

Directors' report

In accordance with a resolution of the Board, 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 2005.

Principal activity

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

Results of operations

Telstra's net profit for the year was \$4,447 million (2004: \$4,118 million). This result was after deducting:

- net borrowing costs of \$736 million (2004: \$712 million); and
- income tax expense of \$1,822 million (2004: \$1,731 million).

Earnings before interest and income tax expense was \$7,005 million, representing an increase of \$445 million or 6.8% on the prior year's result of \$6,560 million.

After adjusting to allow like for like comparisons with the year ended 30 June 2004, net profit for the year increased by 4.6% to \$4,349 million (2004: \$4,156 million) and earnings before interest and income tax expense increased by 3.0% to \$6,888 million (2004: \$6,690 million).

Review of operations

Financial performance

Our total revenue (excluding interest revenue) increased by 6.5% or \$1,377 million to \$22,657 million. This included total revenues of \$548 million generated by controlled entities we acquired during the year. These entities acquired include the KAZ Group, the Damovo Group (now trading as Telstra Business Systems) and the PSINet Group.

Total operating expenses (before borrowing costs and income tax expense) increased by 6.3% or \$932 million to \$15,652 million. Operating expenses for the year ended 30 June 2005 included expenses of the controlled entities we acquired during the year of \$566 million.

Excluding the impact of our newly acquired controlled entities and adjusting for other items to allow like for like comparisons with the prior year, our total revenues increased by 3.5% to \$21,670 million and operating expenses (before borrowing costs and income tax expense) increased by 3.7% to \$14,782 million.

Total revenue (excluding interest revenue) growth was attributable to:

- mobile goods and services - \$319 million or 8.3%;
- internet and IP solutions revenue - \$364 million or 35.9%;
- advertising and directories revenue - \$244 million or 18.2%; and
- pay TV bundling - \$109 million or 70.8%.

Mobile goods and services revenue increased largely due to the performance of mobile's data revenue and international roaming. We continue to experience growth in the number of mobiles in operation as well as increased revenue from mobile handset sales.

Mobile revenues were boosted during the year by a number of new initiatives, which included:

- the roll out of high speed wireless services (EVDO);
- the i-mode alliance with more than 200 content sites; and
- the growth in the use of mobile data products, including Blackberrys.

Internet and IP solutions revenue increased during the year due to:

- growth in the number of subscribers to our Bigpond broadband product; and
- growth in our wholesale broadband revenues.

Our advertising and directories revenue increased over the prior year due to the inclusion of a full year of trading activity for the Trading Post Group in fiscal 2005. In addition, further growth was experienced due to the continued take up of our new advertising offerings.

Pay TV bundling increased due to the launch of FOXTEL digital, an increase in the number of services provided and the average spend per subscriber.

In addition to the above drivers of revenue growth, we also strengthened our position in the managed services and information and communication technology market during fiscal 2005, through a number of significant acquisitions. On 19 July 2004, we acquired 100% of the share capital of KAZ Group Limited and its controlled entities (KAZ Group). This acquisition expands our IT services capability, complementing our core strength in telecommunications. Our acquisition of PSINet UK Limited and its controlled entities (PSINet Group) facilitates seamless, converged information communication and technology services internationally. ESA Holding Pty Ltd and its controlled entity, Damovo (Australia) Pty Ltd and related entity, Damovo HK Limited (Damovo Group), were acquired to enable us to provide advanced voice and data communication solutions.

Partially offsetting the sales growth was a decline in PSTN product revenues of \$275 million or 3.4% as the market continues to move towards new products and services to satisfy requirements.

Total operating expense (before borrowing and income tax expense) growth of \$932 million was mainly attributable to:

- labour - \$475 million or 14.8%; and
- goods and services purchased - \$593 million or 16.7%.

Labour costs increased in fiscal 2005 mainly due to the following:

- staff taken on as a result of our newly acquired controlled entities;
- annual salary increases due to enterprise agreements and annual salary reviews;
- increased use of casual staff to improve customer service and account management; and
- an increase in the use of overtime and contract and agency payments to improve front of house service and meet growth in field volumes across broadband and pay TV in particular.

Goods and services purchased increased due to the following:

- purchases of pay TV services to enable us to provide bundled products;
- higher cost of goods sold due to increased handset sales volumes and growth in broadband modem sales;
- higher handset subsidies due to the promotions offered in prior periods; and
- increased usage commissions due to higher prepaid mobile recharge commissions.

Depreciation and amortisation costs grew by 4.2% to \$3,766 million in fiscal 2005, primarily due to the growth in communications plant and software asset additions required to support the increasing demand for broadband ADSL services. In addition, depreciation and amortisation increased as a result of our recently acquired controlled entities.

The prior year other expenses included IBMGSA contract exit costs of \$130 million, recognised on sale of our investment in this entity, and a provision raised against the Reach loan of \$226 million, which partially reduced the reported growth in expenses in fiscal 2005.

We have continued to focus on reducing costs throughout the group. As part of our focus on cost reduction we established process owners who are reviewing end to end processes. This program has identified cost reductions through a range of Company wide productivity initiatives and significant process improvements. In conjunction with our focus on operating cost efficiencies and other cost initiatives, an operational and strategic review is underway by the newly appointed CEO.

Net borrowing costs increased by 3.4% to \$736 million in fiscal 2005, primarily due to increased borrowings to fund the purchase of our recently acquired entities, increased levels of capital expenditure, the payment of dividends and the share buy-back. This has been offset by increased interest received as a result of larger holdings of short term liquid assets. There has also been a benefit from lower interest rates on new and refinanced long term debt.

Income tax expense increased by 5.3% to \$1,822 million in fiscal 2005, primarily due to higher reported profit and the impact in the prior year of a \$58 million tax benefit arising from the initial adoption of the tax consolidation legislation. Other items that have impacted the year on year comparison include the tax effect of the non deductible provision against the Reach loan in the prior year and increased differences for partnership losses in the current year, resulting in an overall effective tax rate of 29.1% for fiscal 2005.

Financial condition

We continued to maintain a strong financial position, as well as generating growth in free cash flow of 4.6% or \$191 million. We have continued to develop our core infrastructure network, acquire strategic investments and increase our returns to shareholders through the special dividend and share buy-back in fiscal 2005.

We have made a number of significant acquisitions during the year to strengthen our operational capabilities and provide additional opportunities for growth. These acquisitions were the KAZ Group, PSINet Group and the Damovo Group. The acquisitions will enable us to capitalise on the expertise of these entities and provide additional opportunities for us to compete in emerging markets. The consideration for these acquisitions amounted to \$530 million, with an equivalent amount recognised within the net assets of the group statement of financial position on consolidation.

During fiscal 2005, we formed a 3G joint venture with a major competitor. This arrangement with Hutchison 3G Australia Pty Ltd (H3GA), a subsidiary of Hutchison Telecommunications (Australia) Limited, is to jointly own and operate H3GA's existing third generation radio access network (RAN) and fund future development. The partnership will fund future construction of 3G RAN assets in proportion to the ownership interest of each joint venture party. The agreements entered into with H3GA create an asset sharing arrangement. As part of this agreement, Telstra purchased a 50% share of H3GA's existing third generation (3G) radio access network assets. Based on the deferred payment terms, our property, plant and equipment increased by \$428 million, representing the present value of the purchase price of \$450 million. On acquisition we paid \$22 million and recognised \$406 million in deferred liabilities, which will be paid in three instalments with the last due 1 July 2006. The joint enterprise will provide opportunities for new revenues for Telstra and H3GA, stimulate growth in 3G service uptake and provide significant savings in 3G network construction capital expenditure and operating expenses, such as site rental and maintenance.

As part of a restructure of Reach in fiscal 2005, Telstra and its joint venture partner, PCCW Ltd (PCCW), entered into an indefeasible right of use (IRU) agreement with Reach. Under this agreement, we, along with PCCW, each paid \$205 million (US\$157 million) to Reach as consideration for the IRU, whereby Reach allocated its international cable capacity between the two shareholders. As consideration for the IRU, we discharged our capacity prepayment asset in the amount of \$187 million (US \$143 million), accrued interest on the capacity prepayment of \$16 million and accrued interest on the Reach loan of \$2 million.

During the year, we completed bond issues in Europe (€1,500 million), Switzerland (CHF300 million), Australia (\$1,000 million) and New Zealand (NZ\$200 million). The proceeds of our bond issues were used to fund our recently acquired acquisitions, refinance our maturing debt and for other working capital purposes.

During the financial year our credit rating outlook was adjusted by Standard & Poors from stable to negative. This change was generated by the uncertain environment in which we are operating in. This is evidenced by the regulatory environment and also the speculation surrounding the privatisation of our company. As a result of this and our debt management, our current credit ratings are as follows:

	Long term	Short term	Outlook
Standard & Poors	A+	A1	negative
Moodys	A1	P1	negative
Fitch	A+	F1	stable

As described in our strategy section following, we have previously announced a capital management strategy whereby we have committed to providing certain returns to shareholders.

Our financial condition has enabled us to execute our capital management program. During fiscal 2005, we returned \$1,497 million to shareholders via a special dividend and a share-buy-back. In fiscal 2005, we paid a special dividend of 6 cents per share (\$747 million) with our interim dividend and bought back 185,284,669 ordinary shares. In total, 1.47% of our total issued ordinary shares, or 2.87% of our non-Commonwealth owned ordinary shares, were bought back. The cost of the share buy-back comprised the purchase consideration of \$750 million and associated transaction costs of \$6 million. The ordinary shares were bought back at \$4.05 per share, comprising a fully franked dividend of \$2.55 per share and a capital component of \$1.50 per share.

We reported a strong free cash flow position, which enabled the company to pay increased dividends, fund the acquisition of a number of new entities and complete the off market share buy-back as described. We have sourced cash through ongoing operating activities and through careful capital and cash management.

We continued to increase cash flow from operating activities to \$8,163 million for the current year compared with \$7,433 million in fiscal 2004. This position was the result of higher sales revenue and continued tight control of expenditure and working capital management.

Cash used in investing activities was \$3,809 million, representing an increase of \$539 million over the prior year. The increase is mainly attributable to capital expenditure to upgrade our telecommunications networks, eliminate components that are no longer useful and improve the systems used to operate our networks. Investment expenditure in fiscal 2005 totalled \$590 million compared with the prior year of \$668 million, which was mainly for the acquisition of the KAZ Group, the Damovo Group, and the PSINet Group. Total cash flow before financing activities (free cash flow) increased to \$4,354 million compared with \$4,163 million in fiscal 2004.

Our cash used in financing activities was \$3,512 million, resulting from the funding of dividend payments and the share buy-back, offset by net proceeds from borrowings received from a number of our bond issues.

Investor return and other key ratios

Our earnings per share increased to 35.5 cents per share in fiscal 2005 from 32.4 cents per share in the prior year. This increase is due to improved earnings and a reduction in the number of shares on issue as a result of the off market share buy-back completed during fiscal 2005.

We have declared a final fully franked dividend of 14 cents per ordinary share (\$1,742 million) and a fully franked special dividend of 6 cents per ordinary share (\$747 million) to be paid with the final dividend, bringing declared dividends per share for fiscal 2005 to 40 cents per share. The prior year declared dividends amounted to 26 cents per share. The dividends paid in fiscal 2005 were 33 cents per share compared with dividends paid in fiscal 2004 of 25 cents per share. We also returned \$750 million to shareholders through an off market share buy-back. Other relevant measures of return include the following:

- Return on average assets - 2005: 20.4% (2004: 19.4%)
- Return on average equity - 2005: 29.4% (2004: 26.8%)

Return on average assets is higher in fiscal 2005 primarily due to the increased profit previously discussed. Return on average equity is also attributable to higher profits and to the reduced shareholders' equity resulting from the share buy-back and increased dividend payments in fiscal 2005.

Strategy

We offer a full range of telecommunications products and services throughout Australia and various telecommunications services in certain overseas countries. Our strategy to move forward as the Australian market leader in the industry, involves the management of the following:

- migration of customer demand from traditional products and services, particularly PSTN, to the emerging products and services of the business, in particular mobiles and broadband internet services;
- cost and productivity improvements;
- continual improvement of customer service levels; and
- alignment of investment with revenue growth drivers.

The effective management of these business areas will require a market based management approach and a change in how the company operates. It also requires a regulatory environment that allows us to compete on an equal basis.

We do face a series of business operating issues that will impact the future results of our Company. These issues range from the potential full privatisation of the Company, regulatory issues, including regulated price caps, and establishing the appropriate business structure to drive future growth.

Growth in sales revenues was led by mobiles, Internet and IP Solutions, solutions management, and advertising and directory services. We continue to focus on maximising revenues from our higher margin traditional products such as PSTN, while managing the shift in customer demand to our lower margin emerging products such as broadband. We have aligned our investment strategies with the new growth areas and continue to focus on identifying cost efficiencies to protect operating margins as far as possible, whilst at the same time improving our customer service levels.

We continue to increase ordinary dividends to our shareholders. In addition, we have improved returns to our shareholders through special dividends and share buy-backs as part of our capital management strategy. Since fiscal 2004, we have adopted the following capital management policies:

- declaration of ordinary dividends of around 80% of net profit after tax (before any unusual items such as write downs of assets and investments); and
- the return of \$1,500 million to shareholders each year until fiscal 2007 through special dividends and/or share buy-backs, subject to maintaining our target financial parameters.

Industry dynamics

The Australian telecommunications industry is continually changing. In recent times, we have seen the number of mobile handsets in the Australian market continue to grow, as well as the use of mobile services. Most households continue to maintain a basic access line, however PSTN products are increasingly being substituted by wireless products.

The broadband sector is in a significant growth phase as the demand for high speed internet access accelerates. We have seen large increases in broadband subscribers in the last two to three years and a steady fall in prices as providers compete for market share.

Advances in technology continue to underline the telecommunications industry. In recent years, we have seen various new product offerings released to the market, including the provision of high-speed wireless services, third generation (3G) mobile services and other mobile offerings such as i-mode. Voice services over IP (VoIP) is another area of change for which the industry is preparing. We have recently successfully commissioned and commenced testing our next generation VoIP platform that we believe will offer value added broadband services to our customers in the future. We continue to be at the forefront of these, and other, technology advancements as we have devoted substantial capital to upgrade our telecommunications networks to meet customer demand, particularly for the new product and growth areas.

We are well positioned to focus on these areas of new customer demand by providing a broad range of innovative products with creative and competitive pricing structures.

Sale of the Commonwealth's remaining interest

The Commonwealth Government has reiterated its commitment to the sale of the Commonwealth's remaining shares in us. Telstra's Board and management support the sale by the Commonwealth of the remaining shares in Telstra to complete the privatisation process, but recognise that the decision is one for the Commonwealth to make. The full privatisation of the Company will depend upon a number of factors, including the passing of appropriate legislation through Parliament and market conditions.

Dividends

The directors have declared a fully franked final dividend of 14 cents per share (\$1,742 million) and a fully franked special dividend of 6 cents per share (\$747 million). The dividends will be franked at a tax rate of 30%. The record date for the final and special dividends will be 30 September 2005 with payment being made on 31 October 2005. Shares will trade excluding entitlement to the dividend on 26 September 2005.

On 11 August 2005, we also disclosed the intention to pay a fully franked special dividend of 6 cents per share as part of the interim dividend in fiscal 2006. The proposed special dividend is part of the execution of our capital management program. The financial effect of the special dividend will be reflected in the fiscal 2006 financial statements.

During fiscal 2005, the following dividends were paid:

Dividend	Date declared	Date paid	Dividend per share	Total dividend
Final dividend for the year ended 30 June 2004	12 August 2004	29 October 2004	13 cents franked to 100%	\$1,642 million
Interim dividend for the year ended 30 June 2005	10 February 2005	29 April 2005	14 cents franked to 100%	\$1,742 million
Special dividend for the year ended 30 June 2005	10 February 2005	29 April 2005	6 cents franked to 100%	\$747 million

At present, it is expected that we will be able to fully frank declared dividends out of fiscal 2006 earnings. However, the Directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because our ability to frank 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 our Company during the financial year ended 30 June 2005.

Likely developments and prospects

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 and future prospects of Telstra's operations; or
- the expected results of those operations in the future.

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 28 June, we announced the acquisition of 100% of the issued share capital of Keycorp Solutions Limited for a cash consideration of \$55 million plus transaction costs. This acquisition is subject to approval by the shareholders of Keycorp Solutions Limited's parent company, Keycorp Limited, and if approved, will be effective from 1 July 2005.

In conjunction with and conditional upon our purchase of Keycorp Solutions Limited, Keycorp Limited announced, subject to shareholder approval, it would use the proceeds from the sale to enable a pro-rata return of capital to shareholders of 41 cents per share. As a shareholder of Keycorp Limited, we are expecting to receive approximately \$16 million in returned capital.

Keycorp Solutions Limited is a subsidiary of Keycorp Limited, an associated entity of ours, in which we hold 47.8% of the issued share capital. Keycorp Solutions Limited has previously partnered with us to provide payment transaction network carriage services to customers. In acquiring this entity, we will now provide the services in our own right.

Neither the acquisition nor the return of capital have been recognised in our financial statements as at 30 June 2005.

- We have appointed Sol Trujillo as our new Chief Executive Officer, effective 1 July 2005. The new CEO is undertaking an operational and strategic review to be completed within 3 to 4 months of his appointment.

Details about directors and executives

Changes to the directors of Telstra Corporation Limited during the financial year and up to the date of this report were:

- On 20 July 2004, Donald G McGauchie was appointed Chairman of the Board of Directors. On appointment, he replaced John T Ralph who was acting Interim Chairman for the period 14 April 2004 to 20 July 2004;
- Samuel H Chisholm resigned as Director on 28 October 2004;
- Zygmunt E Switkowski resigned as CEO and Managing Director on 1 July 2005; and
- Solomon D Trujillo was appointed CEO and Executive Director on 1 July 2005.

In addition, Anthony J Clark and John T Ralph retired as Directors effective 11 August 2005.

Information about directors and senior executives 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 13 to 18;
- details of the directorships of other listed companies held by each director in the past 3 years is provided on pages 13 to 18;
- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 19;
- details of directors' and senior executive shareholdings in Telstra are shown on page 20; and
- details of directors' and senior executive emoluments is detailed in the Remuneration report on pages 22 to 41.

Company secretary

The qualifications, experience and responsibilities of our company secretary are provided at page 18 and forms part of this report.

Equity based compensation

Over time, Telstra has provided equity based remuneration through our short term and long term incentive plans and our deferred remuneration plan. Instruments issued under these plans are performance rights, restricted shares, options, deferred shares and incentive shares.

Performance rights, restricted shares, and options have performance hurdles in place which must be achieved for them to vest. If the performance hurdle is not achieved, they will have nil value and will lapse. Generally, deferred shares will only vest when a specified service period is completed. Half of certain employees' short term incentive is allocated by way of incentive shares. Generally these instruments will vest progressively over a specified service period from the date of allocation.

For our reporting under Australian generally accepted accounting principles (AGAAP), we recognise an expense for instruments issued when it is certain that there is an actual cost that will be realised by Telstra. The exercise price for performance rights, restricted shares, deferred shares and incentives shares is nominal and we recognise an expense when the funding is provided to purchase shares on market to underpin the instruments. When an employee exercises options, they are required to pay the option exercise price. As a result, when shares are purchased to underpin options, we recognise a receivable in Telstra's statement of financial position.

For our reporting under United States generally accepted accounting principles (USGAAP), we expense the fair value of all instruments issued at the time of grant. When the Australian equivalent of International Financial Reporting Standard IFRS 2: "Share based payment" is adopted as AGAAP, we will apply this standard to the accounting for our option and employee share plans.

In fiscal 2005, we have recognised an expense of \$17 million (2004: \$19 million) relating to instruments issued during the year for AGAAP and an expense of \$15 million (2004: \$19 million) under USGAAP.

Refer to note 19 of the financial statements for a detailed explanation of all employee share plans and the accounting treatment applied to each.

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 2001; 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 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 of the Telstra Entity (including past directors);
- secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of our wholly owned subsidiaries;
- directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors);
- employees of Telstra appointed to the boards of other companies as our nominees; 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 (Cwth)).

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. Telstra has paid the premium for the policy. 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 businesses 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 employees, customers, shareholders and the community.

The Board is responsible for requiring appropriate compliance frameworks and controls to be in place and operating effectively for compliance with relevant laws, regulations and industry codes. The Audit Committee has been delegated specific responsibility for reviewing Telstra's approach to achieving compliance with laws, regulations and associated industry codes in Australia and overseas and the oversight of compliance issues. This oversight is facilitated by the preparation of a quarterly compliance report summarising significant compliance initiatives and issues across the Company.

Telstra has a number of compliance programs in place to address specific legal and regulatory obligations. These include programs directed to health, safety and environment, equal employment opportunity, privacy, trade practices and industry regulation.

The principles of the Australian Standard on Compliance Programs, AS 3806, have been incorporated into these programs and a number of programs, including the privacy compliance program, are subject to periodic, independent external audits which are intended to ensure that the Company's approach is comprehensive, robust and rigorous.

This program based approach at a corporate level is supported by a network of managers and other personnel at the business unit level with specific responsibility for the implementation of the compliance programs within the business units. This structure has been designed with the aim of ensuring that each business unit's operations are conducted in accordance with Telstra's obligations. This is achieved through a focus on policies, procedures and work instructions that is intended to ensure that Telstra and its employees achieve transparent compliance with these obligations. There is a complementary focus on training, dissemination of information and monitoring of compliance outcomes.

These initiatives reflect the Company's commitment to maintaining a strong compliance record and reducing the risk of future legal and regulatory compliance issues.

Audit and non-audit services

The Auditor-General and Ernst & Young are authorised to perform all “audit services”, being an examination or review of the financial statements of the Company in accordance with the laws and rules of each jurisdiction in which filings are made for the purpose of expressing an opinion on such statements. The Audit Committee approves the provision of audit services as part of the annual approval of the audit plan. Where additional audit services not contemplated in the annual audit plan are subsequently deemed to be necessary during the course of the year, the provision of these services is separately approved by the Audit Committee prior to commencement of the services.

The Auditor-General does not provide non-audit services. Telstra does not engage Ernst & Young to perform any of the following non-audit services:

- bookkeeping services and other services related to preparing Telstra’s accounting records of financial statements;
- financial information system design and implementation services;
- appraisal or valuation services, fairness opinions, or contribution in kind reports;
- actuarial services;
- internal audit services;
- management function or human resources;
- broker or dealer, investment adviser, or investment banking services; and
- legal services or expert services unrelated to the audit.

In addition, Ernst & Young does not provide taxation advice of a strategic or tax planning nature.

All other non-audit services may only be provided by Ernst & Young if the Audit Committee and the Auditor-General have expressly approved the provision of the non-audit service prior to commencement of the work, and the performance of the non-audit service will not cause the total annual revenue to Ernst & Young from non-audit work to exceed the aggregate annual amount of Ernst & Young’s audit fees. The Audit Committee will not approve the provision of a non-audit service by Ernst & Young if the provision of the service would compromise Ernst & Young’s independence.

The Audit Committee expects the Auditor-General and requires Ernst & Young to submit annually to the Audit Committee a formal written statement delineating all relationships between the Auditor-General, Ernst & Young and Telstra and its controlled entities. The statement includes a report of all audit and non-audit fees billed by the Auditor-General and Ernst & Young in the most recent fiscal year, a statement of whether the Auditor-General and Ernst & Young are satisfied that the provision of the audit and any non-audit services is compatible with auditor independence and a statement regarding the Auditor General’s and Ernst & Young’s internal quality control procedures.

A copy of the independence of the auditor declaration is set out on page 21 and forms part of this report. The Audit Committee considers whether Ernst & Young's provision of non-audit services to the company is compatible with maintaining the independence of Ernst & Young. The Audit Committee also submits annually to the Board a formal written report describing any non-audit services rendered by Ernst & Young during the most recent fiscal year, the fees paid for those non-audit services and explaining why the provision of these non-audit services is compatible with auditor independence. If applicable, the Audit Committee recommends that the Board take appropriate action in response to the Audit Committee's report to satisfy itself of Ernst & Young's independence.

Details of amounts paid or payable to the auditor for non-audit services provided during the year are located in note 3(b) to our financial statements.

For the reason set out above, the directors are satisfied that the provision of non-audit services by the external auditor during the year ended 30 June 2005 is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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 2001. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars, except where otherwise indicated.

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

A handwritten signature in black ink, appearing to read 'D. McGauchie', with a long horizontal flourish extending to the right.

Donald McGauchie
Chairman
11 August 2005

Directors' profiles

As at 11 August 2005, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected ⁽¹⁾
Donald G McGauchie	55	Chairman	1998	2003
John T Ralph ⁽²⁾	72	Deputy Chairman CEO and	1996	2003
Solomon D Trujillo ⁽³⁾	54	Executive Director	2005	-
Anthony J Clark ⁽⁴⁾	66	Director	1996	2002
John E Fletcher.....	54	Director	2000	2003
Belinda J Hutchinson....	52	Director	2001	2004
Catherine B Livingstone	49	Director	2000	2002
Charles Macek.....	58	Director	2001	2004
John W Stocker	60	Director	1996	2003

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

(2) John T Ralph retired as a Director effective 11 August 2005.

(3) Solomon D Trujillo was appointed as CEO and Executive Director on 1 July 2005.

(4) Anthony J Clark retired as a Director effective 11 August 2005.

A brief biography for each of the directors as at 11 August 2005 is presented below:

Donald G McGauchie AO

Age 55

Donald McGauchie joined Telstra as a non-executive Director in September 1998 and was appointed as Chairman in July 2004. He is Chairman of the Nomination Committee and is a member of the Remuneration Committee.

Experience:

Mr McGauchie has wide commercial experience within the food processing, commodity trading, finance and telecommunication sectors. He also has extensive public policy experience, having previously held several high-level advisory positions to government including the Prime Minister's Supermarket to Asia Council, the Foreign Affairs Council and the Trade Policy Advisory Council.

Directorships of other listed companies – Current:

Director, James Hardie Industries NV (2003 -) and Nufarm Limited (2003 -).

Directorships of listed companies - past three years:

Deputy Chairman, Ridley Corporation Limited (1998–2004); Director, National Foods Limited (2000 - 2005); and Graincorp Limited (1999–2002).

Other:

Director, Reserve Bank of Australia; Partner, C&E McGauchie - Terrick West Estate; President of the National Farmers Federation (1994-1998); and Chairman, Rural Finance Corporation (2003–2004). Awarded the Centenary Medal for service to Australian society through agriculture and business in 2003.

John T Ralph - AC, FCPA, FTSE, LFAICD, FAIM, FAusIMM, Hon LLD (Melbourne & Queensland), DUniv(ACU)

Age 72

John Ralph joined Telstra as non-executive director and Deputy Chairman in October 1996. He is a member of the Audit Committee, Nomination Committee and Remuneration Committee.

Experience:

Mr Ralph has had over 50 years of experience in the mining and finance industries. Mr Ralph was formerly Chief Executive and Managing Director of CRA Limited. He has previously served on the boards of several of Australia's largest companies including the Commonwealth Bank of Australia Limited, BHP Billiton Limited and Fosters Group Limited.

Directorships of other listed companies – Current:

Nil

Directorships of listed companies - past three years:

Chairman, Commonwealth Bank of Australia (1999 – 2004, Director from 1985); and Director, BHP Billiton Ltd (1997 - 2002) and BHP Billiton plc (2002).

Other:

Chairman, Australian Farm Institute (2004-) and Chairman, Australian Foundation for Science (1994 –); Member, Board of Melbourne Business School (1989 -); President, Scouts Australia, Victorian Branch (2003 -); Patron of St Vincent's Institute Foundation (2004 -); and Director, The Constitutional Centenary Foundation incorporated (1994 – 2002).

Mr Ralph has announced his retirement as a Director effective 11 August 2005.

Anthony J Clark - AM, FCA, FAICD

Age 66

Tony Clark joined Telstra as a non-executive Director in October 1996. He served on the Audit Committee until February 2005.

Experience:

Mr Clark has had extensive experience in the accounting field, specialising in audit and advisory services and is a Fellow of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors. Mr Clark was formerly a Managing Partner KPMG NSW.

Directorships of other listed companies – current:

Chairman, Cumnock Coal Limited (2001 -); Director, Amalgamated Holdings Limited (1998 -); Ramsay Health Care Limited (1998 -); and Carlton Investments Limited (2000 -).

Directorships of listed companies - past three years:

Nil

Other: Chairman, Maritime Industry Finance Company Ltd (1998 -); Deputy Chairman, Tourism Australia (2004 -) and Australian Tourist Commission (1996 – 2004).

Mr Clark has announced his retirement as a Director effective 11 August 2005.

John E Fletcher – FCPA

Age 54

John Fletcher joined Telstra as a non-executive Director in November 2000. He is a member of the Nomination Committee and the Remuneration Committee.

Experience:

Mr Fletcher has had extensive experience in management in the transport industry and was formerly Chief Executive of Brambles Industries Ltd. Mr Fletcher was employed by Brambles for 27 years, initially in an accounting role and then in a series of operating and senior management positions before being appointed as Chief Executive in 1993.

Directorships of other listed companies – current:

Chief Executive Officer and Director, Coles Myer Ltd (2001 -).

Directorships of listed companies - past three years:

Nil

Other:

Nil

Belinda J Hutchinson – BEc, FCA

Age 52

Belinda Hutchinson joined Telstra as a non-executive Director in November 2001. She has been a member of the Audit Committee since February 2005.

Experience:

Ms Hutchinson has had a long association with the banking industry and has been associated with Macquarie Bank since 1993 where she was an Executive Director. She was previously a Vice President of Citibank Ltd.

Directorships of other listed companies – current:

Director, QBE Insurance Group Limited (1997 -).

Directorships of listed companies - past three years:

Director, TAB Limited (1997 - 2004) and Crane Group Limited (1997 – 2004)

Other:

Director, Energy Australia Limited (1997 -) and St Vincent's and Mater Health Sydney Limited (2001 -); President, Library Council of New South Wales (2005 -) (Member since 1997); and Consultant, Macquarie Bank Limited (1997 -).

Catherine B Livingstone – BA (Hons), FCA, FTSE

Age 49

Catherine Livingstone joined Telstra as a non-executive Director in November 2000. She is a member of the Audit Committee and the Technology Committee.

Experience:

Ms Livingstone has a degree in accounting and has held several finance and general management roles predominantly in the medical devices sector. Ms Livingstone was the Chief Executive of Cochlear Limited (1994 – 2000).

Directorships of other listed companies – current:

Director, Macquarie Bank Limited (2003 -).

Directorships of listed companies - past three years:

Director, Goodman Fielder Ltd (2000 – 2003) and Rural Press Limited (2000 – 2003).

Other:

Chairman, CSIRO (2001 -) and Australian Business Foundation (2000 -); Director, Sydney Institute (1998 -); Member, Department of Accounting and Finance Advisory Board Macquarie University and Business/Industry/Higher Education Collaboration Committee (BIHECC).

Charles Macek - BEc, MAdmin, FSIA, FAICD, FCPA, FAIM, FCA

Age 58

Charles Macek joined Telstra as a non-executive Director in November 2001. He is a member of the Audit Committee and Nomination Committee and is Chairman of the Remuneration Committee.

Experience:

Mr Macek has a strong background in economics and has had a long association with the finance and investment industry. His former roles include 16 years as Founding Managing Director and Chief Investment Officer and subsequently Chairman of County Investment Management Ltd.

Directorships of other listed companies – current:

Director, Wesfarmers Ltd (2001 -).

Directorships of listed companies - past three years:

Chairman and Director, IOOF Holdings Ltd (2002 – 2003).

Other:

Chairman, Sustainable Investment Research Institute Pty Ltd (2002 -) and Financial Reporting Council (FRC); Director, Williamson Community Leadership Program Limited (2004 -) and Vertex Capital Pty Ltd (2004 -); Victorian Councillor, Australian Institute of Company Directors; and Member, New Zealand Accounting Standards Review Board and Investment Committee of Unisuper Ltd;

Chairman, Centre for Eye Research Australia Ltd (1996 – 2003); and Director of Famoice Technology Pty Ltd. (2001 – 2004).

John W Stocker - AO, MB, BSc, BMedSc, PhD, FRACP, FTSE

Age 60

John Stocker joined Telstra as a non-executive Director in October 1996. He is Chairman of the Audit Committee and Technology Committee.

Experience:

Dr Stocker has had a distinguished career in pharmaceutical research and extensive experience in management of research and development, and its commercialisation included in his role as Chief Scientist for the Commonwealth of Australia (1996 - 1999).

Directorships of other listed companies – current:

Chairman, Sigma Company Ltd (1998 -); Director, Cambridge Antibody Technology Group plc (1995 -); Circadian Technologies Ltd (1996 -); and Nufarm Limited (1998 -).

Directorships of listed companies - past three years:

Nil

Other:

Principal, Foursight Associates Pty Ltd. Chairman; and Grape and Wine Research and Development Corporation (1997 – 2004).

On 1 July 2005 we appointed a new CEO and executive director. Our new CEO's qualifications and experience are set out below.

Solomon D Trujillo – BSc, BBus, MBA, Hon Doctor of Law Degrees
(University of Wyoming, University of Colorado)

Age 53

Sol Trujillo joined Telstra as Chief Executive Officer and executive Director on 1 July 2005.

Experience:

Mr Trujillo has spent his career in the communications sector where he managed fixed line, wireless, broadband and directory businesses and served as a leader in the shift to market-based management. He served as CEO of London-based Orange, one of Europe's largest mobile companies and CEO of Graviton, a San Diego-based hi-tech company producing telesensors. Mr. Trujillo spent 26 years with US West Inc, where, for five years, he served as Chairman, CEO and President of the Denver-based communications giant.

Directorships of Other Listed Companies – Current:

Director, Target Corporation (September 1994 -); Gannett Co Inc. (May 2002 -); PepsiCo Inc (January 2000 – September 2005); and Electronic Data Systems Corporation (EDS) (January 2005 – October 2005).

Directorships of Listed Companies - past three years:

Director, Orange SA (2001 – 2005).

Other:

Member, World Economic Forum (2005-); and UCLA's School of Public Affairs (2000 -); Trustee, Boston College; Director, Tomas Rivera Policy Institute (1991 -). Recipient, the Ronald H. Brown Corporate Bridge Builder Award in 1999 from President Clinton for his lifetime commitment as an advocate of workplace diversity.

During the year and through to the date of the report, the following directors resigned:

- Samuel H Chisholm resigned as a director on 28 October 2004; and
- Zygmunt E Switkowski resigned as a director on 1 July 2005.

A brief biography for each of the former directors is presented below:

Samuel H Chisholm

Age 64

Director since November 2000. Resigned on 28 October 2004.

Director, Australian Wool Services Ltd and Victor Chang Cardiac Research Institute. Mr Chisholm 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.

Zygmunt E Switkowski - BSc (Hons), PhD, FAICD

Age 56

Chief Executive Officer (CEO) and Managing Director

CEO and Managing Director since March 1999. Resigned as CEO and Managing Director on 1 July 2005.

Formerly Chief Executive Officer of Optus Communications Ltd and Chairman and Managing Director of Kodak (Australasia) Pty Ltd and the Business Council of Australia.

Qualifications and experience of each person who is a company secretary of the company

Douglas C Gratton - FCIS, BSc, LLB (Hons), GDip AppFin,

Age 39

Mr Gratton was appointed Company Secretary of Telstra Corporation Limited in August 2001.

Before joining Telstra, Mr Gratton was a partner in a leading national law firm. He specialised in corporate finance and securities law, mergers and acquisitions and joint ventures and other commercial contracts and played a key role in the T1 and T2 Telstra privatisations. Mr Gratton also advised on telecommunication regulatory matters. Other roles previously held in Telstra include Deputy Group General Counsel and Infrastructure Services & Wholesale General Counsel of Telstra.

Directors' meetings

Each director attended the following Board and committee meetings during the year as a member of the Board or relevant committee:

	Board		Committees ⁽¹¹⁾					
	a	b	Audit		Nominations and Remuneration ⁽⁷⁾		Technology	
			a	b	a	b	a	b
D G McGauchie ⁽¹⁾	13	13	-	-	9	9	-	-
J T Ralph ⁽⁴⁾	13	12	5	4	9	8	-	-
Z E Switkowski ⁽⁵⁾	11	11	-	-	-	-	3	3
S H Chisholm ⁽²⁾	6	6	-	-	-	-	-	-
A J Clark ⁽³⁾	13	10	2	2	-	-	-	-
J E Fletcher ⁽⁹⁾	13	12	-	-	8	7	-	-
B J Hutchinson ⁽⁶⁾	13	13	2	2	-	-	-	-
C B Livingstone	13	13	5	5	-	-	3	3
C Macek ⁽¹⁰⁾	13	12	5	5	9	8	-	-
J W Stocker ⁽⁸⁾	13	13	5	5	1	1	3	3

Column a: number of meetings held while a member.

Column b: number of meetings attended.

- (1) Appointed as Chairman of the Board on 20 July 2004. Served as Chairman of Nominations and Remuneration Committee from 3 December 2003 to 23 March 2005. Appointed Chairman of Nomination Committee on 23 March 2005 following the division of the Nominations and Remuneration Committee.
- (2) Retired as a Director on 28 October 2004.
- (3) Resigned from the Audit Committee on 7 February 2005.
- (4) Resumed as a member of the Audit Committee from 20 July 2004 after completing role as interim Chairman.
- (5) Two board meetings throughout the year were held for non-executive directors only - Dr Switkowski was therefore not required to attend these meetings. Resigned as Chief Executive Officer and Managing Director on 1 July 2005.
- (6) Appointed as a member of the Audit Committee on 10 February 2005.
- (7) The Nominations and Remuneration Committee divided into two committees (Nomination Committee and Remuneration Committee) on 23 March 2005. Subsequent to this date there was one meeting held by each of the Nomination Committee and the Remuneration Committee. D G McGauchie, C Macek and J E Fletcher attended each of these meetings, J Ralph was an apology at both meetings.
- (8) Resigned from the Nominations and Remuneration Committee on 11 August 2004.
- (9) Appointed to the Nominations and Remuneration Committee on 11 August 2004.
- (10) Appointed Chairman of Remuneration Committee on 23 March 2005 following the division of the Nominations and Remuneration Committee.
- (11) Committee meetings are open to all Directors to attend in an ex officio capacity.

Directors' and senior executives' shareholdings in Telstra

As at 11 August 2005:

Directors

	Number of shares held		
	Direct Interest	Indirect interest ⁽¹⁾	Total
Donald G McGauchie	-	41,445	41,445
John T Ralph	1,000	82,541	83,541
Solomon D Trujillo	-	-	-
Anthony J Clark	10,000	45,026	55,026
John E Fletcher	-	52,934	52,934
Belinda J Hutchinson	37,111	29,996	67,107
Catherine B Livingstone	10,400	18,184	28,584
Charles Macek	-	42,005	42,005
John W Stocker	800	89,067	89,867

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

Senior executives

	Number of shares held		
	Direct Interest	Indirect Interest	Total
Bruce Akhurst	7,780	54,711	62,491
Douglas Campbell	9,700	27,500	37,200
David Moffatt	600	3,100	3,700
Ted Pretty	-	2,400	2,400
Michael Rocca	12,000	-	12,000
Bill Scales	8,516	1,400	9,916
Deena Shiff	5,680	8,800	14,480
John Stanhope	6,980	3,960	10,940
David Thodey	12,462	5,800	18,262

Auditor's independence Declaration to the Directors of Telstra Corporation Limited

In relation to my audit of the financial report of Telstra Group (comprising Telstra Corporation Limited and the entities it controlled during the year) for the year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in blue ink, appearing to read 'Ian McPhee', with a long horizontal stroke extending to the left.

Ian McPhee
Auditor-General

11 August 2005
Canberra, Australia

Remuneration report

The directors present the remuneration report prepared in accordance with Section 300A of the Corporations Act 2001 for the Telstra Group for the financial year ended 30 June 2005.

Introduction

Our remuneration policy is designed to link the remuneration of the CEO and senior executives with our performance.

The CEO and senior executives' remuneration is linked to both our short and long-term performance through:

- the short-term incentive (STI) plan, where individuals are assessed against a combination of quantitative and qualitative measures of performance over the past year; and
- the long term incentive (LTI) plan through the use of performance rights, all of which have long-term performance measures which ensure the rights can only be exercised when the Company achieves previously set targets.

The non-executive directors' remuneration is not linked to short-term performance, as the focus of the Board is on governance and the longer-term strategic direction of the Company. As such, part of their remuneration is delivered as shares, through Telstra's Directshare plan.

In this report we explain the policy and structure of the remuneration of:

- non-executive directors; and
- the CEO and senior executives.

Each section includes an explanation of how the remuneration is calculated as well as a table showing actual figures. For the purpose of this report the senior executives are the Group Managing Directors reporting to the CEO.

Non-executive directors

Remuneration policy

Non-executive directors are remunerated with fees which are not linked to performance to preserve their independence. The total fee pool is approved by shareholders.

Our non-executive directors are remunerated in accordance with our constitution, which provides for the following:

- an aggregate limit of fees is set and varied only by approval of a resolution of shareholders at the annual general meeting; and
- the Board determines how those fees are allocated among the directors within the fee pool.

The current fee pool of \$1,320,000 was approved by shareholders at the November 2003 annual general meeting, and remains unchanged. Since 2003, there has been a significant shift in director fees in the Australian market due to the increased time and responsibility required of non-executive directors. Based on independent remuneration advice, these market changes have resulted in a decline in the competitiveness of our current fee pool over this period.

In order to maintain their independence and impartiality, the remuneration of the non-executive directors is not linked to the performance of the Company, except through their participation in the Directshare plan which is explained below.

In determining the fee pool and individual director fee levels, the Remuneration Committee makes recommendations to the Board, and in the case of the fee pool, the Board recommends to shareholders taking into account:

- the Company's existing remuneration policies;
- independent professional advice;
- the fee pool of other comparable companies;
- fees paid to individual directors by comparable companies;
- the general time commitment and responsibilities involved;
- the risks associated with discharging the duties attaching to the role of director; and
- the level of fees necessary to attract and retain directors of a suitable calibre.

Remuneration structure 2004/2005

Non-executive directors receive a total remuneration package based on their role on the Board and committee memberships. Non-executive directors must sacrifice at least 20% of their fees into Telstra shares to align their interests with those of our shareholders.

The Board determines the non-executive directors' annual fees (total remuneration package or TRP). The TRP paid to each director is determined according to their role on the Board and committee memberships, as set out below.

Board fees

Board members are paid the following fees.

▪ Chairman	\$308,000
▪ Deputy Chairman	\$154,000
▪ Director	\$88,000

These amounts were approved by the Board effective 1 July 2004.

Committee fees

Board members, excluding the Chairman and Deputy Chairman, are paid the following additional fees for service on Board committees.

▪ Audit Committee Chairman	\$50,000
▪ Audit Committee member	\$25,000
▪ Remuneration Committee Chairman	\$10,000
▪ Remuneration Committee member	\$5,000
▪ Nomination Committee member	\$5,000
▪ Technology Committee Chairman and member	\$5,000

These amounts were approved by the Board effective 1 April 2005. The Board considers these fees appropriate given the additional time requirements of committee members, the complex matters before these committees and, in the case of the Audit Committee, an increased number of committee meetings and governance requirements.

The total of all fees paid to non-executive directors in fiscal 2005 remains within the current fee pool approved by shareholders.

Components of the total remuneration package

The Board has determined that a non-executive director's TRP will consist of three components: cash, shares (through the Directshare plan) and superannuation. Each year directors are asked to specify the allocation of their TRP between these three components, subject to the following thresholds:

- at least 30% must be taken as cash;
- at least 20% must be taken as Directshares; and
- the minimum superannuation guarantee, where applicable.

The Board will continue periodically to review its approach to the non-executive directors' remuneration structure to ensure it compares with general industry practice and best practice principles of corporate governance.

Equity compensation – Directshare

Directshare forms part of our overall remuneration strategy and aims to encourage a longer-term perspective and to align the directors' interests with those of our shareholders.

Through our Directshare plan, non-executive directors are required to sacrifice a minimum of 20% of their TRP towards the acquisition of restricted Telstra shares. The shares are purchased on-market and allocated to the participating non-executive director at market price. The shares are held in trust and are unable to be dealt with for five years unless the participating director ceases to be a director of Telstra.

Non-executive directors may state a preference to increase their participation in the Directshare plan. Where this occurs, the non-executive director takes a greater percentage of TRP in Telstra shares, and the cash component is reduced to the same extent. As the allocation of Directshares is simply a percentage of the non-executive director's TRP it is not subject to the satisfaction of a performance measure.

Directors are restricted from entering into arrangements which effectively operate to limit the economic risk of their security holdings in shares allocated under the Directshare plan during the period the shares are held in trust.

Superannuation

Mandatory superannuation contributions are included as part of each director's TRP and directors may state a preference to increase the proportion of their TRP taken as superannuation subject to legislative requirements.

Other benefits

In accordance with Board policy, and as permitted under Rule 16.4 of our Constitution, 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. We also provide directors with telecommunications and other services and equipment to assist them in performing their duties. From time to time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and recent technological developments.

To the extent any of these items are considered a personal benefit to a director, the value of the benefit is included in the "non-monetary benefits" column in figure 1.

Details of non-executive directors' remuneration

The following table provides the details of all remuneration paid to our non-executive directors in fiscal 2005.

Figure 1: Non-executive Directors' remuneration details

	Primary benefits			Post Employment	Equity	Other	Total
	Salary & fees ⁽¹⁾	Non-monetary ⁽²⁾	Superannuation	Retirement benefits accrued	Directshare	Other fees	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Donald G McGauchie ⁽³⁾ Chairman	225,503	2,317	11,484	195,396	60,054	2,837 ⁽⁴⁾	497,591
John T Ralph ⁽⁵⁾ Deputy Chairman	131,559	2,253	- ⁽⁶⁾	79,940	30,703	-	244,455
Samuel H Chisholm ⁽⁷⁾ Director	-	-	-	-	-	-	-
Anthony J Clark Director	69,357	2,753	8,493	48,811	19,463	-	148,877
John E Fletcher Director	43,795	3,015	6,705	35,603	40,000	-	129,118
Belinda J Hutchinson Director	70,065	2,253	6,692	32,004	19,189	-	130,203
Catherine B Livingstone Director	77,764	2,253	8,537	46,216	21,575	-	156,345
Charles Macek Director	79,584	2,057	8,717	40,160	22,075	-	152,593
John W Stocker Director	71,975	2,253	6,478	73,130	52,173	-	206,009
Total	769,602	19,154	57,106	551,260	265,232	2,837	1,665,191

(1) Includes fees for membership on Board committees. Details of committee memberships and meeting attendances is provided on page 19.

(2) Includes the value of the personal use of products and services.

(3) Mr McGauchie was appointed Chairman on 20 July 2004.

(4) This amount was paid to Mr McGauchie for membership of the Telstra Country Wide® (TCW) Advisory Board and is for contribution of services in addition to his Board duties. Payment of fees for membership of the TCW Advisory Board ceased on Mr McGauchie's election as Chairman.

(5) Mr Ralph was appointed as Interim Chairman from 14 April 2004 to 20 July 2004.

(6) Under current superannuation legislation Mr Ralph does not receive superannuation benefits as he has passed his 70th birthday.

(7) Mr Chisholm declined to receive directors fees. Mr Chisholm resigned from the Telstra Board on 28 October 2004.

Retirement benefits

We do not provide retirement benefits for new directors appointed to the Board after 30 June 2002. However, non-executive directors appointed before that date remain eligible to receive retirement benefits on retiring as a director of Telstra.

Directors who have served 9 years or more are entitled to receive a maximum amount equal to their total remuneration in the preceding 3 years. Directors who have served less than 9 years but more than 2 years are entitled to receive a pro-rated amount based on the number of months they served as a director.

Figure 2 shows the increase in retirement benefits payable to our non-executive directors appointed before 30 June 2002 and the value of the payment to the director if he or she had retired on 30 June 2005.

Figure 2: Non-executive directors' increases in retirement benefits

Name	Balance as at 2004	Increase during fiscal 2005	Payment to director if they had retired on 30 June 2005
	(\$)	(\$)	(\$)
Donald G McGauchie	145,277	195,396	340,673
John T Ralph	371,735	79,940	451,675
Samuel H Chisholm	-	-	-
Anthony J Clark	223,882	48,811	272,693
John E Fletcher	90,535	35,603	126,138
Belinda J Hutchinson	71,790	32,004	103,794
Catherine B Livingstone	96,858	46,216	143,074
Charles Macek	77,789	40,160	117,949
John W Stocker	269,046	73,130	342,176

CEO and senior executives

Remuneration policy

The Remuneration Committee regularly reviews the strategy, structure and policy for CEO and senior executive remuneration.

Responsibility for reviewing and recommending to the Board the remuneration strategy and structure for Telstra's CEO and senior executives lies with the Remuneration Committee (until recently known as the Nominations & Remuneration Committee).

The Committee's policy is that executive remuneration should:

- reflect the size and scope of the role and be market competitive in order to attract and retain talent;
- be linked to the financial and operational performance of the Company;
- be aligned with the achievement of the Company's long-term business objectives; and
- be differentiated based on individual performance.

The Committee reviews the structure of the remuneration packages of the CEO and senior executives on a periodic basis and takes into account:

- remuneration practices in other major corporations in Australia (both in terms of salary levels and the ratio between fixed and "at risk" components); and
- a range of macro-economic indicators used to determine likely movements in broad salary rates.

Any decision made by the Remuneration Committee concerning an individual executive's remuneration is made without the executive being present.

In 2004 the Committee engaged an independent consultant to provide advice directly to it on the remuneration policy and the levels of remuneration for comparable roles in other major corporations in Australia.

For fiscal 2005, the CEO was responsible for reviewing and determining the remuneration of the company secretary. However, the remuneration policy described in this report in relation to the senior executives and the discussion of the relationship between that policy and our performance applies to the company secretary. The company secretary participates in the STI plan and the LTI plan on the terms set out in this report.

Remuneration structure 2004/2005

There are three main components to the remuneration structure, some aspects of these have changed since last year as a result of the changes to deferred remuneration outlined below; the apportionment between fixed and “at risk” components reflect the role of the individual.

For fiscal 2005, the remuneration structure for the CEO and senior executives consisted of:

- fixed remuneration;
- short-term incentive (at risk); and
- long-term incentive (at risk).

How remuneration is apportioned between fixed and “at risk” remuneration

Figure 3 below shows the maximum level of reward for the CEO, Group Managing Directors and Corporate Group Managing Directors (being our most senior and highly remunerated executives) should they achieve the stretch level of performance for the “at risk” elements of their remuneration. Actual remuneration received for fiscal 2005 was dependent on the actual performance of the Company and the individual. Achievement of the stretch level of performance requires significant high levels of performance of the Company, and them personally.

The “at risk” components of an executive’s remuneration package are calculated by reference to their fixed remuneration. If no STI or LTI gateway targets are passed, the executive receives 100% of fixed remuneration and 0% of their “at risk” remuneration.

Figure 3: Remuneration components of the CEO and senior executives for fiscal 2005

	Fixed Remuneration	Maximum STI achievable	Maximum LTI achievable	Maximum Total package
		% of fixed remuneration		
Chief Executive Officer	100%	180%	120%	400%
Group Managing Directors	100%	126%	60%	286%
Corporate Group Managing Directors ⁽¹⁾	100%	72%	60%	232%

(1) Corporate Group Managing Directors are those responsible for internal functions of the business, namely finance and administration and regulatory, corporate and human relations.

Fixed remuneration

Fixed remuneration is made up of guaranteed salary (including salary sacrifice benefits and any applicable fringe benefits tax) and superannuation. An individual’s fixed remuneration is generally set once a year as part of the Company-wide remuneration review.

The CEO and senior executives must contribute to superannuation from their fixed remuneration in accordance with the superannuation guarantee legislation. They may increase the proportion of their fixed remuneration taken as superannuation, subject to legislative requirements.

As a result of the Remuneration Committee’s periodic review during the year ended 30 June 2004, the Board decided to change the remuneration structure and re-balance the arrangements for the year ended 30 June 2005.

As foreshadowed last year, the practice of providing deferred remuneration, which was regarded as fixed remuneration generally subject to continued employment with the Company for three years, has been discontinued. These changes resulted in the value of the “fixed deferred” remuneration being distributed into fixed remuneration and the remuneration value of the short term incentive payment. The Board believes that these changes are in line with contemporary Australian and global market practice, and strengthen the link between remuneration and our performance. As a result, a greater proportion of the total package for the CEO and senior executives is at risk. This means that the CEO and senior executives are able to earn significant rewards only if superior operational and organisational performance linked to pre-determined company measures and targets are achieved.

Short-term incentive (STI)

The STI plan rewards the CEO and senior executives for meeting or exceeding specific annual business objectives linked to the annual business plan at the Company, business unit and individual level.

Measures and targeted achievement levels are reviewed each year to reflect changes in business priorities for the forthcoming year. Achievement at the stretch targets for Company, business unit and individual measures will generally result in the maximum STI payment being received. However, achievement of the maximum STI payment requires significant performance above what would normally be expected by the individual and the Company. This is discussed in more detail in the section titled “How rewards are linked to performance”.

Components of the STI: cash and rights

The value received under the annual STI plan is delivered half in cash and half as rights to Telstra shares. The rights vest in equal amounts over the following three years at 12 month intervals.

The Telstra Growthshare Trust (Trust) administers the STI Equity plan. The Trust buys the shares on-market and holds the shares in trust until they vest. The CEO and senior executives do not hold any beneficial interest in the shares until they are released by the Trust.

Dividends on the shares are paid to the Trust, not to the CEO or senior executive concerned. When shares vest the allocation is adjusted to include an additional number of shares to reflect the dividends forgone. The additional number of shares is calculated by using the full value of the dividends attributable to the shares from the date of allocation to the vesting date divided by the volume weighted average share price over the five days prior to the date of vesting.

The Board is of the opinion that the delivery of rights will increase the focus on the Company’s performance and by facilitating share ownership in Telstra by the CEO and senior executives, better align their interests with those of our shareholders.

How the STI is calculated

The STI plan is based on a range of Company financial, organisational and individual performance measures and targets and was approved by the Board.

The plan focuses on the Company performance measures of:

- EBIT growth;
- revenue growth;
- customer retention; and
- (for the CEO) underlying EBITDA margin.

These measures were used to calculate 80% of the CEO’s maximum achievable STI value in fiscal 2005 and 41.7% of the senior executives’ maximum achievable STI value.

The remaining 20% of the CEO’s maximum STI value is based on measures of customer service, employee opinion survey results and individual, measurable key performance indicators in line with business priorities determined by the Board.

The remaining 58.3% of the senior executives’ maximum achievable STI value is based on:

- achievement of their respective business unit financial performance measures (33.3%);
- key business unit customer service measures (12.5%); and
- performance against individual, measurable key performance indicators (12.5%) which further support the improved operation of the business unit, as agreed with the CEO.

Each of these measures was chosen because the Board considers that it will drive company performance and shareholder returns.

The company secretary's maximum achievable short term incentive value is based on Company measures (42.9%) of revenue growth, EBIT growth and customer retention, business unit measures (31.4%) of EBIT, cashflow and customer service and performance against individual priorities (25.7%).

Required performance levels

Each measure includes a gateway performance level, a target level, and a stretch target. This is illustrated in figure 4. The gateway must be reached before any value can be attributed to each measure. The target level of performance represents challenging but achievable levels of performance. Achievement of the stretch target requires significant performance above and beyond normal expectations and will result in significant improvement in key operational areas.

Figure 4: Performance level and value received

Performance level	% of STI received for financial measure	% of STI received for other measure
Below target	0%	0%
Gateway	25%	33.3%
Above gateway	50%	66.7%
Stretch target	100%	100%*

** Stretch targets are set at levels requiring a significant increase in performance which the board believes represent a major improvement for those performance measures.*

The Board’s decision-making process

At the end of the financial year, the Board considers the Company’s audited financial results and the results of the other specific measures set by the Board and then assesses the executives’ performance against these measures and determines the amount of the STI payable based on performance against the plan.

The CEO is not involved in any of the decision-making relating to the STI payment to him.

Long-term incentive (LTI)

The Board annually invites the CEO and senior executives to participate in the LTI plan, which is designed to reward the creation of sustainable shareholder wealth over a 3-5 year period.

The equity instrument used to deliver the LTI, the performance measures and allocation levels are periodically reviewed by the Remuneration Committee and approved by the Board. This review and approval process is also in place for assessing the achievement against performance measures and determining whether the LTI equity has vested.

Components of the LTI: performance rights

The equity instrument used for the LTI has changed over time, and in the past has included options and restricted shares. The equity used in fiscal 2005 was “performance rights”, which are the right to acquire a Telstra share for nominal consideration when a specified performance measure is achieved. The performance rights are administered through the Telstra Growthshare Trust.

How the LTI is calculated at allocation

The number of performance rights allocated each year is based on the value calculated as a percentage of fixed remuneration as detailed in figure 3 above. To determine the number of performance rights allocated, the value of the LTI at the stretch performance level for each senior executive is divided by the volume weighted average price of Telstra shares over the 5 trading days before allocation.

The full market value of a Telstra share is used when we allocate performance rights. This differs from the accounting value under the executive remuneration table in figure 12, which reflects the amortised accounting valuation of these rights and any other LTI equity granted in prior years.

The value of the LTI at vesting

The actual value that an executive will receive will be determined by the number of equity instruments that vest upon achievement of the applicable performance measure multiplied by the market value of the shares at that time less any exercise price payable. This value is likely to be different from the values at allocation and the values disclosed in the remuneration table under figure 12.

Exercising performance rights

A performance right can only be exercised (that is, a share is delivered to the executive) when the specified performance measure is achieved. Where a right remains unexercised at the end of 5 years and 3 months from the allocation date, the right will lapse.

In general terms, if the CEO or a senior executive:

- resigns and their performance rights are not yet exercisable, those rights will lapse;
- retires or ceases employment due to death or total permanent incapacity, and their performance rights are not yet exercisable, those rights do not lapse and will be exercisable if the relevant performance measure is met;
- is made redundant, and their performance rights are not yet exercisable, the number of unvested rights is adjusted to reflect the executive’s service period and will be exercisable if the relevant performance measure is met; or
- ceases employment with Telstra for any other reason and their performance rights are not yet exercisable, the Board will decide whether those rights should lapse or remain available for exercise if the relevant performance hurdle is met.

Performance measures

The Board approved a change to the LTI plan for fiscal 2005 allocations. Of the allocation, 50% will be subject to a Total Shareholder Return (TSR) performance measure, and 50% will be subject to a new performance measure based on our Earnings Per Share (EPS) growth. These measures operate independently so that if one measure is achieved only the rights subject to that measure will vest.

The introduction of dual performance measures combines a strong external market-based focus through share price growth and dividends (TSR), and an internal non-market-based measure aimed at driving improved Company results and the creation of shareholder wealth (EPS). These performance measures are widely accepted as key drivers of sustainable long-term organisational performance.

TSR performance measure

Rights under the TSR performance measure will vest if Telstra's 30 day average TSR relative to the 30 day average TSR of the peer group ranks at or above the 50th percentile during the performance period. The performance period runs between the 3rd and 5th anniversary of allocation. The peer group comprises the companies in the S&P ASX200 index, excluding secondary securities and resource stocks from the Energy sector and Metal and Mining Industry, as defined under the S&P Global Industry Classification Standard (GICS).

If the 50th percentile is achieved in Quarter 1 of the performance period then vesting occurs on a linear vesting scale with 50% of the allocation vesting at a 50th percentile ranking (target) and 100% at a 75th percentile ranking (maximum) during the performance period. The 75th percentile represents the stretch target under the LTI plan.

If the 50th percentile is not achieved in Quarter 1 of the performance period then 50% of the allocation will lapse. The remaining 50% will vest if a ranking above the 50th percentile is subsequently achieved during the performance period.

Figure 5: Vesting schedule for TSR performance rights

Performance	TSR ranking below 50 th percentile	TSR ranking at 50 th percentile (gateway)	TSR ranking between 50 th and 75 th percentile	TSR ranking at or above 75 th percentile (maximum)
Vesting	Nil	50%	Progressive vesting from 51% to 99%	100%

EPS performance measure

For rights under the EPS performance measure in fiscal 2005, 50% of the allocation will vest if our EPS meets or exceeds the target performance level of 5% annual compound growth for the 3 years preceding the vesting date. If our EPS has grown annually by 10% compound for the same period, the remaining 50% allocation will vest. The 10% annual compound growth represents the stretch target under the LTI plan. A linear vesting scale operates for performance between 5% annual compound growth (gateway) and 10% annual compound growth (maximum). EPS is calculated in accordance with AASB 1027: "Earnings Per Share".

Figure 6: Vesting schedule for EPS performance rights

Performance	EPS growth below 5%	EPS growth at 5% (gateway)	EPS growth between 5% and 10%	EPS growth at or above 10% (maximum)
Vesting	Nil	50%	Progressive vesting from 51% to 99%	100%

Relationship between remuneration policy and the performance of Telstra

Telstra's remuneration policy aims to achieve a link between the remuneration received by executives, increased earnings and the creation of shareholder wealth. The STI is focussed on achieving operational targets and the LTI is focussed on achieving long term growth in shareholder wealth.

Shareholder wealth

The total return to an investor over a given period consists of the combination of dividends paid, the movement in the market value of their shares over that period and any return of capital to shareholders, not including buy-backs. During fiscal 2005 the share price has fluctuated between a low of \$4.63 and a high of \$5.49.

Over the five years to 30 June 2005 we have increased our return to shareholders through dividends by 83% including special dividends. Our total dividends paid per share for the last five years are shown below.

Figure 7: Share price at year end and dividends paid per share for the last 5 years

	Year ended 30 June 2005	Year ended 30 June 2004	Year ended 30 June 2003	Year ended 30 June 2002	Year ended 30 June 2001
Share Price (\$)	5.06	5.03	4.40	4.66	5.38
Total dividends paid per share (¢)	33.0	25.0	26.0	22.0	18.0
Earnings Per Share (¢)	35.5	32.4	26.6	28.5	31.5

As part of our commitment to improve returns for shareholders, in fiscal 2004 we announced a capital management strategy whereby we will declare ordinary dividends of around 80% of normal profits after tax and return \$1.5 billion per annum to shareholders through special dividends and/or share buy-backs each year through to fiscal 2007.

During the five years to 30 June 2005 we undertook two off-market share buy-backs as part of our capital management strategy, and all ordinary shares bought back were subsequently cancelled.

Figure 8: Share buy-backs

Date	Number of ordinary shares bought back	Cost		Buy-back price per share	Franked dividend component per share	Capital component per share
		Purchase consideration	Transaction costs			
		\$m	\$m	\$	\$	\$
24 Nov 2003	238,241,174	1,001	8	4.20	2.70	1.50
15 Nov 2004	185,284,669	750	6	4.05	2.55	1.50

Earnings

Our company's earnings over the five years to 30 June 2005 are summarised below.

Figure 9: Our 5-year earnings

	Year ending 30 June 2005 \$m	Year ending 30 June 2004 \$m	Year ending 30 June 2003 \$m	Year ending 30 June 2002 \$m	Year ending 30 June 2001 \$m
Sales revenue	22,161	20,737	20,495	20,196	18,679
Net profit available to Telstra Corporation Limited shareholders	4,447	4,118	3,429	3,661	4,058
EBITDA	10,771	10,175	9,170	9,483	9,834

Relationship to executive remuneration

As specified in our remuneration policy, a significant proportion of the CEO and senior executives' total remuneration is dependent on the achievement of specific short and long term measures.

Short term incentive

Financial measures represent 80% of the CEO and 41.7% of the senior executive short-term incentive plan for fiscal 2005 and therefore our financial performance directly impacts on the rewards received through the plan. The financial measures:

- provide a strong correlation with our ability to increase shareholder's returns;
- have a direct impact on our bottom line; and
- are measures over which the executives can exercise control.

The average STI received as a percentage of the maximum achievable payment for the CEO and senior executives for achievement of those short term measures is reflected in the table below.

Figure 10: Average STI payment as a % of maximum payment

	Year ending 30 June 2005	Year ending 30 June 2004	Year ending 30 June 2003	Year ending 30 June 2002	Year ending 30 June 2001
STI received	54.6% ⁽¹⁾	31.4%	41.1%	57.6%	31.7%

(1) This includes both the cash and equity components. While the total equity component is included in determining the above percentage, the value of the rights to Telstra shares granted for the year ended 30 June 2005 will be reflected in remuneration over the next three years as the shares vest over their performance period.

The above calculation is made by aggregating the actual STI payments made to the CEO and senior executives for the financial year and dividing that by the aggregated maximum achievable payments for those same executives. The result is then expressed as a percentage of the maximum achievable STI payment.

Long term incentive

The actual remuneration value attributed to the CEO and senior executives under the LTI plans over the previous 5 years is reported applying the relevant accounting standards. However, as vesting of any equity allocated under the LTI plans is subject to external performance measures reflecting the dividends returned to shareholders and the movement in Telstra's share price (except for the August 2004 plan which has an additional measure using EPS), the senior executives may or may not derive any value from these equity instruments.

As at 30 June 2005, the September 1999 plan did not meet the performance hurdle and all instruments had lapsed. The September 2000 plan is currently well below the required performance hurdle. If the performance hurdle is not achieved by 7 September 2005 these instruments will lapse.

The September 2001 plan did not meet the performance hurdle in the first quarter of the performance period and as a result half of all allocations lapsed. The performance hurdle for the 2001 plan was subsequently achieved in fiscal 2005 and the remaining half of the allocations vested.

The LTI plans allocated in fiscal 2003, 2004 and 2005 are yet to enter their respective performance periods but are also currently below the required performance hurdle.

Figure 11 provides a summary of the rewards received by the CEO and senior executives as a result of the LTI performance hurdles being achieved.

Figure 11: Instruments that have vested as a % of target

		Fiscal 2005	Fiscal 2004	Fiscal 2003	Fiscal 2002	Fiscal 2001
% of allocation which has vested		50% of 2001 allocation	-	-	-	-
Number vested	Performance Rights	455,000	-	-	-	-
	Options	4,755,000	-	-	-	-
Number lapsed	Performance Rights and Restricted Shares	593,000	-	-	-	-
	Options	5,573,000	-	-	-	-

Details of senior executives' remuneration

The total remuneration received by each executive, including an understanding of the various components of remuneration, is outlined in the tables below.

Figures 12, 13 and 14 detail the remuneration of our senior executives.

Figure 12 sets out the Primary, Post Employment and Equity remuneration received during the year as calculated under applicable accounting standards. Figure 13 sets out the details of the annual STI for fiscal 2005 and figure 14 sets out the annualised value of the CEO and senior executive allocations under the LTI plan.

Remuneration received in fiscal 2005

Telstra has chosen to disclose the remuneration of nine members of the senior leadership team on the basis that these nine have the greatest management authority within the Company delegated from the CEO. This also includes the CEO and the 5 highest paid executives in the Telstra Group as required under section 300A of the Corporations Act 2001.

Figure 12: Senior executives' remuneration

	Primary benefits				Post employment	Equity compensation		Total
	Salary & fees ⁽¹⁾	Short term incentive ⁽²⁾	Non-monetary ⁽³⁾	Other ⁽⁴⁾	Superannuation ⁽⁵⁾	Annualised value of Deferred shares ⁽⁶⁾	Annualised value of LTI equity ⁽⁷⁾	
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Zygmunt E Switkowski ⁽⁸⁾ – Chief Executive Officer	1,830,900	1,961,000	24,357	-	101,850	725,912	2,045,313	6,689,332
Bruce Akhurst ⁽⁹⁾ - Chief Executive Officer, Sensis	927,664	523,600	11,893	-	177,086	196,141	732,594	2,568,978
Douglas Campbell - Group Managing Director, Telstra Country Wide	941,394	310,600	10,149	-	88,356	196,141	732,354	2,278,994
David Moffatt - Group Managing Director, Telstra Consumer & Marketing	1,133,165	248,300	18,781	400,000	11,585	220,968	801,183	2,833,982
Ted Pretty - Group Managing Director, Telstra Technology, Innovation & Products	1,120,581	540,500	22,370	260,000	24,169	224,936	789,217	2,981,773
Michael Rocca - Group Managing Director, Infrastructure Services	735,791	416,600	9,817	-	140,459	145,754	401,479	1,849,900
Bill Scales ⁽¹⁰⁾ - Group Managing Director, Regulatory, Corporate & Human Relations	681,167	428,700	9,635	-	117,583	121,946	326,788	1,685,819
Deena Shiff ⁽¹¹⁾ - Group Managing Director, Telstra Wholesale	277,321	295,150	1,326	-	47,680	30,641	102,562	754,680
John Stanhope - CFO and Group Managing Director, Finance & Administration	800,685	240,150	11,398	-	99,065	105,628	365,338	1,622,264
David Thodey - Group Managing Director, Telstra Business & Government	966,890	206,200	8,375	-	52,360	176,235	560,447	1,970,507
TOTAL	9,415,558	5,170,800	128,101	660,000	860,193	2,144,302	6,857,275	25,236,229

- (1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.
- (2) Short-term incentive relates to the cash component only for performance in fiscal 2005 and is based on actual performance for Telstra and the individual. For the executives, other than Dr Switkowski and Mr Scales, the remaining 50% of the STI will be provided in the form of rights to Telstra shares in accordance with the STI equity plan. The value of the rights to Telstra shares granted for the year ended 30 June 2005 will be reflected in remuneration over the next 3 years as the shares vest over their performance period. STI payments to Dr Switkowski and Mr Scales will be paid as cash only as their employment relationship with Telstra ceases prior to the allocation of equity.
- (3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 and the value of the personal use of products and services related to Telstra employment.
- (4) Includes payments made to executives for continued service with Telstra as part of their employment contract.
- (5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.
- (6) The value included in deferred shares relates to the current year amortised value of unvested shares issued in fiscal 2003 and fiscal 2004 under the Deferred Remuneration Plan. No deferred shares were allocated in fiscal 2005 as the plan was discontinued. The value of each share is calculated by applying valuation methodologies as described in note 19 to the financial statements and is then amortised over three years.
- (7) The value represents the three different equity instruments detailed in figure 14. The executive only receives value if the performance hurdles are met.
- (8) Dr Switkowski was also an executive director and ceased employment with Telstra on 1 July 2005.
- (9) Mr Akhurst was appointed CEO, Sensis effective 1 January 2005. Prior to that Mr Akhurst was the Group Managing Director, Wholesale, Big Pond, Media and Sensis and Group General Counsel.
- (10) Mr Scales retires on 12 August 2005.
- (11) Ms Shiff was appointed Group Managing Director, Wholesale effective 1 January 2005. Prior to that, Ms Shiff was the Managing Director, Wholesale. In accordance with relevant accounting standards only remuneration from the date of Ms Shiff's commencement as a Group Managing Director is included above.

Short term incentive for 2005

With the exception of Dr Switkowski and Mr Scales, the values of the actual STI payment shown in figure 12 represent the 50% cash component. The remaining 50% of the STI payment will be provided as rights to Telstra shares through the annual STI equity plan. In accordance with the accounting standards the value of the STI equity will be amortised over the next three years following allocation. Figure 13 provides the full value, both cash and equity, which executives received through the STI plan in fiscal 2005.

Figure 13: STI for fiscal 2005

Name	Maximum potential STI ⁽¹⁾ - both cash and equity components (\$)	Actual STI ⁽²⁾ - both cash and equity components (\$)	% of the maximum potential ⁽³⁾
Zygmunt E Switkowski	3,764,000	1,961,000	52.1%
Bruce Akhurst ⁽⁴⁾	1,479,600	1,047,200	70.8%
Douglas Campbell	1,353,600	621,200	45.9%
David Moffatt	1,504,800	496,600	33.0%
Ted Pretty	1,504,800	1,081,000	71.8%
Michael Rocca	1,177,200	833,200	70.8%
Bill Scales	622,800	428,700	68.8%
Deena Shiff ⁽⁵⁾	819,000	590,300	72.1%
John Stanhope	709,200	480,300	67.7%
David Thodey	1,364,400	412,400	30.2%

(1) The Board may determine the minimum value of the short term incentive to be \$nil where the performance fails to meet the specified threshold levels.

(2) Short-term incentive relates to performance for the year ended 30 June 2005 and is based on actual performance for Telstra and the individual. Payment is provided in the form of 50% cash and 50% as rights to Telstra shares in accordance with the 2005 STI Equity plan. STI payments to Dr Switkowski and Mr Scales will be paid as cash only as their employment relationship with Telstra will cease prior to the allocation of equity.

(3) Where the actual STI payment is less than the maximum potential, the difference is forfeited and does not become payable in subsequent years.

(4) Mr Akhurst was appointed to the role of CEO Sensis effective 1 January 2005, but is still regarded as Group Managing Director level for remuneration purposes.

(5) Ms Shiff was appointed to the role of Group Managing Director, Wholesale effective 1 January 2005.

Long term incentive valuations

The following table provides the amortised accounting value of all LTI equity instruments. This includes allocations made in fiscal 2001, 2002, 2003, 2004 and 2005. Although these values appear in figure 14, apart from the September 2001 plan, the executives have not derived any value from these instruments as at 30 June 2005.

During fiscal 2005 the restricted shares and options allocated in fiscal 2000 lapsed as the performance measure was not satisfied during the performance period. As a result, the value attributed to these instruments only reflects the notional value until 13 September 2004 when they lapsed.

Half of the performance rights and options allocated under the September 2001 plan lapsed because the performance measure was not met during the first quarter of the performance period. The minimum performance measure was achieved in a subsequent quarter and the remaining allocations of performance rights and options vested to the participants.

Allocations for fiscal 2002, 2003, 2004 and 2005 are also subject to performance measures and therefore the CEO and senior executives may or may not derive value from the allocations.

Figure 14: Amortised accounting value of all LTI equity for the year ending 30 June 2005

	Amortised value of LTI equity allocations ⁽¹⁾⁽²⁾			Total
	Options ⁽³⁾⁽⁴⁾ (\$)	Performance rights ⁽⁴⁾ (\$)	Restricted shares ⁽³⁾ (\$)	(\$)
Zygmunt E Switkowski	772,731	1,191,643	80,939	2,045,313
Bruce Akhurst	345,383	354,173	33,038	732,594
Douglas Campbell	352,391	343,609	36,354	732,354
David Moffatt	380,380	390,643	30,160	801,183
Ted Pretty	387,991	396,424	4,802	789,217
Michael Rocca	141,424	248,585	11,470	401,479
Bill Scales	106,340	216,828	3,620	326,788
Deena Shiff	44,076	56,676	1,810	102,562
John Stanhope	134,511	218,175	12,652	365,338
David Thodey	241,368	319,079	-	560,447

- (1) The value of each instrument is calculated by applying option valuation methodologies as described in note 19 to the financial statements and is then amortised over the relevant vesting period. The values included in the table relates to the current year amortised value of all instruments. The valuations used in current year disclosures are based on the same underlying assumptions as the prior year.
- (2) Where a vesting scale is used, the table reflects the maximum achievable allocation.
- (3) The September 1999 plan failed to satisfy the performance measure during the performance period, and as a result all Restricted Shares and Options lapsed on 13 September 2004.
- (4) The September 2001 plan failed to satisfy the performance measure in the first quarter of the performance period. In accordance with the terms of the plan half the maximum potential allocation lapsed on 6 December 2004. The performance measure was subsequently achieved in the performance period and the remaining performance rights and options vested. As at 30 June 2005 no performance rights or options had been exercised by any participants.

CEO and senior executives' outstanding equity-based instruments

The accounting value and actual number of the CEO and senior executives' performance rights, restricted shares and options that were granted, exercised and lapsed in fiscal 2005 is detailed in figure 15 and 16. As the values shown in figure 15 represent the accounting value, the executive may not actually receive these amounts.

The value of lapsed instruments in figure 15 is based on the accounting value. This value is included to address our reporting obligations only. Where these instruments lapse, there is no benefit at all to the executive, and therefore no transfer of any equity or equity-related instrument. All instruments that have lapsed are subject to external performance hurdles (TSR), therefore no lapsing value is recorded in the following table in accordance with relevant accounting standards.

Figure 15: Value of equity-based performance rights granted, exercised and lapsed in fiscal 2005

	Granted during period ⁽¹⁾		Exercised	Lapsed	Aggregate granted, exercised and lapsed (\$)
	(\$)	% of Total Remuneration ⁽²⁾	(\$)	(\$)	
Zygmunt E Switkowski	1,747,446	26.1%	-	-	1,747,446
Bruce Akhurst	490,320	19.1%	-	-	490,320
Doug Campbell	448,098	19.7%	-	-	448,098
David Moffatt	498,492	17.6%	-	-	498,492
Ted Pretty	498,492	16.7%	-	-	498,492
Michael Rocca	391,575	21.2%	-	-	391,575
Bill Scales	362,292	21.5%	-	-	362,292
Deena Shiff ⁽³⁾	170,250	22.6%	-	-	170,250
John Stanhope	410,643	25.3%	-	-	410,643
David Thodey	452,865	23.0%	-	-	452,865

- (1) This represents the accounting value at grant date of TSR and EPS performance rights granted in fiscal 2005.
- (2) Total remuneration is the sum of primary benefits, post employment benefits and equity compensation as detailed in figure 12.
- (3) Ms Shiff's equity allocation under the annual LTI plan was made prior to her commencing as GMD Wholesale.

The actual number of LTI instruments that were granted, exercised and lapsed in fiscal 2005 is set out below. Of the performance rights allocated in fiscal 2005 100% of the allocations were granted and none were forfeited, lapsed or vested during fiscal 2005. However, all unvested equity instruments may lapse in future years if performance hurdles are not met.

Figure 16: Number of equity-based instruments – granted, exercised and lapsed

	Instrument	Balance at 1 July 2004	Granted during period ⁽¹⁾	Exercised during period	Lapsed during period ⁽²⁾	Balance at 30 June 2005 ⁽³⁾	Vested but not exercised during the period ⁽⁴⁾
Zygmunt E Switkowski	Performance Rights	1,259,400	513,200	-	129,000	1,643,600	129,000
	Restricted shares	146,000	-	-	50,000	96,000	-
	Options	3,456,000	-	-	1,646,000	1,810,000	1,346,000
	Deferred shares	500,700	-	-	-	500,700	-
Bruce Akhurst	Performance rights	388,600	144,000	-	59,000	473,600	59,000
	Restricted shares	60,000	-	-	21,000	39,000	-
	Options	1,542,000	-	-	737,000	805,000	617,000
	Deferred shares	135,300	-	-	-	135,300	-
Doug Campbell	Performance rights	388,600	131,600	-	59,000	461,200	59,000
	Restricted shares	68,000	-	-	26,000	42,000	-
	Options	1,597,000	-	-	777,000	820,000	617,000
	Deferred shares	135,300	-	-	-	135,300	-
David Moffatt	Performance rights	446,200	146,400	-	71,000	521,600	71,000
	Restricted shares	40,000	-	-	-	40,000	-
	Options	1,630,000	-	-	740,000	890,000	740,000
	Deferred shares	152,400	-	-	-	152,400	-
Ted Pretty	Performance rights	446,200	146,400	-	-	592,000	-
	Restricted shares	21,000	-	-	21,000	-	-
	Options	1,722,000	-	-	120,000	1,602,000	-
	Deferred shares	155,100	-	-	-	155,100	-
Michael Rocca	Performance rights	251,200	115,000	-	25,000	341,200	25,000
	Restricted shares	22,000	-	-	9,000	13,000	-
	Options	640,000	-	-	315,000	325,000	262,000
	Deferred shares	100,600	-	-	-	100,600	-
Bill Scales	Performance rights	210,400	106,400	-	21,000	295,000	21,000
	Restricted shares	5,000	-	-	-	5,000	-
	Options	465,000	-	-	220,000	245,000	220,000
	Deferred shares	84,200	-	-	-	84,200	-
Deena Shiff	Performance rights	118,600	50,000	-	17,000	151,600	17,000
	Restricted shares	5,000	-	-	-	5,000	-
	Options	380,200	-	-	178,000	202,200	178,000
	Deferred shares	42,300	-	-	-	42,300	-
John Stanhope	Performance rights	192,400	120,600	-	23,000	290,000	23,000
	Restricted shares	25,000	-	-	11,000	14,000	-
	Options	616,000	-	-	306,000	310,000	241,000
	Deferred shares	73,200	-	-	-	73,200	-
David Thodey	Performance rights	345,200	133,000	-	51,000	427,200	51,000
	Restricted shares	-	-	-	-	-	-
	Options	1,068,000	-	-	534,000	534,000	534,000
	Deferred shares	121,600	-	-	-	121,600	-

(1) Instruments granted during fiscal 2005 relate to the annual LTI plan.

(2) No equity instruments granted during fiscal 2005 lapsed in fiscal 2005.

(3) This represents the number of equity instruments which have not been exercised or lapsed as at 30 June 2005.

(4) The number of instruments that vested during fiscal 2005 relate to the September 2001 LTI plan and had not been exercised at 30 June 2005.

Contractual notice periods

The senior executives are employed under contracts without a fixed duration and may terminate their employment by agreement or, by providing 6 months notice. If an executive's employment is terminated by Telstra for reasons other than misconduct, they are entitled to 6 months' notice or payment in lieu of notice, and a termination payment equal to 12 months pay. Both elements are calculated on fixed remuneration at the time of termination.

Payments made to Dr Switkowski on ceasing employment with us

The CEO, Dr Zygmunt E Switkowski, ceased employment with the Company effective 1 July 2005. Under the terms of his employment contract Dr Switkowski was entitled to a termination payment of 12 months fixed remuneration which equated to \$2,092,000.

In addition, he received payments for other entitlements and accrued benefits which he would have received regardless of ceasing employment on 1 July 2005 as follows:

- Short-term incentive – \$1,961,000, as detailed in figure 12.
- Accrued leave – \$1,059,526 representing all remaining leave due to him at the time his employment ceased, calculated at the fixed remuneration rate.

Dr Switkowski participated in the Deferred Remuneration and Long Term Incentive plans and was previously allocated equity instruments under these plans. On ceasing employment he retains the rights to the following instruments:

- *Deferred remuneration*

Deferred remuneration was regarded as an element of "fixed" remuneration which was deferred. Dr Switkowski received allocations under this plan in 2002 and 2003. On ceasing with us he retained the right to his previous allocations which can be exercised at any time. Deferred shares not exercised before the expiration of the exercise period will lapse.

Year of Plan	Number of deferred shares allocated
2002	249,100
2003	251,600
Total	500,700

- *Long-term incentive*

Dr Switkowski retained the rights to the following equity instruments allocated during his employment under the long-term incentive plan.

Year	Instrument type	Allocations
2000	Restricted shares	96,000
2000	Options at \$6.28 exercise price	464,000
2001	Performance rights	129,000
2001	Options at \$4.90 exercise price	1,346,000
2002	Performance rights	498,200
2003	Performance rights	503,200
2004	TSR Performance rights	256,600
2004	EPS Performance rights	256,600

Performance rights and Options allocated under the September 2001 plan vested on 28 June 2005 and as a result may be exercised at any time after 1 July 2005. All other allocations are yet to meet the required performance hurdles and have not vested and as such no value can be derived from these instruments at this time. Allocations made under the September 2000 plan are currently well below the required performance hurdle. If the hurdle is not achieved by 7 September 2005 these instruments will lapse.

Appointment of Mr Solomon Trujillo

The Board undertook an international search to identify candidates for the role of CEO. We also received independent remuneration advice in developing an internationally competitive remuneration package.

As a result of this search, Mr Solomon D Trujillo was appointed CEO and executive director of Telstra effective 1 July 2005. The terms of his contract, which was disclosed in an ASX announcement on 9 June 2005, are summarised below.

Mr Trujillo receives:

- A fixed remuneration package including salary, superannuation in accordance with legislation, salary sacrifice benefits and any applicable fringe benefits tax incurred by us to the value of \$3,000,000 per annum;
- a sign-on payment of \$1,000,000 on commencement of his employment with us and pre-payment of 50% (\$1,500,000) of his potential fiscal 2006 short-term incentive.

In addition, Mr Trujillo will have a substantial proportion of his potential remuneration delivered through the STI and the LTI plan.

- *Short-term incentive*

The fiscal 2006 STI plan provides for rewards up to the value of 100% of his fixed remuneration (\$3,000,000) subject to the achievement of personal targets set by the Board and incorporating significant company performance. The value of the fiscal 2006 STI payment will be reduced by \$1,500,000, reflecting the pre-payment. The balance, if any, will be delivered as 50% cash and the other 50% will be provided as rights to our shares which will vest in equal amounts over the following 3 years.

- *Long-term incentive*

Mr Trujillo will be invited to participate in our LTI plan. The remuneration value attributed to the LTI plan will be equivalent to 133^{1/3}% of fixed remuneration (\$4,000,000) for achieving pre-determined maximum hurdles as defined by the Board. Achievement of these targets will require significant performance by the Company and a gateway target will need to be met in order to qualify for any equity. Failure to meet the gateway targets will result in no vesting of the performance rights. However, achievement of the gateway targets for the CEO will qualify performance rights to the value of 100% of fixed remuneration (\$3,000,000) to vest. A linear scale exists for performance between the gateway targets and the pre-determined target hurdles. The weighting for achieving the maximum and gateway hurdles vary from those that applied to the CEO in 2004/2005 as described earlier in this report.

The above package provides for 30% to be paid as fixed remuneration. The balance is “at risk”, with the exception of the 50% pre-payment in the fiscal 2006 STI plan, and requires the achievement of significant performance milestones in order for Mr Trujillo to receive the maximum amount under the short-term and long-term incentive plans.

Termination arrangements

Mr Trujillo has been employed by us under a contract without a fixed duration and either party may terminate his employment by agreement, by providing 30 days written notice. If Mr Trujillo's employment is terminated by us for reasons other than misconduct, he will receive, in addition to any payment in lieu of notice:

- a termination payment of:
 - (a) twenty four months fixed remuneration if the termination occurs within the first twelve months of employment; or
 - (b) twelve months fixed remuneration if the termination occurs after the first twelve months of employment a pro-rata payment in respect of his participation in the STI plan for the year in which termination occurs.
- a pro-rata payment in respect of his participation in the STI plan for the year in which termination occurs;
- the rights to equity allocated through the LTI plan prior to termination subject to it achieving the respective performance hurdles in accordance with the terms of the plan; and
- reimbursement of any taxation penalties that may occur in the event of an early return to the United States.