Telstra

Annual Review 1998

“Welcome to the first Annual Review of your company...”

Contents

The choice is yours

This document is the first Telstra Annual Review – a 'short form' overview that is designed to give you an easy-to-read, concise summary of our activities and financial position for the year ended 30 June 1998.

Should you wish to receive a copy of the full Annual Report – a document containing Telstra's detailed full financial statements and US reporting information, for 1997-98, simply call ***Freecall*** ™ 1800 13 12 34. We would be happy to send you a copy. If you prefer, you can access both the Annual Report and the Annual Review through the Internet at http://www.investor.telstra.com.au

Telstra Corporation Limited
ACN 051 775 556
Registered Office
Level 41/ 242 Exhibition Street
Melbourne Victoria 3000

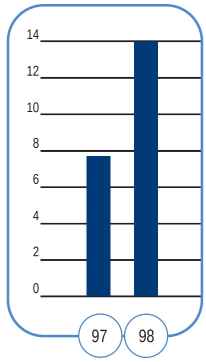
This Annual Review includes the requirements of the Australian Securities & Investments Commission (ASIC) Class Order CO97/1009 and the Instrument issued to Telstra Corporation Limited on 21 July 1998 under Section 313 of the Corporations Law.

"I would like to welcome you, as a shareholder in Telstra, to our first Annual Review as a publicly-listed company. This review is designed to give you an easy-to-read presentation of our key activities during the past financial year, and where we plan to take Telstra in the future. Today we are a leaner organisation; make decisions faster; compete more vigorously; are building for growth in new services and emerging markets, and are continuing to focus on customers while also containing costs.

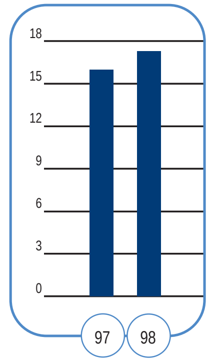
As one of the more than 1.8 million investors (many of you investing for the first time) who participated in the largest float in Australian corporate history or have since purchased shares – the Board and I look forward to a long and rewarding relationship with you as we take Telstra into the future."

David M Hoare
Chairman

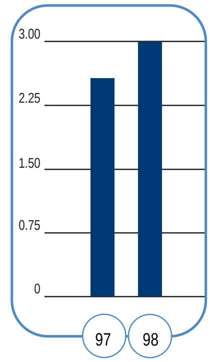
What have the highlights been this year?



Ordinary dividends per share (cents)



Total Revenue ($billion)



Net Profit after Tax (before abnormals) ($billion)

Financial Highlights

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

- **Earnings per share (before abnormals):** Increased by 17 per cent to 23.3 cents.
- **Total revenue:** Increased by 8.3 per cent to $17.3 billion.
- **Net profit after tax (before abnormals):** Grew by 17 per cent to $3.0 billion.
- **Instalment receipt price:** The closing price on the Australian Stock Exchange on 30 June 1998 was $4.14 – an increase of more than 110 per cent on the first instalment paid by Australian retail investors at the time of the float.
- **Total dividends paid/payable per share:** Telstra declared total dividends this financial year of $1.8 billion, fully franked. This includes an interim dividend of seven cents plus a final declared dividend of seven cents (to be paid on 30 October 1998).

Notes:

(a) All comparatives and percentage increases apply against the year ended 30 June 1997 (before abnormals). The June 1998 results were favourably affected by prior year accounting policy changes.

(b) The sale of shares in Telstra by the Commonwealth was in two instalments, with the first instalment paid on application and the final instalment payable on 17 November 1998. Until the final instalment is paid your interest in Telstra shares is in the form of Instalment Receipts. (For further information see the Telstra Public Offer Document at www.investor.telstra.com.au).

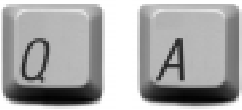
(c) The dividends are fully franked because of corporate tax paid on profits of the Telstra Group. Resident individuals who receive fully franked dividends may be entitled to a tax rebate for tax payable by them.

"Over the past 12 months one of our primary tasks has been to maximise the value of your investment in the company through excellent customer service, development of new products and services, and focus on cost control. We have set ourselves a very simple agenda – to meet 'head on' the challenges of open competition, on every level, against the best in the world.

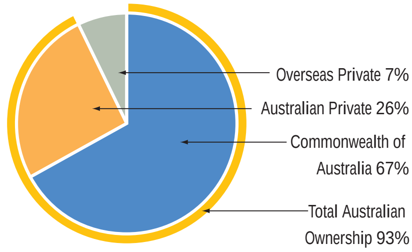
As Australia's only listed full-service telecommunications and information services company, we are achieving growth by entering new markets and expanding core ones. We are opening up new opportunities through the forging of valuable partnerships and joint ventures. We are ensuring our customers remain satisfied by constantly striving for excellent service and delivering competitive prices. At all times we maintain our focus on improving internal productivity and efficiencies. Our focus is broad but the mission is simple: to ensure your company continues to grow and prosper."

W. Frank Blount

W. Frank Blount
Chief Executive Officer



Telstra Ownership at 30 June 1998



Q: What result has Telstra achieved this year?

A: Telstra achieved a net profit after tax of $3.0 billion, based on revenue of $17.3 billion delivering a total dividend to shareholders of $1.8 billion. We have a strong operating cash flow of $5.6 billion, and a stable earnings base from the core domestic market. Financial highlights are provided on page 3.

Q: How has this result been achieved?

A: Strong revenue growth and increased profit has been driven by three key elements: the rapid adoption by customers of new technologies; the development of new products to make life easier for customers; and a focus on improving internal efficiency. We have continued to develop new high-growth areas like data and text services, innovative mobile applications, Internet, Foxtel, new interactive directory services and electronic commerce. In addition we are adding value to core products through ***MessageBank***® and ***Easycall***® features. We have focused on costs which has resulted in full time staff numbers falling by approximately 8,900 during the year.

Q: How will Telstra continue to grow revenues and profits in a competitive environment?

A: Telstra will continue to grow by enhancing the communication services we provide to customers, like mobiles, data services, Internet, and broadband services. These already account for over 40 per cent of Telstra's revenue. We are also strongly positioning for the wholesale arena as the preferred supplier of products and services and have successfully signed access and product agreements with other carriers and carriage service providers.

Q: How does the current Asian economic climate affect Telstra?

A: As a result of our measured approach to investment over a number of years, Telstra has limited direct exposure to the Asian economies. Our largest single investment outside Australia is in Vietnam, where we have been doing business for more than 10 years and our returns are securely structured. Telstra is nevertheless exposed to any overall decline in the Australian economy resulting from the Asian economic position.

Q: What improvements have been made to the management of people?

A: Telstra has made substantial changes to its people management by introducing performance reviews, changed work practices, simplified processes and improved safety. More than 90 per cent of staff are also shareholders.

Q: What level of customer service has Telstra achieved in the past 12 months?

A: It was disappointing that our service levels dropped in some parts of Australia in late 1997. However, these were mainly due to unseasonal weather and some fine tuning of a workforce management system. These problems have been recognised and addressed and Telstra expects service levels to improve in 1998-99.

Q: What is Telstra doing to improve services to customers in rural and remote parts of Australia?

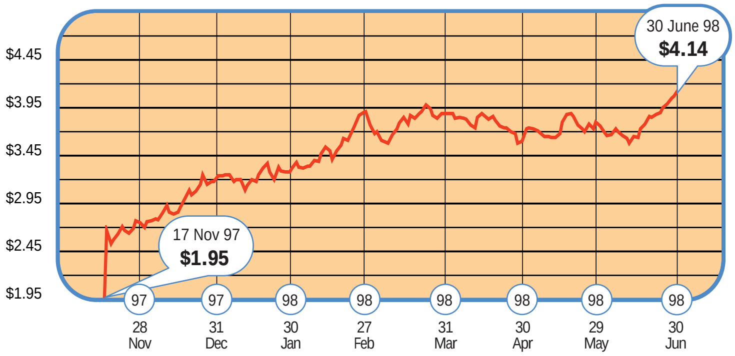
A: In addition to maintaining high standards of customer service, Telstra has committed to three significant initiatives to improve services to rural and remote customers. First, a multimillion dollar satellite strategy is intended to extend the availability of telephony, data and Internet to potentially all Australian customers by the end of 1998. Second, we have committed to significantly reduce the level of faults in our copper Customer Access Network through the CAN 2001 project to make the network more robust for all customers. Third, a new mobile network will be introduced to supplement our existing high quality performance coverage and capacity.

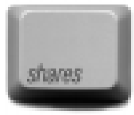
Q: Where can I get more details on Telstra's financial performance?

A: Call ***Freecall*** ™ 1800 131 234 and we will send you a copy of the full Annual Report, or access it at http://www.investor.telstra.com.au

How have my shares performed?

Instalment Receipt Price Since Listing





Paul Rizzo
Group Managing Director,
Finance & Administration

> "Telstra is Australia's largest listed company on a fully capitalised basis at $71 billion on 30 June 1998. It is also Australia's most profitable company, based on its net operating profit after tax of $3,004 million."

This represents an increase of 17 per cent over the previous year's profit before abnormals, and exceeds prospectus by 7.1 per cent. The closing price of Telstra's instalment receipts on the Australian Stock Exchange on 30 June 1998 was $4.14 – an increase of more than 110 per cent on the first instalment paid by Australian retail investors.

Since listing, up to 30 June 1998, Telstra's instalment receipt price has outperformed the Australian All Ordinaries Index by 100 per cent. This vote of confidence made Telstra one of the best performing companies on the Australian Stock Exchange.

Telstra has paid a fully franked interim dividend of seven cents per share, at 31 March 1998. A further fully franked dividend payment of seven cents per share will be paid on 30 October 1998.

What you must do next

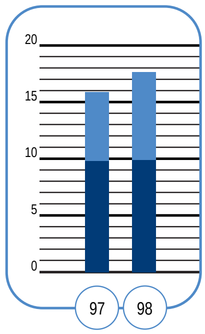
When one third of Telstra was sold by the Commonwealth Government in November 1997 through a public float, you were able to purchase Telstra shares by instalment. If you hold instalment receipts on 4 November 1998, your final instalment must be paid by 17 November 1998. This will entitle you to fully paid shares in Telstra. You will be notified by the Commonwealth Government on how to make this payment as the date approaches.

Smart payphones: About 28,000 Smart payphones were in operation by the end of June 1998, making life easier for the whole community.

Mobile Phones: New technology, competitive prices and extended coverage are just a few of the benefits of being a Telstra MobileNet® customer.

Where will growth come from in the future?

Revenue Source ($billion)
Growth Traditional



Lindsay Yelland
Group Managing Director, Products and Marketing

Gerry Moriarty
Group Managing Director, Network Technology Group and Multimedia

> “Growth will come from improving the performance of existing products, developing and introducing new products and services in response to customer needs, and by focusing on improved efficiencies.”

Telstra is a market leader commanding an overall market share of about 80 per cent, spread across all market sectors, with a customer base of 6.9 million residential lines and 2.7 million business lines.

Ongoing growth will be achieved by a commitment to the following:

- **Improving our core telephony business.** Telstra's free ***Easycall***® services have grown to more than 5.5 million services, encouraging higher call completion rates and higher network utilisation. More than half of all our residential and small business customers now use an ***Easycall***® facility. Continued growth is anticipated through Telstra value-added products such as MessageBank®, other smart message services, and off-peak discount incentives.
- **Richer and smarter communications options.** Telstra is committed to bringing all Australians the benefits of new telecommunication technologies through extension of services on our fixed telephones, broadband, data, mobile and international submarine and satellite networks. The main new growth areas are mobile telephony, data and text services, and Telstra's Internet products, such as ***BigPond***®, ***SureLink***™ and ***Wireplay***™. During the year mobile services contributed more than $2.1 billion revenue, and data and text over $2.0 billion.
- **International business growth.** Offshore business growth will continue to be sought through expanding our international points of presence in key markets and increasing revenues from multinational corporations, as well as partnerships, alliances, local licences and the consideration of strategic investments.

SureLink™:
SureLink™ allows secure payment via the Internet.

Qantas Telstra Visa Card:
Over 400,000 Telstra Visa and Qantas Telstra Visa cards were issued during the year.

Internet:
BigPond® home subscriber numbers have increased to almost 200,000.

Doug Campbell
Group Managing Director,
Carrier Services Group

> “Global competition is shaping the direction of the communications market. To remain at the forefront of the technological revolution, Telstra is striving for continued efficiency improvements and the delivery of innovative and competitively-priced new products and services for customers.”

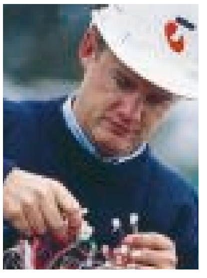
Increased competitiveness and a dedication to internal efficiency have delivered many benefits for Telstra, our customers and our shareholders. In a highly competitive environment we have achieved compound revenue growth of about seven per cent a year over the past three years. This growth was delivered while we reduced prices on services like ***STD***® and ***International Direct***™.

As a worldwide phenomenon, Internet growth is booming and Telstra is helping create this growth as one of Australia's largest Internet providers. We are ensuring rural and remote Australians will have access to the Internet via our fixed network and through satellite technology. On our international network, the volume of data traffic has already exceeded voice traffic. It is expected to follow suit on the domestic network by 2002.

Telstra leads the way in providing cellular mobile technology with almost 30 per cent of the Australian population using mobiles, putting Australian penetration in the top 10 markets in the world. Some countries predict mobile usage will reach 50 - 60 per cent of the population beyond the year 2000.

The acceptability of fixed to mobile calls is demonstrated by the increase in revenue from this service which grew by 23 per cent to over $1 billion this year.

Further growth is anticipated in the wholesale business as part of our strategy to be the leading supplier of wholesale products and services.



Data services:
Access lines to Integrated Subscriber Digital Network (ISDN) grew 36 per cent to 488,400 lines.

New products:
Telstra launched more than 55 new products and 54 new service enhancements this year. Calling Number Display is gaining popularity.

Satellite Phone:
Australians in rural and remote areas have additional access to the latest services via satellite technology.

Telstra Research Laboratories:
One of Australia's largest and most innovative research and development organisations.

Robert Cartwright
Group Managing Director, Employee Relations

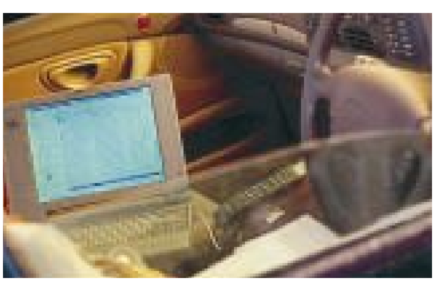
Telstra's directory business, which comprises ***White Pages***™ and ***Yellow Pages***® Directories is a substantial enterprise with turnover in excess of $1 billion a year. We anticipate additional growth as future electronic applications are rolled out into domestic and international markets. These directories were launched onto the Internet and made available on CD-rom during the year, making these services more accessible to consumers.

Maximising revenue growth is only part of the picture.

Telstra is currently two years into an efficiency program with a focus on reducing operating expenses by streamlining the organisation and its work processes to reduce duplication and unnecessary complexity and to take advantage of recent capital investment. Full-time staff numbers are expected to reduce by 27,500 between 1996 and the year 2001.

The Enterprise Agreement, which is still being negotiated with unions, includes a number of initiatives to contribute to necessary simplification and to improve the productivity of Telstra's customer field workforce. A four per cent pay rise per year over a two-year period has been proposed for staff.

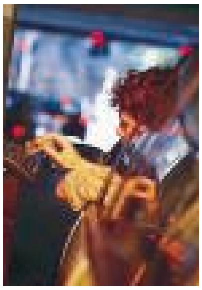
Phonecard:
Telstra issued 8.7 million Phonecards this year.



Telstra Minisat®:
The release in January 1998 of an in-vehicle version of a satellite phone service, Telstra Minisat®, will cater for the remote locations not normally covered by fixed or cellular communications.

Olympics:
Telstra is the Official Telecommunications Supplier to the Sydney 2000 Olympic Games.

What benefits is Telstra delivering to customers?



Customer services: Telstra customers are increasingly using convenient payment systems such as Phonecard.

Peter Shore
Group Managing Director, Commercial and Consumer

Ziggy Switkowski
Group Managing Director, Business and International

> "We are responding to our customers by tailoring solutions to address specific customer needs."

'Making Life Easier' ™ is both our answer to those needs and a powerful way to focus the business on delivering measurable gains in customer service and satisfaction.

Our focus on customers drives us to develop new products and solutions in direct response to the communication needs of customers. No matter who they are – the family, home office, small or large business, rural or remote Australians – Telstra is committed to meeting their telecommunications needs now and into the future.

Other tangible improvements in service delivery will be provided by proactively testing, detecting, and fixing faults. The fixed network carries about 15 billion calls a year and is being progressively sealed against the weather.

The ongoing needs of our corporate and business customers are being addressed through the development of strategies, new technologies and innovative products and services to meet their unique requirements. One prime example of this innovation is electronic commerce, which is growing rapidly. By the year 2000, total worldwide transactions via e-commerce are expected to be worth hundreds of billions of dollars.

Our billing system, ***Flexcab***®, is recognised as being among the most advanced in the world and is so highly regarded internationally that it was bought by a number of overseas telecommunications companies during the year. Telstra seeks billing accuracy through its Quality Assurance processes and ongoing integrity testing involving thousands of calls every day.

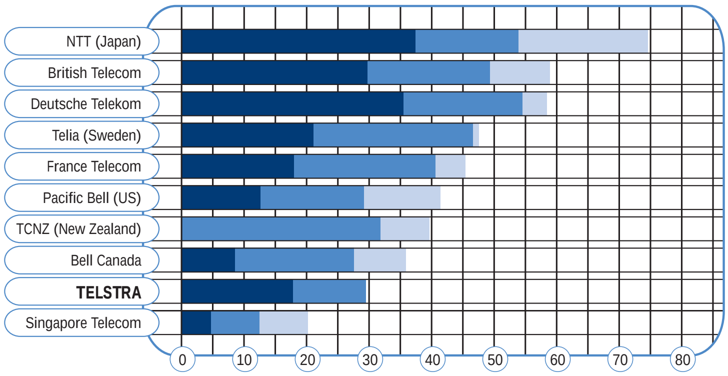
A dedicated Quality Assurance Centre has been established to monitor billing performance, accuracy, completeness and timeliness of Telstra billing. Local call itemisation, braille billing and large font bills were also introduced this year.

We are making these improvements with a guaranteed standard of customer service.

Focus on customers: Rural and remote customers are important to our revenue growth and will get further access to data, Internet and telephony via satellite later this year.

Internet: SureLink™ offers security, privacy and facilitates delivery over the Internet.

Cost of Residential Local Services



$A (at May 1998 prices).

'An International Comparison of the Retail Price of Access and Local Calls' by telecommunication consultants, Analysys Limited. The data relates to a normalised monthly bill for a residential customer, with 75 local calls per month, 6.1 minutes average call holding time and Easycall® features.

"We know that understanding what our customers want and need, and delivering on those expectations, is the reason Telstra exists."

In fact Telstra provides one of the most cost efficient local services in the world. A recent study by the global research organisation Analysys Limited, found that Telstra's customers receive one of the most affordable local telephone services in developed countries. The study took into account average residential calling patterns, the low cost of line rentals in Australia, and the availability of Call Waiting and Call Forward.

Telstra is committed to delivering on-going savings to customers. Further reductions to long distance and international call charges announced in April 1998 are expected to provide significant savings to customers.

All our customers will benefit from the changes, but particularly people in rural and remote areas who call longer distances.

In remote areas Telstra has established extended charging zones up to 100,000 square kilometres, where the maximum charge is the Pastoral Call rate – just 25 cents for up to 4.5 minutes plus a 12 cent connection fee at all times.

Customers have also enthusiastically embraced the maximum $3 ***STD***® weeknight rate, introduced in February 1997.

We are continuing to improve our resource planning to ensure we have the right people in the right places to ensure a high standard of service throughout Australia.

Technical Support:
Local Number Portability has been available between Telstra and Optus since May, and Telstra completed the Total Call Record Charging program during the year allowing itemisation of local calls.

Service:
A Telstra objective is to continue to improve service levels in the coming year.

ConferLink®:
Video conferencing is a fast growing and popular business tool.

Large numbers of staff can be mobilised to speed up the recovery of services to areas affected by extreme weather conditions, as they were to restore services during the Katherine, Townsville and Gippsland floods.

More than 94 per cent of Australians are now covered by Telstra's ***MobileNet*** ® Digital, including about 80 per cent of those in rural and remote areas.

An additional mobiles network based on digital technology will be introduced across Australia starting in 1999. It is designed to offer a seamless operation during the phase out of the analogue network, combining the benefits of digital service with coverage similar to the analogue service.

Mobiles:
MessageBank ®
penetration has increased to 1.4 million customers.

BigPond®:
Small business operators, schools and home office workers are using Telstra's high-speed Internet product, BigPond®, for a fast, effective link to the Internet.

Digital Mobile:
Services increased from 1.09 million to 1.75 million this year. Telstra now has more than three million analogue and digital customers.

How does Telstra benefit the community?

Graeme Ward
Group Director,
Regulatory & External Affairs

> "Telstra is committed to bringing to all Australians the benefits of our continuing investment in Australia."

As a responsible, responsive corporate citizen, we look beyond the daily business of running a multi-faceted telecommunications company, to the wider issues affecting all Australians – the environment, health, education and the well-being of the community.

Telstra is the Official Telecommunications Supplier to the Sydney 2000 Olympic Games, as well as a Team Millennium Olympic Partner and Worldwide Partner of the Sydney 2000 Paralympic Games.

Telstra also supports sporting activities and community initiatives that will make it easier for all Australians to be involved in the Sydney 2000 Olympic Games. Our sponsorships of Swimming through the Telstra Dolphins, Weightlifting via the Telstra Titans, and Australian Women's Hockey through the Telstra Hockeyroos, provide support to these sports from the grass roots to the elite.

Our support for Australian industry through the purchase of local products also makes a significant contribution to the country.

This year Telstra marks a decade of formal consultation with consumer groups through the establishment of Telstra's Consultative Councils for residential and small business consumers. These forums play an important role in improving Telstra's understanding of the needs and expectations of all consumers during a period of rapid change in communication and information technologies and equip us to respond accordingly.

For the first time a Customer Service Guarantee gives customers a clearly outlined set of standards that all Telstra employees are committed to provide. If we don't meet the performance standards customers are entitled to claim a service guarantee payment. We are also committed to meeting all other regulatory requirements.

Landcare:
Telstra's sponsorship of Landcare has helped establish a tradition of protecting the natural environment and our cultural heritage.

Universal Service:
The needs of people with disabilities are important to Telstra. We ensure these customers have the services they require. A disability action plan is in place and is subject to regular review.

Board of Directors

> “Telstra is entering a new era, where shareholder investment decisions and the price of Telstra shares will now reflect the performance of the directors, management and employees. As market leader in telecommunications, Telstra will continue to strive for the best possible results for all investors.”

From left to right : David Hoare, Frank Blount, Tony Clark, Ross Adler, Michael Codd, Malcolm Irving, Elizabeth Nosworthy, John Ralph, Chris Roberts, Steve Vizard, John Stocker.

David M. HOARE - BEc, FCPA
Chairman Age 65
Director and Chairman since December 1991.
Chairman, Pioneer International Ltd; Director, Bankers Trust Australia Limited, Comalco Ltd and Birkmyre Pty Ltd; Non Executive Chairman of the Board of Partners, Mallesons Stephen Jaques; Fellow of the Senate, University of Sydney; Chairman Designate, Australian Graduate School of Management.

John T. RALPH - AO, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melb & Qld)
Deputy Chairman Age 65
Director and Deputy Chairman since October 1996.
Chairman, Foster's Brewing Group Ltd and Pacific Dunlop Limited; Deputy Chairman, Commonwealth Bank of Australia; Director, BHP Limited, Pioneer International Ltd and The Constitutional Centenary Foundation; President, Australia-Japan Business Co-operation Committee; Member of Board of Melbourne Business School; National Chairman, The Queen's Trust for Young Australians; Chairman of the Australian Foundation for Science.

W. Frank BLOUNT - BSc (Elec Eng), MBA, MS Management
Chief Executive Officer Age 60
Chief Executive Officer since January 1992.
Prior to joining the Telstra Entity, Mr Blount held Presidential positions with US telecommunications company, AT&T, in sales and marketing, training and education and network operations. Mr Blount has held positions including Chairman, National Technical Institute for the Deaf; Chairman, Rochester Institute of Technology; Chairman, Advisory Board, Georgia Institute of Technology and CEO of the New American Schools Development Corporation. He is a Director of Caterpillar Incorporated, First Union National Bank and Entergy Corporation.

N. Ross ADLER - BCom, MBA Age 53
Director since October 1996.
Chief Executive Officer and Managing Director, Santos Ltd; Director, Santos Group Companies, Commonwealth Bank of Australia, QCT Resources Ltd and Australian Institute of Petroleum Ltd; Member, Business Council of Australia and Corporations & Securities Panel; Chairman of the Board of the Art Gallery of South Australia; Council Member, The University of Adelaide.

Anthony J. CLARK - AM, FCA, FCPA, FAICD Age 59
Director since October 1996.
Chartered Accountant; Partner of KPMG, formerly Managing Partner KPMG NSW for six years; Chairman Maritime Industry Finance Company Limited; Deputy Chairman of Australian Tourist Commission.

Michael H. CODD - AC, BEc (Hons) Age 58
Director since February 1992.
Chancellor, Wollongong University; Director, Qantas Airways Limited, MLC Ltd, MLC Lifetime Ltd and Toogoolawa Consulting Pty Ltd; Director and Deputy Chair Australian Nuclear Science and Technology Organisation (ANSTO) and Menzies Foundation; Member, Advisory Board, IBM Australia Ltd, Advisory Board, Spencer Stuart, Advisory Board Blake Dawson Waldron and Board of Advisers Constitutional Centenary Foundation; Senior Adviser Asia-Australia Institute.

Malcolm G. IRVING - AM, BCom, Hon DLit Age 68
Director since July 1997.
Chairman, Caltex Australia Limited, FAI Life Limited and Australian Industry Development Corporation. He is also a Director of a number of other companies.

Elizabeth A. NOSWORTHY - BA, LLB, LLM Age 52
Director since December 1991.
Chairman, Port of Brisbane Corporation; Deputy Chairman, Queensland Treasury Corporation; Director, David Jones Limited, Australian National Industries Limited, Brisbane Airport Corporation Limited, GPT Management Ltd and The Foundation for Development Cooperation Ltd; Councillor, National Competition Council and Member, Australian Greenhouse Office Experts Group on Emissions Trading.

Christopher I. ROBERTS - BCom Age 53
Director since December 1991.
Chief Executive Officer and Managing Director, Arnotts Limited; Director, Arnotts Group Companies, Transparency International Australia and Juvenile Diabetes Foundation Inc. and Member Advisory Board Australian Graduate School of Management.

John W. STOCKER - MB, BS, BMedSc, PhD, FRACP, FTSE Age 53
Director since October 1996.
Director, Cambridge Antibody Technology Group plc, Circadian Technology Ltd, Foursight Associates Pty Ltd; Chief Scientist, Commonwealth of Australia; Chairman, Australian Science Technology and Engineering Council, Grape and Wine Research and Development Corporation and Chiron Technologies Ltd.

Stephen W. VIZARD - AM, LLB, BA, FAICD Age 42
Director since October 1996.
Chairman, Artist Services Group; Board Member, Australian Commercial Television Production Fund, Victorian Multimedia Taskforce, State Library of Victoria Foundation; Member of the Committee, Melbourne Cricket Club; President, Council of Trustees for the National Gallery of Victoria.

Corporate Governance

Corporate Governance

The Telstra Board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place for the whole of the year ending 30 June 1998 and those which have been introduced more recently.

Telstra's corporate governance practices continue to evolve as the company moves from a Commonwealth Government-owned business enterprise to a major publicly-listed company with a wide shareholder base.

While the Government owns more than 50 per cent of the shares in Telstra the Company will remain subject to various Ministerial and other controls to which other publicly-listed companies are not subject, including a Ministerial power to give Telstra written directions which the Minister believes are in the public interest (Section 9 Telstra Corporation Act 1991).

Nevertheless, within these constraints, the Board will continue to strive to achieve best corporate governance practice.

The Board of Directors

The role of the Board

The Board is accountable to shareholders for the business and affairs of Telstra and delegates responsibility for day-to-day management of the company to the Chief Executive Officer.

Size and composition of the Board

As at 26 August 1998 there were 11 Directors on the Board – 10 non-executive Directors, including the Chairman, and the Chief Executive Officer.

The maximum number of Directors fixed by Telstra's Articles of Association, in the absence of a resolution of shareholders to the contrary, is 13.

A person may be appointed as a Director, either to fill a casual vacancy or as an additional Director up to the maximum number, only by the Directors after consulting with the Commonwealth Minister or by Telstra by ordinary resolution in general meeting.

Apart from the Chief Executive Officer, one third of Directors are subject to re-election by rotation each year. A Director appointed by the Directors is subject to re-election at the next Annual General Meeting.

On 8 September 1998 two additional non-executive Directors, Cecilia A Moar and Donald McGauchie, were appointed.

The work of the Board

The Board normally meets 11 times each year for scheduled meetings and on other occasions to deal with specific matters which require attention between scheduled meetings.

The regular business considered by the Board includes the following areas:

- Business investments and strategic matters,
- Governance and compliance,
- Chief Executive Officer's report,
- Financial report by the Group Managing Director, Finance and Administration,
- Business Unit reviews on a rotational basis, ensuring that Directors receive detailed briefings from each of Telstra's senior executives several times during the year.

Directors also liaise with senior management as required.

Committees of the Board

To increase its effectiveness, the Board has operated with committees with responsibility for particular areas. Until July 1998, there were three Board committees as follows:

- **Finance Committee** – The role of this committee was to consider the Group's financial and strategic position, develop appropriate strategies and recommend decisions to the full Board and monitor the financial performance of the Group.

- **Audit & Compliance Committee** – The role of this committee was to provide oversight of the Group's compliance with external and internal obligations, review of the annual audit program and to provide advice to the Board on matters of due diligence, financial systems integrity and financial risks.
- **Appointments & Compensation Committee** – The role of this committee was to consider senior executive remuneration and to review the reward system for executive management within the Group.

Since the end of the financial year, it was decided that the matters previously considered by the Finance Committee would in future be dealt with by the full Board and accordingly the Finance Committee was dissolved. Other changes include:

- The Audit & Compliance Committee's role was expanded to include overseeing Telstra's risk management program.
- The role of the Appointments & Compensation Committee, renamed the Appointments, Nominations & Compensation Committee was expanded to include overseeing the composition of the Board, the performance of the Board and the appointment and remuneration of the Chairman, Directors, Chief Executive Officer and senior executives.

Non-executive Directors' remuneration

Remuneration of non-executive Directors is determined by the Board within the parameters approved by shareholders from time to time. The maximum aggregate amount of non-executive Directors' remuneration provided for at present is $750,000. This remuneration is for all services provided by the Directors as Directors including service on committees. Directors are also entitled to be reimbursed 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.

Independent professional advice

Individual Directors and Board committees are able to obtain professional advice independent of advice received from management or the company's professional advisers, obtainable at the company's cost after consultation with the Chairman. Such advice would be made available to all Directors. Directors also have access to company employees, advisers and information on request.

Directors' share dealings

Telstra has in place a share trading policy which prohibits Directors and senior management (and their associates) from engaging in short term trading of the company's securities and restricts their buying or selling of Telstra securities to the three "window" periods following the release of Telstra's annual results, half-yearly results and the close of Telstra's Annual General Meeting, and at such other times as the Board permits. In addition, Directors and senior management must notify the Company Secretary before they or their close relatives buy or sell Telstra securities. The Company Secretary maintains a register for this purpose. Furthermore, as required by law, buying or selling of Telstra securities is not permitted at any time by any person who possesses price-sensitive information in relation to Telstra securities.

Conflicts of interest

The Corporations Law and Telstra's constitution require Directors to disclose any conflicts of interest and to abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the Board has developed procedures to be followed by a director who believes he or she may have a conflict of interest.

Report by Directors

Principal activity

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

Results of operations

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

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

Dividends

Final dividend declared

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

Interim dividend declared and paid

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

Last year end final dividend paid

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

Franking Credits

The balance of the Telstra Entity's Class C Franking Account at 30 June 1998 was $315 million. As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year. It is expected that for the 1998/99 financial year the Telstra Entity will be able to fully frank declared ordinary dividends. It is unlikely that, under current legislation, the Telstra Entity will be able to fully frank declared ordinary dividends out of 1999/2000 earnings.

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

Review of operations

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

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

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

Overall, Telstra's operating expenses (before interest expense and abnormals) increased by 4.7 per cent for the year but fell as a percentage of revenue. Labour costs were reduced by 7.8 per cent as the impact of staff reductions announced in the prior year began to take effect. The Enterprise Agreement was not finalised during 1997/98 delaying both the wage adjustment for staff and the flexibility benefits for the Company. An additional provision for redundancy was also made for approximately 2,000 staff by the year 2001 in line with the revised three year plan.

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

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

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

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

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

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

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

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

Significant changes in the state of affairs

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

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

Year 2000 date change disclosure Potential Effect on Networks, Systems and Computer Chip Dependent Equipment

In common with businesses around the world, Telstra is investigating to what extent the date change from 1999 to 2000 may affect its networks, systems and computer chip dependent equipment. The objective of Telstra's Year 2000 Programme is to enable Telstra to manage its business operations with minimal risk and financial impact before, during and after the transition from the year 1999 to the year 2000.

Telstra's Year 2000 Programme aims to ensure that Telstra's key networks and systems are Year 2000 compliant in accordance with Telstra's criteria by 31 December 1998, with lesser priority areas compliant by the end of 1999.

In reviewing its systems, Telstra is placing priority on those systems which could have significant financial and legal effects on Telstra if they were to fail. Telstra has also incorporated Year 2000 considerations into its system development and maintenance plans. Telstra expects to spend up to $500 million on its Year 2000 Programme by 30 June 2000.

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

Events after the balance date

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

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

The Telstra Entity's past contributions to the Commonwealth Superannuation Scheme (CSS) has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS.

The Commonwealth has indicated that repatriation of part of that surplus to the Telstra Superannuation Scheme (TSS) will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS.

The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS.

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

Likely developments

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

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

Information on Directors

Telstra's Directors at the date of this report are listed on pages 19 and 26 with:

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

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

Directors' Benefits

The details of any benefit that a Director has received (or is entitled to receive) that might have to be reported under Section 309 of the Corporations Law are as follows:

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

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

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

The relevant companies are:

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

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

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

Indemnification and insurance of officers

Articles of Association

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

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

An "officer" is any person who is, or has been, a director, secretary or executive officer of any of:

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

The names of the Telstra Directors who are covered by this indemnity are listed on page 19 of this report. The name of the Secretary covered by this indemnity, and by the Deed of Indemnity referred to below, is Michael Montalto.

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

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

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

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

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

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

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

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

Particulars of Shares Held by Directors in the Telstra Entity as at 26 August 1998

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

(a) Instalment Receipts evidence beneficial ownership of an ordinary share subject to payment of the final instalment on or before 17 November 1998. Refer Corporate Governance Statement for the policy relating to share dealings.
(b) Includes 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the Telstra Employee Share Ownership Plan. In addition, W. Frank Blount is entitled to 200 loyalty shares obtained under the 1 for 10 loyalty offer available to all employees who participated in the public offer.

Indemnity agreements

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

(a) A Deed of Indemnity dated 3 July 1998 indemnifying each of its officers (but not Directors). That Deed is consistent with the indemnities provided under the Articles of Association. It replaces an earlier Deed of General Indemnity dated 17 October 1996.

(b) A Deed of Access, Indemnity and Insurance dated 27 November 1997 indemnifying each director. The Deed provides an indemnity (to the extent permitted by law) for liabilities from conduct arising in connection with a Director's duties.

(c) A Deed of Indemnity dated 9 August 1997 indemnifying Telstra's (and its wholly owned subsidiaries) employees (but not Directors) and certain contractors. The indemnity applies to all their liability (other than limited exceptions) that arises in their capacity as employees or contractors in connection with the partial sale of Telstra.

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

Insurance premiums and contracts

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

Rounding Off Of Amounts

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

For and on behalf of the Board

David M. Hoare
Director

W. Frank Blount
Director

Date: 26 August 1998

Discussion and Analysis of Profit & Loss Account

“**Telstra's total revenue increased by 8.3 per cent to $17.3 billion.** This was largely due to steady revenues in traditional telephony areas (boosted by the consolidation of the 75 per cent owned Pacific Access Pty Ltd for the first time) and continued strong growth in mobiles, fixed to mobiles calls and data.

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

Direct cost of sales increased by 27 per cent mainly due to increased transit traffic and payments to other carriers for traffic terminating on their networks. Subsidies and dealer bonuses increased as customers move to the digital mobiles network in anticipation of the closure of most of the analogue before the year 2000.

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

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

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

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

Profit and Loss Account

for year ended 30 June 1998

	Note	Telstra Group		Telstra Entity	
		1998	1997	1998	1997
		$m	$m	$m	$m
Operating Revenue					
Sales revenue		16,819	15,436	16,498	15,426
Other revenue		483	547	571	1,021
		17,302	15,983	17,069	16,447
Operating Expenses					
Labour		3,665	3,973	3,451	3,852
Direct cost of sales		2,582	2,033	2,313	1,823
Depreciation and amortisation		2,322	2,353	2,206	2,244
Other operating expenses		3,631	3,295	3,929	3,715
Borrowing costs		634	524	604	520
		12,834	12,178	12,503	12,154
Operating profit before abnormals and income tax expense		4,468	3,805	4,566	4,293
Abnormals	2	-	(1,732)	-	(1,932)
Operating profit before income tax expense		4,468	2,073	4,566	2,361
Income tax expense attributable to operating profit		1,468	680	1,723	1,164
Abnormal income tax credit	2	-	(216)	-	(216)
Income tax expense		1,468	464	1,723	948
Operating profit after income tax expense		3,000	1,609	2,843	1,413
Outside equity interests in operating loss after income tax expense		4	8	-	-
Operating profit after income tax expense attributable to the Telstra Entity shareholders		3,004	1,617	2,843	1,413
Retained profits at the beginning of the financial year attributable to to the Telstra Entity shareholders		3,368	5,868	3,179	5,883
Aggregate of amounts transferred from reserves		-	29	-	29
Total available for appropriation		6,372	7,514	6,022	7,325
Dividend provided for or paid	3	1,802	4,146	1,802	4,146
Retained profits at the end of the financial year attributable to the Telstra Entity shareholders		4,570	3,368	4,220	3,179
Basic earnings per share (cents)	4	**Cents**	**Cents**		
Before abnormals		23.3	20.0		
After abnormals		23.3	12.6		
Dividends per share (cents)	3				
Interim dividend		7.0	28.2		
Final dividend		7.0	4.0		
Total dividend		14.0	32.2		

The statements and accompanying notes set out on pages 29, 31 and 33 to 37 have been derived from the full financial statements contained in the "Annual Report 1998". They cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Telstra as the full financial statements.

Discussion and Analysis of Balance Sheet

"Telstra's net assets have increased by 11.5 per cent to $11 billion over the year. The composition of assets has not changed materially from the prior year. The major Balance Sheet movements were:

- **cash increased by $211 million** due to short term cash management strategies.
- **property, plant and equipment increased by $813 million** mainly due to capital expenditure on communications assets.
- **intangible assets increased by $272 million** due to payments for licences for:
  - spectrum licences some of which will be used to establish a new mobiles network in fiscal 1999 and expand the existing mobile network; and
  - network switching software.
- **other movements in assets** related to significant reversals of the differences between the tax and the accounting treatment of items (represented by the lines "Future Income Tax Benefit" (FITB) shown under Current and Non-Current Assets). These differences in timing of tax deductions compared with items taken up as expenses at earlier times for the accounts, will continue to reverse over time. When this happens, the Telstra Entity's taxable income will be lower than its accounting income and consequently tax payments in the future will be lower. This will impact on the ability of the Telstra Entity to continue to pay fully franked dividends to its shareholders in the 1999/2000 year.
- **borrowings decreased by $259 million** with the main factors being the refinancing of a syndicated loan and the maturity of some of Telecom/Telstra bonds.
- **Telstra's gearing** (or Gross Debt to Capitalisation[a]) was at 41.1 per cent at 30 June 1998 compared with 44.5 per cent at 30 June 1997. Interest cover[b] before and after abnormals was 7.6 times compared with 30 June 1997 interest cover before abnormals of 9.7 times and after abnormals of 5.5 times."

(a) Gross Debt to Capitalisation refers to total borrowings (both current and non-current borrowings) as a percentage of total borrowings and shareholders' equity.

(b) Interest cover refers to operating profit before interest and income tax expense to total interest paid or payable.

Balance Sheet

for year ended 30 June 1998

	Telstra Group		Telstra Entity	
	1998	1997	1998	1997
	$m	$m	$m	$m
Current Assets				
Cash	953	742	872	674
Receivables	3,178	3,386	3,236	3,949
Inventories	243	237	239	231
Future income tax benefit	-	552	-	518
Other assets	136	192	129	180
Total Current Assets	4,510	5,109	4,476	5,552
Non-Current Assets				
Receivables	241	108	328	167
Inventories	27	36	27	34
Investments	228	213	381	409
Property, plant and equipment	19,756	18,943	19,251	18,461
Future income tax benefit	787	933	425	700
Intangible assets	496	224	455	200
Other assets	425	292	424	291
Total Non-Current Assets	21,960	20,749	21,291	20,262
Total Assets	26,470	25,858	25,767	25,814
Current Liabilities				
Accounts payable	2,485	2,665	2,389	3,249
Borrowings	2,935	1,560	2,869	1,511
Provisions	2,460	2,318	2,268	2,109
Revenue received in advance	666	721	619	680
Total Current Liabilities	8,546	7,264	8,145	7,549
Non-Current Liabilities				
Accounts payable	700	710	844	763
Borrowings	4,787	6,421	4,714	6,330
Provisions	1,358	1,525	1,101	1,234
Total Non-Current Liabilities	6,845	8,656	6,659	8,327
Total Liabilities	15,391	15,920	14,804	15,876
Net Assets	11,079	9,938	10,963	9,938
Shareholders' Equity				
Parent Entity				
Share capital	6,433	6,433	6,433	6,433
Reserves	30	85	310	326
Retained profits	4,570	3,368	4,220	3,179
Shareholders' equity attributable to the Telstra Entity shareholders	11,033	9,886	10,963	9,938
Outside Equity Interests				
Share capital	41	30	-	-
Reserves	25	21	-	-
Retained profits	(20)	1	-	-
Total Outside Equity Interests	46	52	-	-
Total Shareholders' Equity	11,079	9,938	10,963	9,938

Discussion and Analysis of Statement of Cash Flows

"Cash generated from operations remains Telstra's primary source of liquidity. In the 12 months to 30 June 1998, this increased by $381 million or 7.3 per cent to $5,635 million.

The differences between the two years were mainly due to:

- higher receipts from customers and other debtors of $1,641 million (from $15,068m to $16,709m) **reflecting stronger revenue growth in the current year.** This was partially offset by a $1,271 million increase (from $8,536m to $9,807m) in payments to suppliers and employees as cost of sales increased in line with sales, and increased redundancy payments.
- **net payments of income taxes were lower in the year ended 30 June 1998** mainly due to unusually high income tax payments in the prior year. This was due to the transitional arrangements of the new income tax payment schedule that changed the timing of company payments of income tax. While tax refunds were received in both years due to settlement of objections of prior years' tax assessments, the refunds in the current year were lower than in the prior twelve months.
- **higher interest payments** as a result of additional borrowings in late 1996/97.

Cash from operations more than adequately **covered the cash required for investing of $3,609 million** which was down significantly on the $4,171 million in the year ended 30 June 1997 reflecting the lower capital expenditure needs this year.

Net cash flow used in financing increased by $236 million to $1,808 million during the year mainly due to net repayment of borrowings.

Overall, Telstra's net cash position increased by $218 million over the year."

Statement of Cash Flows

for year ended 30 June 1998

	Telstra Group		Telstra Entity	
	1998	1997	1998	1997
	$m	$m	$m	$m
Cash flows from operating activities				
Receipts from trade and other debtors	16,709	15,068	16,928	14,822
Payments of accounts payable and to employees	(9,807)	(8,536)	(10,088)	(8,049)
Interest received	48	80	47	79
Interest paid	(559)	(385)	(562)	(388)
Finance charges on finance leases paid	(16)	(18)	(9)	(10)
Dividends received	29	40	50	48
Income taxes paid	(769)	(995)	(712)	(964)
Net cash provided by operating activities	5,635	5,254	5,654	5,538
Cash flows from investing activities				
Payments for:				
– patents, trademarks and licences	(228)	(57)	(222)	(57)
– property, plant and equipment	(3,286)	(3,945)	(3,227)	(3,927)
– shares in other corporations	-	(1)	-	-
– shares in controlled entities	-	-	(289)	(865)
– satellite consortia investment	(24)	(18)	(24)	(18)
– investment in partnerships	(125)	(129)	-	-
– investment in joint ventures	-	(2)	-	(2)
– deferred expenditure	-	(8)	-	(8)
– capitalised software	(227)	(238)	(227)	(238)
Proceeds from:				
– sales of property, plant and equipment	255	176	333	652
- sales of patents, trademarks and licences	11	-	-	-
– sale of shares in controlled entities	-	26	-	26
– share buy-back by controlled entity	-	-	-	7
– satellite consortia investments	7	25	7	25
– deferred expenditure	8	-	8	-
Net cash used in investing activities	(3,609)	(4,171)	(3,641)	(4,405)
Cash flows from financing activities				
Proceeds from:				
– Telecom/Telstra bonds issue	-	1	-	1
– borrowings	8,708	7,841	8,553	7,808
Repayment of :				
– Telecom/Telstra bonds	(192)	(126)	(192)	(126)
– borrowings	(8,834)	(4,906)	(8,694)	(4,900)
– principal under finance leases	(68)	(75)	(49)	(56)
Dividends paid	(1,422)	(4,307)	(1,422)	(4,307)
Net cash used in financing activities	(1,808)	(1,572)	(1,804)	(1,580)
Net increase/(decrease)	218	(489)	209	(447)
Cash at the beginning of the year	730	1,219	663	1,110
Cash at the end of the year	948	730	872	663

Notes to the Short Form Financial Statements

1. Accounting Principles and Policies

The principal accounting policies adopted in preparing the financial statements of Telstra Corporation Limited (referred to as the Telstra Entity) and the consolidated financial statements of the economic entity, (referred to as Telstra or the Telstra Group) are included in the full financial statements which form part of the detailed Annual Report 1998.

The financial statements and accompanying notes, included in the detailed Annual Report 1998 comply with the requirements of the Corporations Law, Australian Accounting Standards and Urgent Issues Group Consensus Views.

The short form financial statements and accompanying notes, included in this report, have been derived from the full financial statements of Telstra. Accounting policies in the year ended 30 June 1998 year have remained as in the prior year, apart from the following change: On 1 July 1997, Telstra adopted the proposed revised accounting Standard AASB 1016-Accounting for Investments in Associates. That is, the carrying amount of Telstra's investment in associates has been adjusted for Telstra's share of the post acquisition profits or losses and reserves, less any dividends received. This is referred to as the equity method of accounting.

The impact of this change in the current year on the Telstra Group has been:

- Operating profit after income tax has increased by $1 million (being the share of associates' profits of $14 million less $13 million recoverable amount writedown);
- Reserves have decreased by $46 million (with $47 million of this debit being charged against the foreign currency translation reserve); and
- Carrying value of investment in associates has decreased by $53 million.

2. Abnormals

Operating profit before income tax expense has been determined after charging/ (crediting) the following abnormals:

	Telstra Group			Telstra Entity		
	Gross $m	Tax $m	Net $m	Gross $m	Tax $m	Net $m
30 June 1998						
Nil	-	-	-	-	-	-
30 June 1997						
Abnormal items						
Provision for redundancy & restructuring	1,126	(405)	721	1,126	(405)	721
Provision for loss on long term construction contract	394	(142)	252	394	(142)	252
Writedown of broadband communication assets	342	(123)	219	-	-	-
Provision for broadband network rationalisation	476	(113)	363	-	-	-
Provision for diminution in value of investment	-	-	-	1,014	-	1,014
Total abnormal items	**2,338**	**(783)**	**1,555**	**2,534**	**(547)**	**1,987**
Abnormal accounting policy changes						
Capitalisation of indirect overheads	(287)	103	(184)	(287)	103	(184)
Capitalisation of software developed for internal use	(213)	77	(136)	(213)	77	(136)
Capitalisation of interest costs	(106)	38	(68)	(102)	37	(65)
Total abnormal accounting policy changes	(606)	218	(388)	(602)	217	(385)
Total abnormal items and accounting policy changes	**1,732**	**(565)**	**1,167**	**1,932**	**(330)**	**1,602**
Abnormal income tax benefit relating to prior years						
Depreciation on devalued assets	-	(216)	216	-	(216)	216
	1,732	(781)	1,383	1,932	(546)	1,818

3. Dividends

	Telstra Group Year ended 30 June		Telstra Entity Year ended 30 June	
	1998 $m	1997 $m	1998 $m	1997 $m
Ordinary shares:				
Interim dividend paid	901	3,625	901	3,625
Final dividend provided/paid	901	521	901	521
Dividends paid or payable to shareholders of the Telstra Entity (fully franked with Class C (36%) franking credits)	1,802	4,146	1,802	4,146

The interim dividend declared and paid in the year ended 30 June 1997 included a special dividend of $3,000 million to the Commonwealth.

Dividend Franking Account

	Telstra Group Year ended 30 June		Telstra Entity Year ended 30 June	
	1998 $m	1997 $m	1998 $m	1997 $m
Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements and after deducting franking credits to be used in payment of the above dividend.				
Class C (36%) franking credits	339	810	172	634

The balance of the Telstra Entity's Class C Franking Account at 30 June 1998 was $315 million. As at 30 June 1998, the Telstra Entity is entitled to use these franking credits to frank dividends for the next financial year. On 13 May 1997, the Commonwealth Treasurer announced changes to income tax laws dealing with franking dividends.

If they are enacted the franking credits of the Telstra Entity of 13 May 1997 will be cancelled and the equivalent amount of exempting credits will be created.

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

4. Earnings per share

	Telstra Group Year ended 30 June	
	1998 Cents per Share	1997 Cents per Share
Basic earnings		
- before abnormals	23.3	20.0 (a)
- after abnormals	23.3	12.6 (b)

Diluted earnings per share is the same as basic earnings per share.

	Number of Shares (Millions)	Number of Shares (Millions)
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	12,867	12,867 (c)

(a) Calculation based on the number of shares after a share split approved on 6 August 1997 whereby all ordinary shares issued by the Telstra Entity with a par value of $1.00 each (6,433,300,100 shares) were divided into two ordinary shares with a par value of $0.50 each (12,866,600,200 shares).

(b) In the year ended 30 June 1997, a number of accounting policy changes were implemented and included in abnormals (Refer Note 2). This had an impact of increasing earnings per share after abnormals by three cents per share to 12.6 cents per share for the year ended 30 June 1997.

(c) Number of shares calculated assuming share split had been made in the 1997 financial year.

5. Contingent Liabilities

Note 20 of the full financial statements contained in the separate document "Annual Report 1998" provides information on the Contingent Liabilities for the Telstra Group. For an understanding of the nature and extent of these Contingent Liabilities, reference should be made to these detailed financial statements.

6. Superannuation Commitments

The Telstra Group sponsors or participates in a number of superannuation schemes which provide benefits for its employees and their dependants on cessation of employment. Employer contributions paid to the schemes and expensed for the years ended 30 June 1998 and 1997 were $294 million and $340 million. An actuarial valuation has been conducted on the Telstra Superannuation Scheme (TSS) and the Commonwealth Superannuation Scheme (CSS) as at 30 June 1997. Telstra is not presently required to contribute to the CSS, however past contributions to the CSS has resulted in the Telstra Entity being credited with a surplus in the notional fund of the CSS. The Commonwealth has indicated that repatriation of part of that surplus to the TSS will be permitted where the surplus is greater than 15 per cent of the sum of the employer financed benefits (past and future service) for the Telstra Entity's existing CSS members and outstanding deferred transfer value payments for ex-CSS members who transferred to the TSS. The actuarial valuation as at 30 June 1997 confirmed that the CSS surplus was greater than 15 per cent and the Telstra Entity is in discussions with the Commonwealth regarding the repatriation of this surplus to the TSS. On the assumption that the CSS surplus, net of 15 per cent contributions tax payable on its transfer into the TSS, is available to increase the assets of the TSS, the actuary has recommended that the Telstra Entity cease defined benefit contributions to the TSS (other than the additional contributions of $121 million per annum that the Telstra Entity is committed to contribute to the TSS over the next 13 years) for the three-year period 1 July 1998 to 30 June 2001. Based on that advice, the Telstra Entity Board of Directors (subsequent to year end) has agreed that the employer contribution rate to the TSS will be reduced to nil for the next three years, subject to a satisfactory outcome from the above mentioned discussions and a consequential response from the Minister for Finance and Administration.

7. Segment Information

(a) Industry Segment

The Telstra Group operates predominantly in the telecommunications industry which comprises more than 90 per cent of total consolidated operating revenue, operating profit before income tax expense and net assets.

(b) Geographical Segment

The Telstra Group operates predominantly in Australia and is therefore one geographical area for reporting purposes. Overseas business operations do not form a material component of the consolidated operations.

Statement by Directors

In accordance with a resolution of the Directors of Telstra Corporation Limited and on behalf of the Directors: The accompanying Profit and Loss Account and Statement of Cash Flows for the year ended 30 June 1998 and the Balance Sheet as at 30 June 1998 and the accompanying notes (given on pages 29, 31 and 33 to 37) are, in our opinion, fairly presented as an abbreviation of the full financial statements and notes for the year ended 30 June 1998.

The full financial statements are reported on by the Directors, who have stated that, in their opinion :

a) the said Profit and Loss Account for the year ended 30 June 1998 and the Balance Sheet as at 30 June 1998 of Telstra Corporation Limited are drawn up so as to give a true and fair view of the profit of the Company for the financial year and the state of affairs of the Company as at the end of the financial year;
b) at the date of this statement, there are reasonable grounds to believe that the Telstra Entity will be able to pay its debts as and when they fall due; and
c) the consolidated financial statements of the Telstra Group have been made out in accordance with Divisions 4A and 4B of Part 3.6 of the Corporations Law and give a true and fair view of the matters with which they deal.

The full financial statements and notes are accompanied by an independent audit report furnished by the Company's auditor, the Auditor-General, and the report is unqualified. The full financial statements are contained in the separate report titled "Annual Report 1998" and is available from Telstra, free of charge, upon request by phoning 1800 131 234. Copies of both this report, "Annual Review 1998" and the detailed "Annual Report 1998" are also available on the Internet on http://www.investor.telstra.com.au

David M. Hoare
Director

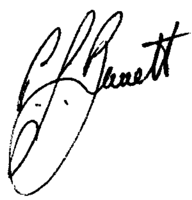
W. Frank Blount
Director
Dated: 26 August 1998

Independent Audit Report

To the members of Telstra Corporation Limited.

I have audited the short form financial statements of Telstra Corporation Limited (the Telstra Entity) and the consolidated financial statements comprising the Telstra Entity and the entities it controlled at the end of or during the financial year (the Telstra Group) for the year ended 30 June 1998 as set out on pages 29, 31 and 33 to 38. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards.

In my opinion, the information reported in the short form financial statements is consistent with the full financial statements from which they are derived and upon which I expressed an unqualified audit opinion in my report to the members dated 26 August 1998. For a better understanding of the financial position of the Telstra Entity and the Telstra Group and the results of their operations for the year ended 30 June 1998 and the scope of my audit, this report should be read in conjunction with the full financial statements and my audit report on those financial statements.



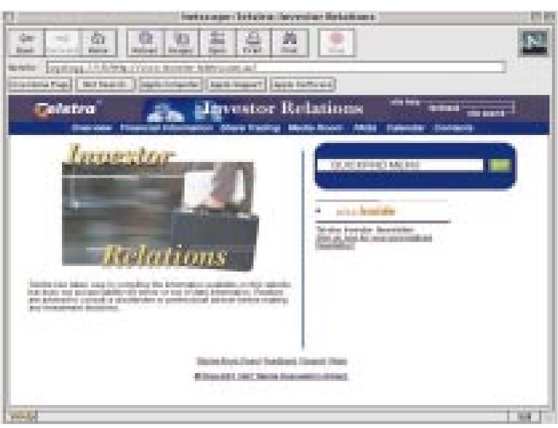
PJ Barrett
Auditor-General

26 August 1998
Melbourne

How can I find out more about my investment?

"Ask for the Annual Report or look on the Internet"

If you wish to also receive a copy of the full Annual Report, with complete details of the performance for 1997-98, simply call 1800 131 234 or access it on the Internet at http://www.investor.telstra.com.au



Products and services

If you require further information about any Telstra products and services, please call 132200 for residential and 132000 for small business.

Annual General Meeting

Telstra's Annual General Meeting will be held at 1.30pm Melbourne Time on Friday 6 November 1998, at Melbourne Park, Batman Avenue, Melbourne.

Details of the business of the meeting are available in the separate Notice of Meeting enclosed with this review. A map is provided in the pack to show you exactly where to attend and where to park.

Change of address

It is important that you let us know in writing if there is any change to your registered address. For your protection, instructions to Telstra's Instalment Receipt Registrar needs to be in writing and to show your shareholder reference number (SRN).

Enquiries

If you want to contact Telstra on any matter relating to your instalment receipt holdings, you are invited to telephone the appropriate office listed opposite.

How to contact Telstra

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
Level 41
242 Exhibition Street
Melbourne Victoria 3000
Australia
Company Secretary
Michael Montalto
Ph: (03) 9634 6400

Principal Australian Offices
231 Elizabeth Street
Sydney NSW 2000

242 Exhibition Street
Melbourne Victoria 3000

Investor Relations Unit
Level 36
242 Exhibition Street
Melbourne Victoria 3000
Australia

The Telstra Share/Instalment Receipt Registrar
Perpetual Registrars Limited
Securities Registration Services
PO Box 14300
Melbourne City MC
Victoria 8001
Australia: Freecall™ 1800 06 60 08
Rest of the world: (613) 9205 4999
Facsimile: (613) 9633 3295

Annual Report Hotline
To receive further copies of the Annual Review or copies of the detailed Annual Report, please call Freecall™ 1800 13 12 34.

Website
This Review and the Annual Report can also be found via Telstra's Investor Relations home page at http://www.investor.telstra.com.au

Financial Calendar 1998-99

Half-year end	31 December 1998
Half-year result announced	11 March 1999
Ex-dividend share trading starts	22 March 1999
Record date for interim dividend	26 March 1999
Interim dividend paid	30 April 1999
Full-year end	30 June 1999
Annual result announced	26 August 1999
Ex-dividend share trading starts	20 September 1999
Record date for final dividend	24 September 1999
Final dividend paid	29 October 1999
Annual General Meeting	12 November 1999

Note: Timing of events can be subject to change.

Designed and produced by Horniak & Canny, Sydney and Melbourne