m | 1998 $m |
| **Earnings per share** | | | | |
| Net income according to USGAAP | **4,093** | **2,445** | 3,416 | 2,674 |
| | **¢** | **US ¢** | ¢ | ¢ |
| Basic earnings per share according to USGAAP (cents) | **32.1** | **19.2** | 26.8 | 20.9 |
| Diluted earnings per share according to USGAAP (cents) | **32.0** | **19.1** | 26.7 | 20.8 |
| | **Number (in millions)** | | | |
| Weighted average number of ordinary shares and common share equivalents used for basic earnings per share calculations | **12,747** | **12,747** | 12,741 | 12,781 |
| Assumed weighted average number of employee share options exercised at grant date | **49** | **49** | 46 | 47 |
| Weighted average number of potential ordinary shares and common share equivalents used for diluted calculations | **12,796** | **12,796** | 12,787 | 12,828 |

For USGAAP the earnings per share calculations for fiscal 2000, 1999 and 1998 are affected by the issue of the employee stock options referred to in note (l) above. The stock options are dilutive to earnings per share.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

The following is a reconciliation of shareholders' equity according to USGAAP to shareholders equity calculated under AGAAP as at 30 June for the following years:

| | | Telstra Group | | | |
|---|---|---|---|---|---|
| | | As at 30 June | | | |
| | Note | 2000 $m | 2000 US$m | 1999 $m | 1998 $m |
| Shareholders' equity reported in the Telstra Group Balance Sheet under AGAAP | | **11,602** | **6,926** | 10,294 | 11,079 |
| **Cumulative adjustments required to agree with USGAAP** | | | | | |
| Property, plant and equipment | 30(a) | **815** | **487** | 1,017 | 1,251 |
| Listed investments | 30(b) | **612** | **365** | 20 | 4 |
| Dividend payable | 30(c) | **1,287** | **768** | 3,346 | 901 |
| Retirement benefits | 30(d) | **3,725** | **2,226** | 3,388 | 3,092 |
| Software assets | 30(e) | **25** | **15** | 106 | 240 |
| Mobile phone subsidies | 30(m) | **(174)** | **(104)** | - | - |
| Redundancy and restructuring provision - fiscal 2000 | 30(n) | **486** | **291** | - | - |
| Employee share loans | 30(l) | **(297)** | **(177)** | (279) | (206) |
| Income tax | 30(f) | **(1,546)** | **(923)** | (1,655) | (1,639) |
| Minority interests | 30(g) | **(7)** | **(4)** | (38) | (46) |
| **Shareholders' equity according to USGAAP** | | **16,528** | **9,870** | 16,199 | 14,676 |

Balance sheet information measured and classified according to USGAAP is presented as follows:

| | 2000 $m | 2000 US$m | 1999 $m | 1998 $m |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash | **751** | **448** | 979 | 953 |
| Accounts receivable, net | **3,518** | **2,101** | 3,189 | 3,132 |
| Inventories | **295** | **176** | 204 | 243 |
| Future income tax benefit | **49** | **29** | 285 | 589 |
| Other assets | **112** | **67** | 125 | 136 |
| Total current assets | **4,725** | **2,821** | 4,782 | 5,053 |
| **Non current assets** | | | | |
| Receivables | **30** | **18** | 70 | 81 |
| Inventories | **15** | **9** | 16 | 27 |
| Investments | **1,775** | **1,060** | 298 | 232 |
| Property, plant and equipment | **40,917** | **24,432** | 38,457 | 36,733 |
| Accumulated depreciation | **(17,786)** | **(10,620)** | (16,560) | (15,726) |
| Intangible assets, net | **536** | **320** | 452 | 2,803 |
| Other assets | **4,324** | **2,582** | 3,593 | 665 |
| Total non current assets | **29,811** | **17,801** | 26,326 | 24,815 |
| **Total assets** | **34,536** | **20,622** | 31,108 | 29,868 |

(continued over page)

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Reconciliation to financial reports prepared using USGAAP (continued)

| | | Telstra Group | | | |
|---|---|---|---|---|---|
| | | As at 30 June | | | |
| | | 2000 | 2000 | 1999 | 1998 |
| | Note | $m | US$m | $m | $m |
| Balance sheet information measured and classified in accordance with USGAAP is as follows: (continued) | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued expenses | | **2,407** | **1,437** | 2,386 | 2,364 |
| Short term debt | | **2,734** | **1,632** | 2,160 | 2,508 |
| Long term debt due within one year | | **582** | **348** | 105 | 427 |
| Provisions | | **1,221** | **729** | 1,381 | 1,559 |
| Revenue received in advance | | **735** | **439** | 654 | 666 |
| Total current liabilities | | **7,679** | **4,585** | 6,686 | 7,524 |
| **Non current liabilities** | | | | | |
| Accounts payable | | **124** | **74** | 109 | 36 |
| Long term debt | | **6,505** | **3,884** | 4,946 | 4,787 |
| Provisions | | **1,194** | **713** | 1,089 | 1,356 |
| Provisions for deferred income tax | | **2,499** | **1,492** | 2,041 | 1,443 |
| Total non current liabilities | | **10,322** | **6,163** | 8,185 | 7,622 |
| **Total liabilities** | | **18,001** | **10,748** | 14,871 | 15,146 |
| Minority interests | | **7** | **4** | 38 | 46 |
| **Shareholders' equity** | | | | | |
| Issued ordinary share capital | | **6,433** | **3,841** | 6,433 | 6,433 |
| Share loan to employees | | **(297)** | **(177)** | (279) | (206) |
| Additional paid in capital | 30(l) | **283** | **169** | 217 | 217 |
| Total share capital | 30(l) | **6,419** | **3,833** | 6,371 | 6,444 |
| Reserves | | **572** | **342** | (23) | (32) |
| Retained earnings | | **9,537** | **5,695** | 9,851 | 8,264 |
| **Total shareholders' equity** | | **16,528** | **9,870** | 16,199 | 14,676 |
| **Total liabilities and shareholders' equity** | | **34,536** | **20,622** | 31,108 | 29,868 |

## Notes to the Financial Statements (continued)

# 30. United States generally accepted accounting principles disclosures (continued)

### Other disclosures

SFAS 115 requires us to account for debt and equity securities based on our intention to hold or sell the securities. As at 30 June 2000 and 1999, all of our marketable securities and equity securities were classified as available-for-sale or held-to-maturity. The disclosures required by SFAS 115 are as follows:

| | Telstra Group | |
|---|---|---|
| | As at 30 June | |
| | **2000** | 1999 |
| | **$m** | $m |
| **Securities held-to-maturity** | | |
| The following is a summary of our held-to-maturity debt securities: | | |
| Marketable securities included in cash: | | |
| Bank deposits | **-** | - |
| Bank bills and promissory notes | **-** | - |
| | **-** | - |
| Marketable securities maturing in less than one year: | | |
| Bank bills and promissory notes | **-** | - |
| Foreign currency exchange deposits (a) | **13** | 10 |
| | **13** | 10 |
| Marketable securities maturing in more than one year: | | |
| Bank bills and promissory notes | **-** | - |
| Foreign currency exchange deposits (a) | **15** | 70 |
| | **15** | 70 |

(a) Foreign currency deposits are directly related to our finance lease liabilities and can only be used for settlement of these finance leases.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Securities available-for-sale

The following is a summary of our debt and equity securities available-for-sale:

| | Telstra Group | | | | |
|---|---|---|---|---|---|
| | As at 30 June 2000 | | | | |
| | Principal $m | Accrued interest $m | Amortised cost $m | Fair value $m | Unrealised gain / (loss) $m |
| Marketable securities included in cash: | | | | | |
| Bank deposits | - | - | - | - | - |
| Bank bills and promissory notes | 557 | 4 | 561 | 561 | - |
| | 557 | 4 | 561 | 561 | - |
| Marketable securities due within one year: | | | | | |
| Bank bills and promissory notes | 181 | 1 | 182 | 182 | - |
| Equity securities: | | | | | |
| Listed investments | 323 | - | - | 1,213 | 890 |
| Income tax expense applicable | | | | | (278) |
| | | | | | 612 |

| | Telstra Group | | | | |
|---|---|---|---|---|---|
| | As at 30 June 1999 | | | | |
| | Principal $m | Accrued interest $m | Amortised cost $m | Fair value $m | Unrealised gain / (loss) $m |
| Marketable securities included in cash: | | | | | |
| Bank deposits | 101 | - | 101 | 101 | - |
| Bank bills and promissory notes | 733 | 4 | 737 | 737 | - |
| | 834 | 4 | 838 | 838 | - |
| Marketable securities due within one year: | | | | | |
| Bank bills and promissory notes | 104 | - | 104 | 104 | - |
| Equity securities: | | | | | |
| Listed investments | 86 | - | 86 | 118 | 32 |
| Income tax expense applicable | | | | | (12) |
| | | | | | 20 |

## Notes to the Financial Statements (continued)

# 30. United States generally accepted accounting principles disclosures (continued)

### Other comprehensive income - USGAAP

Total other comprehensive income for USGAAP is made up as follows:

| | Telstra Group | | |
|---|---|---|---|
| | Year ended 30 June | | |
| | **2000** | 1999 | 1998 |
| | **$m** | $m | $m |
| General reserve . . . . . . . . . . . . . . . | **1** | 1 | 1 |
| Foreign currency conversion reserve . . | **(41)** | (44) | (36) |
| Gain/(loss) on listed investments (after tax) . . . . . . . . . . . . . . . . . . | **612** | 20 | 3 |
| | **572** | (23) | (32) |

Other comprehensive income for USGAAP for fiscal 2000 was $595 million gain (1999: $9 million gain; 1998: $36 million loss)

### Total comprehensive income - USGAAP

Total comprehensive income is calculated by adding net income and other movements in shareholders' equity that are not related to contributions from/payments to owners. This totalled $4,665 million for fiscal 2000 (fiscal 1999: $3,393 million; fiscal 1998: $2,642 million).

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Redundancy and restructuring disclosures

The disclosures required by EITF 94-3 and SAB 100 for the redundancy and restructuring provision recorded by us are as follows:

**Fiscal 1997 redundancy and restructuring program**

In fiscal 1997, the Telstra Group approved a plan to reduce the number of employees by approximately 25,500 to approximately 51,000 employees by 30 June 2000. In June 1998, the Telstra Group approved a three year plan, to 30 June 2001, which included an additional reduction of approximately 2,000 employees by redundancy. The Telstra Group is effecting the reduction in employees through a combination of natural attrition and outsourcing (approximately 6,700 employees) and voluntary redundancy offers and involuntary terminations (approximately 20,800 employees). Reductions are expected to occur primarily in sales and service areas, communication assets, broadband rollout construction areas and field operations and maintenance staff.

Amounts for the fiscal 1997 redundancy and restructuring programme are presented as follows.

| | Telstra Group | | |
|---|---|---|---|
| | As at 30 June | | |
| | **2000** | 1999 | 1998 |
| | **$m** | $m | $m |
| Severance and award payments . . . . . . . . . . . . | **1,043** | 1,043 | 1,043 |
| Career transition and other employee benefit costs (a) . . | **277** | 277 | 286 |
| Total estimated cost of the redundancy program . . . . . . | **1,320** | 1,320 | 1,329 |
| Career transition and other employee benefit costs credited/(debited) to the profit and loss as no longer required (b) . . . . . . . . . . . . . . . . | **-** | 9 | (203) |

(a) Career transition costs include payments to employees who are in the outplacement process and amounts paid to third parties for the outplacement program.

(b) The additional amount charged to the profit and loss in 1998 represented 2,000 redundancies to 30 June 2001, which were anticipated to cost $115 million in severance and award payments and $39 million in career and transition costs. These additional redundancies were made in the two years ended 30 June 2000.

The impact of these redundancies on SFAS 87 calculation is included in note 30(d) Retirement Benefits.

| | Telstra Group | | |
|---|---|---|---|
| | As at 30 June | | |
| | **2000** | 1999 | 1998 |
| | **Number** | Number | Number |
| Number of employees that have accepted the offer for redundancy or have been made involuntarily redundant | **1,388** | 5,754 | 7,715 |
| Number of redundancies expected to have occurred in each fiscal year . . . . . . . . . | **1,839** | 4,796 | 6,919 |

1,388 staff were made redundant and their redundancy payments (of $88 million) offset against the redundancy and restructuring provisions in fiscal 2000 against the expected number of 1,839 and payments of $88 million. Higher than expected payments were made to the 1,388 staff. A further 1,374 staff were made redundant in fiscal 2000 and their payments ($86 million) were taken to the profit and loss (refer note 3 (c)). The increase in staff made redundant in fiscal 1999 and 1998 from the expectation was due to a reassessment of the initiatives used to reduce staffing levels resulting in more redundancies.

We have made the following payments which have been charged against the provision for redundancy and restructuring:

| | Telstra Group | | |
|---|---|---|---|
| | As at 30 June | | |
| | **2000** | 1999 | 1998 |
| | **$m** | $m | $m |
| Severance payments . . . . . . | **88** | 272 | 386 |
| Career transition and other employee costs . . . . . . . . . | **18** | 59 | 140 |

Of the 1997 redundancy and restructuring provision a balance of $18 million remains at the end of fiscal 2000 with $4 million relating to redundancy and $14 million for restructuring costs. These amounts remain due to contractual obligations Telstra has with third parties in relation to outsourcing agreements; with employees with regard to superannuation arrangements and surplus leased space. These amounts are expected to be used in fiscal 2001.

# Notes to the Financial Statements (continued)

## 30. United States generally accepted accounting principles disclosures (continued)

### Recently issued United States accounting standards

#### SFAS 137

In June 1999, the FASB issued Statement of Financial Accounting Standards No.137 (SFAS 137) "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS 133". SFAS 137 defers the effective date of Statement of Financial Accounting Standards No.133 (SFAS 133) "Accounting for Derivative Instruments and Hedging Activities" to financial years beginning after 15 June 2000.

From 1 July 2000, we are required to adopt Statement of Financial Accounting Standards No 133 (SFAS 133) "Accounting for Derivative instruments and hedging activities in the reconciliation to USGAAP.

SFAS 133 establishes accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133 broadens the definition of a derivative instrument and significantly modifies the accounting treatment for certain types of derivative instruments. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities or firm commitments through earnings or recognised in other comprehensive income (equity) until the hedged item is recognised in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognised in earnings.

We have assessed the impact SFAS 133 will have on the derivatives and hedging activities currently used in our operations. We only use derivatives to manage underlying natural business positions or exposures (i.e. are only used for hedging and not speculation). Our hedging strategy is based on hedging the net debt portfolio (gross debt less financial assets) which gives use the desired economic outcome. The accounting treatments proposed by FAS 133 are not consistent with this approach and therefore USGAAP adjustments arise as:

- Interest rate swaps that are entered into to manage our net exposure to fixed and variable interest rates do not have an underlying borrowing that they can be designated against, therefore these swaps do not meet the rules proposed by SFAS 133 to enable them to be designated as hedges.

- Cross currency swaps that include an interest rate swap will need to be marked to market for USGAAP as will foreign currency forward contracts entered into to hedge our foreign currency short term borrowings.

- Our hedging of FX exposures of anticipated transactions cannot be designated as hedges under USGAP due to stringent documentation requirements.

The adoption of SFAS 133 on 1 July 2000 for USGAAP will result in recording the following two items in our reconciliation to USGAAP for fiscal 2001:
- cumulative effect of an accounting change of $52 million loss after tax being recognised as income in the statement of net income; and
- a loss of $11 million after tax to other comprehensive income in equity.

#### SAB 101

On 3 December 1999, the United States Securities Exchange Commission (SEC) released "Staff Accounting Bulletin (SAB) No. 101 - Revenue Recognition" ("SAB 101") which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements filed with the SEC. Since SAB 101 was released, the SEC have received a number of requests from interested parties asking for additional time to determine the effect, if any, on current revenue recognition practices. The SEC is currently in the process of developing a Frequently Asked Questions (FAQ) document that provides further guidance to registrants in the application of the principles of SAB 101. Pending the completion of this document, the SEC has delayed the implementation of SAB 101 until the fourth quarter of fiscal years beginning after 15 December 1999. We will assess the effect, if any, on our current revenue recognition practices after the FAQ document is released.

# Directors' Declaration

*This directors' declaration is required by the Corporations Law of Australia.*

The directors of Telstra Corporation Limited have made a resolution that declared:

(a) the financial statements and notes, set out on pages 138 to 251 of Telstra Corporation Limited and the Telstra Group:

(i) comply with the Accounting Standards, Corporations Regulations and Urgent Issues Group Consensus Views;

(ii) give a true and fair view of the financial position as at 30 June 2000 and performance, as represented by the results of the operations and cash flows, for the year ended 30 June 2000; and

(iii) in the directors' opinion, have been made out in accordance with the Corporations Law.

(b) at the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration there are reasonable grounds to believe that the members of the extended closed group identified in note 23(1) to the full financial statements, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the Deed of Cross Guarantee described in note 23(1).

For and on behalf of the board

Bob. Mansfield.

Robert C Mansfield
**Director**

Date: 30 August 2000
Melbourne, Australia

# Independent Audit Report to the Members of Telstra Corporation Limited

*This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2000 as filed with the Australian Stock Exchange and the Australian Securities and Investments Commission.*

**Scope**

I have audited the financial report of Telstra Corporation Limited (the Telstra Entity) for the financial year ended 30 June 2000, as set out on pages 138 to 252, including the Directors' Declaration. The financial report includes the financial statements of the Telstra Entity, and the consolidated financial statements of the Telstra Entity and the entities it controlled at year's end or from time to time during the financial year (the Telstra Group). The Telstra Entity directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Telstra Entity.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, and in accordance with auditing standards generally accepted in the United States of America, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and the Corporations Law in Australia, so as to present a view which is consistent with my understanding of the Telstra Entity's and the Telstra Group's financial position and performance as represented by the results of their operations and their cash flows.

I have also audited the explanation and quantification of the major differences between accounting principles generally accepted in Australia compared to accounting principles generally accepted in the United States of America, which is presented in note 30 to the financial report. I have audited note 30 in order to form an opinion whether, in all material respects, it presents fairly, the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States.

The audit opinion expressed in this report has been formed on the above basis.

**Audit opinion**

In my opinion, the financial report of the Telstra Entity is in accordance with:

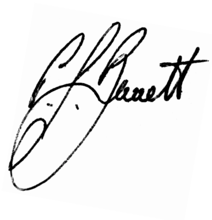
(a) the Corporations Law including:

  (i) giving a true and fair view of the Telstra Entity's and the Telstra Group's financial position as at 30 June 2000 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and the Corporations Regulations; and

(b) other mandatory professional reporting requirements.

Further, in my opinion, note 30 to the financial report presents fairly the major differences between accounting principles generally accepted in Australia and accounting principles generally accepted in the United States of America.



PJ Barrett
**Auditor-General**

Date: 30 August 2000
Melbourne, Australia

# Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

*This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2000 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.*

We have audited the accompanying consolidated balance sheet of Telstra Corporation Limited and its subsidiaries as of 30 June 2000 and the related consolidated statements of profit and loss and retained profits, changes in shareholders' equity and cash flows for the year then ended, all expressed in Australian dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Australia and the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telstra Corporation Limited and its subsidiaries at 30 June 2000, and the consolidated results of their operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for the period ended 30 June 2000, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 2000 to the extent summarised in note 30 to the consolidated financial statements.

Ernst & Young

**Ernst & Young**

Date: 30 August 2000
Melbourne, Australia

# Report of Independent Accountants to the Shareholders and Board of Directors of Telstra Corporation Limited

*This report is included solely for the purpose of incorporation in Telstra Corporation Limited's Annual Report 2000 on Form 20-F as required by the United States Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.*

In our opinion, the consolidated balance sheet as of 30 June, 1999 and the related consolidated statements of profit and loss and retained profits, of changes in shareholders' equity and of cash flows for each of the two years in the period ended 30 June, 1999 (appearing on pages 138 through 252 of the Telstra Corporation Limited 2000 Annual Report to Shareholders which has been incorporated by reference in this Form 20-F) present fairly, in all material respects, the financial position, results of operations and cash flows of Telstra Corporation Limited and its subsidiaries at 30 June, 1999 and for each of the two years in the period ended 30 June, 1999, in conformity with generally accepted accounting principles accepted in Australia.

Accounting principles generally accepted in Australia vary in certain significant respects from accounting principles generally accepted in the United States of America. The application of the latter would have affected the determination of consolidated net income expressed in Australian dollars for each of the two years in the period ended 30 June 1999, and the determination of consolidated shareholders' equity, also expressed in Australian dollars, at 30 June 1999 and 1998 to the extent summarised in note 30 to the consolidated financial statements.

These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in Australia and the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements of Telstra Corporation Limited for any period subsequent to 30 June, 1999.

PricewaterhouseCoopers

**PricewaterhouseCoopers**

Date: 26 August 1999
Melbourne, Australia