



our vision is *clear*

Commercial Retail

International

Applications & Content

Wholesale

The wall features a grid of images: a woman in a headset, a man on a mobile phone, a globe, a man and woman talking, a man at a computer, a woman at a computer, a man on a mobile phone, a woman in a yellow vest, and a woman at a computer.

# because we are focused on

- p.2 4 Strategic Areas
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- Inside Financial Calendar and
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Welcome to Telstra's Annual Review 2001. The Annual Review is a 'short form' overview only. It is designed to give a concise summary of Telstra's activities and financial position for the year ended 30 June 2001.

The Annual Review does not represent or summarise all publicly available information in relation to Telstra. There is other publicly available information in relation to Telstra in both Telstra's full Annual Report and information that has been notified to the ASX and the ASIC. To obtain a free copy of the Annual Report, please call FREECALL™ 1800 06 06 08.\*

If you prefer, you can access both the Annual Report and the Annual Review through the internet at <http://www.telstra.com.au/investor/>

Nothing in this Annual Review is or should be taken to be an invitation or application or offer to subscribe for or buy securities in Telstra.

Telstra Corporation Limited ABN 33 051 775 556

\*A free call from fixed phones.

A large, bold, orange number '4' is positioned on the left side of the page. The background features a white central area with dark blue geometric shapes in the top-left and top-right corners, and a light blue shape in the bottom-left corner.

key strategic  
areas

# To deliver growth. Telstra. One Company, One Team,

Strategic Area No. 1

## Domestic Retail pages 14-17

The core of Telstra's business is to provide a full suite of services including:

- voice
- mobiles
- data

to consumers, small and medium enterprises (SMEs) and to corporations and governments in metropolitan, regional and rural Australia.

Strategic Value		Market position
Customers	Mobile services in operation (SIOs) more than 5,200,000 Voice and Data around 8,800,000 SIOs	1
Revenue	Still the powerhouse of Telstra. Revenue contribution <b>73%</b>	

Strategic Area No. 4

## Wholesale page 22

Telstra sells products and services to other telecommunication providers who in turn on-sell to their customer base.

Our aim is to improve and expand our range of wholesale services, grow this sector of the business and attract new customers.

Strategic Value		Market position
Customers	Wholesale customers more than 100 covering 1,300,000 SIOs	1
Revenue & Growth	Strong growth of <b>35%</b> Revenue contribution <b>12%</b>	



# One Brand, Many Customers.



Strategic Area No. 2

## Applications & Content pages 18-19

This is an exciting and dynamic part of Telstra's business. The need for applications and content is growing in this internet-centric world. Telstra is meeting customer demand by offering its own content as well as forging commercial alliances with content providers. Telstra aims to supply the most extensive range to our customers.

Strategic Value		Market position
Customers	Internet subscribers approx. 1.8 million Pacific Access more than 400,000 Foxtel more than 740,000	Pacific Access <b>1</b> Internet subscribers <b>2</b>
Revenue	Excellent growth opportunities Revenue contribution <b>8%</b>	Foxtel <b>1</b>

Strategic Area No. 3

## International pages 20-21

Developing and providing the infrastructure for mobile/wireless and data telecommunications with a focus on the Asian markets. There are strong growth opportunities for our new Asian businesses, Reach and CSL.

Strategic Value		Market position
Customers	CSL, more than 1,000,000 mobile customers in Hong Kong Reach, Asia's largest international carrier of voice and data, with more than 200 customers	Reach No. in Asia <b>1</b>
Revenue	First stage alliances finalised to achieve sound platform for future growth. Revenue contribution <b>7%</b>	CSL No. in Hong Kong <b>2</b>

# A solid result

The strong performance of the company in the past 12 months is reflected in the following:

- total revenue: increased by 12.2% to \$23.1 billion.
- net profit after minorities: grew by 10.4% to \$4.1 billion.
- earnings per share: increased by 10.4% to 31.5 cents.

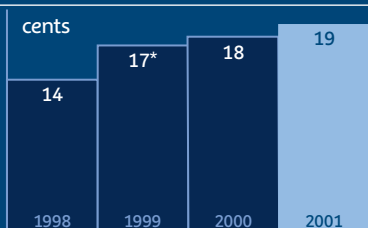
Financial Performance (Profit and Loss)	2001 \$m	2000 \$m	change %
Sales revenue (before unusuals)	19,458	18,609	4.6
Total revenue	23,086	20,581	12.2
Total expenses	16,789	15,232	10.2
Profit before income tax expense	6,297	5,349	17.7
Income tax expense	2,236	1,676	33.4
Net profit after minorities	4,058	3,677	10.4
Earnings per share	31.5¢	28.6¢	10.4
Dividends per share	19.0¢	18.0¢	5.6
Return on average assets	21.9%	21.2%	n/a
Number of full-time employees	44,874 <sup>(1)</sup>	50,761	(11.6)



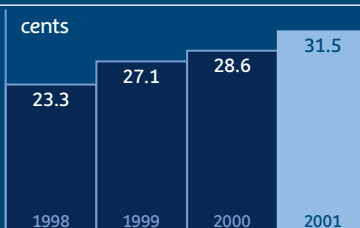
(1) Excludes 1,281 employees of Hong Kong CSL

(2) Earnings before interest and tax

Ordinary dividends per share



Earnings per share



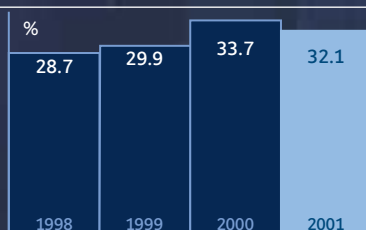
\* excludes special dividend

## from our Chairman and CEO

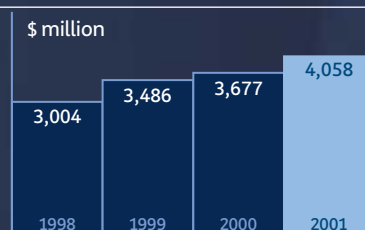
Our message this year – Telstra is a strong company with a clear vision. We've laid the strategic groundwork over the last few years, have strong cash flows and a solid balance sheet, which means we have conservative debt levels.

We are well positioned for growth.

Return on average shareholder equity



Net profit after minorities



In a year of industry rationalisation, market share shifts and lowering margins in some products, Telstra continued to successfully meet a range of commercial, competitive, technological and regulatory challenges.

The key reason for this success, demonstrated over a number of years now, is Telstra's capacity to embrace change and, in a number of instances, to anticipate it.

As our industry continues its transition, Telstra is reinventing itself – and delivering. Our business strategy is based on growth – it looks forward. Our balance sheet is strong – we have a financial capability that enables us to invest for growth, both in Australia and in the region, and also ride through industry rough spots. Our level of debt is conservative, particularly compared to telecommunications companies overseas.

Our state of preparedness in migrating to a world of internet, data and mobiles is second to none – we are the market leader in the businesses of the new economy and intend to stay there.

New cost reduction and productivity improvement programs are well defined and working effectively. We are breaking down the bureaucracy in our organisation and removing the roadblocks to delivering superior customer service.

Fundamentally, we have a workforce that is increasingly focused on customers. A 22% reduction in executive numbers in the last year has simplified the decision and authorisation process. Putting Telstra managers back into regional areas

has put our people closer to our various customer segments than ever before. An important infusion of new talent in our senior executive ranks over the last two years has given Telstra a balance of experience from inside and outside of the company.

This is today's Telstra – the new Telstra – the most relevant company in the communications space in Australia.

### Financial results

Net profit available to Telstra shareholders grew to \$4,058 million (up 10.4% on last year). In terms of earnings per share, this is equivalent to 31.5 cents per share. Revenue totalled \$23,086 million, representing an increase of 12.2%. This year's result has enabled your Directors to declare a fully franked final dividend of 11 cents per share, taking the total dividend for the year to 19 cents per share.

Once again, mobiles, internet and data and wholesale services were the key performers in the result.

Telstra continues to be the most scrutinised, analysed and reported on company in the land. During the year, there had been an expectation in the market that we would achieve underlying double digit EBIT growth, as we did in the first half, but in June we alerted the market that this was not going to be the case. Volumes across our customer set were softer in the second half of the financial year with a slower economy. Having said that, our underlying EBIT grew 5.5% over last year.

	2001 Revenue <sup>1</sup>	
	\$m	% <sup>2</sup>
Basic Access	2,361	17.8
Local Calls	2,143	(19.0)
STD® Calls	1,267	(9.9)
Fixed to Mobile	1,287	5.5
International	786	(19.1)
Mobile Services	2,940	10.2
Mobile Handsets	215	(34.0)
Key data products	1,523	22.4
Other data products	1,620	1.4
Directories	1,148	2.3
Intercarrier	1,168	41.1
Other sales	3,000	16.5
<b>Total</b>	<b>19,458</b>	<b>4.6</b>

<sup>1</sup> Before unusual sales revenue

<sup>2</sup> % change compared to prior corresponding period (i.e. 30/06/00)



# How we are driving growth to build shareholder value

In each of our 4 key strategic areas, we are focused on three profit drivers:

- number of customers;
- revenue per customer; and
- efficiency.

## Profitable growth

We aim to:

Maximise returns to shareholders

Our progress so far. We have

- grown total revenues to \$23.1 billion
- grown net profit to \$4.1 billion

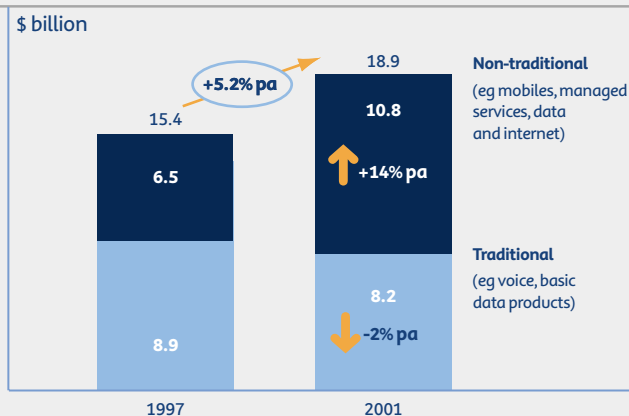
## Growth initiatives

### Domestic Retail

- further develop product packaging
- grow wireless data – the next wave of revenue – building on the recently launched GPRS (increased data speeds on mobile phones)
- continue to focus on service improvement in rural and regional Australia
- continue to expand our managed services offering to corporates

## The changing face of Telstra

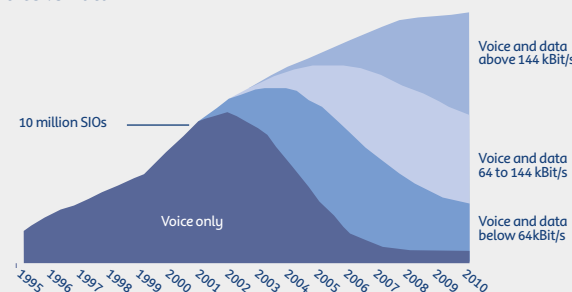
Successfully transforming underlying revenues\*



\*Excludes Regional Wireless Company and Keycorp Limited.

How mobiles are changing

Estimated Australian mobiles market services in operation – Voice vs Data\*



\*Actual results may vary from estimate.

## Number of customers

Retain and attract more customers

- reduced consumer churn (turnover)
- improved customer care
- introduced product packaging to encourage loyalty
- carefully evolved the Telstra brand
- evolved our customer segmentation and relationship management

## Revenue per customer

Broaden and deepen relationships with customers

- positioned broadband internet access for growth
- introduced product packages to widen and expand service usage
- introduced innovative products and services

## Efficiency

Strive to further improve efficiency and effectiveness

- delivered on our cost reduction targets
- carefully managed down our capital expenditure
- created the 'Office of Productivity'

## Applications and Content

- actively promote broadband internet access
- continue ADSL (Asymmetric Digital Subscriber Line) rollout for fast internet access through consumers home line
- Pacific Access (Yellow Pages® and White Pages™) will enhance its on-line offerings to business customers

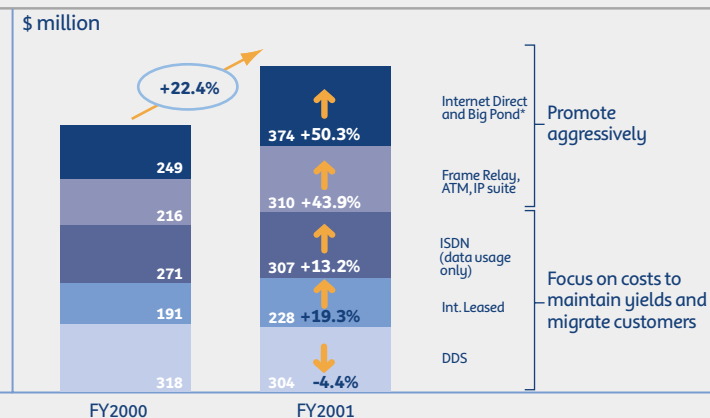
## Wholesale

- world leading wholesale model
- expand Australian communications market
- broaden wholesale market offerings
- optimise overall market share
- optimise its contestable products' market share

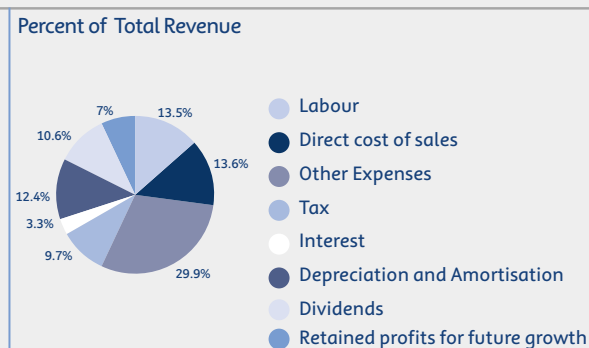
## International

- grow our Asian businesses – Regional Wireless Company (which owns Hong Kong CSL Limited (CSL)) and Reach
- leverage off the scale and geographic location of our Asian businesses

### How data and internet are changing



### How our revenue dollars are spent



\*Includes Big Pond® Home, Business, Cable, Satellite and ADSL.

Towards the end of this next operating year, we aim to lift Telstra’s revenue performance back to something closer to its historic trend.

**Growth strategy**

This year, we have aligned the Annual Review with the four points of what we call Telstra’s strategic compass:

**Domestic retail business.** Still Telstra’s lifeblood, accounting for around 65% of the company’s total revenues.

**Applications and content activities.** These include Pacific Access – our White Pages™ and Yellow Pages® business; telstra.com® – our internet portal; Foxtel – our 50% owned pay TV business; and e-commerce transaction services.

**International.** A significant investment in businesses that position us well for growth.

**Wholesale business.** Continues to perform strongly here in Australia. Selling network access to our competitors, earning more than \$2 billion a year in revenue for Telstra.

These are the four areas that define our priorities and inform our investment decisions.

**Mobiles**

Increasingly, the world of communications is becoming a wireless world. Exciting developments in technology, along with customer enthusiasm for data services over mobile phones, make us confident that the mobiles market will be a strong growth market for Telstra for some time to come.

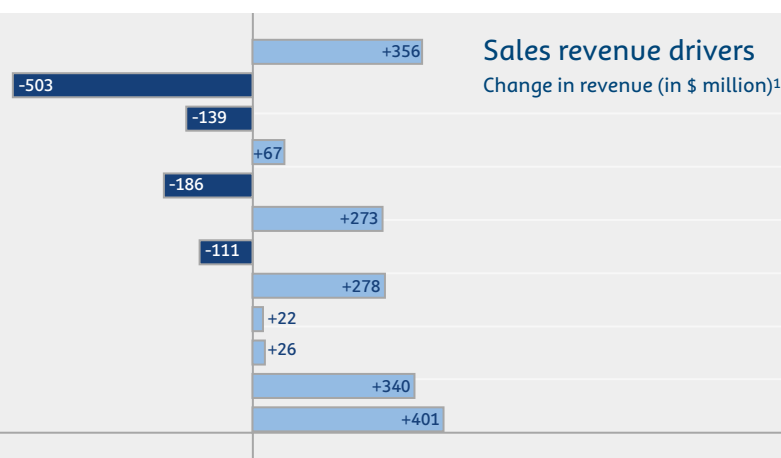
With the largest and highest quality customer base and two excellent mobile networks, GSM and CDMA, we believe Telstra is as well prepared for future mobile developments as any organisation in Australia and possibly the world.

While wireless revenue did soften in the second half of the year, Australians’ love affair with the mobile phone is far from over. In this highly competitive market, it is important to keep our economies of scale and leading customer base. However, Telstra will not compete just for market share of customers at the expense of earnings. Looking forward, we will be searching for innovative ways to maintain and improve margins and will address the industry burden of handset subsidies.

Telstra intends to set the pace in the wireless data services area in Australia. With WAP (Wireless Application Protocol – which includes internet access using a mobile phone), we now market more than 80 applications, such as e-mail and flight information. Short Messaging Services (SMS), with around 70 million messages a month, are now a significant component of our mobile businesses.

General Packet Radio Service (GPRS), launched by us in March this year, provides greater data speeds. It offers the possibility for a wide range of enhanced mobile data services, including improved WAP access, web browsing and web e-mail. Telstra continues testing and trialing 2.5G services to further enhance data functionality over mobile

< open for detailed information about Telstra



<sup>1</sup> Revenue change compared to Prior Corresponding Period (i.e. 30/06/00)

devices. Our recent purchase of 3G spectrum provides us with flexibility to roll out more high speed data services as demand dictates.

With the introduction of Mobile Number Portability (MNP) in September 2001, customers will be able to change mobile phone companies without having to change their number. Telstra has prepared well for MNP, and we are confident our customers will remain loyal to Telstra and new customers will join us. It will provide significant benefits to Australian mobile phone consumers and the industry as a whole, and Telstra welcomes the change.

#### Broadbanding Australia

Telstra's broadband objectives are clear – accessible and affordable broadband internet for all Australians, anywhere.

Broadband enables a high-speed permanent internet connection. It's about faster internet speeds, increased capacity and capabilities and more compelling content. A modem is needed, but there are no dial-in access numbers to connect to.

Telstra is broadbanding Australia through a delivery mix of cable, satellite and ADSL. ADSL is a technology that turns your ordinary telephone line into a high-speed internet access line. We are currently rolling out ADSL to 80 exchanges a month and so far have equipped around 600. We have also provided a range of wholesale xDSL services as well as an Unconditioned Local Loop (ULL) product to enable our wholesale customers to grow the broadband market also.

#### International growth

'International' for Telstra means Asia and the Pacific region. Our focus is on growth businesses – mobiles, data and internet – in a region where we have a good commercial history and experience that we can leverage in realising opportunities for our shareholders.

We are extending our interests in Asia through businesses in which we seek, where possible, majority control or operating control that enables us to fully utilise our genuine operating, engineering, marketing and customer service skills.

Our investments in Asia have provided us with a platform for regional growth.

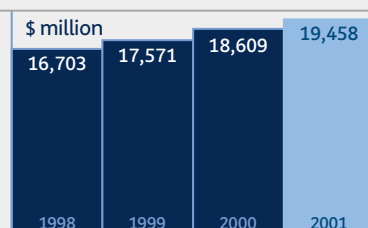
In Reach, we have the largest international wholesale connectivity business in Asia. In CSL, we have Hong Kong's most profitable mobile phone company. Both CSL and Reach are performing well.

#### Cost control

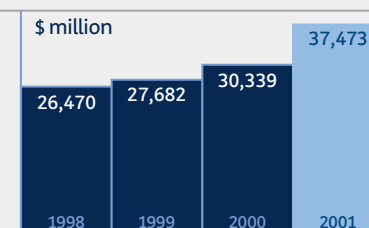
Telstra continues to deliver on cost control. The cost performance of this company has been disciplined, underpinning our revenue performance, even as revenues softened during the year. Cost cutting is not optional. It is a prerequisite for success in providing value for our customers. We must be able to do as well as, or better than, the world's best telecommunications companies in controlling our costs.

The company's cost cutting program is now in its second phase, having yielded more than \$550 million in savings in the first round. Further opportunities in this second round will include

Sales revenue (before unusualls)



Group assets



reducing the go-to-market costs within our mobiles division, Telstra OnAir; getting better value from our capital expenditure investments; rationalising our various IT and network platforms; managing total labour costs more efficiently; and consolidating our managed services businesses, including Advantra.

#### Other Items

The sale of NDC, our design and construction arm, did not proceed during the year. Simply, we could not conclude negotiations on terms which represented fair value for both sides. However, we still view NDC as a company that should be separate from Telstra and would be better suited as part of a construction-related industry.

The Australian pay TV industry is set to do exciting things. Through Foxtel, we and our partners are the leading player in the industry. During the year, we strengthened Telstra's participation on the Foxtel Board, reflecting our growing enthusiasm at the opportunities ahead in pay TV, interactive TV and data services. We intend to give Foxtel high visibility and high priority. It is potentially an important growth area for us.

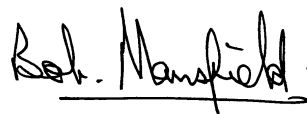
Telstra continues to work very hard in improving customer service through spending on our networks and improving our work processes and systems. We are deliberately shifting from a product focus to a customer focus, including bundling, or packaging, of products and services and offering total end-to-end solutions.

Telstra's involvement with the Sydney 2000 Olympics and Paralympics was outstandingly successful, showcasing a world-class network; state-of-the-art technology; and excellent provision of end-to-end communications services.

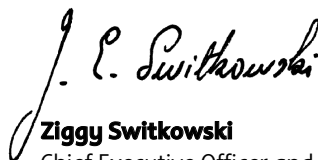
#### Conclusion

Globally, the sentiment of investors towards the telecommunications sector has dulled, particularly in Europe, where companies are suffering with very high debt levels through 3G spectrum spend and acquisitions. This is not the case with Telstra.

Your company is in excellent shape to explore and exploit the potential of the ever-changing communications landscape, creating mutually beneficial relationships with our customers and sustainable value for our shareholders.



**Robert Mansfield**  
Chairman



**Ziggy Switkowski**  
Chief Executive Officer and Managing Director

#### Our Vision

A world-class company helping Australian, Pacific and Asian customers and communities prosper through access to modern communications services and multimedia products.



## Group Managing Directors

### Ted N Pretty

BA LLB (Hons)  
Group Managing Director  
Telstra Retail

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

### Bruce J Akhurst

BEC (Hons), LLB  
Group Managing Director  
Telstra Wholesale, Media, Legal  
& Regulatory and Group General  
Counsel

Mr Akhurst has recently assumed responsibility for Telstra Wholesale. In addition, he retains responsibility for Telstra's digital media strategy (including our investment in Foxtel) and for Legal and Regulatory. He joined Telstra as General Counsel in 1996 and became Group Managing Director, Legal & Regulatory in 1999. Before joining Telstra, he was managing partner at a national law firm.

### Douglas C Campbell

BEng, FAICD  
Group Managing Director  
Telstra Country Wide

Mr Campbell has 30 years experience in the telecommunications industry. He was formerly Group Managing Director, Wholesale & International and Group Managing Director, Network and Technology of Telstra. He has also been the Deputy Managing Director of Telecom and President of Canadian National Communications. He is a Fellow of the Australian Institute of Company Directors and of the Institute of Engineers, Australia.

### David Moffatt

BBus (Mgt), FCPA  
Group Managing Director  
Finance & Administration,  
Chief Financial Officer

Prior to joining Telstra, Mr Moffatt was Chief Executive Officer, General Electric – Australia and New Zealand. Prior to that, he was CEO, GE Capital – Australia and New Zealand, where he planned and managed GE Capital's entry into Australia and New Zealand. Before joining GE, Mr Moffatt was the Chief Financial Officer of Palmer Tube Mills. He has also held leadership positions with Citibank and Bain & Company.

Telstra's aim: to provide customers with all their communications needs across all products and services.

Everything we do is aligned to achieve this goal, building the most solid of platforms for future growth. The pages ahead show what we are doing to achieve this in our key strategic growth areas.



**David Thodey**

BA  
Group Managing Director  
Telstra OnAir

David Thodey joined Telstra in 2001 after a distinguished 22 year career with IBM. He was formerly CEO and Managing Director of IBM Australia/New Zealand and held a variety of senior management positions with the company both in Australia and abroad. He is on the advisory board of the Macquarie Graduate School of Management and a member of the Australian Institute of Company Directors.

**Brian Pilbeam**

Managing Director  
Corporate Relations

Mr Pilbeam manages external affairs and corporate communications, including government and media relations, employee communications, customer relations, cross-company public affairs and issues management. He joined Telstra in May 1998 to lead the technology delivery, marketing and stakeholder management elements of Telstra's support of the Sydney 2000 Olympic Games. Previously Mr Pilbeam was head of Asia-Pacific marketing communications and public affairs for Eastman Kodak Company.

**Dick Simpson**

President  
Telstra International

Before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He was previously the Director, Residential Division at Cable & Wireless Optus and prior to that the Managing Director for Unisys Australia and New Zealand, having started his career in IBM. Mr Simpson was formerly Group Managing Director, Telstra OnAir (including International).

**Bill Scales AO**

Managing Director  
Human Resources  
Chief of Staff

Mr Scales manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programs. He was Secretary of Victorian Department of Premier and Cabinet. For 6 years, Mr Scales was Chairman and CEO of the Industry Commission, and before that was Chairman and CEO of the Automotive Industry Authority. Prior to his involvement with governments, Mr Scales held general management positions in the manufacturing sector.

**Gerry Moriarty AM**

FTSE, FIEAust, BEng (Hons),  
Group Managing Director  
Infrastructure Services

Mr Moriarty has more than 30 years experience in the telecommunications and broadcasting industries. Prior to joining Telstra, he held senior executive positions with the ABC, TVNZ, Broadcast Communications Ltd and NZBC. In June 2001, Mr Moriarty was awarded membership of the General Division of the Order of Australia for (amongst other things) service to the information technology and telecommunication sectors.

**Telstra Retail** is responsible for around 5.8 million Australian services.

Telstra Retail manages our information, connection and payphone services, as well as our directories business. In addition, it sells and provides customer services for a comprehensive range of products, services and customer-driven solutions ranging from basic telephony services to complex voice and data networks.

**Telstra Country Wide** operates specifically to address the telecommunications needs of around 3 million consumer and business services that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory. Its aim is to accelerate improvements in service and sales performance outside major metropolitan areas.

**Telstra OnAir** is responsible for our mobile and wireless networks and associated systems within Australia. It is responsible for all mobile retail sales and after sales support, customer service, product development and pricing.

**Wholesale** provides products and services to other licensed carriers, carriage service providers and internet service providers.

**Telstra International**, which was formed on 27 March 2001, is a new business group to manage Telstra's international interests and direct its offshore growth strategy. Telstra International will manage the recently established ventures with Pacific Century CyberWorks (PCCW), which include Reach (the largest wholesale connectivity business in the Asia Pacific region) and Regional Wireless Company. In addition, Telstra International has business interests in North America, Europe and other Asia-Pacific countries.

**Infrastructure Services** is responsible for research and development, planning, design, construction and operation of our communications networks and associated systems to deliver technology solutions, our products, services and customer support. It also has responsibility for customer service installation and repairs as well as our wholly owned subsidiary Network Design & Construction (NDC).

**Corporate centre functions**

- Finance & Administration is responsible for strategic planning and investment opportunities and provides corporate policy and support functions, including finance, risk management and assurance, shared services for processing functions, treasury, investor relations and other corporate services.

- Legal & Regulatory provides legal services and corporate secretarial functions and has responsibility for regulatory positioning and negotiation, including assessment of regulatory decisions and preparation of submissions to industry regulators.
- Human Resources manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programs.
- Corporate Relations manages corporate communications and stakeholder management, including media relations, external relations including government affairs and employee communications.

domestic retail  
applications & content  
international  
wholesale

DOMESTIC RETAIL	Voice
INTERNATIONAL	Data
APPLICATIONS	Bundled Services
WHOLESALE	Customer Service

To be each customer's single source provider and integrator of choice for communications solutions and applications in Australia.

# domestic retail

LOCAL CALLS

11.2 billion





## CALLING NUMBER DISPLAY CUSTOMERS



# 56%

more than  
**110,000**  
CUSTOMERS  
have taken up  
on-line billing



approx.  
**10%**  
OF CUSTOMERS WITH  
packaged services

**Packages** Telstra provides its customers with a full range of telecommunications services and over the past year has bundled together its fixed line, mobile and internet products to provide people with packages that deliver great value. In the limited time since the introduction of packaged offers, the response has been strong, with around 10% of our consumer and small business customers choosing to take up one or more of the packages.

**Customer segmentation**  
We have three major segments – consumer, small to medium enterprise (SME) and corporate. The operating focus is different for each segment.

Corporate customers want managed voice, data, wireless and applications. They're looking for scale efficiencies,

open access and customised solutions.

In the SME market, customers want a one-stop shop and directories services. They are looking for packaging and simplicity. We have established an indirect channels division to service cost-conscious basic needs of SMEs.

In the residential market, we are breaking down even further our age-based segmentation to define customers' needs more precisely in terms of factors such as cost, simplicity and how comfortable they are with technology. This market wants home and personal services, mobility and convenience. They're looking for best practice processes, packaging and simplicity. An example of this is on-line billing. More than 110,000 customers have taken

up on-line billing, which also offers a wide range of useful functions to help them manage their telecommunications spend and view their account details.

The Telstra Customer Service Charter, launched in 1999, is a tangible demonstration of our commitment to ensuring our customers always have the best in service and support. It empowers our customers by outlining a range of commitments to define the levels of service they can expect from Telstra. The Charter also gives avenues for resolving customers' concerns and commits Telstra to dealing with customers fairly and ethically. The Charter can be viewed at [www.telstra.com.au/charter](http://www.telstra.com.au/charter) and is available on request.

### Performance indicators (approximate):

	June 2001	June 2000	% change
Local calls (number of calls)	11,198,000,000	11,346,000,000	↓ 1.3
National long distance minutes	12,099,000,000	12,418,000,000	↓ 2.6
International outgoing minutes	877,000,000	893,000,000	↓ 1.8
Calling number display customers	785,000	503,000	↑ 56.1
Fixed line MessageBank® customers	1,414,000	1,162,000	↑ 21.7

DOMESTIC RETAIL	Wireless
INTERNATIONAL	Short Message Service
APPLICATIONS	Wireless Data
WHOLESALE	GPRS
	CDMA
	GSM

**Networks** There is, quite literally, no bigger cellular mobile network in Australia than the Telstra MobileNet® CDMA (Code Division Multiple Access) network. The network covers over one million square kilometres (97% of the population), which is twice the coverage area of any other cellular network in Australia. Our other major mobiles network, GSM (Global System for Mobile Communications), with a coverage of 95% of the population, increased by almost a million customers during the year.

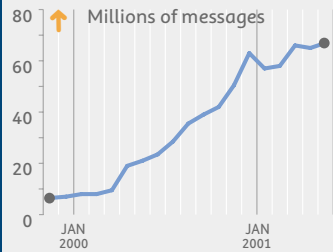
Wireless data is an exciting new growth opportunity.

# domestic retail



more than **5**  
MILLION MOBILE  
SERVICES  
in operation

Growth of Short Messaging Service



MOBILE CHURN WAS  
REDUCED TO LESS THAN  
**1.4%** PER MONTH (AVG)



**Wireless data** is an exciting growth area for Telstra and looking forward we see mobile data traffic becoming as significant as mobile voice traffic within 5 years.

**GPRS** In March 2001, Telstra introduced GPRS (General Packet Radio Service) phones and services. Prior to this, mobile phones could send and receive around 9.4 kilobits of information per second (kbps). A GPRS phone can handle 20 kbps and with network upgrades will increase to 40 kbps later this year. GPRS heralds the introduction of packet data services on our cellular networks and is a key plank in our wireless data future. The growth in numbers of customers using data applications has largely been driven by the expansion in range of applications. We now

have 55 applications using SMS, including ringtones and icons, horoscopes, sports information and more than 100 using Wireless Application Protocol (WAP), the most popular being email, chat, games, sport and travel info. SMS usage growth has been phenomenal, with around 70 million messages being made a month.

That's approximately a tenfold increase on the previous year and 30% of our customer base is now using SMS. Two thirds of SMS conversations are one-off messages that attract no reply. For the one third remaining, the average conversation length is four messages.

**3G licence** During the year, we successfully bid in the

Government's 2GHz spectrum auction, obtaining the maximum allowable allocation in all regions. This spectrum is ideally suited for deployment of next generation mobile technology and provides the means to cater for considerable overall growth in mobile voice and data by complementing Telstra's other mobile spectrum assets.

**communic8®** which is a mobile service aimed at the youth segment, now has over 1 million customers. Communic8® Mobile Plans are growing at a rate of around 20,000 per month. These customers have a high usage pattern.

**communic8® Mobile Plans** currently have the highest SMS usage and penetration of all Telstra flexi-plans. Communic8® Mobile Plans have accounted for 10% of Telstra MobileNet® connections during 2000/2001.



**Performance indicators (approximate):**

	June 2001	June 2000	% change
Mobile telephone minutes	5,383,000,000	4,464,000,000	↑ 20.6
Mobile telephone customers			
Digital – GSM	4,744,000	3,766,000	↑ 26.0
Digital – CDMA	469,000	280,000	↑ 67.5
Total	5,213,000	4,046,000	↑ 28.8
Mobile MessageBank® (% penetration)	82%	77%	–

DOMESTIC RETAIL	Internet
INTERNATIONAL	Broadband
APPLICATIONS	Pay TV
WHOLESALE	Directories

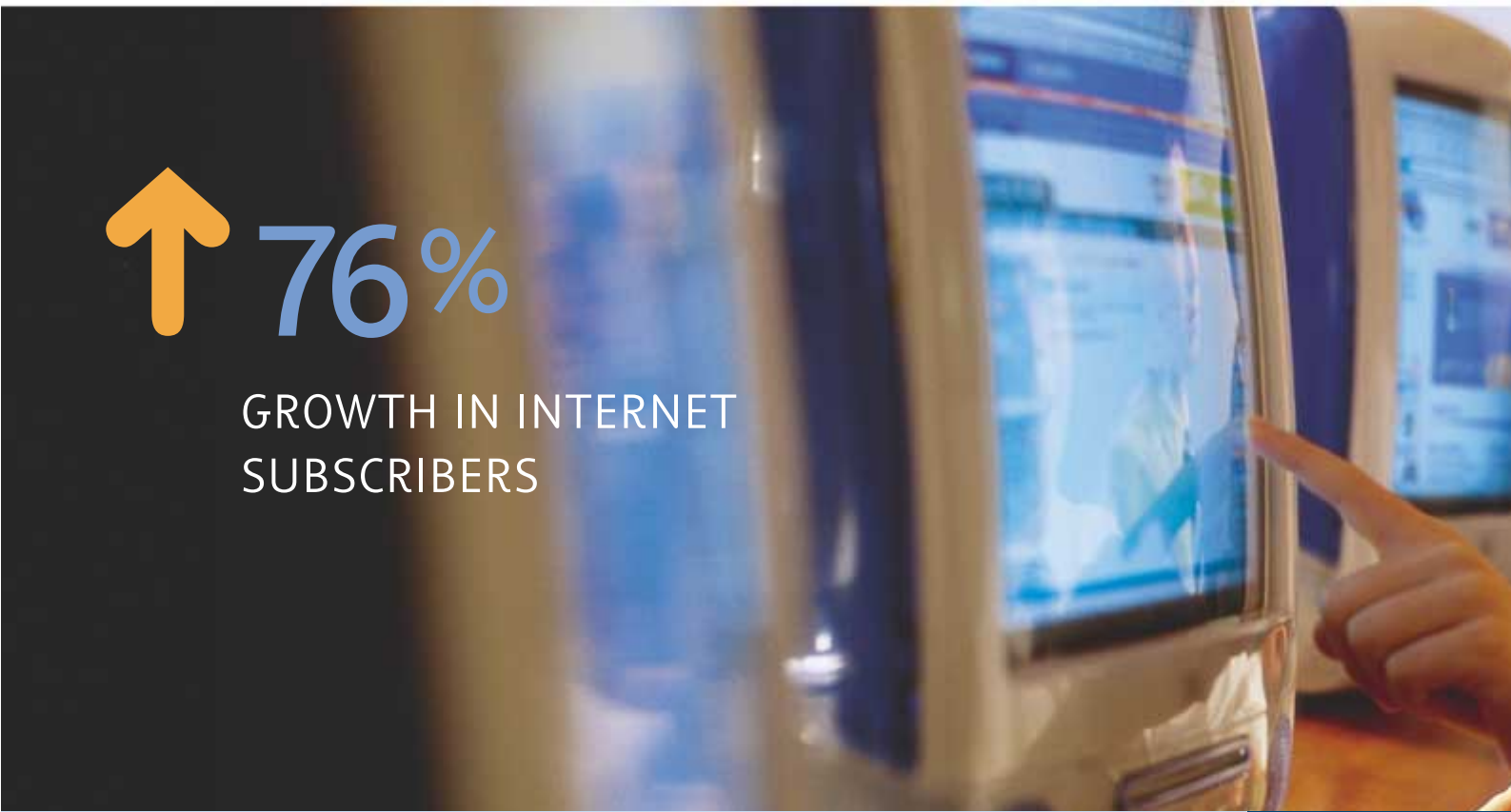
With strong growth in an exciting new area – we see a healthy growth curve ahead.

**Broadband** Nearly all Australian homes and businesses now have coverage by our BigPond™ broadband services.

We have achieved this through:

- **Cable** Telstra's Hybrid Fibre Coaxial cable (HFC) links into 2.5 million homes in capital cities around the nation.
- **Satellite** which is available essentially everywhere and is now moving from a one-way service to a two-way service enabling people in rural and remote areas

# applications & content



↑ 76%

GROWTH IN INTERNET SUBSCRIBERS

## Performance indicators (approximate):

	June 2001	June 2000	% change
BigPond™ subscribers	1,091,000	673,000	↑ 62.1
Broadband internet customers	78,000	29,000	↑ 169.0
Other on-line customers	622,000	315,000	↑ 97.5
Total on-line customers/users	1,791,000	1,017,000	↑ 76.1
Pay TV services in operation (Foxtel)	744,000	637,000	↑ 16.8

to enjoy internet speeds and quality as good as anything available in the big cities.

- **ADSL** (Asymmetric Digital Subscriber Line) is the technology that turns your ordinary telephone line into a high-speed internet access line. At the end of June 2001, we had around 600 exchanges cut over to ADSL. Telstra offers retail and wholesale ADSL products. In addition, Telstra Wholesale's Unconditioned Local Loop (ULL) product allows other companies to provide their own ADSL products.

We are aiming to attract more than one million broadband customers by 2005.

**Pacific Access** (PA), our subsidiary known for Yellow Pages® and White Pages,™ continues to consolidate and grow its performance in advertising and print directories. PA has over 400,000 Small to Medium Enterprise customers and is focusing its growth efforts on delivering enhanced business solutions through new media.

**Foxtel** During the year, Foxtel, our 50% owned pay-TV provider, gained the pay-TV rights to the Australian Football League

(a major component of sports viewing in Australia).

This adds to the rugby league rights and makes for a very attractive domestic sports pay-TV offering.

**telstra.com®** We are providing more and more on-line services to satisfy our customers. New telstra.com® services enhance Telstra's role as an on-line content aggregator and manager.

We announced the availability of our on-line communications

hub, telstra.com® (www.telstra.com) in March 2000. After registering on the site, a user may personalise the homepage to suit their particular needs and interests.

By 30 June 2001, there were approximately 500,000 registered users, which has grown from approximately 100,000 users as at 30 June 2000.



1.8  
MILLION ON-LINE  
SUBSCRIBERS

DOMESTIC RETAIL	Reach
INTERNATIONAL	CSL
APPLICATIONS	Connectivity
WHOLESALE	Cables
	Mobiles

Regional Wireless Company and Reach,  
providing a solid platform for growth in Asia.

# international

**Regional Wireless Company** (RWC – 60% owned by Telstra) is the parent company of our Asian mobiles business – CSL. CSL has consolidated its position as one of the leading players in the Hong Kong wireless market, with around 20% of that market. It has the premium subscriber base in that market and has worked closely with Telstra OnAir in Australia to enhance the business and introduce new products and services.

Specific achievements by CSL include:

- Growing customer numbers to more than one million as at 30 June 2001;



CSL  
more than **1**  
MILLION  
MOBILE CUSTOMERS  
in Hong Kong



- Working closely with Telstra OnAir in areas of Customer Relationship Management, data products and equipment purchasing; and
- Mobile Number Portability (MNP) was introduced to Hong Kong several years ago. The lessons learnt were passed on by CSL to Telstra OnAir in preparation for introduction of MNP into the Australian market in September 2001.

**Reach**, our voice, data and internet traffic carrier (50% owned by Telstra), is tapping into the global demand for bandwidth. Reach is a new company whose strength lies in

connectivity. Through its points of presence around the globe it connects its customers. Already it is Asia's largest international carrier of:

- combined voice;
- private line; and
- IP data services.

In the short time since formation, Reach's achievements include:

- Integration of the former Global Wholesale businesses of Telstra and Hong Kong Telecom (International) into a cohesive unit;
- The realisation of synergies and efficiencies principally from more efficient network

usage and more effective buying;

- Implementing additional points of presence facilities; and
- The introduction of a range of new internet services.

**International – other assets:**

- Telstra Saturn, our New Zealand joint venture with Astar, has completed the Wellington-Christchurch submarine cable.
- We continue with Vietnam National Post and Telecommunications to expand and modernise its international telecommunications network.

- In Sri Lanka, through our investment in Mobitel, we have cemented our position as one of the leading wireless operators in Sri Lanka.
- In East Timor, we have continued to support the United Nations operation and people of East Timor by providing a range of telecommunications services.
- We established the Australia Japan Cable project to provide a new undersea communications highway, further linking Australia to the rapidly expanding internet and data world. Telstra holds 39.9% of the equity of Australia Japan Cable Limited.



## CSL

- Premium spectrum position
- World's first digital network to provide full coverage in an underground railway system
- Extensive roaming coverage
- 1 million mobile customers
- More than 1,300 base stations

## Reach

- Asia's largest international carrier of voice and data
- IDD Minutes 7.3 billion minutes
- IPLC Bandwidth 5.1 Gbps
- internet Bandwidth 3.0 Gbps
- Agreements/alliances with more than 230 international carriers
- More than 50 worldwide submarine cables extending to over 160,000 km
- Four satellite earth stations, 35 antennae, serving over 20 satellites

DOMESTIC RETAIL	
INTERNATIONAL	Telstra Wholesale
APPLICATIONS	Olympics
WHOLESALE	Customer Services

We encourage other carriers to buy network capacity from Telstra, as opposed to building their own.

**Telstra Wholesale** has had an excellent year in fiscal 2001, achieving revenue growth of 35%. This business division has embraced competition in the three years since deregulation and now offers our wholesale customers a choice of over 60 wholesale products.

Telstra Wholesale has negotiated contracts with customers covering 97.5% of its business and to facilitate the negotiation process a Customer Relationship Agreement (CRA) was launched during the year. The CRA provides greater simplicity for Telstra Wholesale's customers by integrating multiple contracts into one, thereby streamlining the negotiation process.

# wholesale



more than  
**100**  
WHOLESALE  
CUSTOMERS

over  
**60**  
WHOLESALE  
PRODUCTS

**35%**  
REVENUE  
GROWTH



**Olympics** Telstra is proud of the flawless performance of its Telstra Millennium Network during the Sydney Olympic and Paralympic Games. More than 4,800 kilometres of optical fibre, 30,000 phone and fax lines and 280 video links were installed on time and within budget, delivering service without fault.

**Customer services** During the year, we implemented a number of initiatives in response to the Besley Report – a Government-sponsored report on quality of telecommunication services in Australia.

We also focused on improving compliance with our Customer Service Guarantee obligations. Results for the March 2001 quarter showed we had connected 90 to 95% of new

and in-place services on time and, despite some of the worst weather conditions recorded in Australia, improved fault repair performance to 90% on time. This was achieved through increased customer focus and improvements in Telstra's systems, processes and service delivery practices, together with a capital expenditure program targeting parts of the network most vulnerable to weather.

# infrastructure services

**The Mobiles Olympic Network**, comprising 300 new mobile radio cells and \$140 million worth of equipment, was successfully deployed across Sydney at 23 venues – we experienced no failures or major issues over the period of the Games. After the Games, Telstra successfully reintegrated the fixed and mobile network components into our core operations.

**Research and Development/ Training** We have reorganised the activities of Telstra's research and development facilities in order to strengthen Telstra's Research Laboratories' contribution to our technological leadership. We have also supplemented them through investment in new technologies and via external venture funds and incubators. Telstra established the IT Skills Hub earlier this year, together with 17 other industry participants, to ensure that Australia is able to meet its demand for skills in emerging areas of IT and telecommunications technologies.

## Basic access lines in service:

	June 2001	June 2000	% change
Residential	6,290,000	6,510,000	↓ 3.4
Business	2,470,000	2,360,000	↑ 4.7
Total retail customers	8,750,000	8,870,000	↓ 1.4
Domestic wholesale	1,300,000	1,170,000	↑ 11.1
Total basic access lines in services	10,060,000	10,040,000	↑ 0.2
ISDN access line (equivalents)	1,248,000	1,049,000	↑ 19.0

Telstra Country Wide™ (TCW) was launched on 4 June 2000 to improve Telstra's services and business performance in regional and rural Australia.

**Area offices** We have appointed Area General Managers in 28 local offices and six sub-offices to strengthen service, sales and marketing of our products and relations with customers and communities.

**Local agents** In areas where there is no direct link to Telstra, we have appointed more than 100 local businesses in rural and remote towns as authorised agents.

**Internet** We are building our internet business by making dial-up access to BigPond™ Home available across Australia for the cost of a local call. We established the Internet Assistance Program with the Federal Government to help internet users across Australia go on-line successfully, including achieving effective internet service speeds.

# regional & rural Australia



CDMA network coverage

97%

of Australia's population

**BigPond™ services** We began the rollout of high speed internet access over copper wires using Telstra BigPond™ broadband ADSL technology. More than 100 regional exchanges had been upgraded to ADSL capability by July 2001.

**Services** We invested around \$1 billion to 30 June 2001 to provide for growth and improve the performance and coverage of mobile and fixed telephone access networks. We upgraded more than 1,200 rural exchanges to provide

150,000 customers with access to HomeLine™ features such as MessageBank® Home.

**Mobiles** We promoted Telstra MobileNet® CDMA as the mobile service of choice for regional Australia and secured Federal Government funding for increased coverage. CDMA offers the largest cellular mobile phone coverage in Australia, reaching more than one million square kilometres and covering more than 97% of the population.

**Local partnerships** We are developing partnerships with local government and businesses to increase IT usage and benefit local communities. The first initiative under this program is the Ballarat TeleCommunity.™

**Remote Australia untimed local calls** We were the successful tenderer for the \$150 million untimed local call tender. Under the tender arrangements, Telstra will provide untimed calls at a local call rate from 31 July 2001 to customers in extended

zones covering remote areas of Australia and 80% of the continent.

**Two-way satellite** As part of the tender, extended zone customers will be the first in Australia to be offered the two-way, high speed internet satellite service. The product will be available commercially to customers outside the extended zones.



## Performance indicators (approximate):

- CDMA network covers more than a million square kilometres. It is twice the size of the next largest network in the country – the Telstra GSM network.
- TCW is responsible for improving Telstra's services and business performance to three million customers outside the mainland cities – a third of Telstra's Australian retail customer base.
- 28 Area General Managers have established offices and support teams in areas across regional Australia. The Area General Managers are accountable for all aspects of Telstra's regional services.
- more than 8,000 employees and contractors from across Telstra support our customers.
- more than 100 sales agents have been appointed in our first 12 months.
- we spent around \$1bn to 30 June 2001 to improve and expand telecommunications services in regional communities. This includes \$650m to meet demand and improve the performance and coverage of mobile and fixed telephone access networks.

Telstra's responsible stance on the community is meeting with a growing awareness.

Telstra is very serious about its involvement with the community. Whether it's talking with Australians to better understand their communications needs and expectations through Telstra's consultative forums; sponsoring initiatives, individuals and organisations that enhance Australia's economic, social and cultural well-being in areas such as the arts, technology, sport and the environment; or supporting a local charity through Telstra Friends, Telstra reaches into

# community

Telstra Small Business Awards

\$338

THOUSAND PRIZE POOL



Telstra Business Women's Awards

\$255

THOUSAND PRIZE POOL



the lives of most Australians every day.

Australians with disabilities represent nearly 19% of the population. Telstra is the only Australian telecommunication carrier to have a specialised Disability Unit. The unit exists to identify and integrate issues relevant to people with a disability into the broader Telstra business planning process.

It is also responsible for developing and maintaining compliance with our Disability Action Plan.

Since 1993, Telstra has sponsored and supported an employee-driven volunteer program called Telstra Friends. Formed initially to support the telecommunications preselection process, Telstra Friends, involving Telstra staff and their families, has grown into Australia's largest corporate volunteer program, with more than 9,000 registered members from the Telstra workforce.

Over the year, key activities for Telstra Friends included Sydney 2000 Olympic and Paralympic Games, Olympic Landcare 2000, Telstra 2000 Swim Trials, Lifeline, Clean Up Australia Day, Australia Day and the Pass the Hat regional tour.

**Telstra's sponsorship portfolio** aims to represent a balanced range of areas that meets a wide range of marketing, sales and other corporate needs and maximises return on sponsorship investment.

**The Awards Program** recognises achievements of Australian small business and women in business.

**The sports portfolio** demonstrates Telstra's ongoing commitment to sport through sponsorship activities such as clinics, competitions, hero messaging services and welcome home parades.

**The arts and community portfolio** aims to provide access to arts/community activities to a broader section of the community, including performances, on-line content and access to venues/attractions.



# Board of Directors



**N Ross Adler**

AO, BCom, MBA  
Age 56  
Director since October 1996

Chairman, Austrade, the Board of the Art Gallery of South Australia and the World Congress on Information Technology 2002; Director, Commonwealth Bank of Australia; Chairman Finance Committee and Council Member, Adelaide University.

**Sam H Chisholm**

Age 61  
Director since November 2000

Formerly Chief Executive and Managing Director, British Sky Broadcasting Ltd and Executive Director, News Corporation Ltd (1990-1997); previously Chief Executive and Managing Director, Nine Network Australia Ltd (1973-1990).

**Elizabeth A Nosworthy**

BA, LLB, LLM  
Age 55  
Director since December 1991

Chairman, Stanwell Corporation Ltd; Director, David Jones Ltd, GPT Management Ltd, RP Data Ltd, Queensland Treasury Corporation, City of Brisbane Arts and Environment Ltd and Foundation for Development Cooperation Ltd; Councillor, Australian National University.

**John E Fletcher**

FCPA  
Age 50  
Director since November 2000

Managing Director and Chief Executive Officer of Coles Myer Ltd from 10 September 2001. Former Chief Executive and Managing Director, Brambles Industries Ltd (retired 1 August 2001). Mr Fletcher was employed by Brambles in various management positions for 27 years, including an assignment in Europe.

**Robert C Mansfield**

AO, BCom, FASA, CPA  
Age 50  
Chairman  
Director since November 1999 and Chairman since January 2000

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

**John T Ralph**

AC, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melbourne & Queensland), DUniv(ACU)  
Age 68  
Deputy Chairman  
Director and Deputy Chairman since October 1996

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

**Zygmunt E Switkowski**

BSc (Hons), PhD  
Age 53  
Chief Executive Officer and Managing Director since March 1999

Dr Switkowski has been Chief Executive Officer of Optus Communications Ltd and Chairman and Managing Director of Kodak (Australasia) Pty Ltd. He is a Director of Reach Ltd, Foxtel and the Business Council of Australia.



**Malcolm G Irving**

AM, BCom, Hon DLit  
Age 71  
Director since July 1997

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

**Catherine B Livingstone**

BA (Hons), CA  
Age 45  
Director since November 2000

Director, CSIRO, Export Finance and Insurance Corporation (EFIC), Goodman Fielder Ltd, Q-Vis Ltd, Rural Press Ltd, Australian Business Foundation and the Sydney Institute; Member, Department of Accounting and Finance Advisory Board and Division of Economic and Financial Studies Advisory Board, Macquarie University; former Managing Director, Cochlear Ltd.

**Donald G McGauchie**

Age 51  
Director since September 1998

Senior Partner, C&E McGauchie – Terrick West; Chairman, WoolStock Australia Ltd; Deputy Chairman, Australian Wool Testing Authority Ltd; Director, Reserve Bank of Australia, Ridley Corporation Ltd, National Foods Ltd, GrainCorp Ltd, Australian Centre for International Agricultural Research and International Policy Council Agriculture Food and Trade; Member, Foreign Affairs Council.

**Anthony J Clark**

AM, FCA, FCPA, FAICD  
Age 62  
Director since October 1996

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

**John W Stocker**

AO, MB, BS, BMedSc, PhD, FRACP, FTSE  
Age 56  
Director since October 1996

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



# Directors' Report

The directors present their report on the consolidated entity (Telstra or Telstra Group), consisting of Telstra Corporation Limited (Telstra Entity) and the entities it controlled at the end of or during the year ended 30 June 2001.

## Principal activity

Telstra's principal activity during the financial year was to provide telecommunications services for domestic and international customers. There has been no significant change in the nature of this activity during the year.

## Results of operations

Telstra's net profit for the year was \$4,058 million, or an increase of 10.4% over the prior year's net profit of \$3,677 million. This was after:

- deducting income tax expense of \$2,236 million (2000: \$1,676 million); and
- allowing for after tax profits of \$3 million attributable to outside equity interests in controlled entities (2000: after tax loss of \$4 million).

Income tax expense is \$56 million (2000: \$172 million) less than would otherwise have been the case due to the lowering of the Australian company income tax rate from 36% in fiscal 2000, to 34% in fiscal 2001 and 30% in future years.

Our earnings per share increased from 28.6 cents per share in fiscal 2000 to 31.5 cents per share in the current year.

## Review of operations

During a period of ongoing cost containment, we have continued to focus on areas that will deliver long-term growth for us.

In this year's results, we have a number of once off items that include the following:

- the sale of our global wholesale business from 1 February 2001 into our 50% owned Asian joint venture, Reach Ltd. We have recognised 50% of our profit on sale in the current year (\$852 million) and the balance of the deferred

profit will be credited to profit and loss over the next 20 years. Our share of net profit from Reach for the five months ended 30 June 2001 was \$48 million after taking into account:

- our share of the net operating profit from Reach of \$80 million;
- amortisation of deferred profit on sale of our business of \$18 million; reduced by
- notional goodwill amortisation expense of \$50 million;
- the acquisition from February 2001 of a 60% controlling interest in Joint Venture (Bermuda) No.2 Limited (referred to as Regional Wireless Company). The principal business of RWC is the wireless business of Hong Kong CSL Limited. We have consolidated the operating results from RWC from 1 February 2001, and after taking into account the outside equity interests (OEI) of the other shareholder, our net profit was \$3 million for the 5 months ended 30 June 2001. In addition, we have recognised that there has been a general decline in the value of telecommunications companies over the last year. Based on an independent valuation of our interest in RWC, we have recognised the decline in its value by writing down our investment by A\$999 million to A\$2,086 million;
- the once off benefit of \$725 million in other revenue arising from the release from our obligations under the Telstra Additional Contributions (TAC) agreement to the superannuation fund;
- the application of more prescriptive rules on revenue recognition to our accounts for both Australian and US reporting purposes. (This instruction on accounting treatment is referred to as US Securities Exchange Commission Staff Accounting Bulletin 101 (or SAB 101).) The main effect for Telstra of the application of SAB 101 has been that all revenue is deferred until either delivery has taken place or the service has been provided. This has resulted in a reduction in profit of \$219 million (or \$145 million after tax) and was mainly due to deferring the recognition



of all of our revenue from telephone directories until publication has taken place rather than splitting between sales of commission when the contract was signed with the customer and the balance of the revenue deferred until publication;

- we acquired a controlling interest in Keycorp Limited in late December 2000 and their results have been consolidated in our Group results since 1 January 2001; and
- we have continued to review our investments with some write-downs being taken to account in the current year. Our yearly result also included a profit on sale of investments in Computershare Limited of \$245 million.

#### Normalised results from operations

We have taken the reported results and adjusted for the once-off items that have occurred in both fiscal 2001 and fiscal 2000 so that a like for like comparison of results may be made. This results in an underlying earnings before interest and tax of \$6.4 billion, or a 5.5% increase. On the same normalised basis, our sales revenue increased in fiscal 2001 by 3.2% to \$18.9 billion, with strong underlying growth in data and internet, mobiles services, basic access and intercarrier revenues. Total underlying revenue (excluding interest) increased by 2.9%.

Through the successful implementation of our ongoing cost reduction program, the growth in underlying operating expenses (before depreciation, amortisation and interest) was contained to 0.8%. Total underlying expenses (before interest) increased by 1.6% to \$12.8 billion.

Operating capital expenditure reduced by 11.9% to \$4.2 billion, while investments for the period (before the Asian ventures) decreased by \$38 million to \$569 million after the purchase of our 3G spectrum licence for \$302 million.

#### Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra's operations, the results of those operations or the state of Telstra's affairs.

#### Dividends

The directors have declared a final dividend for the year ended 30 June 2001 of 11 cents per share (\$1,415 million) fully franked. The tax rate at which the dividend is franked is 30%. The record date for the final dividend will be 21 September 2001 with payment being made on 26 October 2001.

During fiscal 2001, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2000	30 August 2000	27 October 2000	10 cents franked to 100%	\$1,287 million
Interim dividend for the year ended 30 June 2001	7 March 2001	27 April 2001	8 cents franked to 100%	\$1,029 million

## Directors' report continued

Under current legislation, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2002 earnings. However, the directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because our ability to pay dividends depends upon, among other factors, our earnings, government legislation and our tax position.

### Significant changes in the state of affairs

There have been no significant changes in the state of affairs of Telstra during the financial year other than:

- the completion of our strategic alliance with Pacific Century CyberWorks (PCCW) on 7 February 2001 in accordance with our 13 October 2000 agreements. The key terms of the alliance with effect from 1 February 2001 were:
  - the establishment of Reach Ltd, a 50:50 joint venture entity operating as a provider of voice, data and internet connectivity services in the Asia-Pacific region. Reach was formed through the combination of the sale of our international wholesale businesses and certain wholesale assets together with certain PCCW assets;
  - the acquisition of a 60% controlling interest in RWC from PCCW; and
  - the purchase of a convertible note from PCCW with a face value of US\$750 million. The note is subordinated, but is secured by an equitable mortgage over half of PCCW's 50% shareholding in Reach (ie 25% of Reach's total shares).

### Likely developments

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

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

### Details about directors

#### Retirement of directors

Cecilia A Moar, Christopher I Roberts and Stephen W Vizard did not seek re-election and retired from office at the annual general meeting on 17 November 2000. The board thanks the directors for their valuable contribution during their terms of office and welcomes the appointment of new directors.

Information about directors is provided as follows and forms part of this directors' report:

- names of directors and details of their qualifications, experience and special responsibilities are given on pages 28 and 29;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 34;
- details of directors' shareholdings in Telstra are shown on page 35; and
- details of directors' emoluments are given on page 36.

#### Senior executive emoluments

This information is provided on pages 38 to 39 and forms part of this report.

#### Directors' and officers' indemnity

##### *Constitution*

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer provided that:

- the liability is not owed to us or a related body corporate;
- the liability is not for a pecuniary penalty or compensation order made by a Court under the Corporations Act; and
- the liability does not arise out of conduct involving a lack of good faith. Our constitution also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in successfully defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer's or employee's capacity as a director of that other company. It is also subject to any corporate policy made by our chief executive officer. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms 'officer', 'employee' and 'outside officer' are defined in our constitution.

#### **Deeds of indemnity in favour of directors, officers and employees**

Telstra has also executed deeds of indemnity in favour of:

- directors (including past directors);
- executive officers (other than directors) and certain employees generally; and
- employees (including executive officers other than directors) involved in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991).

Each of these deeds provides an indemnity on substantially the same terms as the indemnity provided in the constitution in favour of officers. The indemnity in favour of directors also gives directors a right of access to board papers and requires Telstra to maintain insurance cover for the directors. The indemnity in favour of employees relating to Telstra sale schemes is confined to liabilities incurred as an employee in connection with the formulation, entering into or carrying out, of a Telstra sale scheme.

#### **Directors' and officers' insurance**

Telstra maintains a directors' and officers' insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. The directors' and officers' insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

#### **Environmental regulation**

##### **Performance in relation to particular and significant environmental legislation**

Telstra's operations are subject to some significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

- the impact of the rollout of telecommunications infrastructure;
- site contamination; and
- waste management.

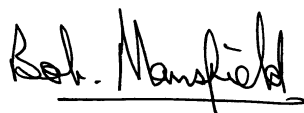
Telstra has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulation during the financial year.

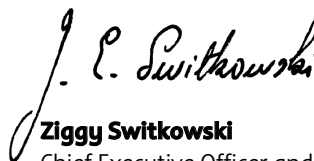
#### **Rounding of amounts**

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission class order 98/100, dated 10 July 1998 pursuant to section 341(1) of the Corporations Act 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars except where otherwise indicated.

This report is made in accordance with a resolution of the directors.



**Robert C Mansfield**  
Chairman and Director



**Ziggy Switkowski**  
Chief Executive Officer and Managing Director

29 August 2001

## Directors' report continued

### Directors' meetings

Each director attended the following meetings and board committees during the year while a member of the board:

	Board		Committees			
	a	b	Audit		Appointments and Compensation	
			a	b	a	b
R C Mansfield	19	19	6	6	2	2
J T Ralph	19	16	6	5	2	2
Z E Switkowski <sup>(1)</sup>	19	19	6	6	2	2
N R Adler	19	19	6	5	–	–
S H Chisholm <sup>(2)</sup>	8	8	–	–	–	–
A J Clark	19	16	–	–	–	–
J E Fletcher <sup>(2)</sup>	8	7	–	–	–	–
M G Irving	19	17	6	6	–	–
C B Livingstone <sup>(2)</sup>	8	8	–	–	–	–
D G McGauchie	19	19	–	–	–	–
C A Moar <sup>(3)</sup>	11	11	–	–	–	–
E A Nosworthy	19	19	6	6	–	–
C I Roberts <sup>(3)</sup>	11	10	–	–	–	–
J W Stocker	19	17	6	6	–	–
S W Vizard <sup>(3)</sup>	11	8	–	–	–	–

Column a: number of meetings held while a member.

Column b: number of meetings attended.

<sup>(1)</sup> Attended audit committee meetings as Chief Executive Officer.

<sup>(2)</sup> Appointed as a director on 17 November 2000.

<sup>(3)</sup> Retired as a director on 17 November 2000.

## Directors' shareholdings in Telstra

As at 29 August 2001

	Number of shares held <sup>(1)</sup>		
	Direct interest	Indirect Interest	Total
R C Mansfield	26,886	82,400	109,286
J T Ralph	4,444	50,000	54,444
Z E Switkowski <sup>(1)(2)</sup>	29,700	76,100	105,800
N R Adler	2,153	100,000	102,153
S H Chisholm	–	–	–
A J Clark	11,866	50,000	61,866
J E Fletcher	1,237	32,000	33,237
M G Irving	26,153	38,000	64,153
C B Livingstone	11,637	5,000	16,637
D G McGauchie	1,866	18,700	20,566
E A Nosworthy	9,583	29,200	38,783
J W Stocker	2,953	50,555	53,508

<sup>(1)</sup> Includes:

- 400 shares acquired with an interest free loan and 200 free shares under the terms of the Telstra Employee Share Ownership Plan 1999;
- 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the Telstra Employee Share Ownership Plan 1997 and 200 loyalty shares obtained under the 'one for ten loyalty offer' available to all employees who participated in the 1997 public offer.
- 80 loyalty shares received under the 'one for ten loyalty offer' available to all employees who participated in the 1999 public offer.

<sup>(2)</sup> During fiscal 2001, Dr Switkowski was granted 96,000 restricted shares and 464,000 options under the terms and conditions of the Telstra Growthshare Trust Deed. These options and shares are in addition to the above.

# Emoluments for board members and senior executives

## Remuneration strategy and relationship to company performance

Telstra's senior manager remuneration strategy is designed to provide competitive total reward levels conditional upon the achievement of business improvement and personal performance accountabilities. Senior manager total remuneration has a variable, or 'at risk', component dependent on achievement of defined goals. For achievement at targeted performance, a senior manager's at risk component could be higher at the discretion of the Appointments and Compensation Committee of the Board. Incentive plans and personal performance reviews are

based on fundamental improvement drivers and increased shareholder value.

## Non-executive directors' remuneration

Remuneration for non-executive directors for fiscal 2001 comprised a fixed annual base fee, share allocation through DirectShare and superannuation. Directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees or when otherwise engaged on the business of the company in accordance with board policy.

Name	Position	Base fee \$	DirectShare	Total Fee	Other benefits <sup>(1)</sup>	Total
		\$	\$	\$	\$	\$
Robert Mansfield	Chairman and Director	196,000	44,000	240,000	19,200	259,200
John T Ralph	Deputy Chairman	98,000	22,000	120,000	9,600	129,600
N Ross Adler	Director	61,250	13,750	75,000	6,000	81,000
Sam H Chisholm	Director <sup>(2)</sup>	0 <sup>(4)</sup>	0 <sup>(4)</sup>	0 <sup>(4)</sup>	0 <sup>(4)</sup>	0 <sup>(4)</sup>
Anthony J Clark	Director	53,083	11,917	65,000	5,200	70,200
John E Fletcher	Director <sup>(2)</sup>	32,198	8,049	40,247	3,219	43,466
Malcolm G Irving	Director	61,250	13,750	75,000	0 <sup>(5)</sup>	75,000
Catherine B Livingstone	Director <sup>(2)</sup>	32,198	8,049	40,247	3,219	43,466
Donald G McGauchie	Director	53,083	11,917	65,000	5,200	70,200
Cecilia A Moar	Director <sup>(3)</sup>	19,802	5,421	25,223	47,980	73,203
Elizabeth A Nosworthy	Director	73,500	16,500	90,000	7,200	97,200
Christopher I Roberts	Director <sup>(3)</sup>	19,802	5,421	25,223	164,980	190,203
John W Stocker	Director	61,250	13,750	75,000	6,000	81,000
Stephen W Vizard	Director <sup>(3)</sup>	19,802	5,421	25,223	81,980	107,203

<sup>(1)</sup> Other benefits include superannuation and payments on retirement.

<sup>(2)</sup> Director from 17 November 2000

<sup>(3)</sup> Retired as a director on 17 November 2000

<sup>(4)</sup> Fee declined by director's choice

<sup>(5)</sup> Superannuation not applicable

## DirectShare

From 1 August 2000, directors received 20% of their remuneration by way of restricted Telstra shares through the DirectShare Plan. The shares were purchased on market and allocated to the participating director at market price. The shares are held in trust for a period of 5 years unless the participating director ceases earlier with the Telstra Group.

## Senior executive remuneration

Telstra's senior manager remuneration strategy provides competitive remuneration aimed at:

- aligning managers' rewards with shareholders' interests;
- supporting business plans and corporate strategies; and
- rewarding performance improvement.

Senior managers participate in an annual performance review process that assesses the individual's performance against set key accountabilities. Performance against these accountabilities impacts directly on their annual incentive payments and salary movements.

### Senior executive remuneration components

Telstra's senior manager remuneration consists of fixed and variable components:

- **Fixed remuneration**

Total employment cost accounts for the total cost of all fixed remuneration items and is made up of salary, company superannuation contributions and benefits, including fringe benefits tax.

- **Variable remuneration**

Variable remuneration includes an annual incentive and a long-term incentive, both designed to reward managers for performance against set targets.

- **Short-term incentive**

The management incentive plan rewards senior managers for meeting or exceeding specific key business objectives at the corporate, business unit and individual level. The incentive for fiscal 2001 was between 12% and 23% of the total remuneration package, depending on the senior manager's role. Measures and targeted achievement levels are reviewed each year to reflect changes in the business.

- **Long-term incentive**

A long-term incentive plan based on equity (Telstra Growthshare) was introduced in early fiscal 2000 to progressively replace the cash based long-term incentive plan. As a practical result of the Telstra Corporation Act, we are not able to issue new shares, and therefore Telstra Growthshare purchases existing Telstra shares. Allocations are in the form of restricted shares and options over existing shares, the right to exercise both of which vests when a performance hurdle is achieved. The performance hurdle is achieved if the 30 day average of the Telstra accumulation index

exceeds the 30 day average of the All Industrials Accumulation index between the third and fifth anniversary of allocation. Options are then exercisable up to 10 years after the original date of allocation. The exercise price is the market price at the time of grant of the options. Restricted shares generally may not be traded for five years after initial allocation of the rights to obtain the shares.

Offers under Telstra Growthshare are made to managers at the discretion of the board. For fiscal 2001 and beyond, between 21% and 34% of total senior manager potential reward was delivered through Telstra Growthshare. Cumulatively, over a five year period, the total number of shares and options over shares delivered through Telstra Growthshare is not expected to exceed 1% of shares on issue.

The previous cash-based long-term incentive was progressively phased out, ceasing in fiscal 2001. It was a three-year incentive plan designed to reward senior managers for sustained achievement of business improvement. Rewards were based on the achievement of return on investment objectives over a three-year period and are derived from the strategic plan approved by the board. The plan also includes an annual payment based on dividends declared in respect of earnings. For fiscal 2001, the actual payments for cash-based long-term incentive comprised 16% to 27% of the total remuneration package, depending on the senior manager's role.

### Telstra employee share ownership plans

All employees, including senior managers of Telstra, who were classed as 'eligible employees' at 20 September 1997 and again on 27 August 1999 were eligible to participate in the Telstra Employee Share Ownership Plans, TESOP 97 and TESOP 99. The terms and conditions of participation in these plans for senior managers were the same as for all other employees.

## Emoluments continued

### Telstra OwnShare

To facilitate managers increasing their share holding in Telstra, the Board has approved the introduction of a restricted share plan (Telstra OwnShare) for fiscal 2001 that enables managers eligible for an incentive payment to state a preference to take that incentive in the form of Telstra shares. The shares were purchased on market and allocated at market value and held in trust for either a three or five year period (unless the manager leaves the Telstra Group earlier).

### Senior executive emoluments (current employees)

Name and position	Remuneration					Telstra Growthshare <sup>(4)</sup>	
	Fixed <sup>(1)</sup> \$	Variable short term <sup>(2)</sup> \$	Variable long term <sup>(2)</sup> \$	Other <sup>(3)</sup> \$	Total \$	Restricted shares	Options
<b>Zygmunt Switkowski</b> Chief Executive Officer and Managing Director	1,150,000	540,000	656,000	832	2,346,832	50,000 <sup>(5)</sup> 96,000 <sup>(6)</sup>	300,000 <sup>(5)</sup> 464,000 <sup>(6)</sup>
<b>Ted Pretty</b> Group Managing Director, Telstra Retail	1,000,000	200,000	184,000	–	1,384,000	21,000 <sup>(5)</sup> – <sup>(6)</sup>	120,000 <sup>(5)</sup> – <sup>(6)</sup>
<b>Gerry Moriarty</b> Group Managing Director, Infrastructure Services	787,500	218,000	210,000	832	1,216,332	28,000 <sup>(5)</sup> 48,000 <sup>(6)</sup>	160,000 <sup>(5)</sup> 232,000 <sup>(6)</sup>
<b>Douglas Campbell</b> Group Managing Director, Telstra Country Wide	700,000	199,000	261,000	832	1,160,832	26,000 <sup>(5)</sup> 42,000 <sup>(6)</sup>	160,000 <sup>(5)</sup> 203,000 <sup>(6)</sup>
<b>Bruce Akhurst</b> Group Managing Director, Telstra Wholesale, Media, Legal & Regulatory and Group General Counsel	625,000	234,000	205,000	832	1,064,832	21,000 <sup>(5)</sup> 39,000 <sup>(6)</sup>	120,000 <sup>(5)</sup> 188,000 <sup>(6)</sup>
<b>David Moffatt</b> Group Managing Director, Finance & Administration and Chief Financial Officer	314,384	212,500	–	400,000	926,884	40,000 <sup>(7)</sup>	150,000 <sup>(7)</sup>

### Senior executive emoluments (ceased employees)

Name and position	Remuneration					Telstra Growthshare <sup>(4)</sup>	
	Fixed <sup>(1)</sup> \$	Variable short term <sup>(2)</sup> \$	Variable long term <sup>(2)</sup> \$	Other <sup>(3)</sup> \$	Total \$	Restricted shares	Options
<b>Robert Cartwright</b> Former Group Managing Director, Employee Relations	295,342	199,016	148,000	828,578	1,470,936	15,167 <sup>(5)</sup> 18,333 <sup>(6)</sup>	86,667 <sup>(5)</sup> 88,333 <sup>(6)</sup>
<b>Paul Rizzo</b> Former Group Managing Director, Finance & Administration	389,315	204,167	216,000	353,292	1,162,774	–	–



### Details of allocations to all managers under Telstra Growthshare:

Issue date	Total options/ restricted shares allocated	Eligible managers participating	Exercise price <sup>(4)</sup>	Expiry date	Allocation date	Market price at allocation date <sup>(4)</sup>
<b>Options</b>	3,370,000	45	\$8.02	13 Sept 2009	13 Sept 1999	\$8.02
	4,684,200	113	\$6.28	8 Sept 2010	8 Sept 2000	\$6.28
	168,710	2	\$6.55	16 Mar 2011	16 Mar 2001	\$6.55
<b>Restricted shares</b>	573,500	45	n/a	13 Sept 2004	13 Sept 1999	\$8.02
	961,900	112	n/a	8 Sept 2005	8 Sept 2000	\$6.28
	43,817	2	n/a	16 Mar 2006	16 Mar 2001	\$6.55

<sup>(1)</sup> This total employment cost is the sum of salary, benefits, all superannuation contributions and fringe benefits tax.

<sup>(2)</sup> Variable component relates to performance for the year ended 30 June 2001 and is based on actual performance for Telstra and the individual. This year, Telstra has changed its treatment of incentive plans to show figures for actual performance for Telstra and the individual attributed to fiscal 2001 rather than target performance for Telstra and the individual. Fiscal 2001 is the last year of the cash based long-term incentive, which has been replaced by Telstra Growthshare.

<sup>(3)</sup> Includes the benefit of interest free loans under TESOP 97 and TESOP 99 as well as payments made on commencement of service or cessation of service.

<sup>(4)</sup> An option or restricted share represents a right to own a share in Telstra. Generally, options or restricted shares may only be converted to Telstra shares if a performance hurdle is satisfied in the performance period and a payment of the option price is made. The performance hurdle for options and restricted shares allocated in fiscal 2000 and 2001 is that the 30 Day Average Telstra Accumulation Index must exceed the 30 Day Average All Industrials Accumulation Index at any time during the stated performance period – that is from the third anniversary of allocation up to but not including the fifth anniversary of allocation. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the tenth anniversary of allocation, otherwise they will lapse. If the performance hurdle is satisfied in the performance period, restricted shares may be exercised at any time before the fifth anniversary of allocation, otherwise they will lapse. Once exercised, they become restricted trust shares and are held in trust for the manager generally to the fifth anniversary of allocation. The market value was calculated as the weighted average price at which Telstra's ordinary shares were traded on the ASX during the 5 days prior to and including the allocation date. 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 in the above table.

<sup>(5)</sup> September 1999 Growthshare allocation at an exercise price of \$8.02. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of \$1.38 per option. The value of the restricted shares is taken to be their market price at the allocation date.

<sup>(6)</sup> September 2000 Growthshare allocation at an exercise price of \$6.28. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of \$0.89 per option. The value of the restricted shares is taken to be their market price at the allocation date.

<sup>(7)</sup> March 2001 Growthshare allocation at an exercise price of \$6.55. The option valuation adopted simulation methodologies consistent with assumptions that apply under the Black-Scholes method and returned a fair value of \$0.80 per option. The value of the restricted shares is taken to be their market price at the allocation date.

## Discussion and Analysis for the Concise Financial Report

**10.4%**   
NET PROFIT  
AFTER MINORITIES

**31.5¢**  
EARNINGS PER SHARE  
UP 10.4% ON 2000

**\$6.4b**  
UNDERLYING EBIT  
INCREASE OF 5.5%  
ON 2000

The format, presentation and the titles of financial statements have altered this year in accordance with new accounting standard requirements.

In prior years, we showed our operating results both before and after 'abnormal items' (now defined by us as unusual items). This disclosure is no longer allowed and the items considered by us to be unusual must be disclosed according to their nature as either revenue or expense.

Overall, our net profit after minorities for the year was \$4,058 million, or an increase of 10.4% over the prior year's net profit of \$3,677 million. Our earnings per share increased to 31.5 cents per share compared with the prior year of 28.6 cents per share.

This year's result was directly impacted by a number of once off events that occurred during a period of ongoing cost containment. The most significant of these are shown as 'unusual' in the financial statements and are detailed in note 4, on pages 50-52 of this report. They had a net effect of increasing profit before tax of \$604 million or \$395 million after tax.

The following unusual items increased profit by \$1,822 million before tax during the year:

- we recognised a profit of \$852 million, or 50% of the profit on sale of our global wholesale business to our 50% owned Asian joint venture, Reach Ltd. The balance of the deferred profit will be credited to the statement of financial performance (or profit and loss statement) over the next 20 years;
- our obligations under the Telstra Additional Contributions (TAC) agreement to the superannuation fund ceased and this allowed us to cancel the previously recognised liability and increase other revenue by \$725 million; and
- we sold our investment in Computershare Limited for a profit of \$245 million.

Other unusual items resulted in a decrease in profit before tax of \$1,218 million during the year:

- we applied a US accounting rule on revenue recognition to our accounts. The main effect has been the deferral of the recognition of revenue until either delivery has taken place or the service has been provided. This resulted in a net reduction in profit of \$219 million, which was mainly due to the deferral of all of our revenue from paper directories until the printed directory has been published;
- there has been a general decline in the market value of telecommunications companies since the acquisition of our 60% controlling interest in Joint Venture (Bermuda) No. 2 Limited (referred to as Regional Wireless Company or RWC). Based on an independent valuation, we have recognised this decline by writing down our investment in RWC by \$999 million.

### Other items

As well as the 'unusual items' outlined for the current year, a number of other events have impacted on the reported result:

- we sold our global wholesale business to the 50% owned joint venture Reach Ltd effective from 1 February 2001. Since then, our interest in Reach Ltd has been equity accounted rather than forming part of our ordinary business activity;

3.2% ↑

UNDERLYING  
SALES REVENUE

0.8% ↑

UNDERLYING  
OPERATING EXPENSES

\$6.6 b

NET CASH FLOW FROM  
OPERATING ACTIVITIES

- our consolidated results include our 60% controlling interest in RWC from 1 February 2001;
- we acquired a controlling interest in Keycorp Limited in December 2000 and their results have been consolidated in our Group results since 1 January 2001; and
- our asset sales and write-downs of investments (other than those included as 'unusual') fluctuate on a yearly basis and need to be separated from other business activity to give an indicative trend for our main business.

#### Underlying normalised results

We have taken the reported results and adjusted for both unusual items and the other listed events for both years. This results in underlying earnings before interest and tax (EBIT) of \$6.4 billion, or an increase of 5.5%. On the same normalised basis:

- underlying sales revenue increased by 3.2% to \$18.9 billion, with strong growth in data and internet, mobile services, basic access and intercarrier revenue;
- total underlying revenue (excluding interest) increased by 2.9%; and
- growth in underlying operating expenses (before depreciation, amortisation and interest) was contained to 0.8%, while total underlying expenses (before interest) increased by 1.6% to \$12.8 billion.

#### Cash flow

We continued to generate strong net cash flow from operating activities of \$6,599 million (2000: \$6,547 million). While net cash used in investing activities was \$6,370 million (2000: \$4,896 million). This consisted of:

- operating capital expenditure (excluding investments, patents, trademarks, and licences and capitalised interest) of \$4,036 million (2000: \$4,604 million);
- investments \$3,236 million (2000: \$598 million), including \$3,056 million for our investment in RWC; and
- patents, trademarks and licences of \$332 million (2000: \$101 million), including \$302 million for purchase of our 3G spectrum licence.

Our net cash from financing of \$94 million (2000: outflow of \$1,881 million) was after payment of \$1,366 million for a convertible bond from Pacific Century CyberWorks Limited (PCCW) with a face value of US\$750 million. The note is subordinated, but is secured by an equitable mortgage over half of PCCW's 50% shareholding in Reach (ie 25% of Reach's total shares).

#### Further discussion and analysis

Commentary on our operating results is also contained in the message from the Chairman and the Chief Executive Officer (refer pages 5-11).

# Statement of Financial Performance – Profit and Loss Statement

for the year ended 30 June 2001

	Note	Telstra Group Year ended 30 June	
		2001 \$m	2000 \$m
<b>Ordinary activities</b>			
<b>Revenue</b>			
Sales revenue – usual		19,458	18,609
Sales revenue – unusual	4	(779)	734
Other revenue – usual		764	1,238
Other revenue – unusual	4	3,643	–
		<u>23,086</u>	<u>20,581</u>
<b>Expenses</b>			
Labour – usual		3,122	3,228
Labour – unusual	4	–	572
Direct cost of sales – usual		3,693	3,329
Direct cost of sales – unusual	4	(560)	734
Depreciation and amortisation		2,871	2,646
Other expenses – usual		3,891	4,035
Other expenses – unusual	4	2,820	–
		<u>15,837</u>	<u>14,544</u>
Borrowing costs		769	630
Share of net losses of associates and joint venture entities		183	58
		<u>16,789</u>	<u>15,232</u>
<b>Profit before income tax expense</b>			
		6,297	5,349
Income tax expense		2,292	1,848
Effect of decrease in tax rates on deferred tax balances		(56)	(172)
Total income tax expense		<u>2,236</u>	<u>1,676</u>
<b>Net profit</b>			
		4,061	3,673
Outside equity interests in net profit		(3)	4
<b>Net profit available to Telstra Entity shareholders</b>			
		<u><b>4,058</b></u>	<u><b>3,677</b></u>
<b>Other valuation adjustments to equity</b>			
Net exchange differences on conversion of non- Australian controlled entities' financial statements		61	12
Share of associated and joint venture entities' reserves		(33)	(9)
Asset revaluation decrements taken through the reserve		–	(25)
Valuation adjustments available to Telstra Entity shareholders and recognised directly in equity		<u>28</u>	<u>(22)</u>
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners		<u>4,086</u>	<u>3,655</u>
		<u>¢</u>	<u>¢</u>
<b>Basic and diluted earnings per share (cents)</b>			
		31.5	28.6
<b>Final dividend per share (cents)</b>			
	3	11.0	10.0

The above statement of financial performance should be read in conjunction with the accompanying notes and discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 2001'. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report. Further financial information can be obtained from the 'Annual Report 2001', which is available, free of charge, on request by calling FREECALL™ 1800 06 06 08 – a free call from fixed phones.

# Statement of Financial Position – Balance Sheet

as at 30 June 2001

	Telstra Group	
	As at 30 June	
	2001	2000
	\$m	\$m
<b>Current assets</b>		
Cash	1,077	751
Receivables	4,307	3,587
Inventories	320	295
Other assets	549	256
Total current assets	6,253	4,889
<b>Non-current assets</b>		
Receivables	1,803	258
Inventories	8	15
Investments – accounted for using the equity method	1,259	450
Investments – other	143	435
Property, plant and equipment	22,803	22,316
Future income tax benefit	114	111
Intangible assets	3,012	536
Other assets	2,078	1,329
Total non-current assets	31,220	25,450
<b>Total assets</b>	<b>37,473</b>	<b>30,339</b>
<b>Current liabilities</b>		
Payables	2,823	2,528
Borrowings	2,604	3,316
Income tax payable	657	527
Provisions	2,067	2,315
Revenue received in advance	1,128	735
Total current liabilities	9,279	9,421
<b>Non-current liabilities</b>		
Payables	7	624
Borrowings	11,386	6,505
Income tax payable	91	184
Deferred income tax	1,573	737
Provisions	959	1,162
Revenue received in advance	456	104
Total non-current liabilities	14,472	9,316
<b>Total liabilities</b>	<b>23,751</b>	<b>18,737</b>
<b>Net assets</b>	<b>13,722</b>	<b>11,602</b>
<b>Shareholders' equity</b>		
<b>Telstra Entity</b>		
Contributed equity	6,433	6,433
Reserves	11	(8)
Retained profits	6,795	5,170
Shareholders' equity available to Telstra Entity shareholders	13,239	11,595
<b>Outside equity interests</b>		
Contributed equity	490	24
Reserves	33	(2)
Accumulated losses	(40)	(15)
Total outside equity interests	483	7
<b>Total shareholders' equity</b>	<b>13,722</b>	<b>11,602</b>

The above statement of financial position should be read in conjunction with the accompanying notes and discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 2001'. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report. Further financial information can be obtained from the 'Annual Report 2001', which is available, free of charge, on request by calling FREECALL™ 1800 06 06 08 – a free call from fixed phones.

# Statement of Cash Flows

for the year ended 30 June 2001

	Telstra Group	
	Year ended 30 June	
	2001	2000
	\$m	\$m
<b>Cash flows from operating activities</b>		
Receipts from trade and other receivables (inclusive of goods and services tax (GST))	21,023	18,533
Payments of accounts payable and to employees (inclusive of GST)	(11,136)	(10,493)
Interest received	70	60
Borrowing costs paid	(813)	(622)
Dividends received	16	16
Income taxes paid	(1,455)	(947)
GST remitted to the Australian Taxation Office (ATO)	(1,106)	–
<b>Net cash provided by operating activities</b>	<b>6,599</b>	<b>6,547</b>
<b>Cash flows from investing activities</b>		
Payments for:		
– property, plant and equipment	(3,259)	(4,006)
– internal use software assets	(706)	(577)
– patents, trademarks and licences	(332)	(101)
– deferred expenditure	(71)	(21)
Capital expenditure (before investments)	(4,368)	(4,705)
– shares in listed securities and shares in other corporations	(38)	(263)
– shares in controlled entities	(3,056)	(163)
– satellite consortia investments	–	(4)
– investment in joint venture entities	(131)	(37)
– investment in associated entities	(11)	(131)
Investment expenditure	(3,236)	(598)
Total capital expenditure	(7,604)	(5,303)
Proceeds from:		
– sale of listed securities and shares in other corporations	392	129
– sale of property, plant and equipment	288	243
– sale of business	528	–
– sale of patents, trademarks and licences	14	–
– sale of shares in controlled entities	4	27
– satellite consortia investments	5	1
– sale of joint venture entities and operations	3	7
<b>Net cash used in investing activities</b>	<b>(6,370)</b>	<b>(4,896)</b>
<b>Cash flows from financing activities</b>		
Proceeds from:		
– borrowings	23,521	15,396
– Telstra bonds	–	495
Repayment of:		
– Telecom/Telstra bonds	(565)	(81)
– borrowings	(19,193)	(13,290)
– finance leases principal amount	(14)	(26)
Payments for convertible note	(1,366)	–
Employee share loans (net)	27	–
Dividends paid	(2,316)	(4,375)
<b>Net cash used in financing activities</b>	<b>94</b>	<b>(1,881)</b>
<b>Net increase/(decrease) in cash</b>	<b>323</b>	<b>(230)</b>
<b>Cash at the beginning of the year</b>	<b>744</b>	<b>974</b>
<b>Cash at the end of the year</b>	<b>1,067</b>	<b>744</b>

The above statement of cash flows should be read in conjunction with the accompanying discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the 'Annual Report 2001'. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the financial report. Further financial information can be obtained from the 'Annual Report 2001', which is available, free of charge, on request by calling FREECALL™ 1800 06 06 08 – a free call from fixed phones.

# Notes to the Concise Financial Statements

## 1. Accounting Policies

The principal accounting policies adopted in preparing the concise financial report of Telstra Corporation Limited (referred to as the Telstra Entity) are included in the financial report which forms part of the detailed "Annual Report 2001".

This concise financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1039: "Concise Financial Reports" and is derived from the detailed "Annual Report 2001".

Accounting policies used during the year ended 30 June 2001 are consistent with those for the previous year except for the following:

### (a) AASB 1041: "Revaluation of Non-Current Assets"

Australian Accounting Standard AASB 1041: "Revaluation of Non-Current Assets" applied to Telstra from 1 July 2000. Under this standard, we have elected 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 of \$32 million is fixed as at 1 July 2000 and write-downs of previously revalued assets may no longer be made through the asset revaluation reserve.

This election had no impact on our financial position, financial performance or cash flows in our financial report. In accordance with our election and the requirements of AASB 1010: "Accounting for the Revaluation of Non-Current Assets", any write-down to recoverable amount that may be required in the future will be charged to the statement of financial performance.

### (b) Revenue recognition

It is our policy to prepare our financial statements to satisfy both Australian Generally Accepted Accounting Principles (AGAAP) and United States Generally Accepted Accounting Principles

(USGAAP) and, in cases where there is no conflict between the two, we ensure that we incorporate the more detailed requirements in both AGAAP and USGAAP financial statements. As a general rule, USGAAP tends to be more prescriptive.

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

SAB101 gives the SEC staff's interpretation of existing accounting principles on the timing of recognition of revenues and associated expenses in the financial statements. As the underlying accounting principles of revenue recognition are the same for both AGAAP and USGAAP, we have applied the more detailed SAB101 guidance to the timing of revenue recognition to both AGAAP and USGAAP financial statements. We accounted for the adoption of SAB101 as a change in accounting principle effective 1 July 2000, and therefore we have not restated prior year financial statements.

The application of SAB101 on the financial statements in the current year has required the following determinations:

- the cumulative effect of SAB101 up to 1 July 2000, as if SAB101 had always applied; and
- the current year effect based on the calculation of the amount of the opening cumulative balance that needs to be recognised in the current year and the amount of new revenue and expenses that require some deferral in recognition until future years.

The major revenue and associated expense items impacted are:

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

## Notes to the Concise Financial Statements continued

### 1. Accounting policies continued

#### (b) Revenue recognition continued

##### *Installation and connection fees*

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

##### *Commission revenue for printed directories*

Previously, commission revenue for printed directories earned for sale of directory advertising

space was recognised on signing of the advertising agreements with customers, while the balance of the revenue was deferred until the directories were published. Under SAB101 we have deferred the recognition of all revenue earned for a directory until the directory is published.

##### *On-line directories and voice services*

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

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

	Year ended 30 June 2001 \$m
<b>Sales revenue – unusual</b>	
Cumulative impact of deferring revenue as at 30 June 2000	(777)
Deferral of additional revenues under new policy for year ended 30 June 2001	(410)
Part release of cumulative impact for the year ended 30 June 2001	408
	<b>(779)</b>
<b>Direct cost of sales</b>	
Cumulative impact of deferring expenses as at 30 June 2000	(573)
Deferral of additional expenses under new policy for year ended 30 June 2001	(191)
Part release of cumulative impact for the year ended 30 June 2001	204
Total direct cost of sales – unusual impact	(560)
Reduction in profit before income tax expense	(219)
Income tax benefit at 34%	74
Reduction in net profit for the year ended 30 June 2001	<b>(145)</b>

### 2. Segment information

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

#### **Business segments**

We announced a new business structure in the second half of the financial year ended 30 June 2000 that was effective for reporting purposes from 1 July 2000. In March 2001, we also announced the formation of Telstra International to consolidate our international interests. The comparative amounts for fiscal 2000 have been changed to reflect the structure in place for fiscal 2001. Our business units under this structure are described as follows:



## 2. Segment information continued

**Telstra Retail's** primary activities are sales and billing. It is responsible for around 5.8 million Australian services. This covers residential, business and government customers who receive our services, other than wholesale services (which are provided by Infrastructure Services & Wholesale), mobile services (which are provided by Telstra OnAir) and those customers included in Telstra Country Wide. The business unit:

- manages our information, connection and payphone services as well as our directories business; and
- sells and provides customer services for a comprehensive range of products, services and customer-driven solutions ranging from basic telephony services to complex voice and data networks.

**Telstra Country Wide** is responsible for:

- addressing the telecommunications needs of around 3.0 million consumer and business customers who reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory; and
- the specific needs of customers who are not as readily addressed as for customers in metropolitan areas.

**Telstra OnAir** is responsible for:

- our mobile and wireless networks and associated systems within Australia; and
- all mobile retail sales and after sales support, customer service, product development and pricing.

**Telstra International** manages our interests in:

- the Asia-Pacific region, including our Asian ventures and operations in Vietnam, India, Singapore, New Zealand, Japan and Sri Lanka; and
- our North American and European retail operations.

### **Infrastructure Services & Wholesale's**

responsibilities include:

- planning, design, construction and operation of our domestic fixed communication networks and associated systems to deliver technology solutions, our products, services and customer support;
- customer service installation and repairs; and
- provision of domestic wholesale products and services to other carriers and carriage service providers.

### **Network Design and Construction Limited:**

- competes for some of our annual network expenditure against other suppliers and also performs construction activities for others, including other telecommunications companies.

**Corporate Centre** is responsible for finance and administration, legal and regulatory, human resources, and corporate relations.

Telstra Country Wide and Telstra Retail have been combined as a single reportable business segment for reconciliation and disclosure purposes as they are considered substantially similar. Network Design and Construction and Corporate Centre are not reportable segments and have been aggregated in the "Other" segment.

### **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.

## Notes to the Concise Financial Statements continued

## 2. Segment information continued

Telstra Group							
	Telstra Retail (a)	Telstra OnAir (b)	Telstra International (c)	Infrastructure Services & Wholesale	Other (d)	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Year ended 30 June 2001							
Sales revenue from external customers	11,558	3,145	1,265	2,437	264	10	18,679
Other revenue from external customers	2	13	33	174	1,089	(24)	1,287
Inter-segment revenue	321	195	288	5,895	2,511	(9,210)	-
<b>Total segment revenue</b>	<b>11,881</b>	<b>3,353</b>	<b>1,586</b>	<b>8,506</b>	<b>3,864</b>	<b>(9,224)</b>	<b>19,966</b>
<b>Segment result</b>	<b>3,553</b>	<b>771</b>	<b>(933)</b>	<b>1,528</b>	<b>408</b>	<b>678</b>	<b>6,005</b>
As at 30 June 2001							
<b>Segment assets</b>	<b>26,422</b>	<b>3,066</b>	<b>2,629</b>	<b>21,823</b>	<b>(11,993)</b>	<b>(4,474)</b>	<b>37,473</b>

(a) Telstra Retail segment revenue was reduced by \$745 million relating to the unusual SAB101 cumulative adjustment (refer note 1(b)).

This unusual item decreased the segment result by \$205 million.

(b) Telstra OnAir segment revenue was reduced by \$34 million relating to the unusual SAB101 cumulative adjustment (refer note 1(b)).

This unusual item decreased the segment result by \$14 million.

(c) Telstra International segment result includes the RWC write off of acquisition costs of \$999 million (refer note 4(ii)).

(d) Unusual revenue of \$725 million from the writeback of the Telstra Superannuation Scheme additional contribution liability (refer note 4(iii)) is included in other segment revenue. This increased the other segment result by \$725 million.

Telstra Group							
	Telstra Retail	Telstra OnAir	Telstra International	Infrastructure Services & Wholesale	Other (a) (b)	Eliminations	Total of all segments
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Year ended 30 June 2000							
Sales revenue from external customers	12,451	3,002	1,183	1,799	878	30	19,343
Other revenue from external customers	120	10	11	39	383	2	565
Inter-segment revenue	350	188	300	6,158	2,702	(9,698)	-
<b>Total segment revenue</b>	<b>12,921</b>	<b>3,200</b>	<b>1,494</b>	<b>7,996</b>	<b>3,963</b>	<b>(9,666)</b>	<b>19,908</b>
<b>Segment result</b>	<b>4,084</b>	<b>761</b>	<b>120</b>	<b>900</b>	<b>(270)</b>	<b>55</b>	<b>5,650</b>
As at 30 June 2000							
<b>Segment assets</b>	<b>19,882</b>	<b>2,257</b>	<b>2,288</b>	<b>21,744</b>	<b>(14,665)</b>	<b>(1,167)</b>	<b>30,339</b>

(a) Other segment revenue includes a \$734 million unusual item relating to the JORN contract (refer note 4(v)).

This unusual item had a \$nil impact on segment result in fiscal 2000 due to related expenses of \$734 million in performing obligations under the JORN contract.

(b) Unusual expenses of \$572 million relating to redundancy and restructuring provision (refer note 4(vi)) decreased the other segment result in fiscal 2000.

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

	Telstra Group	
	Year ended 30 June	
	2001	2000
	\$m	\$m
<b>3. Dividends</b>		
<b>Ordinary shares</b>		
Interim dividend paid <sup>(i)</sup>	1,029	1,029
Final ordinary dividend provided for or paid <sup>(i)</sup>	1,416	1,287
	<u>2,445</u>	<u>2,316</u>
<b>Dividends per share (cents)</b>		
Interim dividend	8.0	8.0
Final ordinary dividend	11.0	10.0
Total	<u>19.0</u>	<u>18.0</u>

Our current year dividends provided for or paid are fully franked, in aggregate and per share, to the same amount as in the relevant tables above.<sup>(ii)</sup>

- (i) The tax rate at which the fiscal 2001 final ordinary dividend will be franked is 30% (2000: 34%).  
The tax rate at which the interim dividend was franked was 34% (2000: 36%).  
The interim dividend for fiscal 2001 was paid on 27 April 2001. The final dividend for fiscal 2001 is due to be paid on 26 October 2001. The final dividend for fiscal 2000 was paid on 27 October 2000.
- (ii) The interim dividend for fiscal 2000 was partly franked as shown in the table below.

	Telstra Group	
	¢ per share	\$m
<b>30 June 2000</b>		
Interim dividend		
Fully franked portion	3.9	506
Unfranked portion	4.1	523
Total interim dividend	<u>8.0</u>	<u>1,029</u>

## Notes to the Concise Financial Statements continued

Telstra Group  
As at 30 June

	2001	2000
	\$m	\$m

**4. Unusual items**

The following items form part of the ordinary operations of our business, but are considered unusual due to their nature and amount.

Profit before income tax expense has been calculated after charging/(crediting) unusual revenue and expense items from our ordinary activities as follows:

**Unusual revenue items:**

Sales revenue – unusual		
– revenue recognition accounting policy change <sup>(i)</sup>	779	–
– revenue from JORN contract <sup>(v)</sup>	–	(734)
	779	(734)
Other revenue – unusual		
– sale of global wholesale business and controlled entities to Reach Ltd <sup>(ii)</sup>	(2,372)	–
– writeback of Telstra Superannuation Scheme additional contribution liability <sup>(iii)</sup>	(725)	–
– sale of our investment in Computershare Limited <sup>(iv)</sup>	(546)	–
	(3,643)	–
Total unusual revenue items	(2,864)	(734)

**Unusual expense items:**

Labour – unusual		
– redundancy and restructuring provision <sup>(vi)</sup>	–	572
	–	572
Direct cost of sales – unusual		
– revenue recognition accounting policy change <sup>(i)</sup>	(560)	–
– expenses in performing obligations under JORN contract <sup>(v)</sup>	–	734
	(560)	734
Other expenses – unusual		
– book value and deferred profit on the sale of our global wholesale business and controlled entities to Reach Ltd <sup>(ii)</sup>	1,520	–
– book value of sale of our investment in Computershare Limited <sup>(iv)</sup>	301	–
– write-off of acquisition costs <sup>(ii)</sup>	999	–
	2,820	–
Total unusual expense items	2,260	1,306
Net unusual items	(604)	572
Income tax expense/(benefit)	209	(206)
Net unusual items after income tax expense	(395)	366

## 4. Unusual items continued

(i) Refer to note 1 (b) Revenue recognition.

(ii) **Telstra's Asian Ventures**

On 7 February 2001, we completed our strategic alliance with Pacific Century CyberWorks (PCCW). Under these arrangements, the following unusual items have been recognised in the statement of financial performance:

	Year ended 30 June 2001 \$m
<i>Reach Ltd</i>	
Unusual revenue items	2,372
(a) Sale of global wholesale business and controlled entities to Reach Ltd. This item represents the fair value of the total consideration received for the divisions and controlled entities of Telstra contributed to Reach Ltd.	
Unusual expense items	1,520
(b) Book value of the sale of our global wholesale business and controlled entities to Reach Ltd. This item represents the book value of the divisions and controlled entities of Telstra that were contributed to Reach (including associated costs) together with the effect of the deferral of the unrealised profit (after tax), and is calculated as follows: Book value of businesses and controlled entities contributed to Reach and associated costs	668
Deferral of unrealised profit before tax	852
Total	1,520

Profit is considered to be unrealised to the extent that we retain an ownership interest in Reach. The amount deferred is brought to account in the statement of financial performance (through the share of net losses of associates and joint venture entities) on a straight-line basis over a period of 20 years.

*RWC*

Unusual expense items	999
-----------------------	-----

(a) Write-off of acquisition costs

This item represents the value of acquisition costs written-off as a result of our acquisition of 60% of Joint Venture (Bermuda) No. 2 Limited. This item forms part of the reduction in value of the investments.

Net unusual items – Telstra's Asian ventures

The net once-off unusual items recognised as a result of Telstra's Asian ventures is a \$147 million loss before tax.

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

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

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

We anticipate that the surplus in the TSS will continue and no employer contributions will be required in the current year or in fiscal 2002 and 2003, assuming the continued sound performance of the TSS.

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

	Year ended 30 June 2001 \$m
Write-back of TSS additional contribution liability	725
Tax effect at 34%	(247)
	478

Our interest expense associated with the TSS liability in the current period was \$nil (2000: \$89 million).

Interest expense arose from the difference between the actual amount of payments we were required to make and the recorded amount of these discounted commitments. No interest expense was incurred in the year ended 30 June 2001 due to the release of our obligations to the TSS.

## Notes to the Concise Financial Statements continued

### 4. Unusual items continued

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

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

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

Revenue from sale of Computershare	546
Book value of investment in Computershare sold	<u>(301)</u>
	245
Tax effect at 34%	<u>(83)</u>
	<u>162</u>

In fiscal 2000, we recorded the following abnormal items. Due to a change in Australian accounting standards, abnormal items are no longer applicable. Any item previously classified in the prior year as an abnormal has been restated in accordance with the format of the current year financial statements.

(v) 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. For comparative purposes, they have been recognised as an unusual item in the statement of financial performance. There is no amount charged for income tax expense.

(vi) The redundancy and restructuring unusual item of \$572 million before tax consisted 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 raised in the financial statements and relating 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.

### 5. Events after balance date

The directors are not aware of any matter or circumstance that has occurred since 30 June 2001 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.

# Independent Audit Report to the members of Telstra Corporation Limited

## Scope

I have audited the concise financial report of Telstra Corporation Limited (the Company) and its controlled entities for the financial year ended 30 June 2001, as set out on pages 40 to 52, in order to express an opinion on it to the members of the Company. The Company's Directors are responsible for the concise financial report.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the concise financial report is free of material misstatement. I have also performed an independent audit of the full financial report of the Company for the year ended 30 June 2001. The audit report on the full financial report was signed on 29 August 2001, and was not subject to any qualification.

The procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039: "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

## Audit Opinion

In my opinion, the concise financial report of Telstra Corporation Limited and its controlled entities complies with Accounting Standard AASB 1039: "Concise Financial Reports."



**Ian McPhee**  
Acting Auditor-General

29 August 2001

Melbourne, Australia

# Investor Information

## Annual General Meeting

Telstra's 2001 Annual General Meeting will be held on Friday 16 November at the Sydney Convention and Exhibition Centre. Your Notice of Meeting will contain details about the location and meeting time.

## Dividend Payment

A final fully franked dividend of 11 cents per share will be paid on 26 October 2001 to shareholders registered on the Telstra Share Register on Friday 21 September 2001. The dividend will be fully franked at the 30% company tax rate.

## What is Telstra's dividend policy?

It is Telstra's current policy to declare ordinary dividends of at least 60% of net profit available to shareholders, subject to taking into consideration a number of commercial factors, including the interests of shareholders, cash requirements for future capital expenditures and investments, as well as relevant industry practice. However, as previously foreshadowed, in determining the dividends declared from earnings for the year ended 30 June 2001, we excluded the 'once off' book profits that arose from:

- the sale of our global wholesale assets to Reach Ltd; and
- the profit resulting from the release from our obligations under the Telstra Additional Contributions agreement.

However, for dividends declared from earnings in fiscal 2002 and future years, it is our current intention that the dividends per share will not

reduce on a year on year basis as a result of the alliance with PCCW, subject to continuing commercial considerations.

## Where can I find information on Telstra dividends that have been paid in the past?

The Telstra Share Registry can assist you with information regarding your Telstra dividends. You can contact the Share Registry on 1800 06 06 08\* and follow the automated voice prompts. A full history of Telstra's past dividends including dividend dates and franking rates is also available at [www.telstra.com.au/investor/divhis.htm](http://www.telstra.com.au/investor/divhis.htm)

## Is it possible to put the money from Telstra dividends back into a 'reinvestment plan' with Telstra?

Currently, a Telstra dividend reinvestment plan is not possible as the Telstra Corporation Act precludes any reduction in the Commonwealth's voting rights below a 50.1% interest in Telstra. We cannot, therefore, easily introduce a dividend reinvestment plan (DRP) or raise new equity without Commonwealth participation and there is no assurance that the Commonwealth would be willing to subscribe for additional shares in Telstra.

## Keeping Telstra Australian owned

The Telstra Corporation Act restricts foreign ownership. That is, foreign persons collectively cannot control more than 35% of the non-Commonwealth owned Telstra shares and individual foreign persons cannot control more

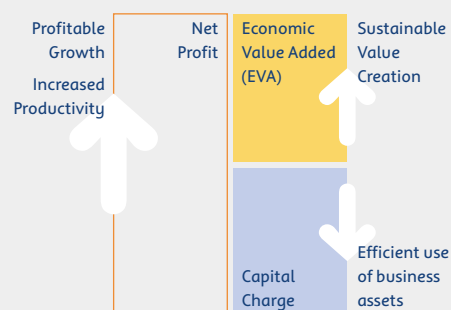
\*A free call from fixed phones.

## Focus on Improving Shareholder Value – EVA®

- Economic Value Added (EVA) is being used in Telstra to increase our focus on improving shareholder value. EVA is simply PROFIT minus a CAPITAL CHARGE on the business assets employed to run the business (eg properties, telecommunication plant and equipment, accounts receivables, stock).
- We use EVA to measure our corporate performance and to evaluate investment

proposals to ensure every dollar invested generates the required return.

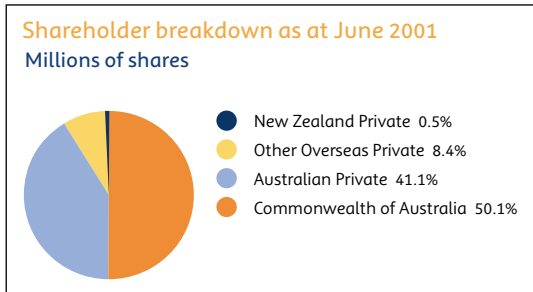
- In addition, our business units have identified the business drivers which influence EVA/Shareholder value. These drivers provide a roadmap for creating value so we clearly understand how our actions may create or destroy value. These drivers are being incorporated into our management incentive plans at an individual level.



EVA® is a registered trademark of Stern Stewart & Co.



than 5% of them. Telstra will divest shares if an unacceptable foreign ownership situation arises. Telstra will also keep relevant stock exchanges advised of foreign ownership levels.



**Shareholding Information**

Questions relating to your shareholding, including share transfers, dividends or changing your mailing address should be directed to the Telstra Share Registrar on FREECALL 1800 06 06 08\*. You can also visit their website at [www.registrars.aprl.com.au](http://www.registrars.aprl.com.au) where you can also obtain share registry forms to transfer your shareholdings, notify a change of address, notify a deceased estate, provide dividend instructions and provide your TFN/ABN.

**Is it possible to merge two Telstra shareholdings into one?**

A merger of two Telstra shareholdings is possible where the registration details of both holdings are identical. For assistance with your merger query contact the Share Registry on 1800 06 06 08\*. The Share Registry can also advise you if you wish to transfer shareholdings between

two separate shareholders. You can also download a Share Transfer form from the Telstra Share Registrar's website at <http://www.registrars.aprl.com.au>

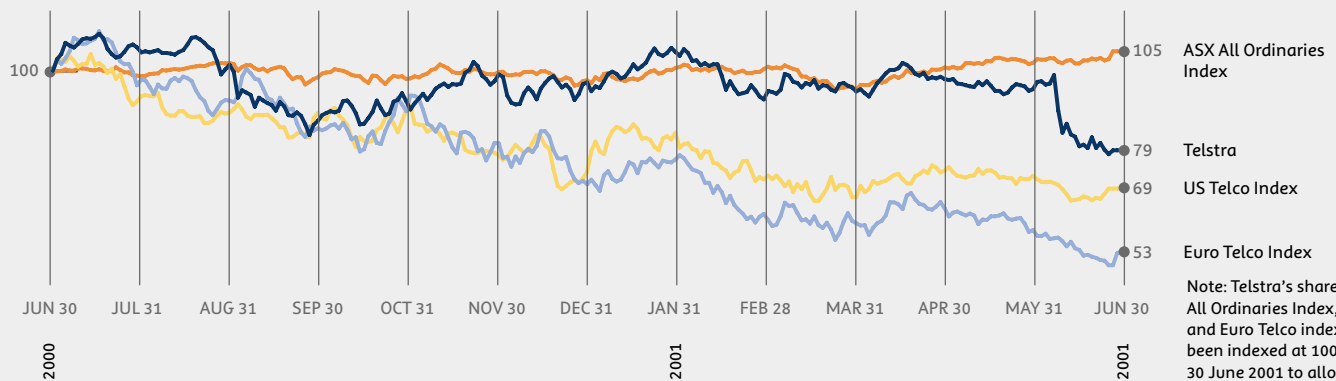
**Telstra's Shareholder email service**

Telstra has recently introduced a new alert service via the email for shareholders who don't wish to receive reports in the mail. Shareholders can now elect to do away with the hard copy documents altogether and instead we will notify you by email as soon as the reports are available on-line at Telstra's web site [www.telstra.com.au/investor](http://www.telstra.com.au/investor). To make this election, you can visit the Share Registry website at [www.registrars.aprl.com.au](http://www.registrars.aprl.com.au)

**This glossy Annual Review must cost a lot to produce – can't you make it cheaper?**

Shareholders have a right to receive an Annual Review and Telstra works very hard to ensure that the Review is both accurate and easy to read. With our large shareholder base, we produce around 3 million Annual Reviews and Half-Year Reports each year. We are able to use these volumes to our advantage and ensure that we produce the best possible product at the best possible price for shareholders. We appreciate our Shareholders who have suggested that, in the interests of saving costs, a black and white version would be sufficient; however, it is the number of documents we are required to produce – not the colour we use – where meaningful savings can be made.

\*A free call from fixed phones.



Note: Telstra's share price, the All Ordinaries Index, US Telco and Euro Telco indexes have been indexed at 100 as from 30 June 2001 to allow a meaningful comparison.

## Telstra's on-line Environment Report

« <http://www.telstra.com.au/investor/environ.htm> »

In March 2001, Telstra launched its first annual Public Environment Report, which outlined key environment programs undertaken by Telstra and detailed Telstra's environment targets. Ongoing reporting on our environment performance will emphasise the progressive targets to be met and to continually improve Telstra's performance in environmental management towards a sustainable approach to business. The 2000-2001 Public Environment Report is scheduled for release later this year. Some key achievements include:

### 1 Managing consumption of energy across the company.

We have established an energy management team to integrate energy efficiencies into existing telecommunications plant and to monitor the consumption of electricity and resultant greenhouse gas emissions across the company's operations. In August 2001, Telstra joined the government-hosted Australian Greenhouse Challenge.

### 2 Managing waste streams to minimise volumes of waste going to landfill and enable waste minimisation practices to be developed and implemented.

Steps taken to reduce waste streams include:

- Integrated recycling facilities for paper waste and other recyclables are now located at major Telstra offices, which have resulted in reducing



waste going to landfill by over 50% at these sites.

- Participation in the national mobile phone battery recycling scheme.
- The Book Muncher® directory recycling initiative, managed by Pacific Access (Telstra's directories business), is achieving a recycling rate of 50% of directories distributed.

### 3 Developing and promoting product stewardship.

We are influencing our suppliers to become environmentally responsible by requiring environmental impact information be included with their tenders. Environmental impact assessment tools are used in considering the tender as well as the supplier's performance afterwards.

### 4 Ensuring proper care in minimising environment impact in the maintenance and development of telecommunications infrastructure.

We have developed and implemented programs to manage on-site storage and

handling of dangerous goods to minimise the potential to cause contamination. These programs also identify and manage risks posed by contamination of land before sites are divested by Telstra.

During the year, Telstra was selected for inclusion in the FTSE4Good Index, being one of only two Australian companies to be listed on the Index, which selects preferential companies screened for environmental sustainability, stakeholder relationships and supporting human rights. Importantly, our selection into this Index helps support our international investment exposure and corporate reputation.

This listing is an international recognition of our commitment to the environment and here in Australia we've been selected for inclusion in 10 out of 12 socially responsible investment funds in Australia.

click to see Telstra's on-line Annual Review

« <http://www.telstra.com.au/investor/> »

Contents symbols indicate main sections in Review. Click on these to navigate.



Drop-down B-Level menu sections provide quick access into all areas within the Review.

Interactive utilities provide support to the user and features quick access to content within the Review.

C-Level navigation enables users to cycle through pages systematically. Access interactive graphs of detailed financial and operational statistics. Icons indicate whether sections have been visited.

A recent shareholder survey revealed the following shareholder statistics about personal computer (PC) and internet usage:

74%	55%	75%	62%
use their home PC for shareholder related activities	own PCs less than 2 years old	use Internet Explorer to browse the web	have a Pentium 1, 2, or 3
57%	Telstra's Investor Relations home page <a href="http://www.telstra.com.au/investor">www.telstra.com.au/investor</a> attracts 470,000 'hits' per month		45%
use Windows 98			have internet access

## Five Year Financial Summary

	<b>2001 A\$m</b>	2000 A\$m	1999 A\$m	1998 A\$m	1997 A\$m
Sales revenue – usual	<b>19,458</b>	18,609	17,571	16,703	15,430
Total revenue	<b>23,086</b>	20,581	18,220	17,288	15,983
EBITDA <sup>(1)</sup>	<b>9,834</b>	8,563	8,351	7,375	4,793
Profit before tax	<b>6,297</b>	5,349	5,320	4,468	2,073
Net profit after minorities	<b>4,058</b>	3,677	3,486	3,004	1,617
Dividend	<b>2,445</b>	2,316	4,247	1,802	4,146
Total assets	<b>37,473</b>	30,339	27,682	26,470	25,858
Gross debt	<b>13,990</b>	9,821	7,211	7,722	7,981
Net debt	<b>10,632</b>	8,531	5,769	6,458	7,036
Shareholders' equity	<b>13,722</b>	11,602	10,294	11,079	9,938
Operating cashflow	<b>6,599</b>	6,547	6,574	5,635	5,254
Cash used in investing	<b>(6,370)</b>	(4,896)	(4,064)	(3,609)	(4,171)
Cash used in financing	<b>94</b>	(1,881)	(2,484)	(1,808)	(1,572)
Net movement	<b>323</b>	(230)	26	218	(489)
Capital expenditure and investments	<b>(7,604)</b>	(5,303)	(4,386)	(3,890)	(4,398)
Financial ratios	<b>%</b>	%	%	%	%
Return on average assets	<b>21.9</b>	21.2	22.7	20.1	10.1
Return on average equity <sup>(2)</sup>	<b>32.1</b>	33.7	29.9	28.7	12.7
Interest cover (times)	<b>9.0</b>	8.5	9.4	7.6	5.5
Gross debt to capitalisation <sup>(2) (3)</sup>	<b>50.5</b>	45.8	36.9	41.1	44.5
Net debt to capitalisation <sup>(2) (4)</sup>	<b>43.7</b>	42.4	31.8	36.8	41.5

(1) Net profit before interest received/receivable, interest expense (borrowing costs), depreciation and amortisation and income tax expense.

(2) Excludes the effect of the special dividend of A\$2,059 million provided for in the financial statements as at 30 June 1999.

(3) Based on gross debt (total current and non-current borrowings) as a percentage of gross debt plus the shareholders' equity.

(4) Based on net debt (gross debt less interest bearing assets and loans to employees) as a percentage of net debt plus shareholders' equity.

# Financial Calendar 2002

Half-year result announced	Wednesday 6 March 2002
Ex-dividend share trading starts	Monday 18 March 2002
Record date for interim dividend	Friday 22 March 2002
Interim dividend paid	Monday 29 April 2002
Annual result announced	Wednesday 28 August 2002
Ex-dividend share trading starts	Monday 16 September 2002
Record date for final dividend	Friday 20 September 2002
Final dividend paid	Monday 28 October 2002
Annual General Meeting	Friday 15 November 2002

Note: Timing of events can be subject to change

## Contact details

### Telstra Corporation Limited

Incorporated in the Australian Capital Territory

Telstra is listed on Stock Exchanges in Australia, New Zealand (Wellington), and USA (New York)

### Registered Office

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Melbourne Victoria 3000 Australia

Douglas Gratton  
Company Secretary  
Ph: +61(3) 9634 6400

### Principal Australian Offices

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Melbourne Victoria 3000 Australia

231 Elizabeth Street Sydney  
New South Wales 2000 Australia

### Investor Relations Unit

Level 36, 242 Exhibition Street  
Melbourne Victoria 3000 Australia

Wayne Treeby  
General Manager  
Ph: +61(3) 9634 8632

### The Telstra Share Registrar

ASX Perpetual Registrars Limited  
PO Box 14300 MELBOURNE CITY MC Victoria 8001  
Australia: FREECALL™ 1800 06 06 08\*  
All other: +61(3) 9615 9999  
Facsimile: +61(3) 9615 9911

### Annual Report Hotline

To receive further copies of the Annual Review or copies of the detailed Annual Report, please call FREECALL™ 1800 06 06 08\*

### Website

This review and the Annual Report may also be found via Telstra's Investor Relations home page at:  
<http://www.telstra.com.au/investor/>

### Depository for American Depositary Receipts

The Bank of New York  
101 Barclay Street – 22 W  
New York, New York 10286  
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\*A free call from fixed phones.

Everyone, everywhere,  
needs to communicate,  
**everyday.**