

**New ideas, new services and  
new opportunities.**

# Telstra Annual Review 2002

Welcome to Telstra's Annual Review 2002.

The Annual Review is a 'short form' overview.

It is designed to provide you with a concise summary of Telstra's activities and financial position for the year ended 30 June 2002.

The Annual Review does not represent or summarise all publicly available information about Telstra. There is other publicly available information from 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 1300 88 66 77\*.

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

\*Local call fee applies.

## **investor information**

### **Annual General Meeting**

Telstra's 2002 Annual General Meeting

will be held on Friday 15 November at the Melbourne Exhibition and Convention Centre. Your Notice of Meeting contains details about the location and meeting time.

### **Dividend Payment**

A final 100% franked dividend of 11 cents per share will be paid on 28 October 2002 to shareholders registered on the Telstra Share Register on Friday 20 September 2002.

### **Financial Calendar 2003**

Ex-dividend share trading starts 17 March

Record date for interim dividend 21 March

Interim dividend paid 30 April

Ex-dividend share trading starts 22 September

Record date for final dividend 26 September

Final dividend paid 31 October

Annual General Meeting 14 November

Note: Timing of events may be subject to change

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## **financial highlights**

### **sales revenue**

Increased 8.1% to \$20,196m with strong revenue growth derived from mobile services (\$336m) and fixed to mobile calls (\$132m).

### **net profit after minorities**

Reported net profit after minorities for the 2002 fiscal year declined 9.8% to \$3,661m. This was mainly due to a number of one off events that increased the profit in the prior year.

### **dividend per share**

Total dividends for the year increased 15.8% from 19 cents per share to 22 cents per share. The increase results in a payout ratio of dividends to net profit of 77.3%.

## From our Chairman and CEO

Dear shareholders,

In a global telecommunications industry still restructuring after the excitement and excesses of the dotcom boom and high tech correction, the companies that have emerged strongest are those which have pursued coherent, consistent strategies, made thoughtful long term decisions, and maintained strong balance sheets by avoiding excessive levels of indebtedness.

**Telstra is one such company.**

In the community of telecommunications companies, Telstra's position is a special one. We have demonstrated the success of our full service, integrated business model where customers are increasingly well served through a single point of contact for all their communications needs.

a solid result in a challenging year

	2002	2001	Change
	\$m	\$m	%
Sales revenue	20,196	18,679	8.1
Total revenue	20,802	22,983	(9.5)
Total expenses*	11,319	13,149	(13.9)
Profit before income tax expense	5,446	6,297	(13.5)
Income tax expense	1,796	2,236	(19.7)
Net profit after minorities	3,661	4,058	(9.8)
Free cash flow	3,840	229	N/M
Earnings per share	28.5¢	31.5¢	(9.5)
Total dividends per share	22.0¢	19.0¢	15.8
Return on average assets	17.8%	21.9%	(4.1)
Full time staff and equivalents**	44,977	48,317	(6.9)

\* Includes equity accounted losses, but before depreciation, amortisation and borrowing costs

\*\* Includes all domestic and offshore employees, including controlled entities

We have ended the year with improved processes, record service levels, stable market shares, expanded margins, and well positioned to benefit from an industry upturn, whenever it arrives.

Telstra has a strong cash position. We were aiming for strong growth in free cash flow and we got it - excluding our Asian ventures in 2001, it grew nearly 36% to \$3.8 billion. Cash gives us options, choice and flexibility. Our positive cash position supports our balance sheet settings, reinvestment in our core network, investing in broadband and wireless data growth, and reduction in our gross debt. This year, we produced a strong result in a subdued market. It's what we expected. And it's about delivering what we set out to do. Your directors have declared a final ordinary dividend of 11 cents per share, 100% franked. This takes dividends relating to the year to 22 cents per share - with a total payment to our 1.9 million shareholders of \$2.8 billion, up 15.8% on last year.

#### Revenue drivers

Telstra has diverse income streams with no single revenue stream accounting for more than 15% of total revenue. There are three revenue streams that account for 43% of revenue, these are basic access 13%, data and internet 15% and mobile services 15%.

Over the year, Telstra's sales revenue increased by \$1,517 million, or 8.1%. Revenue from mobile services, fixed to mobile and new wireless data products were the three main drivers of this growth.

We have taken the reported results and adjusted for the one off items that have occurred in both fiscal 2002 and fiscal 2001 so that a like for like comparison of results may be made. On this underlying basis our EBITDA grew 5.8%, to \$9.6 billion, and the associated margin grew slightly to 51.0%. EBIT grew by 5.0% to \$6.7 billion and underlying net profit after minorities grew strongly, up 11.5% to \$4.1 billion.

**Process improvement**

Our focus on process improvement and cost control across all business units has enabled underlying operating expenses (and equity accounting losses before depreciation, amortisation and borrowing costs) to reduce again. This has resulted in a reduction of 2% to \$9.5 billion.

While Telstra's overarching objective on cost control is to drive shareholder value, we also intend to:

- create the financial room to increase investments in key areas;
- bring further discipline to our relationships with all our providers;
- drive out waste and bureaucracy from our processes; and
- focus our resources on the genuinely strategic, customer focused and value enhancing activities.

### **Full service model**

Changes in customer demand are rebalancing our revenue streams.

Customers are telling us they want internet, particularly broadband. They want mobiles and more wireless data services.

Because we are a full service telecommunications company we are able to provide a breadth of services to our customers, from consumers to corporates, unmatched by our competitors.

Our newer or non-traditional businesses such as broadband and mobiles now account for 61% of sales - this figure was 41% five years ago. These businesses have higher growth prospects and will form the platform for our future growth.

Free cash flow (FCF)

After adjusting for the \$2.6 billion associated with the acquisition of our Asian investments in fiscal 2001, FCF increased 35.5% to \$3.8 billion. This strong growth has been a result of tight control of operating and capital expenditure and improved working capital management.

Our traditional telco businesses such as ordinary telephone services are maturing and now account for 39% of sales. Just five years ago, they accounted for 59%. While these businesses have a low growth trajectory, they are the foundation of our solid and reliable cash flow, and economic returns can be continuously improved as costs are reduced.

### **Mobiles**

Telstra's mobiles business performed strongly with underlying double-digit revenue growth of 10.3% for the full year.

Our mobiles business generated \$3.2 billion in revenue and our fixed to mobiles business generated \$1.4 billion. While the rate of growth we have experienced is slowing, there are still opportunities for revenue growth through:

- encouraging customers to make more and longer calls;
- further increasing SMS usage;
- further growing services such as picture messaging and wireless applications; and
- attracting new customers in the prepaid market.

### **Broadband**

Broadband, a key growth focus for Telstra, is really starting to take off in Australia. Broadband subscribers grew 115% over the year to 168,000 subscribers - 40,000 in the last quarter alone - and we expect this to build. Total online subscribers were up 32% to 1.276 million.

The platform reliability is improving and mass-market promotion is working. More than 5,000 customers a week are asking for our broadband service and we are on track to meet our target of one million subscribers in 2005, which means nearly one billion dollars in annual revenue the following calendar year.

Earnings per share: Earnings per share decreased from 31.5 cents per share in fiscal 2001 to 28.5 cents per share in the 2002 year.

Total assets: Total assets increased marginally to \$37,597m, which is an increase of 0.3% from the previous year.

### **International**

Internationally there have been a number of positive developments during the year. In June 2002, Telstra acquired the remaining 40% in Hong Kong CSL Limited (CSL), Hong Kong's premium mobile carrier, giving us 100% control and flexibility through full ownership. In New Zealand, our subsidiary, now known as TelstraClear Limited (TelstraClear), completed the purchase of CLEAR Communications Limited (CLEAR) in December 2001, making TelstraClear the second largest wireline telecommunications company in New Zealand.

The results of our international joint venture (JV) connectivity company, Reach Ltd (REACH) were adversely affected by the aggressive pricing competition in Asia. However, the acquisition of Level 3 Communications, Inc. (Level 3) Asian assets during the first half of the year, has strengthened Reach's capabilities and competitiveness in the region and further accelerated its entry into new markets such as Taiwan and Korea.

### **Other highlights**

There were many highlights over the year - and the following is by no means exhaustive.

The retail group continued to perform strongly across a range of metrics. Market shares stabilised as churn was reduced. Attractive product packages are meeting the

needs of an increasing number of customers. Timely rebalancing of prices continued the strategic alignment of tariffs with costs.

Telstra Country Wide (TCW) with its three million customers across Australia maintained its momentum throughout the year. The establishment of TCW as a separate business entity within Telstra, to focus on the communications needs of regional, rural and remote Australia, has been one of the most successful and best strategic decisions we have made.

On the wholesale front, we continue to serve more than 100 customers and competitors with our networks, which are as open as any comparable networks in the world. Legal disputation and litigation are now a thing of the past.

Our wholesale customers can now deliver broadband to their customers from the Telstra network, stimulating competition and consumer choice.

On FOXTEL, we are hoping to see a positive restructuring of the pay TV industry in Australia subject to regulatory approval. We announced a number of initiatives in relation to digitisation of the cable network, content sharing and access regimes, which we believe address competition issues.

## Telstra Annual Review 2002

Our vision: To be a world-class full-service integrated telecommunications company helping Australian and Asia-Pacific customers and communities prosper through their access to innovative communications services and multimedia products.

Our values:

- Service
- Respect for the Individual
- Integrity
- Commitment and Accountability
- Trust
- Leadership and Teamwork

### **Governance**

Telstra is subject to probably more scrutiny than any other Australian company - and we are committed to the highest standards of corporate governance and transparency. We can reaffirm that your Telstra board prides itself on its professionalism, commerciality and independence; and its governance and processes both internal and external.

We have made important changes to executives' remuneration. We decided to suspend further issues of executive options and replaced them with a deferred remuneration plan, a more transparent and readily costed scheme to ensure alignment with executive interests and those of shareholders.

### **Conclusion**

Looking to the new financial year, we expect that:

- Telstra will continue to drive service performance and customer satisfaction to higher levels across the nation;
- capital spending will remain disciplined;
- cash flows will continue to be strong; and
- broadband uptake will accelerate across all our platforms.

In terms of the financial settings, ongoing service improvements, continued technology leadership and, importantly, the everyday values that guide all our people in working with customers to achieve the best solutions, Telstra is on strategy and on target.

Robert Mansfield  
Chairman

Ziggy Switkowski  
Chief Executive Officer and Managing Director

## understanding telecommunications – a global perspective

Telecommunications is a dynamic industry sector and rapidly expanding beyond traditional transmission of voice. Where fixed line voice telephone communication was once the primary service of the industry, the mobile transmission of voice, data, graphics and video is now more commonplace.

To help you better understand our industry, we are providing information about the global telecommunications sector.

### Telco market details

The global market:

- consists of over 200 companies
- has a combined market capitalisation of approximately US\$1.4 trillion
- is dominated by wireless, which accounts for approximately 60% of total value
- Few telecommunications companies have a true global presence.
- Most operators are national or regional operators.
- Despite years of competition, most of the 20 largest telecom operators are well established with the following fundamental strengths:
  - Large financial resources;
  - Established and growing product suites;
  - Large client base; and
  - Extensive infrastructure.

Telstra through its JV with Reach, has a presence in 230 countries

### Types of telcos

There are 3 main types of major telcos in developed countries:

	No. companies
wireline	137
wireless	77
integrated	17

Source: Ovum

- Wireline networks use wires and cables to connect customers premises to central exchanges maintained by telecommunications companies.
- The telephone is still the dominant form of communication.
- Wireless devices operate through the transmission of signals over networks of radio towers.
- Integrated companies offer both wireless and wireline services.

Telstra is a fully integrated service provider

### Top 20 telcos

- Market capitalisation is the number of shares multiplied by the share price
- Market capitalisation is one method of measuring a company's value

Market Capitalisation (approx.) at 30/06/02

Telco Company	A\$bn
NTT Docomo Inc	220.08
Verizon Communications Inc	194.34
SBC Communications Inc	181.09
Vodafone Group	166.60
NTT Corporation	118.26
Bellsouth Corp	104.96
China Mobile Ltd/HK	99.19
Telecom Italia SpA	92.94
Telefonica SA	72.84
AT&T Corp	72.82
Deutsche Telekom AG	70.26
TIM SpA	62.19
<b>Telstra Corp Ltd</b>	<b>59.96</b>
BT Group PLC	59.57
Telefonica Moviles SA	44.76
Orange SA	39.56
SK Telecom	35.56
SwissCom AG	34.40
AT&T Wireless Services	28.14

Singapore Telecommunications	24.57
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Telstra's market capitalisation is approx. \$60 billion

**Evolution of telecommunications**

Wireless		Landline
	1876	Alexander Graham Bell awarded US patent for telephone
	1956	59 million telephones in the US
First commercial cellular Radio System Developed by Bell System, for use by train travellers	1969	US Department of Defence investigates a Qnetworking tool that is to become the internet
Dr Martin Cooper sets up the first working prototype of cellular technology in New York	1973	World's first international video conference link was set up between London and Sydney
First commercial mobile phone user signed up in the US	1983	The internet continues to grow, server names are created for easier use
GSM mobile technology agreed to be rolled out through Europe	1987	ISDN trials begin in US
US roll out of Digital Mobile phones on a GSM network	1994	609 million telephone subscribers worldwide
25 million mobile subscribers in the US	1995	30 million people have used the internet worldwide
Over 800 million mobile phone users worldwide	2001	513 million users are on the internet worldwide
New Mobile Technologies include GPRS, and potentially 3G GSM and CDMA 2000 1x	2002	Broadband internet allowing faster access for users

**Telco strengths**

- Vast network with ever expanding reach
- Investment in research and development (R&D) encouraging innovation
- New services helping to simplify our lives
- Telecommunications infrastructure is increasingly enabling customers to communicate anywhere, anytime regardless of their locality.
- Telstra has dedicated research laboratories exploring the viability of new technologies.
- New technologies introduced to enhance our personal and work lives.

Everyone, everywhere, needs to communicate everyday

**Challenges facing the industry**

- Cash flow and debt levels - cost containment the focus
- Rate of introduction of new technologies
- Industry consolidation
- Differentiation of products and services
- Lower growth in mature products
- Many telcos around the world have taken on too much debt. By contrast Telstra has a strong balance sheet.
- Telcos need to carefully manage the migration of customers to new technologies.
- Over capacity and competition between telcos is putting prices under pressure.
- Telcos need to differentiate and capitalise on competitive advantages.

Many telco bankruptcies declared in 2002

**Where to now?**

- The industry is progressing towards an era of high-speed communications
- Wireless data and broadband internet will drive growth going forward
- The next wave of wireless growth is expected to come from high-speed data (e.g., using a personal computer with a wireless connection to the internet).
- Internet growth is anticipated to come from high-speed broadband connections.
- Applications and content for these high speed platforms will be increasingly demanded by customers.

approx. 845 million internet users worldwide



**Telstra. One Company. One Team. One Brand. Many Customers.**

Telstra is Australasia's leading integrated telecommunications company - a strong company with diverse revenue streams and a solid balance sheet.

We are expanding our presence in the Asia-Pacific region, with a current focus on opportunities in wireless, data and internet.

**Telstra facts**

- Assets of \$37.6 billion
- Capital expenditure for fiscal 2002 of \$3.6 billion
- Employs over 40,000 staff

**Telstra's strengths**

- Leading position in mobiles, data and internet
- Strong brand recognition
- Strong cash flow and dividend growth
- Largest international carrier of voice and data in Asia
- Telstra continues to lead the market in mobiles, data and internet communication.
- Cost reduction initiatives have resulted in Telstra's expenses falling 13.3% in 2002.
- The Telstra brand name is one of the most recognisable in the Australian market.
- Due to a stable financial position, Telstra's credit rating is one of the highest of any Telco in the world.
- Our investments in Asia have provided us with a platform for regional growth.

Financially solid with a stable AA- credit rating

**Where we earn revenue**

- Total revenue of \$20.8 billion
- Diverse, with no revenue stream accounting for more than 17% of total revenue
- Significant revenue growth came from directories and basic access

**Revenues from**

	growth %	\$m
Various controlled entities - other	1,839	68.7
Basic access	2,734	50.1
Directories	1,169	24.0
Solutions management	352	15.0
Mobile services	3,242	11.6
Fixed to mobile	1,419	10.3
	\$m	decline %
International	409	(48.0)
NDC controlled entity	162	(37.5)
Inbound calling	348	(19.8)
Local calls	1,947	(9.1)
National long distance	1,168	(7.8)
Payphones	154	(7.2)

### **Regulatory environment**

- Consumers benefit from regulations which set service standards and guaranteed access to important services
- ACCC has additional power to regulate competition in the telecommunications industry
- Consumer regulations exist to guarantee a high level of service to all Australians.
- These regulations require Telstra to provide standard telephone services throughout Australia, repair faults and supply new services within short timeframes, and contain price increases within strict limits. They also assure special additional services like payphones and 000 access to emergency services.
- Telstra supports these consumer regulations, because they highlight our continuing commitment to all Australians.
- In addition, the ACCC has strong powers to regulate the way Telstra and other companies compete with one another. Telstra supports strong competition laws, but we believe they should be matched by improved standards of regulator accountability and transparency.
- Universal service obligations, consumer regulations and competition laws together cost Telstra more than \$1 billion every year.

### **Revenue trends**

- Telstra's revenues are moving from the traditional to non-traditional
- Traditional revenues have lower growth but strong cash flow
- Non-traditional revenues have higher growth
- A key driver of revenue growth has been mobiles. Increasing market share and minutes of use have driven this growth. Looking forward, mobile data and Broadband is seen to be a key growth area.

### **Investor interest**

- Dividend reinvestment plan
- Foreign ownership is limited to 35% of non-government holding
- Government ownership
- The Telstra Corporation Act precludes any reduction in the Commonwealth Government stake in Telstra, thus limiting the introduction of a dividend reinvestment plan (DRP). Telstra will consider the merits of a DRP in the event that the company is fully privatised.
- The Telstra Corporation Act restricts foreign ownership to 35% of the non-Commonwealth owned shares. Individual foreign ownership is limited to 5%.
- Telstra's Board is supportive of the Government's policy to fully privatise Telstra.

**retail**

- Voice - Land line telephony
- Data - Digital transfer of information
- Broadband - High-speed internet connections

Our domestic retail business is divided into three strategic business units - Telstra Retail, Telstra Mobile and Telstra Country Wide. Telstra Retail's primary activities are sales, marketing, products, service innovation, customer care and billing.

**Voice Features** To enhance dialling services we have launched an initiative to educate our customers on how to use existing and new phone features so that they never miss a call. Improving the usability of features stimulates call completion and provides a value added service to our customers.

**Data** We have shown sustained growth in new or non-traditional data services such as Frame Relay, ATM and IP Solutions utilised by our business customers. This has been achieved by better articulation of non-price differentiators, including features and functions, scalability, reliability, breadth of offering and benefit to the customer's business, as well as effective management of the transition from traditional services to new data services within Telstra's networks.

**Broadband** Increasingly, Australians are discovering the power of broadband to unlock the true potential of the internet. Broadband is a significant growth area for Telstra. Three delivery technologies - cable, satellite and phone line - give all Australian homes and businesses access to high-speed, convenient internet services. Our rollout of ADSL, which converts the ordinary telephone line into a high-speed digital internet access line, continued with more than 800 exchanges enabled at the end of June 2002. Our new two-way internet via satellite service provides people in rural and remote areas with high-speed information uploads and downloads. We have made high-speed internet access costs more affordable and equitable, introducing new plans for dial-up and ADSL and cable broadband customers that include new low entry prices; and offering a range of options tailored to the customers' needs. During the year, Telstra launched the Telstra Broadband Fund to provide cash and bandwidth grants to stimulate and fast-track the development of new and innovative broadband applications, tools and technologies, in order to attract Australian businesses and consumers to broadband.

**Customer Service** During the year, Telstra Retail has maintained a stable market share in a competitive environment due to strategies to increase customer retention. Some of the initiatives, which have led to this success, include:

- Improved bill presentation and online billing, resulting in a simpler, short and to the point Telstra bill with the flexibility for the customer to tailor the layout of their bill;
- Using technology such as Interactive Voice Response (IVR) and voice portal to facilitate the processing of customer queries in a timely and responsive manner; and
- Development of a Customer Relationship Management (CRM) system to broaden our understanding of our relationships with customers through better tracking of customer information.

**Packaging** Telstra is leading the way in offering an integrated fixed, mobile and internet package supported by a full service single bill. This gives Telstra a unique value proposition. Subject to regulatory approval, we anticipate that we will be able to also offer FOXTEL packages in the near future.

Telstra's strategic focus: Telstra Retail's primary activities are sales, marketing, products, service innovation, customer care and billing.

Broadband is helping students to study efficiently, any device, anywhere, anytime.

Did you know Telstra has:

- Around 130,000 customer service enquiries per day
- More than 9 million business and residential lines in operation

With the advent of ADSL, the entire family can access information whether it be for investments or school projects, via a high-speed connection without disabling the home phone line.

Performance indicators

	June 2002	June 2001	% Change
Local calls	10,799,000,0	11,198,000,0	(3.6 )

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	00	00	
National long distance minutes	8,946,000,00 0	8,833,000,00 0	1.3
Fixed-to-mobile minutes	3,691,000,00 0	3,268,000,00 0	12.9
International outgoing minutes	819,000,000	739,000,000	10.8
Calling number display customers	897,000	785,000	14.3
Fixed line MessageBank® customers	1,448,000	1,414,000	2.4

## retail

### mobiles

- Coverage - reaches more than 1 million square kilometres
- Reliability - very low call drop out rate averaging 1.35% (on GSM)

Wireless environment at work: making a difference in today's office. Wireless devices allow convenience, simplicity, coverage and reliability.

This executive prefers a rich Multi-Media Messaging (MMS) customer experience with colour screen and ring tone that plays more than one musical note at a time.

Telstra customers will have exclusive access to 'The Blackberry', Australia's first always on wireless email solution, which features built in email, phone, SMS and organiser applications.

This salesman has just paid for parking using his Telstra mobile phone and will be sent an SMS reminder message 10 minutes before the meter expires.

Did you know Telstra has:

- Australia's two largest digital cellular networks
- 97.5% of Australia's population covered by CDMA
- 95.3% of the population covered by GSM

Telstra's strategic focus: Telstra Mobile is responsible for our mobile and wireless networks and associated systems within Australia.

Telstra Mobile is responsible for our mobile and wireless networks. We are investing in mobile technology that makes a real difference to the lives of customers who want convenience, simplicity, coverage and reliability. Telstra Mobile is responsible for marketing, sales and after sales support, customer service, product development and pricing.

**Growth and Leadership** Telstra has delivered double digit mobile revenue growth with stable market share and low customer churn rates, even though Mobile Number Portability (MNP) was introduced. Telstra demonstrated leadership in the mobile industry initiating the move away from handset subsidies, introducing loyalty-based reward offerings.

**CDMA** Telstra's digital CDMA network is more than twice the size of any other cellular network in Australia and is one of the largest in terms of geographic coverage in the world. Digital CDMA growth is strong and stable with close to 600,000 customers, and significant growth expected in coming years.

**Data** Telstra remains focused on delivering high speed data applications to our customers on mobile phones. Improvements in messaging, entertainment, information services, transactions and location services will be the five areas of growth that drive the mobile communications market. Telstra experienced significant growth in text messaging, SMS based games and WAP (Wireless Application Protocol) services, including e-mail, chat, games, sport and travel information. For the June quarter 2002, average SMS penetration was 34.8%, compared to 30.7% in the June quarter the previous year. There are 630,000 more active SMS users than last year - a growth rate of 67.0%.

**M-commerce** Trials being conducted by Telstra enable users to buy a Coke from a vending machine or pay a parking meter via their mobile phone.

**Next Generation Technology** In March, Telstra used Alcatel technology to make the first next generation call in the Southern Hemisphere. The state-of-the-art technology can accommodate a wide range of applications such as mobile internet access and personal videoconferencing. It is a step towards streaming colour videos over a mobile phone. Telstra is striving to ensure life is more simple and enjoyable for our consumers whilst enhancing productivity for our business customers.

**Wireless Office** Telstra successfully trialed its Wireless Office and began marketing this innovative mobile solution to companies across Australia. The solution enables employees to use a mobile phone for both on-site cordless calling and off-site mobile calls. This is made possible by integrating GSM mobile phone handsets with private fixed line telephone networks.

more than 5.9million mobile services in operation up >14%

more than 1 billion SMS messages sent by Telstra customers

**Performance indicators**

	June 2002	June 2001	% Change
Mobile telephone minutes	5,780,000,000	5,277,000,000	9.5
Mobile services in operation			
Digital - GSM	5,346,000	4,712,000	13.5
Digital - CDMA	596,000	464,000	28.4
Total	5,942,000	5,176,000	14.8
Mobile MessageBank® penetration	85.0%	82.0%	3.0

## retail

### regional, rural & remote

Toyota dealership Bell and Moir knows all about the importance of keeping people on the move - whether customers or staff. The Telstra Mobile Satellite enables their staff working in regional, rural and remote Queensland to keep in touch anytime, anywhere.

Telstra's strategic focus: regional, rural & remote: Telstra Country Wide, is responsible for providing telecommunication services to customers in regional, rural and remote parts of Australia.

Telstra two-way satellites now allow the BigPond™ user to upload as well as download at higher connection speeds.

Did you know Telstra has:

- A board of regional experts to advise Telstra Country Wide
- An online community portal product
- An internet based weather information service called Premium Weather™

Telstra Country Wide (TCW) is responsible for providing telecommunications services to customers in regional, rural and remote parts of Australia.

Over the year, we made great progress in delivering wider mobile coverage, better internet access and improved service to our customers through the efforts of TCW's 28 Area General Managers and their teams from 34 offices across the country, and these efforts continue.

**Mobility** Telstra's digital CDMA network continued to expand. A further 187 towns across Australia are set to receive new or improved mobile coverage following Telstra's successful tender for the Commonwealth Government's project to provide mobile coverage to towns with smaller populations. Also, TCW continued its involvement with communities in applying for funding support for the Networking the Nation initiative to provide improved mobile phone coverage through the expansion of the mobile phone network.

New mobile products and services launched included a long-range cordless phone, particularly suitable on farms; and a handheld mobile satellite phone providing 100% coverage of the globe. It features special pricing within the Australian Economic Zone, which includes external territories and extends approximately 200 nautical miles offshore.

**Internet** The availability and affordability of the BigPond™ broadband range of technologies was improved. ADSL was rolled out to around 260 regional exchanges and two-way satellite services to access the internet were made available nationally.

**Remote Australia** Delivery of services under the Federal Government's \$150 million untimed local call project continued on schedule. Since 31 July 2001, Extended Zone customers, around 28,000 customers living in the most remote parts of the country, have enjoyed untimed calls within their zones and to adjacent zones.

**Customer contact** TCW launched five Telstra Country Shops, and in smaller towns expanded our network of authorised agents to 233, to provide country people face-to-face access to Telstra's sales and service options.

**Taskforce** A Regional Networks Taskforce with an investment value of \$187 million for 2002/03 was established to improve the reliability of rural telephone services.

**Community partnerships** TCW undertook a range of community activities, including community visitation programs, education forums, 250 field days and business expos.

The Telstra Country Shop in Horsham, Victoria is one of five launched during the year.

### Performance indicators

	June 2002	June 2001	% Change
Telstra Country Shops	5	0	N/M
Face of Telstra agents	233	202	15.4
Rural exchange upgrade program (completed)	1,290	368	250.5
ADSL-enabled regional exchanges	252	101	149.5

## infrastructure services

- Infrastructure Services - maintaining the network to optimum efficiency

Did you know Telstra has:

- 3.1 million km of telecommunications fibre
- Around 30 million calls across the network every day

Infrastructure Services is responsible for research and development, planning, design, construction and operation of our communications networks and our associated systems that deliver technology solutions, our products, services and customer support. It also has responsibility for customer service installation and repairs.

**Network upgrade** Infrastructure Services is playing a leading role in Telstra's plans to meet customers' future needs centred increasingly around data, internet and online services, as well as voice. In October 2001, Telstra announced plans to increase capacity on its 14,000 kilometre intercapital optical cable network by increasing network speed four-fold to 10 gigabits per second.

**Broadband** Telstra continues to enhance the level of service it delivers to current and future ADSL customers. To this end, Infrastructure Services is focused on two core areas of service level improvement:

- Maintenance and upgrade of software and IP switching technology; and
- Improvement of capacity and redundancy of the network.

In April, Telstra and Microsoft announced a trial of phone calls over the internet - enabling Australian users of certain Microsoft software to make voice calls on their PCs to virtually any telephone in the world.

The Launceston-based Broadband e-Lab (B-eLab), a joint initiative between Telstra and the Commonwealth Government, continued to explore the future of broadband internet, providing residents and business people of Launceston with the opportunity to participate in trials of innovative, online applications and services ahead of anyone else.

**Service delivery** The Australian Communications Authority (ACA) reports have continued to show that Telstra is achieving its best rate of fault repairs in three years and the level of service for new connections has improved.

**Interactive TV** As well as enabling more programs in the same spectrum, digital TV is an opportunity to introduce new interactive TV services. Telstra Research Laboratories (TRL) is researching how in the future Telstra can enable access to all its online services and content from a range of devices, including computers, TVs and mobile devices.

## Wholesale

- Telstra Wholesale - delivering innovative communications solutions as well as network capacity to other telecommunications companies

**Telstra Wholesale** offers a range of products tailored for the wholesale market, as well as reselling retail products to the wholesale market.

Telstra currently manages more than 100 wholesale customers. The development of an enhanced ADSL product suite and competitive pricing is generating strong demand for this wholesale broadband product.

110,000 installations per month

Evaluating radio frequency emissions for compliance with human exposure safety standards.

This communication technician arrives on-site after downloading his work ticket. The Pocket PC also allows him to access cable records, cable plans and perform diagnostic line testing.

## Basic access lines in service

	June 2002	June 2001	% Change
Residential	6,350,000	6,290,000	1.0
Business	2,390,000	2,470,000	(3.2)
Total retail customers	8,740,000	8,760,000	(0.2)
Domestic wholesale	1,270,000	1,300,000	(2.3)
Total basic access lines in service	10,010,000	10,060,000	(0.5)

## applications

- Directories - Providing contact information
- Pay TV - Cable TV offering many specialised TV programs
- Website hub - Libraries of content to enrich the internet experience

The online environment is revolutionising access and the delivery and marketing of a range of information, communication and entertainment services.

**Sensis** On 19 August 2002, our subsidiary Pacific Access

Pty Ltd, known for Yellow Pages® and White Pages® products, was rebranded Sensis Pty Ltd (Sensis). Sensis™ reflects the company's essence of keeping people in touch. Throughout the year, Sensis teamed with Shell to install touch screen navigation systems in 300 Shell outlets in Victoria, NSW, the ACT and Queensland. Drivers access the Whereis™ mapping and navigation database for driving directions from the service station to their required location.

Sensis acquired the online city guide business CitySearch in May 2002. The move doubled Sensis' online paying customer base to around 20,000. Sensis also acquired the online advertising assets of specialist digital services group BMC Media Limited.

**FOXTEL** Telstra and FOXTEL, our 50%-owned pay TV provider, announced an agreement to enable customers to bundle FOXTEL's subscription TV with telephone and internet services on a single Telstra bill. This agreement remains subject to regulatory approval.

**telstra.com®** In March 2000, we announced the availability of our online communications hub, telstra.com®. Within six months the site was attracting almost 2.5 million visits per month, growing to more than five million visits per month by June 2002. telstra.com® continues to provide new and innovative online services for customers. A partnership between the Australian Football League (AFL), Telstra and AFL clubs offers a totally integrated online and wireless AFL experience, opening up new ways for people to experience football and communicate with their clubs through the AFL website.

**Broadband** Telstra now offers a world-class self-installation kit for ADSL customers. Self-install is already approaching 42% of all ADSL installations, as it is a significantly cheaper and more convenient installation alternative. The ADSL service level guarantees demonstrate that Telstra stands behind its ADSL network availability.

Over 850,000 directory assistance calls per day

Online content such as White Pages® Online site, Yellow Pages® Online site, Whereis™ and much more means one central location for many needs.

Did you know Telstra has:

- Received 600,000 hits to White Pages® Online site and 190,000 to Yellow Pages® Online site per day
- 184,000 unique visitors to telstra.com® each week
- More than 800 exchanges currently enabled with ADSL

For the dedicated footy fan, FOXTEL covers every game of every round of the AFL and the NRL.

## Service indicators

	June 2002	June 2001	% Change
Narrowband subscribers	1,108,000	890,000	24.5
Broadband subscribers	168,000	78,000	115.4
Total online customers	1,276,000	968,000	31.8
Pay TV services in operation	800,000	744,000	7.5

## **international**

- Reach - International connectivity
- CSL - Hong Kong mobiles
- TelstraClear - No. 2 in New Zealand
- China - New relationships

The Hong Kong market is one of the most advanced in Asia. Asia offers tremendous potential for growth to Telstra.

The latest in mobile data technology, Multimedia Messaging Service (MMS) allows mobile phone users to send colour photos, audio and text through their handsets.

Did you know Telstra has:

- Through CSL, the most profitable mobiles business in Hong Kong
- Through Reach, access to 160,000km of submarine cable
- Through TelstraClear, 300,000 customers in New Zealand

Telstra International manages our international interests and our offshore growth strategy.

**Growth** With Australia's relatively small population, it makes sense for Telstra to pursue growth opportunities in offshore markets. Telstra has controlled entities in locations such as New Zealand and operations globally through our Reach joint venture with PCCW. The Asia-Pacific region offers growth because:

- It is our closest market;
- Australians are well regarded in Asia;
- It complements the Asian push from the Australian Government;
- Asia has greater growth potential than most other regions (China has a mobile penetration rate of just 5%, and Telstra is in a good position to evaluate opportunities); and
- Telstra is in a solid financial position and can buy assets opportunistically.

**Acquisitions** During the year, Telstra made a number of acquisitions that have positioned Telstra favourably to achieve international growth, notably:

**TelstraClear** In December 2001, TelstraClear completed the acquisition of CLEAR at a discount to valuation. This acquisition provides scale and critical mass in New Zealand.

**REACH** Earlier this year, Reach achieved superior connectivity to North Asia and the US by acquiring the Asian assets of Level 3 at a fraction of the cost it would have needed to build them.

**CSL** In June 2002, Telstra acquired the remaining 40% in Hong Kong mobile carrier CSL. CSL is Hong Kong's most profitable mobile company.

**China Unicom** In November 2001, Telstra and China Unicom signed a Memorandum of Understanding for Business Partnership and Co-operation.

**Vietnam** Telstra has a successful history of involvement in international projects. Fifteen years ago we set up a Business Cooperation Contract (BCC) with VNPT (the Vietnamese National Carrier). This BCC concluded on 31 March 2002 and has proven to be mutually beneficial with Telstra achieving a good return on investment and Vietnam opening up communications with the outside world.

**Beijing** Following our highly successful role in providing telecommunications for the 2000 Sydney Olympics, Telstra's Beijing office is endeavouring to work closely with the Beijing Organising Committee for the 2008 Olympic Games.

more than 1.0million mobile subscribers in Hong Kong

### **CSL**

- Over 1 million mobile customers
- 20% market share with value share of 33%
- More than 1,500 transmission sites
- First in Asia to launch GPRS and MMS
- Highest data penetration rate in Hong Kong

### **REACH**

- Asia's largest international carrier of combined voice and data
- Agreements/alliances with more than 230 international carriers
- More than 50 worldwide submarine cables extending to over 160,000km
- Four satellite earth stations, 35 antennae, serving over 20 satellites

**TelstraClear**

- Number two full service provider in New Zealand
- 11% of market with 300,000 customers
- State of the art IP network

## community

- Telstra takes a pro-active role in the community through sponsorships and programs
  - Bangarra Dance Theatre performing at the opening of the 19th Telstra National Aboriginal and Torres Strait Islander Art Award.
  - prize pool more than \$235,000 Telstra Business Women's Award
  - prize pool more than \$325,000 Telstra Small Business Award
  - Telstra's support assists the Victor Chang Cardiac Research Institute in its vital research.

Did you know Telstra:

- Is one of Australia's largest corporate supporters of the community, arts and sport
  - Has formal consumer consultative forums, which have regularly met since 1989
- Telstra contributes to the community's cultural and social wellbeing through its ongoing involvement with and support for a range of activities, forums, organisations and individuals.

**Consultation forums** Telstra consults regularly with a range of consumer and business organisations - using these consultative forums' valuable feedback in its decision-making.

For example, Telstra in consultation with peak community groups and welfare agencies revised its \$150 million concession package to improve affordability and accessibility to its telecommunications services, last year.

Peak community organisations continue to be involved in executing specific initiatives. A review committee has also been formed to help ensure these measures remain effective and contemporary.

**Disability** Telstra is the only Australian telecommunications carrier with a comprehensive Disability Equipment Program that provides specialised telephone equipment - e.g., volume control, voice aid and handsfree phones; teletypewriters; and cochlear adaptors - to enable eligible customers to access the standard telephone service.

Telstra has established a Centre for Accessibility. In the short term, its major focus is on achieving online accessibility for blind users. The broader, longer-term objective is to improve access to Telstra's website for all users with a disability.

**Sponsorships - community, arts and sport** Telstra is one of Australia's largest corporate sponsors, providing support broadly across Australian society.

In the community sector, Telstra gives valuable assistance to a range of organisations, including the Victor Chang Cardiac Research Institute, Lifeline, Telstra Child Flight and Landcare.

In the arts sector, Telstra has a long history of sponsorship. Support is aimed at improving access to the arts for more Australians, and sponsorships include the Bangarra Dance Theatre, The Australian Ballet, the Museum of Contemporary Art, as well as the Telstra National Aboriginal and Torres Strait Islander Art Award.

Through sports sponsorships, Telstra aims to support both elite sports and to encourage children to exercise. This is being achieved through key sponsorships with Australia's peak swimming and athletics groups, the National Rugby League, the Commonwealth Games and the Australian Paralympic Committee.

Excellence in business is also rewarded and encouraged through the Telstra Small Business Awards and the Telstra Business Women's Awards.

**Telstra Foundation®** Telstra established the Telstra Foundation® - a program designed to enrich the lives of Australian children and young people and the communities in which they live by supporting various causes and activities. Two separate funds - the Telstra Community Development Fund and Telstra's Kids Fund - provide support for the wider community and within Telstra itself.

**Telstra Friends** Since 1993, Telstra has sponsored and supported an employee driven volunteer program called Telstra Friends. This program has grown to become Australia's largest corporate volunteer program, with more than 5,000 members.

Telstra continues to proudly sponsor major athletics meetings throughout Australia.

Telstra's support this year assisted Telstra Child Flight to commission a second helicopter for this important community service.

## **senior management and executive officers**

**Telstra's senior managers responsibly deliver results for our shareholders. Teamwork combined with strength in leadership ensures Telstra continuously improves service to our customers.**

### **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 assumed responsibility for Telstra Wholesale in 2001. In addition, he retains responsibility for Telstra's digital media strategy (including our investment in Foxtel) and for Legal and Regulatory. He is a director of Foxtel and Hong Kong CSL.

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 and Head, Networks and Technology Group

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 was appointed as Head of Networks & Technology Group in August 2002. 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.

### **David Moffatt**

BBus (Mgt), FCPA

Group Managing Director, Finance & Administration and 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.

### **David Thodey**

BA

Group Managing Director, Telstra Mobile

Mr 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. Mr Thodey is Chairman of the Information Technology and Telecommunications Industry Training Board and

IT Skills Hub as well as holding a board position at the Australian Mobile Telecommunications Association (AMTA). As Group Managing Director of Telstra Mobile he is responsible for the company's voice and data wireless business, the Telstra Shop chain and Telstra's extensive national network of mobile phone dealers.

### **Michael Rocca**

DipEng, MBA, AICD

Group Managing Director, Infrastructure Services

Mr Rocca was appointed to the position of Group Managing Director of Telstra's Infrastructure Services in August 2002, responsible for the daily strategic management of Telstra's service delivery to more than 10 million customers nationwide. Prior to his current assignment Mr Rocca held a range of posts during his 34 year career with Telstra including being managing director of a number of engineering and service organisations within the company.

**Dick Simpson**

President, Telstra International

Before joining Telstra, Mr Simpson held a range of senior executive positions in three different industry segments. He started his 20 years in the IT industry with IBM culminating with the post of MD of Unisys in Australia and New Zealand. During this time he was also Vice Chairman and then Chairman of AIIA.

Mr Simpson then joined Optus shortly after it started, running their lines of business and then the residential division which also included Optus Vision. Immediately before joining Telstra, Mr Simpson served as Chief Operating Officer at NRMA. He joined Telstra as Group Managing Director for the Mobiles division in 1999. International was added to his portfolio in 2000 and he moved to Hong Kong in 2001.

## **Bill Scales**

AO

Group Managing Director, Corporate & Human Relations and Chief of Staff

Mr Scales joined Telstra in November 2000 as Managing Director Human Resources and Chief of Staff. He was appointed Group Managing Director, Corporate and Human Relations in August 2002 responsible for the management of Human Resources, Corporate and Political Relations, Employee Communications and Chief of Staff to the CEO. Prior to joining Telstra, Mr Scales was Secretary of the Victoria Department of Premier and Cabinet. He was for six years Chairman and CEO of the Industry Commission, and prior to that Chairman and CEO of the Automotive Industry Authority. Prior to his involvement with Governments, he held general management positions in the manufacturing sector.

**Telstra Retail** is responsible for sales, marketing, products, service innovation, customer care and billing. Telstra Retail also manages our information, connection and public payphone services, as well as our advertising and 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 Wholesale** is responsible for providing a full range of products and services to the Australian wholesale domestic market. Telstra Wholesale services over a hundred customers. Among the products Telstra Wholesale provides are interconnection products, access to our network facilities, wholesale data, transmission and IP products, wholesale mobile products and retail/rebill products. Our wholesale customers include licensed carriers, carriage service providers and ISPs.

**Telstra Country Wide** is responsible for providing telecommunication services to customers in regional, rural and remote parts of Australia. This business unit was formed in June 2000, with a key strategy to establish a strong presence and grow Telstra's business in regional Australia. Telstra Country Wide, is responsible for the telecommunications needs of consumers and businesses that reside and operate outside the mainland major metropolitan areas and in all of Tasmania, the Northern Territory and overseas territories.

**Networks and Technology Group** was previously part of Infrastructure Services. It was separated in August 2002 and given separate responsibility for research and development, planning, design and strategy of our communications networks and associated systems that deliver technology solutions, our products, services and customer support.

**Telstra Mobile** is responsible for our mobile and wireless networks and associated systems within Australia. It manages all mobile voice and data retail sales and after sales support, customer service, billing, product development and pricing. Telstra Mobile is also responsible for managing the network of Telstra Shops, including dedicated business stores and licensed stores around Australia. This business unit was previously called Telstra OnAir.

**Infrastructure Services** is responsible for customer service operations, including installation and repairs. Our wholly owned subsidiary, Network Design and Construction Limited (NDC), is part of the portfolio of Infrastructure Services. NDC competes for some of our annual network expenditure against other suppliers. It also performs construction activities for others, including other telecommunications companies.

**Telstra International** manages our international interests, including CSL in Hong Kong, TelstraClear in New Zealand, as well as our major joint venture company - Reach. It also directs our offshore growth strategy, with a current focus on opportunities in wireless, data and internet in the Asia-Pacific region.

## **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, productivity directorate 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.

**Corporate and Human Relations** manages corporate communications and public affairs across Telstra, including media relations, employee communications, corporate image and reputation and external relations, including government affairs. It also manages personnel, organisation effectiveness, health and safety, remuneration, training and leadership development programmes.

**board of directors****Robert C Mansfield**

AO, BCom, FCPA

Age 51

Chairman

Director since November 1999 and Chairman since January 2000

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

Number of board meetings held:	11
Number of board meetings attended:	11
Number of shares held:	
- Direct interest	36,139
- Indirect interest	39,200
Base fee:	\$192,000
DirectShare:	\$48,000
Other benefits:	\$19,200
	Total: \$259,200

**John T Ralph**

AC, FCPA, FTSE, FAICD, FAIM, FAusIMM, Hon LLD (Melbourne &amp; Queensland), DUniv (ACU)

Age 69

Deputy Chairman

Director and Deputy Chairman since October 1996

Chairman, Commonwealth Bank of Australia; Director, BHP Billiton Ltd and BHP Billiton plc; Chairman, Australian Foundation for Science; Member, Board of Melbourne Business School.

Number of board meetings held:	11
Number of board meetings attended:	10
Number of shares held:	
- Direct interest	9,071
- Indirect interest	50,000
Base fee:	\$96,000
DirectShare:	\$24,000
Other benefits:	\$9,600
	Total: \$129,600

**Zygmunt E Switkowski**

BSc (Hons), PhD

Age 54

Chief Executive Officer and Managing Director

Managing Director and Chief Executive Officer since March 1999

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

Number of board meetings held:	11
Number of board meetings attended:	11
Number of shares held:	
- Direct interest	46,520
- Indirect interest	89,130
Incentive plans and	

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personal performance reviews are:	
- Fixed remuneration:	\$1,245,000
- Short term incentive:	\$1,150,000
- Other benefits:	\$850
	Total: \$2,395,850

**Samuel H Chisholm**

Age 62

Director since November 2000

Chairman, Foxtel (Foxtel Management Pty Ltd, Foxtel Cable Television Pty Ltd, Customer Services Pty Ltd) and Chairman of the Macquarie Radio Network. Director of Australian Wool Services Ltd. He was the Chief Executive and Managing Director of British Sky Broadcasting and Executive Director of the News Corporation (1990 - 1997). For 17 years previously he was Chief Executive and Managing Director of the Nine Network Australia Limited.

Number of board meetings held:	11
Number of board meetings attended:	10

Fees have been declined by director's choice.

**Belinda J Hutchinson**

BEC, FCA

Age 49

Director since November 2001

Director, Energy Australia Ltd, TAB Limited, QBE Insurance Group Limited, Crane Group Ltd, St Vincent's and Mater Health Sydney Ltd and State Library of NSW. Consultant, Macquarie Bank Limited. Ms Hutchinson has a long association with the banking industry. Ms Hutchinson has been associated with the Macquarie Bank since 1993 and was an Executive Director of Macquarie Bank. Ms Hutchinson was previously a Vice President of Citibank Ltd.

Number of board meetings held:	5
Number of board meetings attended:	5
Number of shares held:	
- Direct interest	38,775
- Indirect interest	19,600
Base fee:	\$37,500
DirectShare:	\$9,375
Other benefits:	\$3,750
	Total: \$50,625

**Anthony J Clark**

AM, FCA, FCPA, FAICD

Age 63

Director since October 1996

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

Number of board meetings held:	11
Number of board meetings attended:	11
Number of shares held:	
- Direct interest	14,595
- Indirect interest	50,000
Base fee:	\$57,000
DirectShare:	\$14,250
Other benefits:	\$5,700
	Total: \$76,950

**John E Fletcher**

FCPA

Age 51

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.

Number of board meetings held:	11
Number of board meetings attended:	10
Number of shares held:	
- Direct interest	3,744
- Indirect interest	32,000
Base fee:	\$52,000
DirectShare:	\$13,000
Other benefits:	\$5,200
	Total: \$70,200

**Catherine B Livingstone**

BA (Hons), FCA

Age 46

Director since November 2000

Chairman, CSIRO and the Australian Business Foundation; Director, Goodman Fielder Ltd, Rural Press Ltd and the Sydney Institute; Member, Department of Accounting and Finance Advisory Board Macquarie University; former Managing Director, Cochlear Ltd.

Number of board meetings held:	11
Number of board meetings attended:	11
Number of shares held:	
- Direct interest	14,144
- Indirect interest	5,000
Base fee:	\$52,000
DirectShare:	\$13,000
Other benefits:	\$5,200
	Total: \$70,200

**Charles Macek**

BEC, MAdmin, FSIA, FAICD, FCPA, FAIM

Age 55

Director since November 2001

Chairman, Sustainable Investment Research Institute Pty Ltd, Australian Focus Funds Management Pty Ltd, Centre for Eye Research Australia Ltd; Deputy Chairman, Financial Reporting Council; Director, Famoice Technology Pty Ltd, Wesfarmers Ltd and IOOF Holdings Ltd; Victorian Councillor, Australian Institute of Company Directors. Former roles include 16 years as Founding Managing Director and Chief Investment Officer and subsequently Chairman of County Investment Management Ltd.

Mr Macek has had a long association with the finance and investment industry.

Number of board meetings held:	5
Number of board meetings attended:	5
Number of shares held:	
- Direct interest	1,554
- Indirect interest	20,000

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Base fee: \$	35,226
DirectShare:	\$8,750
Other benefits:	\$3,523
	Total: \$47,499

**Donald G McGauchie**

Age 52

Director since September 1998

Senior Partner, C&E McGauchie - Terrick West; 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.

Number of board meetings held:	11
Number of board meetings attended:	11
Number of shares held:	
- Direct interest	4,373
- Indirect interest	18,700
Base fee:	\$52,000
DirectShare:	\$13,000
Other benefits:	\$48,400
	Total: \$113,400

**William A Owens**

BS Maths, BA, MA, MBA (Hons)

Age 62

Director since November 2001

Vice Chairman and Co-Chief Executive Officer, Teledesic LLC; Vice Chairman, ICO Global Communications (Holdings) Ltd; Director, Polycom Inc, Viasat Inc, Microvision Inc, Symantec Inc, Metal Storm Ltd, BAT Ltd, Biolase Inc, Cray Inc, Nortel Networks, IDT Inc and TIBCO Inc. Former roles include President and Chief Operating Officer, Science Applications International Corporation (SAIC); Vice Chairman, US Joint Chiefs of Staff; Deputy Chief, US Naval Operations; Commander, US Sixth Fleet. Mr Owens has had a strong history in corporate management of broadband telecommunications, information technology and internet applications.

Number of board meetings held:	5
Number of board meetings attended:	5
Number of shares held:	
- Direct interest	1,997
- Indirect interest	nil
Base fee:	\$45,000
DirectShare:	\$11,250
Other benefits:	\$33,482
	Total: \$89,732

**John W Stocker**

AO, MB, BS, BMedSc, PhD, FRACP, FTSE

Age 57

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.

Number of board meetings held:	11
Number of board meetings attended:	10
Number of shares held:	
- Direct interest	6,178

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- Indirect interest	35,735
Base fee:	\$67,500
DirectShare:	\$16,875
Other benefits:	\$6,750
	Total: \$91,125

## **directors' report**

The directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of or during the year ended 30 June 2002.

### **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 \$3,661 million

(2001: \$4,058 million). This was after:

- deducting income tax expense of \$1,796 million (2001: \$2,236 million); and
- allowing for net losses attributable to outside equity interests in controlled entities of \$11 million (2001: net profit of \$3 million).

Earnings before interest and income tax expense was \$6,216 million, representing a decrease from the prior year's result of \$6,963 million.

Earnings per share decreased from 31.5 cents per share in fiscal 2001 to 28.5 cents per share in the current year. Year on year results have been impacted by acquisitions and specific accounting adjustments in both fiscal 2002 and fiscal 2001.

### **Review of operations**

Profit before income tax expense for fiscal 2002 has declined from the prior year, primarily due to the inclusion of a number of one off items in fiscal 2001. These included:

- the sale of our global wholesale business and certain controlled entities into our 50% owned joint venture Reach Ltd. We recognised 50% of our profit on sale, which amounted to \$852 million in the fiscal 2001 profit before income tax;
- the acquisition of a 60% controlling interest in Joint Venture (Bermuda) No. 2 Limited (referred to as RWC). At the time of acquisition, we recognised that there was a general decline in the value of telecommunications companies, and based on an independent valuation of our interest, we recognised this decline by writing down our acquisition costs in RWC by \$999 million;
- the once off benefit of \$725 million in other revenue arising from the release of our obligations under the Telstra Additional Contributions (TAC) agreement to the superannuation fund;
- the application of more prescriptive rules on revenue recognition to our financial statements for both Australian and US reporting purposes. (This instruction on accounting treatment is referred to as US Securities and Exchange Commission Staff Accounting Bulletin 101 (or SAB101)). This change had the effect of decreasing our sales revenue by \$779 million and decreasing our direct cost of sales by \$560 million; and
- the sale of our interest in Computershare Limited resulting in a profit before income tax of \$245 million.

During the current year, we have continued to focus on cost control in an environment where there has been modest revenue growth.

Sales revenue increased by \$1,517 million to \$20,196 million due to the fiscal 2001 SAB101 adjustment and:

- continued strong growth in mobile services (\$336 million), and fixed to mobile (\$132 million). Partially offsetting this growth was the decline in intercarrier revenues as a result of reduced rates (\$12 million) and a marginal decline in data and internet services (\$42 million);
- continuing impact of our rebalancing initiatives resulting in increased basic access revenue (excluding fiscal 2001 SAB101 adjustment: \$374 million) and decreased local call (\$196 million) and national long distance revenues (\$99 million); and
- the inclusion of revenues from our controlled entities RWC and TelstraClear Limited (\$1,374 million), partially offset by the loss of revenues from the sale of our global wholesale business (\$486 million) in the prior year.

Operating expenses (before borrowing costs) decreased by \$1,332 million to \$14,505 million primarily due to

the effect of the one off items previously discussed. Other contributors to the movement in expenses include:

- higher labour expenses resulting from increased restructuring costs charged against profit, largely for the restructure of Network Design and Construction Limited. This was partially offset by lower labour expenses achieved through reductions in staff numbers. Higher labour substitution costs resulting from outsourcing arrangements are included in other expenses;
- an increase in direct cost of sales due to higher network payments resulting from increased volumes of outgoing calls terminating on other carriers' networks, in part offset by the progressive removal of mobile handset subsidies;
- an increase in depreciation and amortisation expense due to continued capital expenditure on our communications plant asset base and ongoing software development;
- a decline in discretionary spending in line with continuing cost reduction initiatives; and
- the consolidation of expenditure from our controlled entities, RWC and TelstraClear Limited.

Our free cash flow increased 35.5% to \$3,840 million (excluding our investment in the Asian ventures in fiscal 2001) after improved cash inflow from our operating activities and a decrease in capital expenditure. Operating capital expenditure declined 20.1% to \$3,491 million following tight control of our capital expenditure program. Investment expenditure (excluding Asian ventures) has remained constant at \$171 million with the major component relating to our additional 8.4% acquisition to give us a controlling interest in TelstraClear Limited (\$40 million).

**Normalised results from operations**

We have taken the reported results and adjusted for the one off items that have occurred in both fiscal 2002 and fiscal 2001 so that a like for like comparison of results may be made. On a normalised basis:

- sales revenue increased in fiscal 2002 by 1.7% to \$18,769 million, reflecting the continued growth in mobile services and the fixed to mobiles business. Total underlying revenue (excluding interest) increased by 1.8%; and
- through the continued implementation of our ongoing cost reduction program, our underlying operating expenses (before depreciation, amortisation and interest) declined by 2.0%. Total underlying expenses (before interest), including equity accounted losses, increased marginally by 0.1% to \$12,410 million.

The underlying earnings before interest and income tax expense increased by 5.0% to \$6,650 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 other than:

- On 1 August 2002, we sold a portfolio of seven office properties nationally for \$570 million. The carrying value of these properties was \$434 million as at 30 June 2002. This balance has been reclassified in our statement of financial position as other current assets. We have entered into operating leases totalling \$518 million in relation to these properties on normal commercial terms of between five and twelve years, most of which commenced on 19 August 2002.

**Dividends**

The directors have declared a final dividend for the year ended 30 June 2002 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 20 September 2002 with payment being made on 28 October 2002.

During fiscal 2002, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2001	29 August 2001	26 October 2001	11 cents franked to 100%	\$1,416 million
Interim dividend for the year ended 30 June 2002	6 March 2002	29 April 2002	11 cents franked to 100%	\$1,415 million

Under current legislation, it is expected that Telstra will be able to fully frank declared ordinary dividends out of fiscal 2003 earnings. This expectation takes into consideration the Business Tax Reform changes to the imputation system effective from 1 July 2002. 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:

- On 28 June 2002, Pacific Century CyberWorks (PCCW) redeemed in full a US\$750 million convertible note held by Telstra. The proceeds were then used to acquire PCCW's 40% interest in RWC and to subscribe for a new US\$190 million mandatorily converting note. As a result of this transaction, we now own 100% of RWC. Total consideration for this investment amounted to \$992 million.
- On 12 December 2001, we increased our holding in our joint venture entity TelstraClear Limited (TelstraClear) (formerly TelstraSaturn Limited) by 8.4%. As a result, our 58.4% interest represents a controlling interest in this company. We have consequently ceased equity accounting and have consolidated the financial position, financial performance and cash flows of TelstraClear from 1 December 2001. Property, plant and equipment relating to TelstraClear and consolidated into the Telstra Group was \$818 million as at 30 June 2002. As at 30 June 2001, our consolidated non current assets included \$79 million as an investment in joint venture entities relating to TelstraClear.

#### **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 and executives**

##### Retirement of directors

N Ross Adler (appointed October 1996), Malcolm G Irving (appointed July 1997) and Elizabeth A Nosworthy (appointed December 1991) retired from office at the annual general meeting on 16 November 2001. 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 to 29;
- number of board and committee meetings and attendance by directors at these meetings is provided on page 35;
- details of directors' shareholdings in Telstra are shown on page 41; and
- details of directors' emoluments are given on page 36.

##### Senior executive emoluments

This information is provided on pages 36 to 39 and forms part of this report.

##### Share options

All existing Telstra compensation based share and option plans have performance hurdles. If the hurdles are not met, there is no vesting entitlement to the shares and options. Telstra expenses the fair value of all share options, performance rights and restricted shares under USGAAP. Consistent with AGAAP, the company only expenses options and employee shares when it is certain that there is an actual cost that will be realised by Telstra. When an International Accounting Standard is issued and adopted as AGAAP, Telstra will apply this standard to the accounting for its option and employee share plans.

Since inception, \$285 million has been expensed in the company's USGAAP financial statements in relation to the shares allocated under TESOP97 and TESOP99. Share option, performance rights and restricted share plans have given rise to an expense of \$59 million in the USGAAP financial statements since inception. An amount of \$12 million has been expensed in the AGAAP financial statements in relation to only the

performance rights and restricted shares. In fiscal 2002, \$47 million was expensed under USGAAP and \$6.5 million under AGAAP. Refer to note 19 in the financial report contained in the 'Annual Report 2002' for an explanation of the option and employee share plans and the accounting treatment applied to each plan.

Telstra's options and employee share plans are different from other companies in that the Telstra Corporation Act (1991) prohibits the Commonwealth's shareholding falling below 50.1%. In order to fulfil its obligations under the Act and under any option or share plan, the trustee of the plan must purchase shares on market for cash to the extent of the assessed liability, for which Telstra provides funding to the trustee. Telstra expenses immediately the funding of the purchase of shares to underpin the allocation of performance rights and restricted shares. The purchase of shares to underpin options is accounted for as a receivable in Telstra's balance sheet as funding is provided to the trustee by Telstra.

From 1 July 2002, Telstra has suspended its option plan. Previously issued options remain outstanding and valid. These will be expensed for AGAAP purposes in accordance with any new accounting standard that is established.

#### 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 and performance**

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.

**Legal and regulatory compliance**

Telstra is committed to conducting its business in compliance with all of its legal and regulatory obligations. Compliance with these obligations is not just a legal requirement, but is integral to Telstra's commitment to its customers, employees, shareholders and the community.

Whilst we have always had in place systems to ensure compliance with our legal and regulatory obligations we have now taken steps to further formalise our compliance program. Under this compliance program each business unit is working to prepare and implement a work plan setting out how they intend to achieve legal and regulatory compliance in their operations. A Legal and Regulatory Compliance and Risk Report is also being prepared for the Audit Committee every quarter. This report provides the Audit Committee with an oversight of the initiatives being taken to achieve legal and regulatory compliance and with information on the significant legal cases in which Telstra is currently involved.

**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 and issued pursuant to section 341(1) of the Corporations Act. 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

**Ziggy Switkowski**

Chief Executive Officer and Managing Director

**28 August 2002**

**Directors' profiles**

As at 28 August 2002, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected(1)
Robert C Mansfield	51	Chairman	1999	-
John T Ralph	69	Deputy Chairman	1996	2000
Zygmunt E Switkowski	54	Chief Executive Officer, Managing Director	1999	-
Samuel H Chisholm	62	Director	2000	-
Anthony J Clark	63	Director	1996	1999
John E Fletcher	51	Director	2000	-
Belinda J Hutchinson	49	Director	2001	-
Catherine B Livingstone	46	Director	2000	-
Charles Macek	55	Director	2001	-
Donald G McGauchie	52	Director	1998	2001
William A Owens	62	Director	2001	-
John W Stocker	57	Director	1996	2001

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

A brief biography for each of the directors as at 28 August 2002 is presented on pages 28 to 29.

**Directors' meetings**

Each director attended the following meetings and board committees during the year as a member of the board or relevant committee.

Name	Board		Committees			
			Audit		Appointments and Compensation	
	a	b	a	b	a	b
R C Mansfield(1)	11	11	2	2	2	2
J T Ralph	11	10	4	4	2	2
Z E Switkowski	11	11	-	-	2	2
N R Adler(2)	6	6	2	1	-	-
S H Chisholm	11	10	-	-	-	-
A J Clark(3)	11	11	2	2	-	-
J E Fletcher	11	10	-	-	-	-
B J Hutchinson(3) (4)	5	5	2	2	-	-
M G Irving(2)	6	5	2	2	-	-
C B Livingstone	11	11	-	-	-	-
C Macek(4) (5)	5	5	2	2	-	-
D G McGauchie(6)	11	11	-	-	1	1
E A Nosworthy(7)	6	6	2	2	-	-
W A Owens(4)	5	5	-	-	-	-
J W Stocker(8)	11	10	4	4	-	-

Column a: number of meetings held while a member.

Column b: number of meetings attended.

(1) Retired as a member of the audit committee on 11 December 2001.

(2) Retired as a director and member of the audit committee on 16 November 2001.

(3) Appointed as member of the audit committee on 11 December 2001.

(4) Appointed as director on 16 November 2001.

(5) Appointed as member of the audit committee on 20 February 2002.

(6) Appointed as member of the appointments and compensation committee on 20 February 2002.

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- (7) Retired as a director and chairman of the audit committee on 16 November 2001.
- (8) Appointed as chairman of the audit committee on 11 December 2001.

**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 of 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 2002 was comprised of a fixed annual base fee, part of which is provided as a 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. Directors who retire are also eligible to receive additional retirement benefits.

## DirectShare

As part of the overall remuneration strategy, 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 five years unless the participating director ceases earlier with the Telstra Group.

Name	Position	Base fee \$	DirectShare \$	Total fee \$	Other benefits <sup>(1)</sup> \$	Total \$
Robert Mansfield	Chairman	192,000	48,000	240,000	19,200	259,200
John T Ralph	Deputy Chairman	96,000	24,000	120,000	9,600	129,600
N Ross Adler <sup>(3)</sup>	Director	22,500	7,500	30,000	124,005	154,005
Samuel H Chisholm <sup>(4)</sup>	Director	-	-	-	-	-
Anthony J Clark	Director	57,000	14,250	71,250	5,700	76,950
John E Fletcher	Director	52,000	13,000	65,000	5,200	70,200
Belinda J Hutchinson <sup>(2)</sup>	Director	37,500	9,375	46,875	3,750	50,625
Malcolm G Irving <sup>(3)</sup>	Director	22,500	7,500	30,000	99,627	129,627
Catherine B Livingstone	Director	52,000	13,000	65,000	5,200	70,200
Charles Macek <sup>(2)</sup>	Director	35,226	8,750	43,976	3,523	47,499
Donald G McGauchie	Director	52,000	13,000	65,000	48,400 <sup>(5)</sup>	113,400
Elizabeth A Nosworthy <sup>(3)</sup>	Director	27,000	9,000	36,000	246,584	282,584
William A Owens <sup>(2)</sup>	Director	45,000	11,250	56,250	33,482 <sup>(6)</sup>	89,732
John W Stocker	Director	67,500	16,875	84,375	6,750	91,125

(1) Other benefits include superannuation, payments on retirement and other related fees.

(2) Director from 16 November 2001.

(3) Retired as a director on 16 November 2001.

(4) Fee declined by director's choice.

(5) Includes an amount for membership of the Telstra Country Wide Advisory Board.

(6) Mr Owens, a US-based Director, received management consultancy fees (paid in US dollars).

**Senior executive remuneration**

Our senior manager remuneration strategy provides competitive remuneration aimed at:

- aligning managers' rewards with shareholders' value;
- 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**

In fiscal 2002, Telstra introduced a new approach to senior executives' remuneration. The approach is designed to focus on the total annual offering provided to the executive (Total Remuneration). Total Remuneration includes the executives fixed remuneration and their "at target" Short Term Incentive. The separate components of the executives' "package" are defined as a function of the overall Total Remuneration amount.

Our senior executive Total Remuneration consists of fixed and variable components:

#### **ΣFixed remuneration**

Fixed remuneration is made up of salary, company superannuation contributions and benefits including fringe benefits tax and is defined as a ratio of the Total Remuneration amount.

#### **ΣShort-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 2002 was between 12% and 52% 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.

#### **Σ Long-term incentive - Telstra Growthshare**

A long-term incentive plan based on equity (Telstra Growthshare) was introduced in early fiscal 2000. As a practical result of the Telstra Act, we are not able to issue new shares and therefore Telstra Growthshare purchases existing Telstra shares. Allocations are in the form of performance rights (restricted shares prior to fiscal 2002) and options over existing shares, the right to exercise both of which vests when a performance hurdle is achieved.

For the September 2001 and March 2002 plans to achieve 100% of vesting entitlement, the Telstra 30 day average total shareholder return 'TSR' must exceed the 50th percentile of the 30 day average TSR performance of the companies comprising the ASX 200 industrials ("Peer Group") at allocation date between the third and fifth anniversary of allocation.

To achieve 200% of vesting entitlement, the TSR must exceed the 75th percentile of the Peer Group in Quarter 1 of the performance period or at least the 50th percentile in Quarter 1 and obtaining the 75th percentile in any of the remaining seven quarters. If the 50th percentile is not achieved in Quarter 1, no vesting above the 100% allocation is available.

For the performance hurdle to be achieved in relation to the September 1999, September 2000 and March 2001 plans, 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. Performance rights can only be traded once the performance hurdle is achieved. Restricted shares (1999 - 2000) generally may not be traded for five years from the date of allocation.

Offers under Telstra Growthshare are made to managers at the discretion of the board. For fiscal 2002, between 16.5% and 36% 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.

As Telstra is not able to issue new equity, Telstra Growthshare purchases shares on market in accordance with the allocation of performance rights and options and forward liabilities for all allocations, past and present. Telstra funds the proportion of shares that are purchased to underpin the allocation of performance rights and treats these funds as an expense by the company. In addition, Telstra provides a loan to Telstra Growthshare to fund the purchase of shares to underpin the options which are allocated. This loan is treated as a receivable on the balance sheet. The Telstra Growthshare Trustee pays interest to Telstra (currently 3.5%) on

the loan balance and may repay capital from time to time. If options are exercised the senior executive pays the original exercise price to the Telstra Growthshare Trustee and the loan is repaid. As a result there is no direct expense to Telstra.

**Telstra employee share ownership plans**

All employees, including our senior managers, 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, TESOP97 and TESOP99. The terms and conditions of participation in these plans for senior managers were the same as for all other employees.

**Telstra OwnShare**

To facilitate increasing their shareholding in us, Telstra operates a restricted share plan (Telstra OwnShare) that enables employees with access to salary sacrifice arrangements to be able to take part of their remuneration 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 employee leaves the Telstra Group earlier).

**Senior executive emoluments (current employees)**

Australian Corporations Act requires disclosure of the details of the nature and amount of each element of the emolument of each director and each of the five named officers of the company receiving the highest emoluments. The information for the chief executive officer, who is also a director, and the five other officers, currently employed, who received the highest emoluments during fiscal 2002, is provided in the following table:

**Senior executive emoluments (current employees)**

Name and position	Remuneration				Telstra Growthshare <sup>(4) (8)</sup>	
	Fixed remuneration <sup>(1)</sup> \$	Short term incentive <sup>(2)</sup> \$	Other benefits <sup>(3)</sup> \$	Total annual reward \$	Performance rights/restricted shares	Options
Zygmunt Switkowski Director and Chief Executive Officer	1,245,000	1,150,000	850	2,395,850	50,000 <sup>(5)</sup> 96,000 <sup>(6)</sup> 258,000 <sup>(9)</sup>	300,000 <sup>(5)</sup> 464,000 <sup>(6)</sup> 2,692,000 <sup>(9)</sup>
Ted Pretty Group Managing Director, Telstra Retail	1,000,000	-	700,000	1,700,000	21,000 <sup>(5)</sup> 136,000 <sup>(10)</sup>	120,000 <sup>(5)</sup> 1,602,000 <sup>(10)</sup>
David Moffatt Group Managing Director, Finance & Administration	887,500	401,400	400,000	1,688,900	40,000 <sup>(7)</sup> 142,000 <sup>(9)</sup>	150,000 <sup>(7)</sup> 1,480,000 <sup>(9)</sup>
Gerry Moriarty Group Managing Director, Infrastructure Services	875,000	377,308	850	1,253,158	28,000 <sup>(5)</sup> 48,000 <sup>(6)</sup> 142,000 <sup>(9)</sup>	160,000 <sup>(5)</sup> 232,000 <sup>(6)</sup> 1,480,000 <sup>(9)</sup>
Douglas Campbell Group Managing Director, Telstra Country Wide	737,500	456,800	850	1,195,150	26,000 <sup>(5)</sup> 42,000 <sup>(6)</sup>	160,000 <sup>(5)</sup> 203,000 <sup>(6)</sup>
Bruce Akhurst Group Managing Director, Telstra Wholesale Media Legal & Regulatory	725,000	337,900	850	1,063,750	21,000 <sup>(5)</sup> 39,000 <sup>(6)</sup> 118,000 <sup>(9)</sup>	120,000 <sup>(5)</sup> 188,000 <sup>(6)</sup> 1,234,000 <sup>(9)</sup>

Note: In July 2002 Gerry Moriarty, former Group Managing Director, Infrastructure Services completed service with us.

**Senior executive emoluments (ceased employees)**

Name and position	Remuneration				Telstra Growthshare 2001/02 <sup>(4)</sup>	
	Fixed <sup>(1)</sup> \$	Short term incentive <sup>(2)</sup> \$	Other benefits <sup>(3)</sup> \$	Total annual reward \$	Performance rights	Options
John Hibbard former Managing Director Global Wholesale	77,316	149,467	1,118,618	1,345,401	-	-

**Details of allocations to all managers under Telstra Growthshare**

Issue date	Total options/performance rights allocated	Eligible participating <sup>(4) (8)</sup>	Exercise price \$	Expiry date	Allocation date	Market price at allocation date <sup>(4) (8)</sup> \$
Options	2,125,667	29	8.02	13 Sept 2009	13 Sept 1999	8.02
	4,020,841	102	6.28	8 Sept	8 Sept	6.28

				2010	2000	
	168,710	2	6.55	16 Mar 2011	16 Mar 2001	6.55
	36,501,695	152	4.90	6 Sept 2011	6 Sept 2001	4.90
	2,068,000	4	5.63	14 Mar 2012	14 Mar 2002	5.63
Restricted shares	350,668	28	n/a	13 Sept 2004	13 Sept 1999	8.02
	826,883	101	n/a	8 Sept 2005	8 Sept 2000	6.28
	43,817	2	n/a	16 Mar 2006	16 Mar 2001	6.55
Performance rights	3,486,241	152	n/a	6 Dec 2006	6 Sept 2001	4.90
	167,200	4	n/a	14 June 2007	14 Mar 2002	5.63

- (1) Fixed Remuneration is the sum of salary, benefits, and all superannuation contributions and fringe benefits tax.
- (2) Short Term Incentive relates to performance for the year ended 30 June 2002 and is based on actual performance for Telstra and the individual.
- (3) Includes the benefit of interest free loans under TESOP 97 and TESOP 99 as well as special contractual payments and for payments made on commencement of service or cessation of service.
- (4) For allocations prior to September 2001, 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 in the case of options, a payment of the exercise price is made. The performance hurdle for options and restricted shares allocated prior to September 2001 is that the 30 day average Telstra Accumulation Index must exceed the 30 day average All Industrial Accumulation Index any time during the stated performance period - that is, between the third and 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. 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.
- (5) September 1999 Growthshare allocations at an exercise price of \$8.02. The option valuation applies simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. This 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.
- (6) September 2000 Growthshare allocations at an exercise price of \$6.28. The option valuation applies simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. This 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.
- (7) March 2001 Growthshare allocations at an exercise price of \$6.55. The option valuation applies simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. This 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.
- (8) For the September 2001 and March 2000 allocations, an option or performance right represents a right to own a share in Telstra. Generally, options or performance rights may only be converted to Telstra shares if a performance hurdle is satisfied in the performance period and, in the case of options, a payment of the exercise price is made. The performance hurdle for options and performance rights allocated in fiscal 2002 is that the Telstra 30 day average total shareholder return 'TSR' must exceed the 50th percentile of the 30 day average TSR performance of the companies comprising the ASX 200 Industrials ("Peer Group") at allocation date between the third and fifth anniversary of allocation. Options and performance rights vest on a performance scale. If the 50th percentile ranking is achieved 100% of the allocation will vest. If at least the 50th percentile ranking is achieved in the first quarter of the performance window, additional options and performance rights may vest on a sliding scale where a higher ranking is achieved up to 75th percentile ranking. The full allocation (ie. 200%) will vest if the 75th percentile ranking is achieved. If the 50th percentile ranking is not achieved in the first quarter of the performance period, half of the maximum allocation will have a \$nil value and will lapse. 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, performance rights may be exercised at any time before the fifth anniversary plus 90 days of allocation; otherwise they will lapse. 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.
- (9) September 2001 Growthshare allocations at an exercise price of \$4.90. The option valuation applies simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. This returned a fair value of \$0.90 per option. The value of the performance rights is taken to be their market price at the allocation date. The number of performance rights and options disclosed are the maximum number that may vest (ie. 200%) if the 75th percentile ranking is achieved.
- (10) March 2002 Growthshare allocations at an exercise price of \$5.63. The option valuation applies simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. This returned a fair value of \$0.97 per option. The value of the performance rights is

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taken to be their market price at the allocation date. The number of performance rights and options disclosed are the maximum number that may vest (ie. 200%) if the 75th percentile ranking is achieved.

### Directors' shareholdings in Telstra

As at 28 August 2002:

Directors	Number of shares held		
	Direct interest	Indirect interest <sup>(1)</sup>	Total
R C Mansfield	36,139	39,200	75,339
J T Ralph	9,071	50,000	59,071
Z E Switkowski <sup>(2) (3)</sup>	46,520	89,130	135,650
S H Chisholm	-	-	-
A J Clark	14,595	50,000	64,595
J E Fletcher	3,744	32,000	35,744
B J Hutchinson	38,775	19,600	58,375
C B Livingstone	14,144	5,000	19,144
C Macek	1,554	20,000	21,554
D G McGauchie	4,373	18,700	23,073
W A Owens	1,997	-	1,997
J W Stocker	6,178	35,735	41,913

(1) Shares in which the director does not have a relevant interest, including shares held by director related entities, are excluded from indirect interests.

(2) 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; and
- 80 loyalty shares received under the "one for ten loyalty offer" available to all employees who participated in the 1999 public offer.

(3) During fiscal 2002, Dr Switkowski was granted 258,000 performance rights and 2,692,000 options (i.e. 200% of allocation) under the terms and conditions of the Telstra Growthshare Trust Deed. These options and shares are in addition to the above.

## senior management and employees

### Compensation of directors and officers

For fiscal 2002, the aggregate amount of remuneration earned by the directors and executive officers as a group was \$13.9 million. Executive officers refers to not only those who hold these positions as at 28 August 2002, but also those who completed their service with us during the year.

This amount consists of:

- \$752,000 that has been set aside or accrued during fiscal 2002 to provide pension and retirement benefits; and
- \$13.17 million representing remuneration, other than amounts for pension and retirement benefits.

Our Group Managing Directors, as shown under "Senior Management and Executive Officers" pages 26 and 27, participate in two incentive plans, and amounts paid and accrued under these plans for fiscal 2002 are included in the above remuneration figures.

### Business address

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

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

### Employees

As a full service communications company, we continue to be one of Australia's largest employers.

As at 30 June	2002	2001	2000	1999	1998
Full-time employees	40,427	44,874	50,761	52,840	57,234

Our full-time employees include full-time staff, fixed-term contracted staff and expatriate staff in overseas controlled entities. The figures do not include a full-time equivalent measure of part-time and casual staff; overtime worked, full and part-time contracted staff; or a measure of overseas local hires. If we were to include these elements the number of full time equivalent staff for the Telstra Group would be 44,977 (2001: 48,317). These figures do not include persons involved in work undertaken through outsourcing arrangements for work previously performed by employees. For these reasons, and due to the full service nature of our business, we believe that these measures of full-time employees may not be directly comparable with other telecommunications companies.

The company continued to reduce full time staff numbers during fiscal 2002 from 44,874 to 40,427. This was achieved through ongoing process improvements and a number of major corporate initiatives undertaken as part of the Next Generation Cost Reduction program. Examples of these initiatives are:

- the Call Centre Optimisation Project (approx. 3,500);
- the establishment of a shared services unit which consolidates corporate support functions into one area (approx. 450);
- the rationalisation of our network and platform activities (approx. 550);
- the rationalisation of our indirect channel delivery activities (approx. 650);
- the reduction in the number of executives in the company; and
- Improvements in the effectiveness of our IT resources (approx. 700).

The majority of our Australian employees receive superannuation benefits, mainly through the Telstra Superannuation Scheme and, in the case of some employees who were employed prior to July 1990, the Commonwealth Superannuation Scheme.

### Labour relations

Fiscal 2002 was a year of consolidation on the industrial front as we implemented the flexibilities and frameworks that the separate Business Unit Enterprise Agreements provided. In addition, the Agreements provide improved operating efficiencies for both management and staff and provide a firm basis for future negotiations. As detailed in the Agreements, the vast majority of staff covered by these Agreements received a 4% salary increase in December 2001.

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In addition to the Enterprise Agreements, a number of significant matters were progressed in conjunction with the staff associations, for example:

- In January 2002, we formalised changes to the Remote Localities arrangements, by consent, in the AIRC. These changes enable a streamlined process to be implemented greatly improving the administrative activities associated with Remote Localities.
- In June 2002, management and unions agreed on a range of variations to the AOTC Redundancy Agreement 1993, subject to member ratification, to reflect more contemporary arrangements. These proposals greatly simplify the operational processes and provide certainty to management and staff regarding entitlements and obligations. The proposal was certified in August 2002.

**Safety and environment**

Our focus on leadership in safety, together with measurable accountabilities through all levels of management, is strategically designed to reinforce the value we place on our people and their safety. Since the inception of the Telstra Health and Safety Management System in 1997, we have become a safer place to work. During fiscal 2002, lost-time injuries reduced by a further 26%, and our lost-time injury frequency rate reduced from 7.4 to 6.7.

Our staff are adopting new ways of working that have a positive impact on the environment. For instance, integrated recycling facilities for paper waste and other recyclables are now located at our major offices; this has resulted in reducing waste going to landfill by over 50% at these sites. Our field staff have access to online waste service provisioning, which provides a high-degree of monitoring and compliance assurance. We are continually reviewing our internal paper-based processes and progressively developing online alternatives for staff. Areas that have been e-processed during the year include online training, internal newsletters and information bulletins to staff, human resource forms and tools such as application and ordering forms, employee opinion surveys and staff annual reviews, as well as payslips.

**concise financial report**

statement of financial performance	Note	Telstra Group Year ended 30 June	
		2002 \$m	2001 \$m
Ordinary activities			
Revenue			
Sales revenue	4	20,196	18,679
Other revenue (excluding interest revenue)	4	606	4,304
		20,802	22,983
Expenses			
Labour		3,240	3,122
Direct cost of sales	4	3,966	3,133
Other expenses	4	4,032	6,711
		11,238	12,966
Share of net losses of associates and joint venture entities		81	183
		11,319	13,149
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)	1	9,483	9,834
Depreciation and amortisation		3,267	2,871
Earnings before interest and income tax expense (EBIT)	1	6,216	6,963
Interest revenue		126	103
Borrowing costs		896	769
Net borrowing costs		770	666
Profit before income tax expense		5,446	6,297
Income tax expense		1,796	2,292
Effect of decrease in tax rates on deferred tax balances		-	(56)
Total income tax expense		1,796	2,236
Net profit		3,650	4,061
Outside equity interests in net (profit)/loss		11	(3)
Net profit available to Telstra Entity shareholders		3,661	4,058
Other valuation adjustments to equity			
Net exchange differences on conversion of non-Australian controlled entities' financial statements		(87)	61
Reserves recognised on equity accounting our interest in joint ventures and associates		41	(33)
Fair value reserve recognised on acquisition of controlling interest in joint venture entity		54	-
Valuation adjustments available to Telstra Entity shareholders and recognised directly in equity		8	28
Total changes in equity other than those resulting from transactions with Telstra Entity shareholders as owners		3,669	4,086
		¢	¢
Basic and diluted earnings per share (cents)		28.5	31.5

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per share)			
Final dividend per share (cents per share)	3	11.0	11.0

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 2002'. 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 2002', which is available, free of charge, on request to Telstra.

## discussion and analysis

Our net profit after minorities for the year was \$3,661 million, representing a decrease of 9.8% from the prior year's net profit of \$4,058 million. Our earnings per share decreased to 28.5 cents per share from 31.5 cents per share in the prior year.

Earnings before interest and income tax expense (EBIT) was \$6,216 million (2001: \$6,963 million).

The decrease in this year's result was attributed to a number of one off events that occurred during the prior year. The most significant of these items are specifically identified in note 4 to our financial statements (included on page 55). These items had the net effect of increasing profit before income tax expense in the prior year by \$604 million, or \$395 million after tax. Included in the prior year once off items were the following transactions:

- We recognised a profit before income tax expense of \$852 million, or 50% of the profit on sale of our global wholesale business to our 50% owned Asian joint venture, Reach Ltd;
- There was a general decline in the market value of telecommunications companies since the acquisition of our original 60% controlling interest in Joint Venture (Bermuda) No. 2 Limited (referred to as Regional Wireless Company or RWC). Based on an independent valuation, we recognised this decline by writing down our investment in RWC by \$999 million;
- 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;
- We applied a more prescriptive US accounting rule on revenue recognition in our financial statements. This resulted in a net reduction in profit before income tax expense of \$219 million, mainly due to the deferral of revenue from paper directories until the printed directory has been published; and
- The sale of our interest in Computershare Limited, resulting in a profit before income tax expense of \$245 million.

There has been no specific one off items reported in note 4 affecting the Telstra Group statement of financial performance for the current financial year.

In the year ending 30 June 2002, we continued to focus on cost control in an environment where there has been modest revenue growth.

Sales revenue grew by 8.1% or \$1,517 million to \$20,196 million, partly due to the one off effect of applying the more prescriptive US accounting rule in the prior year, but also due to the continued strong growth in mobile services (\$336 million) and fixed to mobile revenues (\$132 million). Data and internet services revenue declined marginally due to a softer overall market, but displayed signs of stabilisation and growth in the new data products area.

The continuing implementation of our rebalancing initiatives has resulted in increased basic access revenues (after excluding one off items) with decreases in local call, national long distance and international calling revenues. Our sales revenue also benefited from the inclusion of revenues from our recently acquired controlled entities RWC and TelstraClear Limited.

Our labour expenses, direct cost of sales and other expenses decreased by 13.3% or \$1,728 million to \$11,238 million primarily due to the one off items previously discussed. Other contributors to the movement included increased restructuring costs charged against profit, substantially for our controlled entity Network Design and Construction Limited, and higher network payments resulting from increased volumes of outgoing calls terminating on other carriers' networks. A reduction in staff numbers enabled us to decrease labour costs, however, these were partly offset by an increase from additional outsourcing arrangements. Declines in expenses also occurred from the progressive removal of mobile handset subsidies and lower spending in line with continuing cost reduction initiatives.

Depreciation and amortisation expense has continued to increase consistent with ongoing expenditure on our communications plant asset base and software development.

### Underlying normalised results

We have taken the reported results and adjusted for one off and other relevant items that occurred in both the current year and prior year so that a like for like comparison can be made. On this basis:

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• Total underlying revenue (excluding interest) increased by 1.8% to \$19,060 million; and

- Total underlying expenses (before interest) including equity accounted losses, increased marginally by 0.1% to \$12,410 million.

The resulting underlying earnings before interest and income tax expense increased by 5.0% to \$6,650 million.

statement of financial position	Telstra Group As at 30 June	
	2002 \$m	2001 \$m
Current assets		
Cash assets	1,070	1,077
Receivables	4,063	4,307
Inventories	204	320
Other assets	1,038	549
Total current assets	6,375	6,253
Non current assets		
Receivables	720	1,803
Inventories	20	8
Investments - accounted for using the equity method	1,197	1,259
Investments - other	105	143
Property, plant and equipment	23,421	22,803
Future income tax benefit	132	114
Intangible assets	3,421	3,012
Other assets	2,206	2,078
Total non current assets	31,222	31,220
Total assets	37,597	37,473
Current liabilities		
Payables	2,791	2,872
Interest-bearing liabilities	1,866	2,604
Income tax payable	632	657
Provisions	1,903	2,018
Revenue received in advance	1,037	1,128
Total current liabilities	8,229	9,279
Non current liabilities		
Payables	129	120
Interest-bearing liabilities	11,860	11,386
Income tax payable	-	91
Deferred income tax	1,987	1,573
Provisions	848	846
Revenue received in advance	438	456
Total non current liabilities	15,262	14,472
Total liabilities	23,491	23,751
Net assets	14,106	13,722
Shareholders' equity		
Telstra Entity		
Contributed equity	6,433	6,433
Reserves	14	11
Retained profits	7,661	6,795
Shareholders' equity available to Telstra Entity shareholders	14,108	13,239
Outside equity interests		
Contributed equity	212	490
Reserves	34	33
Accumulated losses	(248)	(40)
Total outside equity interests	(2)	483
Total shareholders' equity	14,106	13,722

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 2002'. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and

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investing activities of Telstra as the financial report. Further financial information can be obtained from the 'Annual Report 2002', which is available, free of charge, on request to Telstra.

**discussion and analysis**

Our total assets and total liabilities have not moved significantly during the year, however a number of transactions affected the categories within the statement of financial position. These included:

- Σ• Current other assets have increased due to the reclassification of \$434 million worth of land and buildings from property, plant and equipment, considered to be held for resale at 30 June 2002. Subsequent to 30 June 2002, we entered into an agreement to sell and lease back seven office properties nationally which were subject to the reclassification;
- Σ• Despite the above reclassification, our non current property, plant and equipment increased due to our ongoing capital expenditure program. In addition, we consolidated \$818 million of property, plant and equipment held by TelstraClear Limited after our acquisition of a controlling interest in this company; and
- Σ• We acquired an additional 40% interest in RWC for \$992 million. Consideration for this acquisition was the redemption of the original US\$750 million PCCW convertible note and the issue of a new US\$190 million mandatorily converting note, which is recorded in non current receivables. We recognised an additional \$522 million of goodwill (intangible assets) relating to this acquisition.

**Cash flow**

We continued to generate strong cash flow from operating activities with an increase of \$499 million to \$7,098 million (2001: \$6,599 million). Operating cash flow has shown strong growth resulting from tight control of expenditure and improved working capital management, partially offset by higher interest and tax payments.

Cash used in investing activities was \$3,258 million, representing a decrease of \$3,112 million from the prior year. The decrease is primarily attributable to \$3,045 million included in the prior year relating to our 60% investment in RWC, and tight control over our capital expenditure program in the current year which saw a decline in operating capital expenditure of 20.1% to \$3,491 million (2001: \$4,368 million). Total cash flow before financing activities (free cash flow) increased to \$3,840 million (2001: \$229 million).

Our cash used in financing activities was \$3,817 million (2001: inflow of \$94 million) after dividend payments (\$2,831 million) and repayment of borrowings. Significant financing activity occurred in the prior year due to funding required as part of entering our Asian ventures.

statement of cash flows	Telstra Group Year ended 30 June	
	2002 \$m	2001 \$m
Cash flows from operating activities		
Receipts from trade and other receivables (inclusive of goods and services tax (GST))	22,291	20,912
Payments of accounts payable and to employees (inclusive of GST)	(11,837)	(11,136)
Interest received	52	70
Borrowing costs paid	(897)	(813)
Dividends received	10	16
Income taxes paid	(1,503)	(1,455)
GST remitted to the Australian Taxation Office (ATO)	(1,018)	(995)
Net cash provided by operating activities	7,098	6,599
Cash flows from investing activities		
Payments for:		
- property, plant and equipment	(2,958)	(3,259)
- internal use software assets	(527)	(706)
- patents, trademarks and licences	-	(332)
- deferred expenditure	(6)	(71)
Capital expenditure (before investments)	(3,491)	(4,368)
- shares in controlled entities	(50)	(3,056)
- investment in joint venture entities	(67)	(131)
- investment in associated entities	(40)	(11)
- shares in listed securities and other investments	(14)	(38)
Investment expenditure	(171)	(3,236)
Total capital expenditure	(3,662)	(7,604)
Proceeds from:		
- sale of property, plant and equipment	194	288
- sale of patents, trademarks and licences	1	14
- sale of shares in controlled entities	-	4
- sale of joint venture entities and operations	-	3
- sale of listed securities and other investments	176	397
- sale of business	33	528
Net cash used in investing activities	(3,258)	(6,370)
Cash flows from financing activities		
Proceeds from:		
- borrowings	13,487	23,521
- Telstra bonds	987	-
Repayment of:		
- borrowings	(15,441)	(19,193)
- Telstra bonds	(41)	(565)
- finance leases principal amount	(18)	(14)
Payments for convertible note	-	(1,366)
Employee share loans (net)	40	27
Dividends paid	(2,831)	(2,316)
Net cash (used in)/provided by financing activities	(3,817)	94
Net increase in cash	23	323
Foreign currency conversion	(20)	-
Cash at the beginning of the year	1,067	744
Cash at the end of the year	1,070	1,067

The above statement of cash flows 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 2002'. This concise financial report cannot be expected to provide

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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 2002', which is available, free of charge, on request to Telstra.

## notes to the concise financial statements

### 1. Accounting policies

#### Basis of preparation of the concise financial report

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 2002'.

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 2002'.

Accounting policies used during the year ended 30 June 2002 are consistent with those for the previous year.

#### Further clarification of terminology used in our statement of financial performance

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of interest revenue, borrowing costs, income taxes, depreciation and amortisation. It is used as a measure of financial performance by excluding certain variables that affect our net profit but may not directly relate to all financial aspects of the operations of the company. EBITDA is not a measure of operating income, performance or liquidity under Australian generally accepted accounting principles and may be calculated differently by other companies.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA, but takes into account the deduction of depreciation and amortisation. When a specific revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance for the reporting period, its nature and amount have been disclosed separately. For comparative purposes, amounts classified as unusual in fiscal 2001 have been restated as specific in accordance with the format of the current year financial statements.

### 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

Our business structure changed during the fiscal year ended 30 June 2002. We have restated our comparative information as if the new business segments and segment accounting policies existed in prior years. The Telstra Group is organised along the following segments:

Telstra Retail's primary activities are sales and billing. This covers residential, business and government customers who receive our services, other than wholesale services (which are provided by Telstra Wholesale), mobile services (which are provided by Telstra Mobile), and those customers included in Telstra Country Wide. This business unit:

- manages our information, connection and payphone services as well as our print and online directories business;
- 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; and
- manages our interests in our North American, Japanese and European retail operations.

Telstra Country Wide is responsible for:

- addressing the telecommunication needs of consumer and business customers that reside and operate outside the mainland state capital cities and in Tasmania and the Northern Territory; and
- the specific needs of customers which are not as readily accessible as customers in metropolitan areas.

Telstra Mobile 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:

## Telstra Annual Review 2002

- the Asia-Pacific region, including our operations in Hong Kong, Vietnam, India, China, New Zealand, and Sri Lanka.

Infrastructure Services 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
- competing for some of our annual network expenditure against other suppliers, and also performing construction activities for others, including other telecommunications companies.

Telstra Wholesale is responsible for:

- the provision of domestic wholesale products and services to other carriers and carriage service providers.

Corporate Centre is responsible for:

- finance and administration, legal and regulatory, human resources, and corporate relations; and
- financial management of the majority of Telstra Entity fixed assets (including network assets) through the Asset Accounting Group. Infrastructure Services maintains control over annual capital expenditure on these assets.

## 2. Segment information continued

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. Corporate Centre is not a reportable segment and has been aggregated in the 'Other' segment.

### Inter-segment transfers

Segment revenues, segment expenses and segment results include demand driven transfers between business segments. Generally, most internal charges between business segments are made on a direct cost recovery basis. As the basis for transfers change from year to year depending on the business structure, we restate our comparatives to reflect the current basis. Certain regulatory, compliance and strategic functions are not charged to the reportable segments. We account for all international transactions between Australian and non-Australian businesses at market value. All internal telecommunications usage of our own products is also accounted for at market value.

The Asset Accounting Group does not allocate depreciation expense to other business segments related to the use of assets owned at the Corporate level.

### Segment assets and liabilities

Segment assets and segment liabilities form part of the operating activities of a segment and can be allocated directly to that segment.

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. These assets are accounted for at the Corporate level, including network assets (aggregated in the 'Other' segment), and not allocated across segments.

Telstra Group	Telstra Retail (a) \$m	Telstra Mobile \$m	Telstra Inter- national \$m	Infra- structure Services \$m	Telstra Whole- sale \$m	Other (b) \$m	Elimi- nations (c) \$m	Total of all segment s \$m
Year ended 30 June 2002								
Sales revenue from external customers	12,560	3,501	1,497	253	2,334	67	(16)	20,196
Other revenue from external customers	227	-	34	29	11	305	-	606
Total revenue from external customers (excluding interest revenue)	12,787	3,501	1,531	282	2,345	372	(16)	20,802
Less sale of investment/dividend revenue	42	-	14	-	-	-	-	56
Segment revenue from external customers	12,745	3,501	1,517	282	2,345	372	(16)	20,746
Add inter-segment revenue	447	39	1	1,853	1,001	957	(4,298)	-
Total segment revenue	13,192	3,540	1,518	2,135	3,346	1,329	(4,314)	20,746
Segment result	7,318	1,542	(22)	(1,371)	2,076	(4,267)	1,022	6,298
Less share of joint ventures' net losses	43	-	36	-	-	-	-	79
Less share of associates' net losses/(profits)	(1)	-	3	-	-	-	-	2
Less net book value of investments sold	40	-	9	-	-	8	-	57
Add sale of investment/dividend revenue	42	-	14	-	-	-	-	56

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Earnings before interest and income tax expense (EBIT)	7,278	1,542	(56)	(1,371)	2,076	(4,275)	1,022	6,216
As at 30 June 2002								
Segment assets <sup>(d)</sup>	4,291	1,098	6,095	1,436	414	25,736	(1,473)	37,597
Segment liabilities	2,763	234	1,671	1,530	252	19,691	(2,650)	23,491

(a) Telstra Retail segment revenue from external customers includes \$2,406 million relating to Telstra Country Wide.

(b) Included in the other segment result is a specific charge of \$855 million relating to a provision for amounts owed by a controlled entity.

(c) Included in segment result is an elimination for the specific charge of \$855 million relating to a provision for amounts owed by a controlled entity.

(d) Segment assets for the other segment includes Telstra Entity fixed assets (including network assets) managed through the Asset Accounting Group.

**2. Segment information continued**

Telstra Group	Telstra Retail (a) (b) \$m	Telstra Mobile (c) \$m	Telstra International (d) \$m	Infra- structure Services \$m	Telstra Wholesale \$m	Other <sup>(e)</sup> \$m	Elimi- nations \$m	Total of all segments \$m
Year ended 30 June 2001								
Sales revenue from external customers	11,620	3,144	1,208	282	2,410	67	(52)	18,679
Other revenue from external customers	616	13	2,495	51	22	1,108	(1)	4,304
Total revenue from external customers (excluding interest revenue)	12,236	3,157	3,703	333	2,432	1,175	(53)	22,983
Less sale of investment/dividend revenue	551	-	2,466	-	-	-	-	3,017
Segment revenue from external customers	11,685	3,157	1,237	333	2,432	1,175	(53)	19,966
Add inter-segment revenue	328	38	281	2,124	801	1,020	(4,592)	-
Total segment revenue	12,013	3,195	1,518	2,457	3,233	2,195	(4,645)	19,966
Segment result	6,582	1,329	(773)	(1,205)	2,119	(2,765)	719	6,006
Less share of joint ventures' net losses	36	-	92	-	-	-	-	128
Less share of associates' net losses	53	-	2	-	-	-	-	55
Less net book value of investments sold	297	-	1,574	4	-	-	2	1,877
Add sale of investment/dividend revenue	551	-	2,466	-	-	-	-	3,017
Earnings before interest and income tax expense (EBIT)	6,747	1,329	25	(1,209)	2,119	(2,765)	717	6,963
As at 30 June 2001								
Segment assets	4,290	1,160	4,437	1,499	479	29,565	(3,957)	37,473
Segment liabilities	2,829	227	567	1,644	247	23,304	(5,067)	23,751

(a) Specific revenue of \$546 million from the sale of Computershare Limited (refer note 4) is included in Telstra Retail revenue. This item and the associated book value are excluded from the segment revenue and segment result of Telstra Retail, but contributed \$245 million to segment EBIT.

(b) Telstra Retail segment revenue was reduced by \$745 million relating to the specific SAB101 cumulative adjustment (refer note 4). This specific item decreased the segment result by \$205 million.

(c) Telstra Mobile segment revenue was reduced by \$34 million relating to the specific SAB101 cumulative adjustment (refer note 4). This specific item decreased the segment result by \$14 million.

(d) Telstra International total revenue includes a specific item of \$2,372 million from the sale of our global wholesale business to Reach. This item and the associated book value is excluded from the segment revenue and segment result of Telstra International, but contributed \$852 million to segment EBIT. The segment result also includes specific expenses relating to the RWC write off of acquisition costs of \$999 million (refer note 4).

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

**3. Dividends**

	Telstra Group Year ended 30 June	
	2002 \$m	2001 \$m
Ordinary shares		
Interim dividend paid(i)	1,415	1,029
Final ordinary dividend provided for(i)	1,415	1,416
Total dividend provided for or paid	2,830	2,445
Previous year final ordinary dividend paid in the current year(i)	1,416	1,287
Dividends per share (cents)	¢	¢
Interim dividend paid	11.0	8.0
Final ordinary dividend provided for	11.0	11.0
Total	22.0	19.0
Previous year final ordinary dividend paid in the current year	11.0	10.0

(i) 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. The tax rate at which the fiscal 2002 final ordinary dividend will be franked is 30% (2001: 30%). The tax rate at which the fiscal 2002 interim dividend was franked was 30% (2001: 34%).

The final dividend for fiscal 2002 is due to be paid on 28 October 2002 (2001: 26 October 2001). The interim dividend for fiscal 2002 was paid on 29 April 2002 (2001: 27 April 2001).

**4. Specific items**

	Telstra Group Year ended 30 June	
	2002 \$m	2001 \$m
The following items form part of the ordinary operations of our business, but are considered specific due to their nature and amount. Our net profit has been calculated after charging/(crediting) specific revenue and expense items from our ordinary activities as follows:		
Specific revenue items:		
Sales revenue		
- revenue recognition accounting policy change	-	779
Other revenue (excluding interest revenue)		
- sale of global wholesale business and controlled entities to Reach Ltd	-	(2,372)
- writeback of Telstra Superannuation Scheme additional contribution liability	-	(725)
- sale of our investment in Computershare Limited	-	(546)
	-	(3,643)
Total specific revenue items	-	(2,864)
Specific expense items:		
Direct cost of sales		
- revenue recognition accounting policy change	-	(560)
Other expenses		
- book value of our global wholesale business and controlled entities sold to Reach Ltd	-	668
- deferral of unrealised profit arising on sale of business and controlled entities to Reach Ltd	-	852
- book value on sale of our investment in Computershare Limited	-	301
- writeoff of RWC acquisition costs	-	999

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	-	2,820
Total specific expense items	-	2,260
Net specific items	-	(604)
Income tax expense	-	209
Net specific items after income tax expense	-	(395)

## **5. Events after balance date**

The directors are not aware of any matter or circumstance that has occurred since 30 June 2002 that, in their opinion, has significantly affected or may significantly affect in future years:

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

other than:

On 1 August 2002, we sold a portfolio of seven office properties nationally for \$570 million. The carrying value of these properties was \$434 million as at 30 June 2002. This balance has been reclassified in our statement of financial position as other current assets. We have entered into operating leases totalling \$518 million in relation to these properties on normal commercial terms of between five and twelve years, most of which commenced on 19 August 2002.

## **independent audit report to the members of Telstra Corporation Limited**

### **Scope**

I have audited the concise financial report of Telstra Corporation Limited (Telstra entity) and its controlled entities for the financial year ended 30 June 2002, as set out on pages 44 to 56, in order to express an opinion on it to the members of the Telstra entity. The entity'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 Telstra entity for the year ended 30 June 2002. The audit report on the full financial report was signed on 28 August 2002, 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' applicable in Australia.

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

### **Audit Opinion**

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

P.J. Barrett  
Auditor-General  
28 August 2002  
Melbourne, Australia

## **investor information**

### **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.

### **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 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 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.

### **Shareholder Information - you can do so much more online**

You can access information about your holdings in Telstra Corporation Limited via the internet.

Visit the Telstra Share Registry website at [www.asxperpetual.com.au](http://www.asxperpetual.com.au) and access a wide variety of holding information, make changes to your holding record and download forms. You can:

- Check your current and previous holding balances
- Find out (and change if necessary) the type of annual report you receive
- Confirm whether you have lodged your Tax File Number (TFN), Australia Business Number (ABN) or exemption
- Check dividend information (instructions and history)
- Enter your email address
- Check the share price
- Request a variety of forms

You can access this information via a secure login using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as well as your surname or company name and postcode.

### **What forms can I download?**

You can download a number of forms, including the change of address notification, deceased estate and dividend instruction forms.

### **Can I receive company announcements online?**

You can receive company communications and announcements via email. Subscription is free.

### **Can I make email enquiries?**

You can make enquiries via the website or by emailing the Registrar directly at [telstra@asxperpetual.com.au](mailto:telstra@asxperpetual.com.au)

### **Have us bank your dividend and distribution payments for you**

Dividend payments can be credited directly into any nominated bank, building society or credit union account in Australia. Please note that dividends cannot be credited to third party accounts. To request a Request for Direct Credit of Payments form, you can call the Telstra Share Registry on 1300 88 66 77\* or visit the website at [www.asxperpetual.com.au](http://www.asxperpetual.com.au).

### **Lodge your Tax File Number (TFN), Australian Business Number (ABN) or exemption**

You are strongly advised to lodge your TFN, ABN or exemption. If you choose not to provide these details to the share registry, then we are required to deduct tax at the highest marginal tax (plus the medicare levy) from the unfranked portion of any dividend payment.

**Annual Reports**

Any change in the type of annual report information you wish to receive can be made over the phone or via the Telstra Share Registry website.

\*Local call fee applies.

## Mini Glossary

### 2G

Second generation technologies representing the upgrade of voice networks from analogue to digital:

GSM Global System for Mobile Communications - one of Telstra's two digital mobile networks. GSM covers 95% of the Australian population. This system uses the customers personal sim card

CDMA Code Division Multiple Access - a digital mobile telephone system where no sim card is required. CDMA reduces the probability of a 'dropped call', uses less battery power and the signal is clearer

GPRS General Packet Radio Service. A 2.5G technology equivalent to an upgrade on the GSM network to support greater data transmission. It is a step closer to the evolution to 3G

### 3G

Third Generation Mobile Technology - will be the first mobile technology that supports both voice and high speed data services with speeds up to 2Mbps:

W-CDMA Wideband CDMA is a 3G Technology offering wireless data transmission. It supports multimedia services, including video conferencing

CDMA2000 1x A CDMA based 3G technology for wireless data transmission speeds of up to 144 kilobytes per second (kbps)

### General

ACCC Australian Competition and Consumer Commission

ADSL Asymmetric Digital Subscriber Line - an internet technology that allows simultaneous transfer of voice and data with speeds up to 2 Mbps over network copper lines

Download Information transferred from the server/ network end

ISDN Intergrated Services Digital Network - a fully digital service that allows higher quality dial up communications from 64Kbps to 2Mbps

ISP Internet Service Provider - provider of internet services to the consumer

MMS Multimedia Messaging Service - technology allowing mobile phone users to send colour photos, audio clips and text from their handsets

PSTN Public Switched Telephone Network - is accessible to all those with a telephone and access rights and refers to the worldwide voice telephone network

SIM Subscriber Identity Module - a smartcard that is inserted into GSM handsets to activate the phone

SIO Services in Operation - mobile phone services in use

SMS Short Messaging Service - refers to the ability to receive and deliver text messages to mobile devices such as the mobile phone

Upload Information transferred from the user end

**five year financial summary**

	2002 A\$m	2001 A\$m	2000 A\$m	1999 A\$m	1998 A\$m
Sales revenue	20,196	18,679	19,343	17,571	16,703
Total revenue (including interest)	20,928	23,086	20,567	18,218	17,288
EBITDA <sup>(1)</sup>	9,483	9,834	8,563	8,351	7,375
Profit before income tax expense	5,446	6,297	5,349	5,320	4,468
Net profit after minorities	3,661	4,058	3,677	3,486	3,004
Dividends	2,830	2,445	2,316	4,247	1,802
Total assets	37,597	37,473	30,339	27,682	26,470
Gross debt	13,726	13,990	9,821	7,211	7,722
Net debt	11,553	10,630	8,531	5,769	6,458
Shareholders' equity	14,106	13,722	11,602	10,294	11,079
Operating cash flow	7,098	6,599	6,547	6,574	5,635
Investing cash flows	(3,258)	(6,370)	(4,896)	(4,064)	(3,609)
Financing cash flows	(3,817)	94	(1,881)	(2,484)	(1,808)
Net movement	23	323	(230)	26	218
Capital expenditure and investments (including interest)	(3,777)	(7,712)	(5,428)	(4,478)	(3,973)
Financial ratios	%	%	%	%	%
Return on average assets	17.8	21.9	21.2	22.7	20.1
Return on average equity <sup>(2)</sup>	26.8	32.7	33.7	29.9	28.7
Interest cover (times)	7.0	9.0	8.5	9.4	7.6
Gross debt to capitalisation <sup>(2) (3)</sup>	49.3	50.5	45.8	36.9	41.1
Net debt to capitalisation <sup>(2) (4)</sup>	45.0	43.7	42.4	31.8	36.8

(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.

**Operating cash flow up 26.0% over 5 years**

Telstra maintained a trend of strong cash flow over the 5-year period from 1998.

**Return on average assets down 4.1%**

Decreased due to lower EBIT and higher average assets. Lower EBIT was caused by a number of beneficial one off items included in the prior year, whilst the average asset base increased due to ongoing capital expenditure and the acquisition of our additional 40% interest in RWC.

**Return on average equity down 5.9%**

Decreased after both the decline in net profit after minorities and the increase to shareholders' equity attributable to Telstra Entity shareholders. Shareholders' equity increased after our net profit after minorities of \$3,661 million and dividends relating to the year of \$2,830 million. Outside equity interests were reduced by \$485 million, principally related to the acquisition of our additional 40% interest in RWC.

## Contact details

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Website  
This review and the Annual Report  
may also be found via Telstra's Investor Relations home page at:  
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\*Local call fee applies.

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