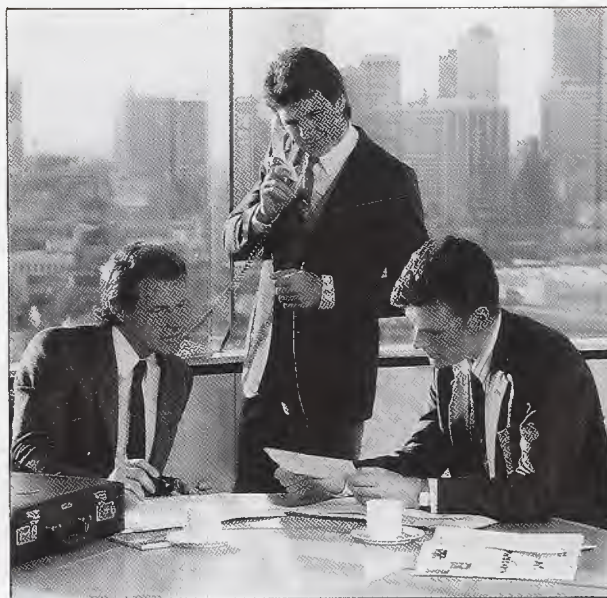


Telecom. The Facts.

1988-1989



Telecom Australia

Foreword

The 1988/89 financial year and the period immediately preceding it may well have been the most significant since telecommunications began in Australia.

It has been a period of rapid change for the industry as it seeks to meet the challenges of the 1990s. Changed Government policy has put Telecom on a commercial footing, preparing us for increased competition and new demand from customers for more sophisticated and value-added services.

The watershed was the Government's May 1988 review of telecommunications policy and reformation of Government Business Enterprises which had profound effects on Telecom.

New corporate and financial structures have been developed, and new planning and accountability mechanisms put in place in response to major changes on strategic controls and removal of ministerial day-to-day control.

Markets previously the exclusive responsibility of Telecom—cabling and wiring of customer premises—PABX maintenance and standard feature telephones for second and subsequent telephones—were opened up to competition from January 1, 1989.

Then from July 1, 1989, small business systems were opened to competition.

From January 1, 1989, Telecom became a corporation. An early task addressed by the Board and management was the development of a clear mission statement to define Telecom's broad direction for the future.

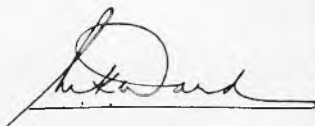
The message in that statement is quality of service to all customers. It is a blueprint for the future for all the people of Telecom and our millions of customers.

Hand in hand with the Mission Statement is Telecom's Corporate Plan—the way the Mission Statement will be achieved.

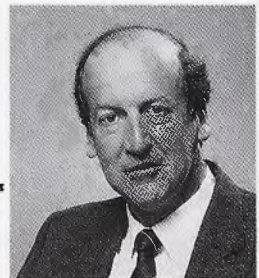
As Australia pushes increasingly into world markets, emerging opportunities to enhance trading and cultural relationships are vitally dependent on the quality of our information industries, most notably, telecommunications.

Telecommunications plays a key role in the ability of private enterprise to compete successfully in world markets. We in Telecom must set our sights on improving efficiency, quality of service and network modernisation to smooth the path for Australian enterprise into global markets.

This booklet sets out the facts and figures of Telecom's performance and indicates how we will meet the challenges.



M. K. Ward
Managing Director



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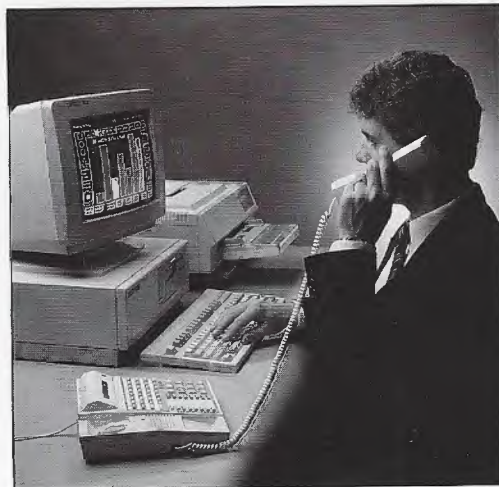
Mission Statement

Telecom Australia is a major public enterprise. It is committed to excellence, and to winning the benefits of an expanding world of communications and information services for all Australians.

Our customers come first. We are dedicated to providing world-class telecommunications services, affordably and equitably, to fulfil their needs.

Our people make this possible. They do this through an acceptance of individual responsibility and accountability, and through co-operation and teamwork.

Our business success is the key to our future. Our aim is to operate profitably, but with full recognition of our vital social role, and to be measured as one of the most efficient and effective telecommunications companies in the world.



Commitments

Last year Telecom made six major commitments to its customers:

1. More detailed phone bill information, easier to understand, including a new single page bill by October 1989.

Residential and small business customers will benefit from a new single page bill from October. The number of bill pages for other business customers will be reduced by two-thirds.

2. Nine out of 10 public telephones will be working at any one time.

In June, 1989, independent market research showed 88% of public telephones working at any one time, with some areas recording up to 98%.

3. We will hold average basic charge increases to less than the CPI-giving customers reductions in real terms.

The average charge for Telecom's basic services increased by only 1.2% in 1988-89, representing a significant real reduction in average basic charges.

Reductions in tariffs on a range of long distance and off-peak trunk charges will mean a \$100 million decrease in Telecom revenue over a full year. *That's \$100 million given back to customers.*

4. We will cut installation and maintenance times.

Due to the extraordinary wet weather in most of the more populous

parts of Australia over the past 12 months, this was not possible. However we have initiated several programs which will mean better and quicker service to our customers in the future.

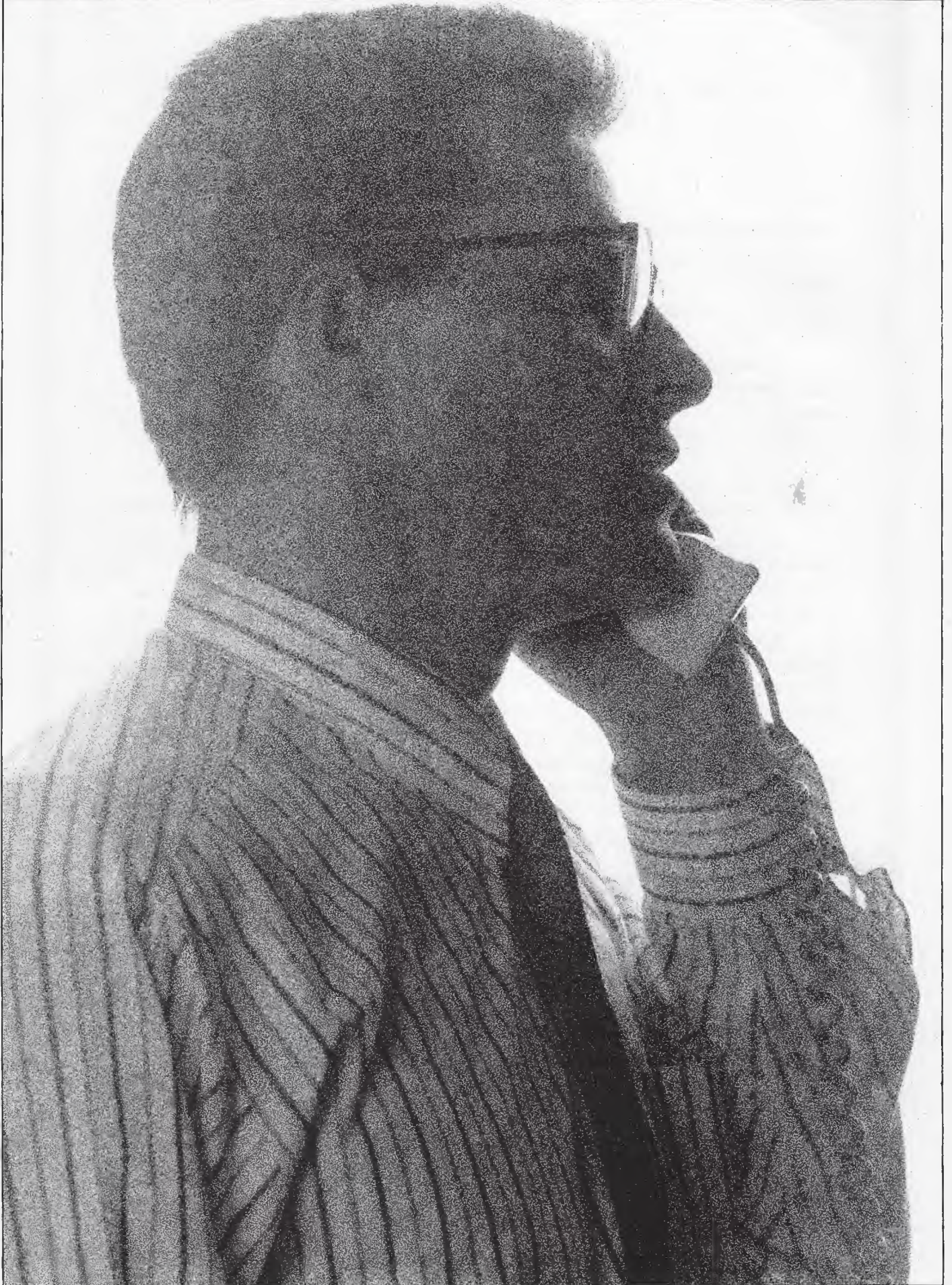
5. We will take steps to significantly improve our relationship with customers by more efficient handling of inquiries.

We have established our first Business Service Centre to give personal service to our business customers. Others will be established in the coming 12 months. We have established a Telecom Referral Centre to help our staff handle customer inquiries and complaints as quickly as possible. And we continue to monitor and improve these services.

6. We will listen more closely to our customers' views and needs through an active consultative process so involving our customers in decision making on major issues.

We have established national and regional Consumer Councils to listen to customers' views. Already the national council has discussed the single page bill, pricing, 0055 service, concession vouchers, property lead-in cabling policy and the financial constraints some customers face in paying for essential telecommunications services.

ACHIEVEMENTS



The Changing Face of Today's Telecom

THE HIGHLIGHTS OF 1988-89.

- Average price increase of only 1.2%, representing a real reduction in average basic charges.

- Trading profit \$973 million.

- Rate of return on assets 13.8%.

- Telephone network growth 4.6%.

There are now more than 7.4 million telephone services in operation.

- MobileNet service growth almost 200%. There are now around 95,000 mobile telephone customers.

- Labour Productivity growth 12% (lines per employees).

- 30% growth in digital data services in operation.

- New legislation to ensure Telecom is well placed to meet the future challenge.

- New products introduced to provide customers with the latest in technological developments.



Telecom's Part in the Australian Economy

There is a close link between the development of a country's communication system and its wealth or Gross National Product.

In Australia, Telecom makes a big contribution to the economic development and industrial expansion of the country. The growth of telecommunications systems supports the establishment of high technology industries and their potential export opportunities.

Consider these facts:

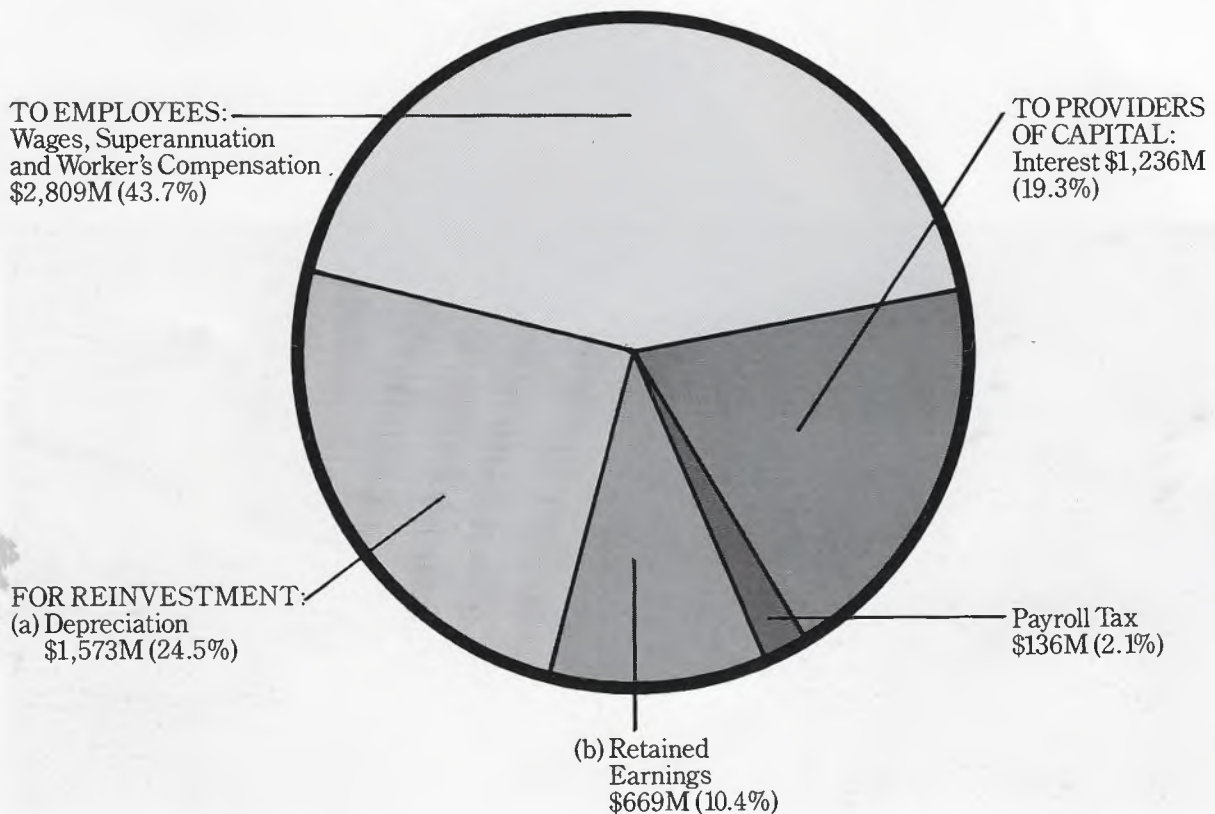
1. Telecom is Australia's second largest employer after the Coles-Myer group with 84,000 full-time staff in 1988-89.

2. In 1988-89, Telecom spent more than \$2.5 billion on capital works with most equipment and materials being purchased from Australian companies.

3. Telecom actively encourages local research and development for home and overseas markets.

4. Telecom's value added is a measure of the contribution which Telecom makes to Australia's Gross Domestic Product (GDP). Last year Telecom's value added was \$6.4 billion, or 2.6% of GDP. This probably represents the largest contribution to GDP from a single commercial enterprise in Australia.

TELECOM'S VALUE ADDED



Achievements and Perspectives

1988-89 was a buoyant year for Telecom—and Australia. Telecom recorded its strongest ever trading profit, \$973 million.

Australia's buoyant economic conditions led to steady growth both in demand for a wide range of telecommunications services and the use of those services. For example, demand for new telephone services rose 8.5%.

Indeed, a major factor affecting revenue growth during the year was

increased use of services across all customer sectors.

Data services grew strongly, with the Digital Datal Service networks increasing by 30%, and the AUSTPAC service by more than 50%.

The growth of the cellular mobile telephone network was spectacular, stretching network capacity and capability. Expanding the network is a top priority for 1989-90.

HOW TELECOM HAS PERFORMED SINCE IT WAS ESTABLISHED IN 1975.

1975

1989

86,000 average full time staff.
Connected 335,000 new telephone services.
STD maximum distance. \$2.70 for 3 minutes.
Black rotary dial phones.

Local Calls 9 cents.
Postage stamp 9 cents.
Petrol 14.3c per litre.
Gas 0.17c per MJ.
Electricity 8.66c per kWh.

84,000 average full time staff.
Connected 682,907 new telephone services.
STD maximum distance. \$1.72 for 3 minutes.
Touchfone 200—world's best standard telephone.

Local Calls 21 cents.
Postage stamp 41 cents.
Petrol 52.6c per litre.
Gas 0.57c per MJ.
Electricity 30.5c per kWh.



Telecom in the Community

Telecom has begun a Community Relations Programme which listens and responds to customer needs.

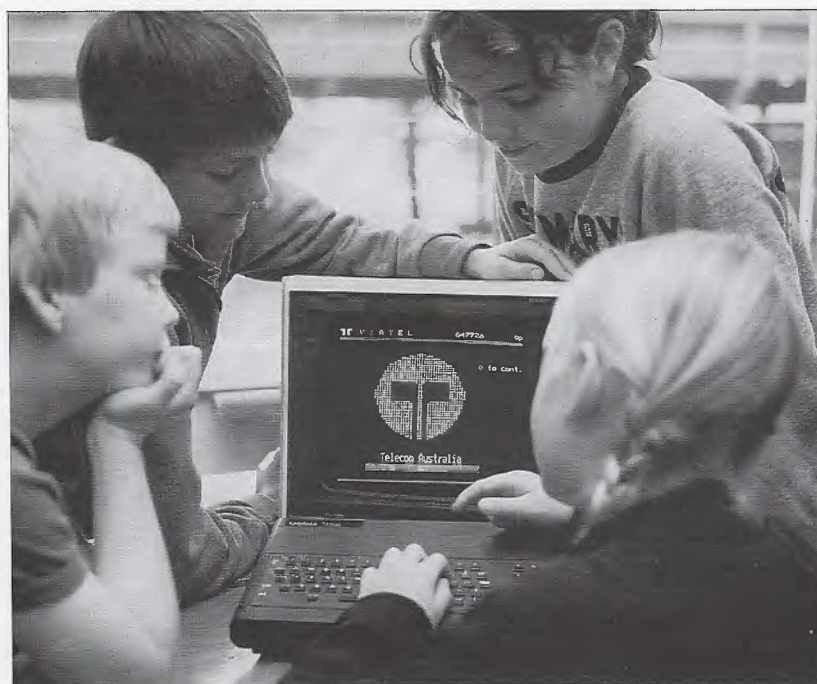
Telecom is extending community participation into its operations through:

- the development of National and Regional Consumer Consultative Councils to respond to the views of residential consumers.
- establishment of a Small Enterprise Policy Panel to advise on the needs of small business throughout Australia.
- market research through a programme called TELCATS which directly reports customer perceptions of delivery of services.

In addition, Telecom supports community activities which enrich community or educational needs.

In particular, Telecom has contributed greatly to Australia's growing communications expertise. Educational displays, seminars, scholarships, tertiary institution support and funding of university based research projects has provided much assistance to community education and development of local capability.

Telecom staff have also continued their fine participation in community affairs. Staff fund raising activities have contributed to welfare agencies, child care facilities, and general community awareness. Telecom, as the employer body, supports these activities and is proud of the contribution of staff.



New Products and Services

Telecom in 1988/89 introduced a new range of products and services to meet customer needs. The most important were:

- The Touchfone 200 Expander, a new version of Telecom's world class standard telephone with headset, handsfree, volume control and two-line operation.

- The Blue Phone, Telecom's latest payphone, was introduced early in 1989 and was well received by businesses wishing to provide an extra service for customers.

- The ISDN (Integrated Services Digital Network) Commercial Service which allows voice, text, data, video and image services to be carried on the one network.

- A new Telecom 9000 range of PABXs, value added products and other advanced communications solutions.

- Digital Metropolitan Service (DMS), a quality product targeted at the short distance metropolitan data market.

- The Nomad Plus cordless telephone.

- 0055 information services to which 7 million calls were made to more than 4000 messages on 1300 services.

- Telecard, a telephone calling card was introduced which allows the customer to make operator assisted phone calls without cash from any phone.

- Telemarketing. Telecom has set up the infrastructure to provide expert advice to business customers intending to establish telemarketing centres.

- Small business systems. Telecom's range of Commander systems is being strengthened by the release of a new family of competitively priced systems which will include a new distributed intelligence system.

- Residential optical fibre trials have begun in Melbourne and Sydney using enhanced telephone facilities, data service and a trial cable video system.



Financial Performance

Telecom's trading profit of \$973 million was derived from an operating revenue of \$7977 million, an increase of 11%.

A major factor in this revenue growth was customer demand, borne out by greater use of all services.

The underlying strength of the Australian economy was a significant influence on Telecom's performance, as it also has been on most of Australia's large companies and institutions.

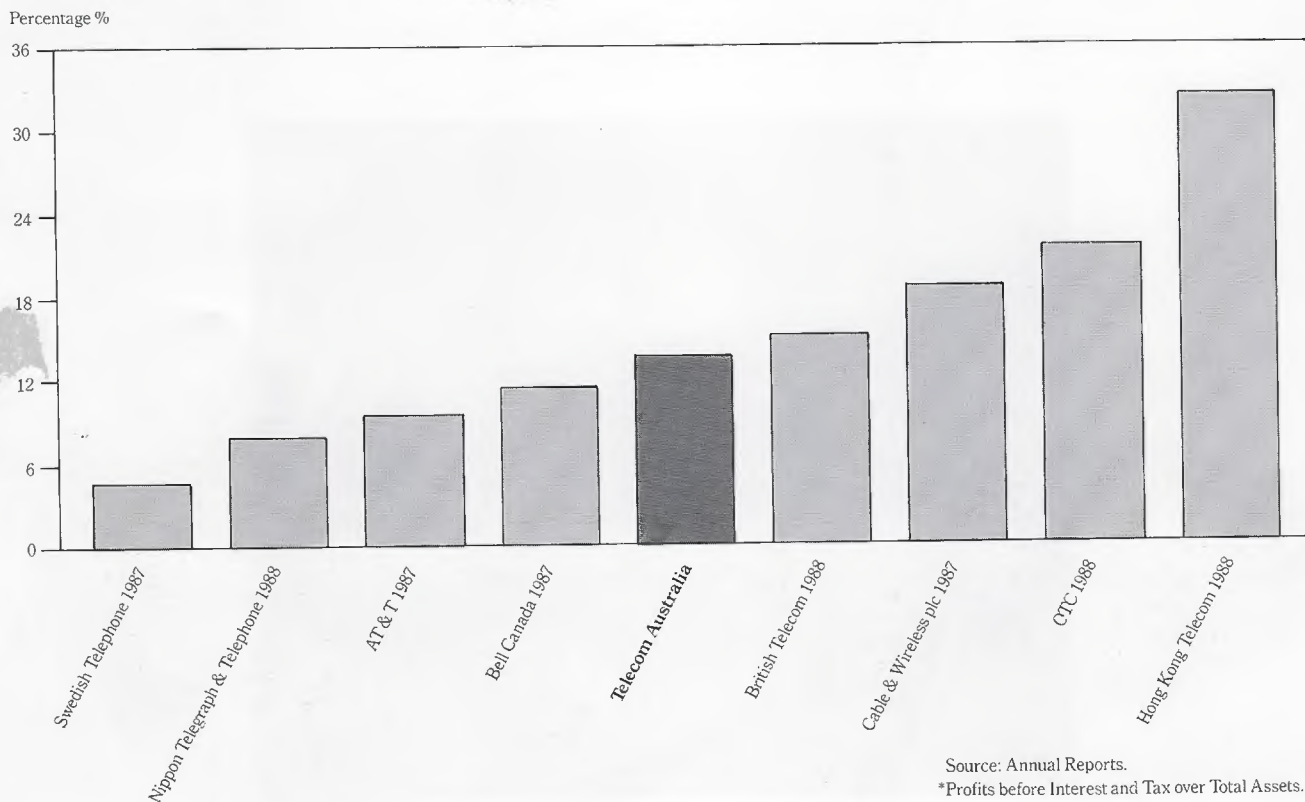
This profit represents a rate of return on assets of 13.8%. Our target was 13%. This healthy result compares

favourably with other companies in Australia and overseas telecommunications organisations.

This rate of return provides affordable and efficient services while ensuring self-generated funds for future upgrading and expansion.

In keeping with Government objectives, Telecom must aim to achieve a level of profitability that allows it to carry out essential network upgrading and other works without excessive reliance on external borrowing, at the same time continuing to keep its average basic services price increases at least 4% below CPI.

RETURN ON ASSETS* COMPARISON



International Perspectives

Telecom provides the telecommunications infrastructure essential for the prosperous growth of the Australian economy in the information age. It does this by developing and extending the country's telecommunications, delivering affordable and quality services, generating profitable new initiatives, and operating as both a commercial yet socially responsible organisation in accordance with its charter as a Government Business Enterprise.

MARKET SIZE.

Telecom Australia's achievements are even more impressive when put in perspective, so: how does Australia's telecommunications system compare with those of other major developed countries?

Firstly, Australia's telecommunications market is small, only some 2% of the world market. It is:

1. 1/12th the size of the U.S.A. market.
2. 1/12th the size of the European market.
3. 1/7th the size of the Japanese market.
4. Half the size of the Canadian market.

DENSITY.

Australia's population density is 1/12th that of the U.S.A., 1/125th that of the U.K. and 1/150th that of Japan. And yet, Telecom Australia provides a comparable service, even though its customers are spread at least twice as thinly as any other major telecommunications provider.

Secondly, Australian telecommunications has a very large area to be served.

LAND AREA.

In terms of relative land area:

1. U.S.A. and Western Europe are of comparable size.
2. U.K. and Japan each will fit into Victoria.
3. Telecom serves a 54% bigger area than Bell Canada.

In numbers of telephone services, U.S.A. has 118.4 million, U.K., France, West Germany and Italy 94.6 million and Australia 7.4 million.

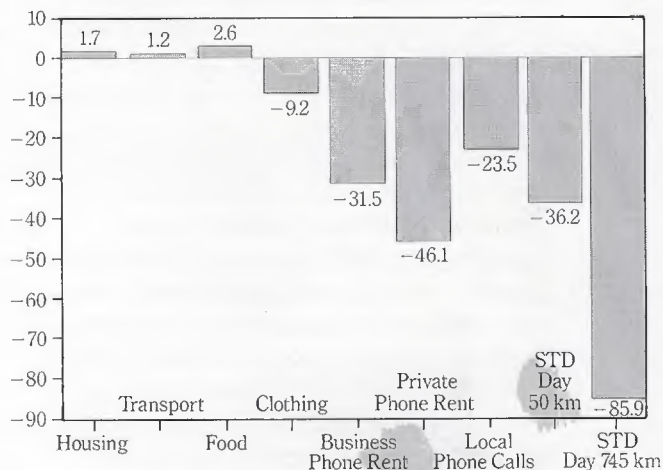


Productivity and Efficiency

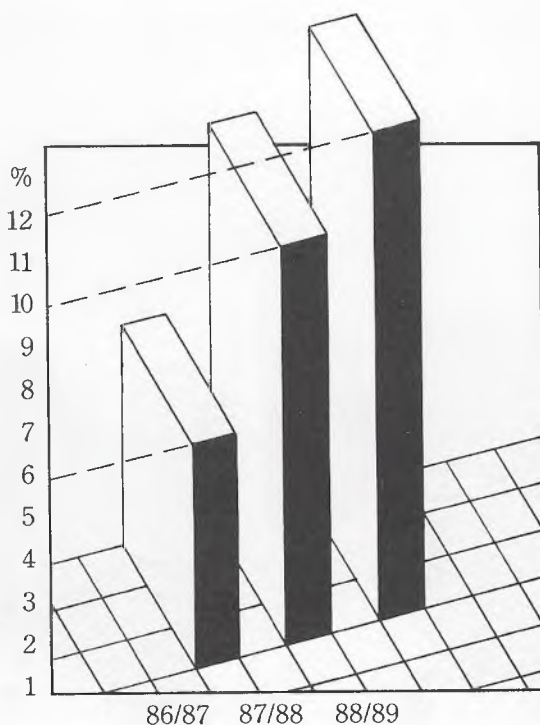
High on Telecom's list of internal management priorities is productivity. Over the past six years, total factor productivity has been estimated at about 3.5% compared to 1% for the Australian economy. During 1988-89 the improvement in labour productivity was 12%.

The benefits of productivity improvements are passed on to customers through constrained prices. Telephone call costs have fallen sharply in real terms. That is, increases in telephone costs below that of the CPI. In comparison with some other sections of the economy, increases in the charges for both local and STD calls have been far below CPI increases over the years since 1975. During 1988/89, Telecom's index of basic tariffs increased by only 1.2%.

PRICE CHANGES RELATIVE TO CPI
Sept 1975 to June 1989



LABOUR PRODUCT IMPROVEMENT.*



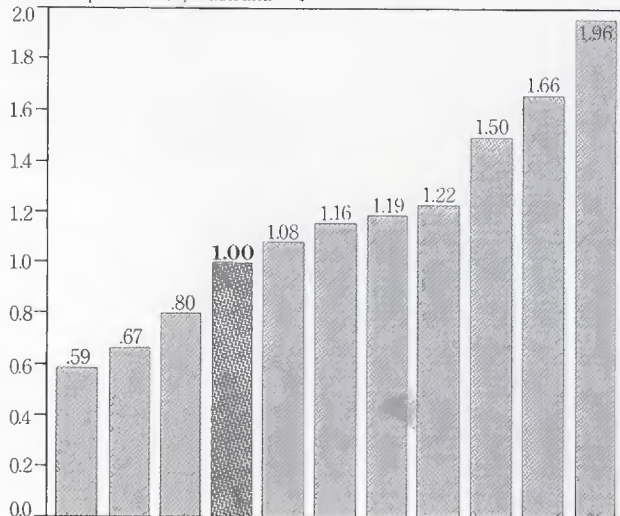
* Number of access lines per employee.

Productivity and Efficiency



COST OF RESIDENTIAL TELEPHONE SERVICES

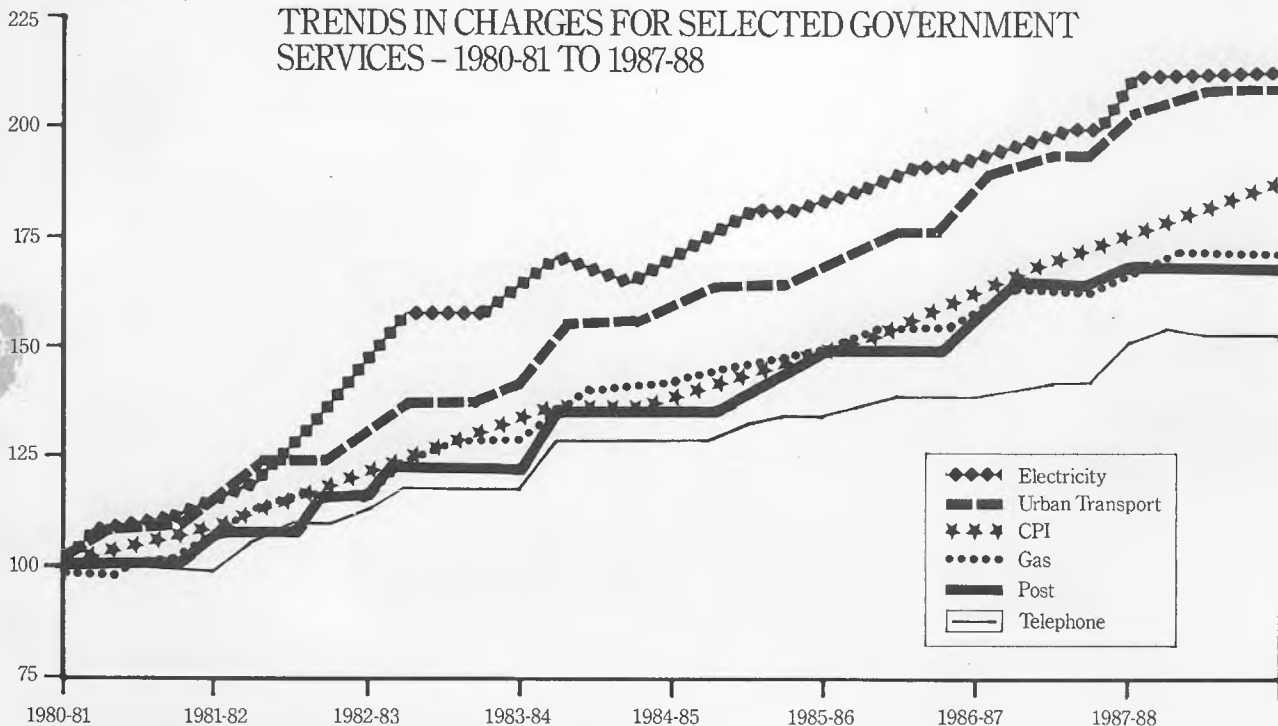
(Residential basket developed by OFTEL - U.K. Office of Telecommunications)
Index of price ratios, Australia = 1



Based on prices as at February 1987 and adjusted to show relative efficiency.
Source: Telecom Economic Paper No. 3.

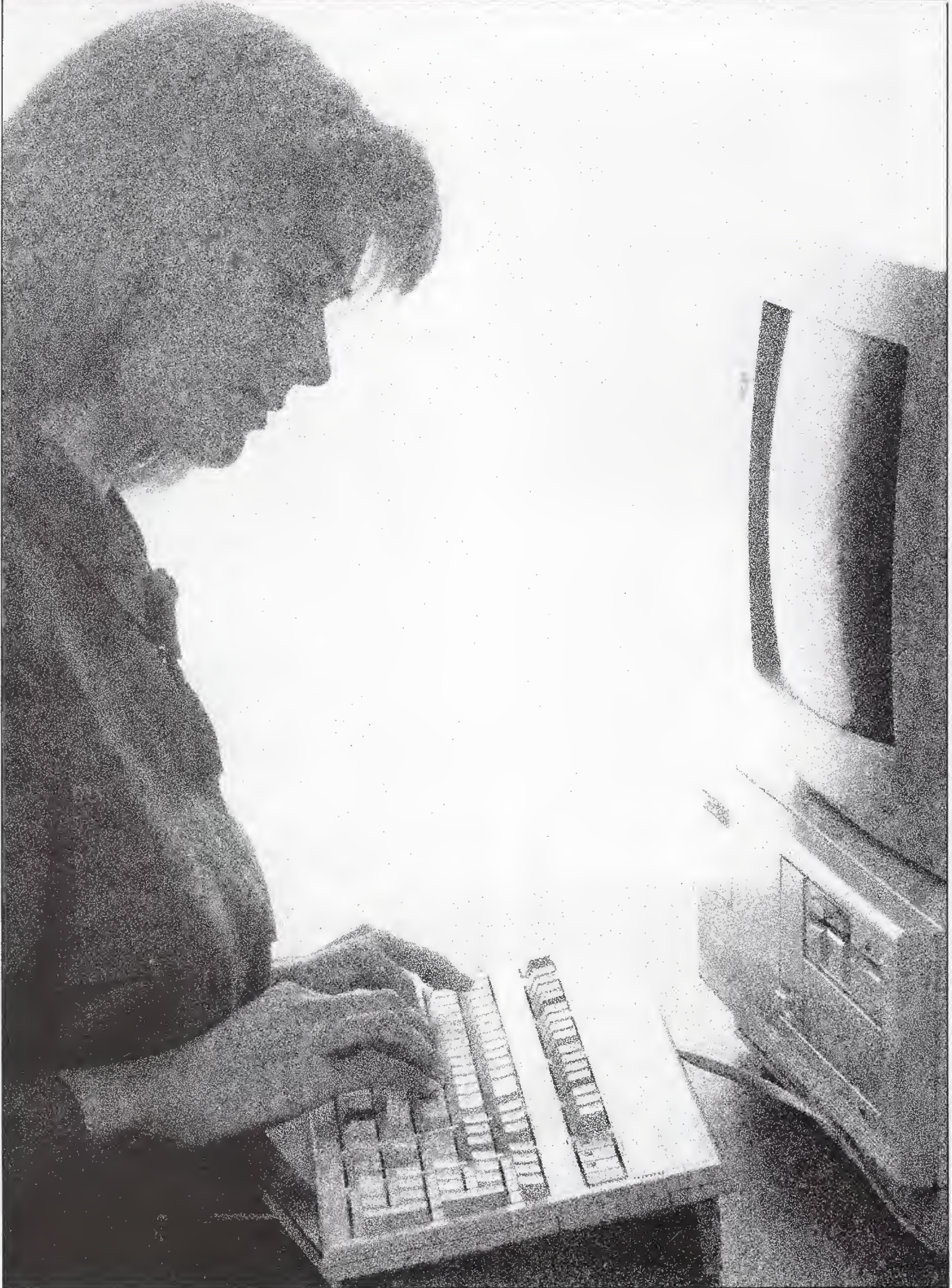
Index (1980-81 = 100)

TRENDS IN CHARGES FOR SELECTED GOVERNMENT SERVICES - 1980-81 TO 1987-88



Source: IAC Report on Non-Tax (Government) Charges Enquiry

PROSPECTS



Future Directions

THE CORPORATE PLAN.

Changes to Government policies have meant many changes to Telecom, not the least of which has been a reappraisal of the corporation's future directions.

In general terms, the Mission Statement sets the path. How Telecom intends travelling down that path—in the next three years at least—is defined in the Corporate Plan.

This has four major objectives:

1. The delivery of affordable, quality services to all our customers.
2. The development, modernisation and extension of Australia's national telecommunications infrastructure.
3. The development of profitable new business initiatives for the benefit of our customers, and to help sustain Australia's economic competitiveness.
4. To operate commercially, yet as a socially responsible organisation, in accordance with our charter as a Government Business Enterprise.

Network Development.

Accelerated network modernisation

Replacement of obsolete exchange equipment

All customers to have push-button/tone signalling telephones

Extension of ISDN/introduction of "Intelligent" services

Extension of cellular mobile telephone services as integrated part of the PSTN

Commercial Priorities.

Productivity gains of at least 7% p.a. over next three years

Provide a rate of return of at least 11.5% on revalued assets

Achieve a long-term debt ratio approaching 45%

Secure pre-tax interest cover of at least 2 and towards 3.5 times longer-term



Telecom Structure: Designed to Serve Better

In 1988 Telecom adopted a radically different organisational structure, highlighting our customer-driven focus. We now have five major customer divisions operating nationally, supported by Shared Resource Units which supply all the support services needed by the divisions:

1. Corporate Customer Division: responsible for Telecom's largest customers in business and Government.

2. Special Business Products Division: handles products and services such as Value Added Services (VAS),

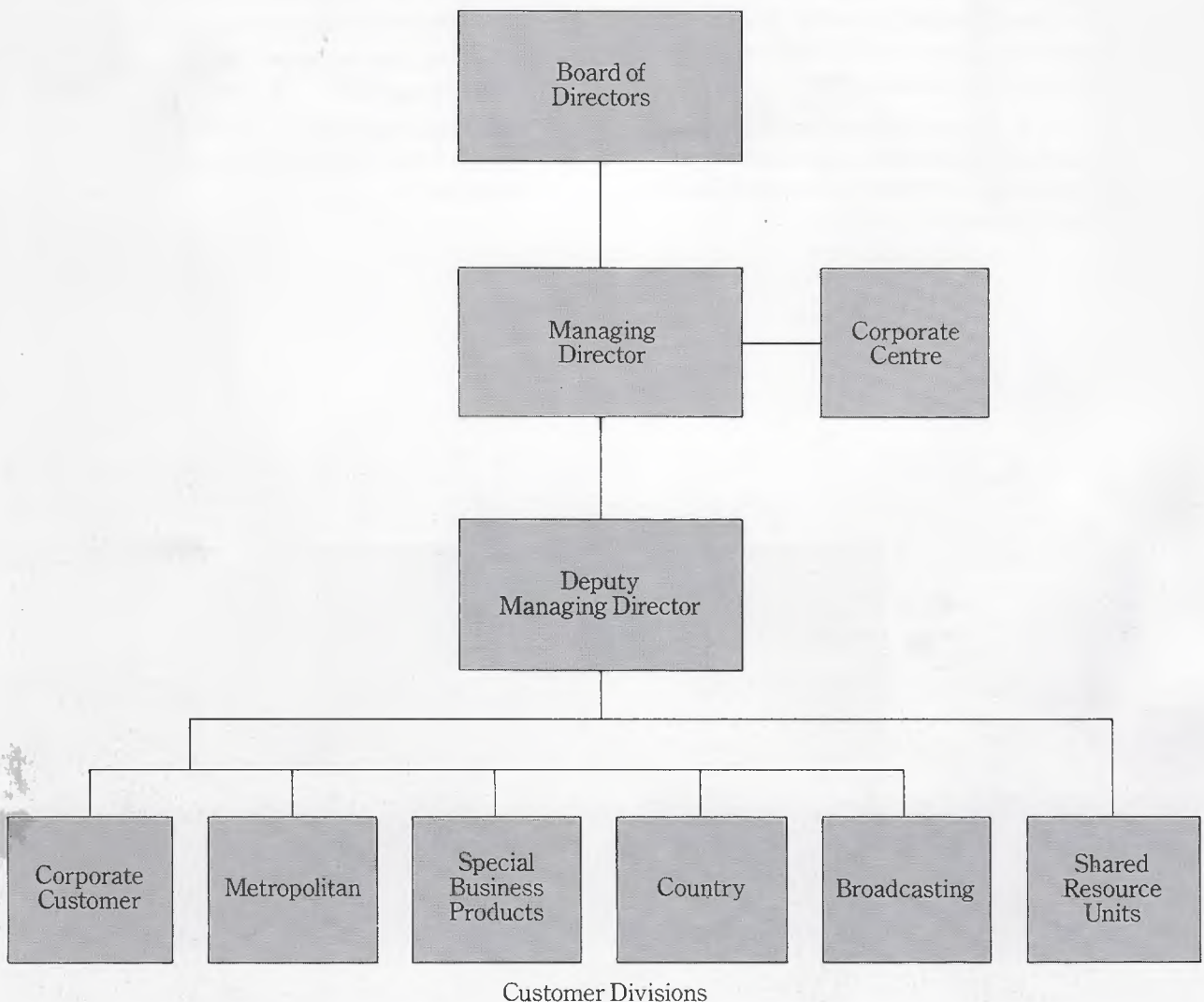
Mobile Telecommunications Services and Directories Services.

3. Metropolitan Division: responsible for servicing both business and residential customers in metropolitan areas.

4. Country Division: Responsible for country customer needs; residential, corporate and business.

5. Broadcasting: Responsible for design, construction, operation and maintenance of the ABC and SBS transmitter networks, as well as those of some commercial stations.

ORGANISATIONAL STRUCTURE



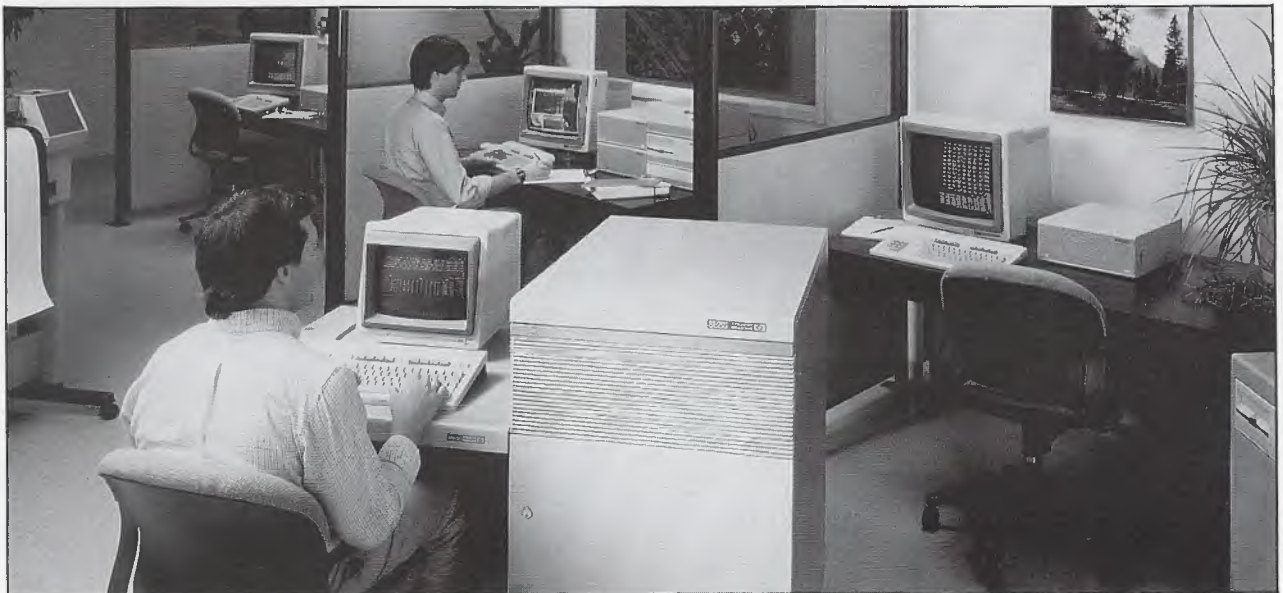
The Financial Changes

The 1989-90 financial year will see the framework set in position for a commercially orientated yet socially responsible Telecom. New legislation is changing the telecommunications environment. Key commercial changes include:

- Creation of a new capital structure with the conversion of 25% of Commonwealth loans to equity (\$1.1 billion); retirement of remaining loans (\$3.3b) over the next 10 years, replaced by private sector borrowing.
- Revaluation of assets.
- Determination of an appropriate debt/equity ratio and financial structure

comparable to other leading telecommunications companies.

- Payment of State and Local Government taxes and charges from July 1, 1989.
- Payment of income tax from July 1, 1990.
- Payment of dividends to the Commonwealth Government.
- New accountability and planning mechanisms.
- Restraint of price increases on basic services to 4% below the inflation rate.



The Capital Programme

Telecom will continue to expand the network and consumer services for 1989-90, through capital expenditure of \$3,050 million. This is consistent with amounts needed to maintain and improve a modern telecommunications infrastructure.

It will be used primarily to:

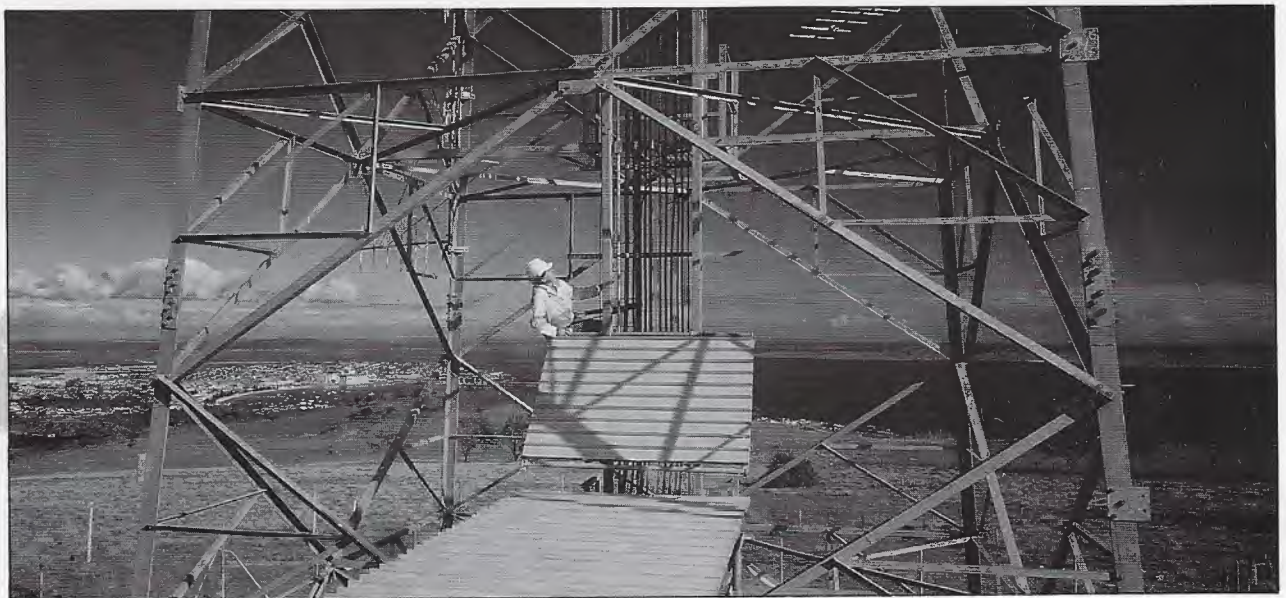
1. Meet customer demand for some 750,000 new telephone services.
2. Reduce unsatisfied demand for

services, improve quality of service to customers, reduce congestion.

3. Expand new services, such as ISDN and mobile telephone services.

4. Continue Telecom's equipment modernisation programme so Australians can continue to have one of the best communications networks in the world.

5. Continue our rural and remote areas programme to provide all Australians with affordable communications services.



Serving our Customers

NATIONAL CONSUMER COUNCIL.

As part of the commitment to improve customer service, a 15-member national consumer council was established in 1988. This is being reinforced by the progressive establishment of regional consumer councils in each state.

Organisations represented on the Council are:

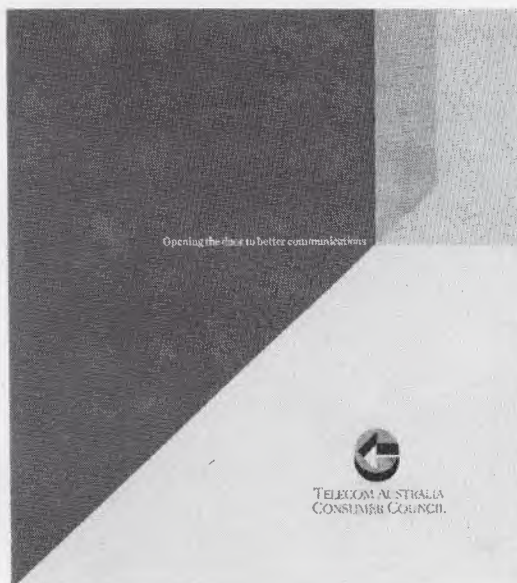
- Australian Pensioners Federation.
- Disabled Peoples' International (Australia).
- National Council of Women of Australia.
- Australian Council of Social Services.
- Rural Telephone Subscribers Association.
- Australian Federation of Consumer Organisations.
- Australian Consumers Association.
- Telecom Action Group.
- Communications Law Centre.

COMMUNITY SERVICE OBLIGATIONS.

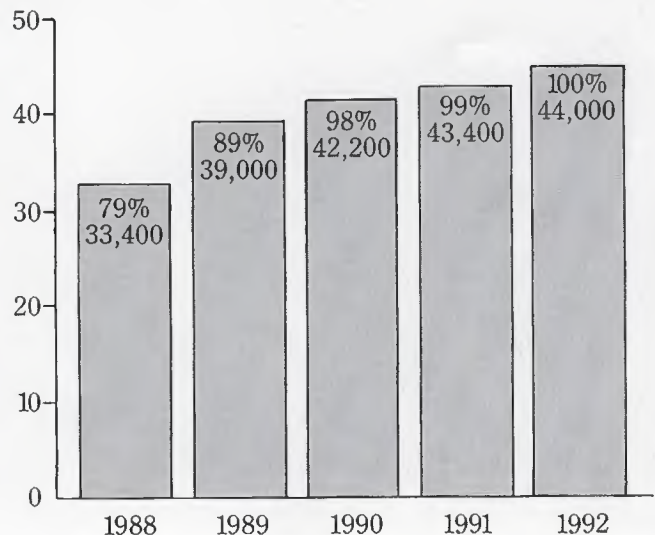
Telecom has a number of Community Service Obligations (CSOs) which are activities or policies it would not pursue on commercial principle alone. The main one is provision of a universal, standard telephone service. Progress made during the year brought that major aim closer to fruition by increasing telephone penetration to 93%.

The Rural and Remote Areas Programme, is aimed at providing automatic telephone services to the more remote areas of Australia. In 1988-89, more than 5,600 new and modernised services were provided bringing the total to over 39,000.

The following chart shows the total customer connections achieved in the past two years and those planned to complete the programme.



RRAP CONNECTIONS



On the International Front

Since its establishment in October, 1986, Telecom Australia (International) has grown into a major and respected consultant, project manager and service provider in the international communications arena.

A wholly owned subsidiary of Telecom Australia, TA(I) has won more than 150 major contracts in over 30 countries. Particular emphasis has been placed on the Asia/Pacific region which is growing industrially.

Telecom Australia (International) is recognised as a leader in the planning, design, construction and operation of rural communications systems and long distance, high capacity trunk systems, particularly those which use digital microwave and optical fibre.

The company's most significant achievements to date have been:

(1) Saudi Arabia

Australia's largest export service contract to assist in managing the Saudi Arabian telecommunications network, initially, for three years. This contract

is one of the world's more significant telecommunications service contracts, valued at \$86m.

(2) Pakistan

In a joint venture with Olex Ltd, TA(I) has been successful in winning the Pakistan optical fibre project valued at \$30m. Funded by the World Bank, the project involves the supply, installation and commissioning of some 2000 kms of Australian manufactured optical fibre cable along the country's main communications route between Karachi and Islamabad.

Some other countries in which Telecom Australia (International) has been successful include:

Denmark	China
West Germany	Malaysia
Canada	Indonesia
New Zealand	Papua New Guinea
India	Hong Kong
United Arab Emirates	Thailand
Fiji	Nepal
Mozambique	Tonga
Vanuatu	Brunei



Research Programmes

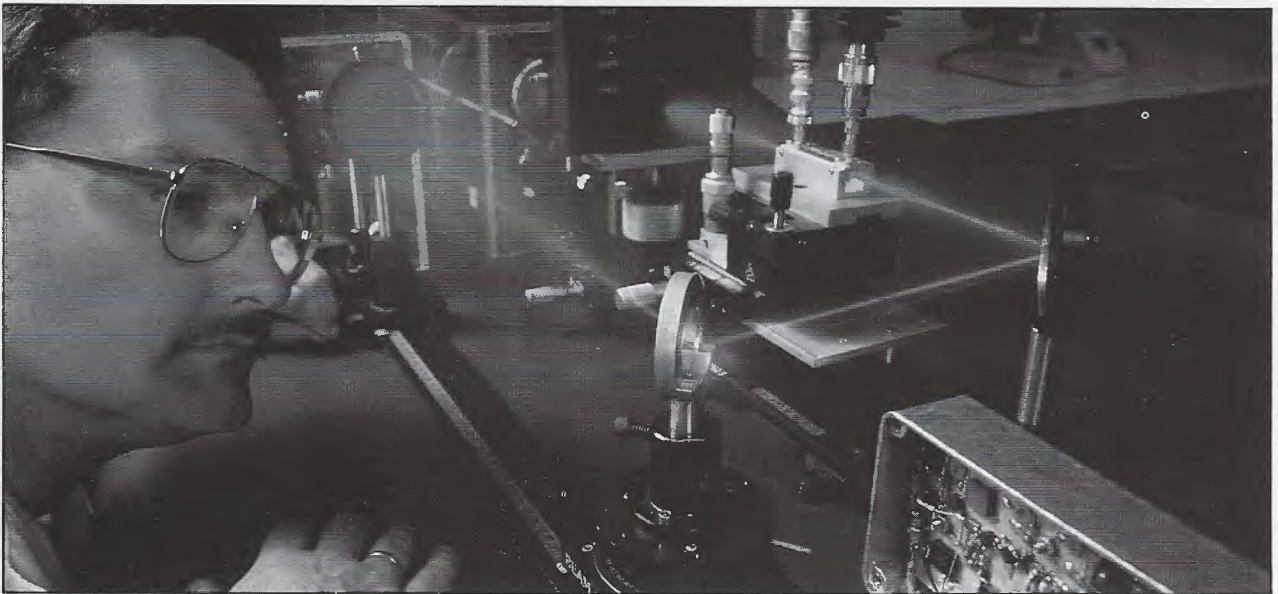
Telecom Research Laboratories (TRL), is one of the largest telecommunications research establishments in Australia. TRL provides Telecom and our customers with expertise in all facets of modern telecommunications technology.

The advent of ISDN this year was the result of many years' co-ordinated research by Telecom. Now Telecom scientists are working on a future Broadband ISDN, a network with the transmission capacity to make interactive video and other advanced services a reality.

Telecom—through TRL—sponsored two new “Centres of Expertise” at the universities of Queensland and NSW to focus attention of academic research on telecommunications.

Through the Product Development Fund, nearly \$3.5 million has been committed to the development of 22 new telecommunications products, the first of which are now entering the marketplace.

Through these entrepreneurial ventures—as well as many large-scale joint ventures with private industry—Telecom has strengthened the capability of Australia's telecommunications infrastructure.



Establishment and Operation of Austel

The Telecommunications Act, which deals with the regulation of telecommunications in Australia, places regulatory functions with an independent industry regulator, the Australian Telecommunications Authority, AUSTEL.

Austel's principal responsibilities are:

1. Regulation of technical matters and standards.
2. Protection of the carrier's reserved facilities and services in those areas where they are to be maintained.
3. Protection of competitors from unfair carrier pricing and marketing policies.

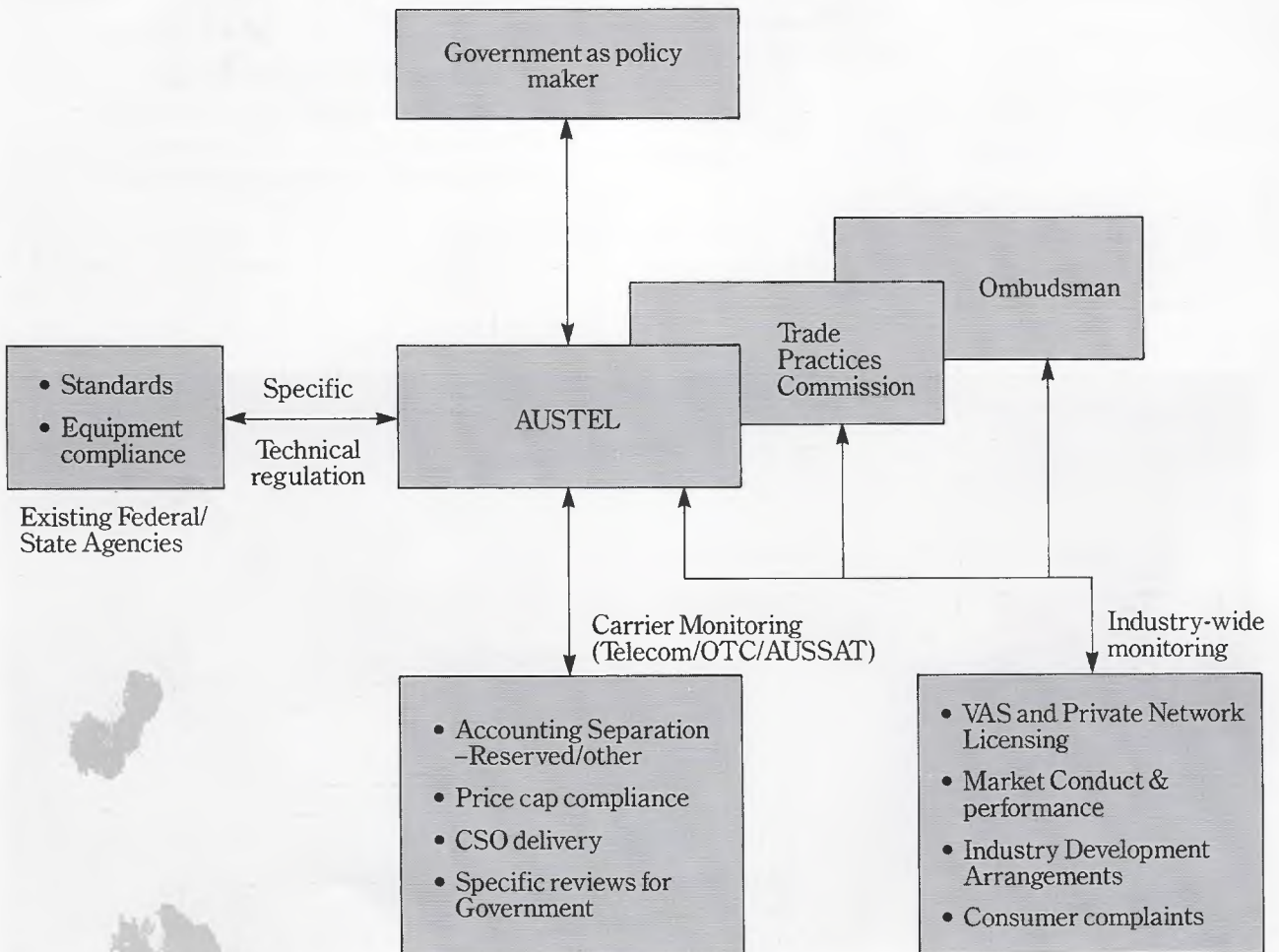
4. Protection of consumers from unfair carrier practices and those of other persons.

5. Use of its powers to promote efficiency in the telecommunications industry generally.

AUSTEL is a key element in the Government's framework for change. Part of AUSTEL's activities are to ensure that:

- Market competition is fair to all.
- Telecom can act as an entrepreneurial "player" without having to be the umpire as well.
- Australia's national asset, the network infrastructure, will continue to be developed and enhanced in the future.

AUSTEL: RE-REGULATION OF THE INDUSTRY



Changing Industry Trends

The telephone and the computer are becoming part of the same industry –integrated information. The difference is one uses voice and the other data. But, they have a common link—the telephone line.

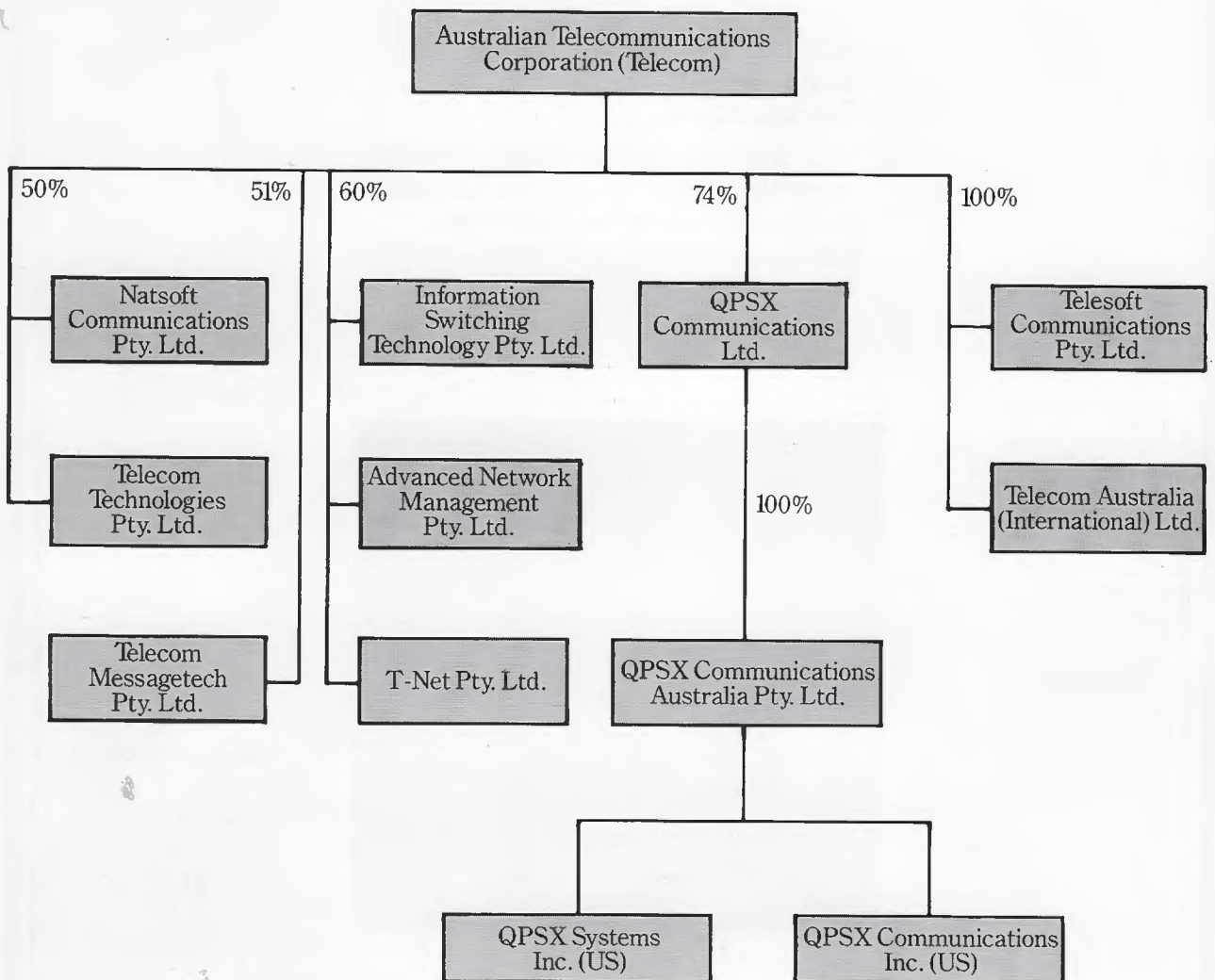
Nowadays you can dial-up information in sophisticated data banks from the telephone—medical, financial, housing and social information. Soon, the two industries will converge.

Recognising this change, Telecom Australia is aiming to become Australia's main supplier of integrated information

management. We've been looking at joint ventures with key parts of the computer industry. Together, it's expected that Australia can benefit from the dual benefits of the telecommunications and computer industries.

The chart below shows the structure of Telecom's Subsidiaries, reflecting steps taken to consolidate Telecom's position in the information industry. Recognising these trends, agreements have been entered into with key computer industries to develop products and services matching consumer needs.

SUBSIDIARY COMPANIES OWNERSHIP AND STRUCTURE



Summary

Telecommunications is shrinking the world. We can no longer think in isolationist terms—the other side of the world is a mere phone call away. And as the world “shrinks” the business of telecommunications grows, expanding vigorously day by day.

Australia's Telecom is a vibrant and essential part of Australia's economy.

Telecom must continue to operate efficiently to give Australian business its competitive edge both domestically and internationally.

At the same time, Telecom is obliged to carry out its community service responsibilities in a fair and equitable manner.

The restructuring of the industry is an integral step in ensuring that Australia is well positioned to meet the technological challenges of the 1990s and beyond.

