

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 A\$4,447 million (2004: A\$4,118 million). This result was after deducting:

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

Earnings before interest and income tax expense was A\$7,005 million, representing an increase of A\$445 million or 6.8% on the prior year's result of A\$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 A\$4,349 million (2004: A\$4,156 million) and earnings before interest and income tax expense increased by 3.0% to A\$6,888 million (2004: A\$6,690 million).

Review of operations

Financial performance

Our total revenue (excluding interest revenue) increased by 6.5% or A\$1,377 million to A\$22,657 million. This included total revenues of A\$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 A\$932 million to A\$15,652 million. Operating expenses for the year ended 30 June 2005 included expenses of the controlled entities we acquired during the year of A\$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 A\$21,670 million and operating expenses (before borrowing costs and income tax expense) increased by 3.7% to A\$14,782 million.

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

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

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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 television 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 A\$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 A\$932 million was mainly attributable to:

- labour - A\$475 million or 14.8%; and
- goods and services purchased - A\$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 television in particular.

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Goods and services purchased increased due to the following:

- purchases of pay television 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 A\$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 A\$130 million, recognised on sale of our investment in this entity, and a provision raised against the REACH loan of A\$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 A\$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 A\$1,822 million in fiscal 2005, primarily due to higher reported profit and the impact in the prior year of a 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 A\$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 A\$530 million, with an equivalent amount recognised within the net assets of the group statement of financial position on consolidation.

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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 A\$428 million, representing the present value of the purchase price of A\$450 million. On acquisition we paid A\$22 million and recognised A\$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 A\$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 A\$187 million (US \$143 million), accrued interest on the capacity prepayment of A\$16 million and accrued interest on the REACH loan of A\$2 million.

During the year, we completed bond issues in Europe (EUR1,500 million), Switzerland (CHF300 million), Australia (A\$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 & Poor's 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 & Poor's	A+	A1	negative
Moody's	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 A\$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 (A\$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 3.0% of our non-Commonwealth owned ordinary shares, were bought back. The cost of the share buy-back comprised the purchase consideration of A\$750 million and associated transaction costs of A\$6 million. The ordinary shares were bought back at A\$4.05 per share, comprising a fully franked dividend of A\$2.55 per share and a capital component of A\$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.

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We continued to increase cash flow from operating activities to A\$8,163 million for the current year compared with A\$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 A\$3,809 million, representing an increase of A\$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 A\$590 million compared with the prior year of A\$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 A\$4,354 million compared with A\$4,163 million in fiscal 2004.

Our cash used in financing activities was A\$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 (A\$1,742 million) and a fully franked special dividend of 6 cents per ordinary share (A\$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 A\$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.

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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 A\$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.

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Dividends

The directors have declared a fully franked final dividend of 14 cents per share (A\$1,742 million) and a fully franked special dividend of 6 cents per share (A\$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%	A\$1,642 million
Interim dividend for the year ended 30 June 2005	10 February 2005	29 April 2005	14 cents franked to 100%	A\$1,742 million
Special dividend for the year ended 30 June 2005	10 February 2005	29 April 2005	6 cents franked to 100%	A\$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 A\$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 A\$16 million in returned capital.

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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 196 to 201
- details of the directorships of other listed companies held by each director in the past 3 years is provided on pages 196 to 201;
- number of Board and Committee meetings and attendance by directors at these meetings is provided on page 202;
- details of directors' and senior executive shareholdings in Telstra are shown on page 203; and
- details of directors' and senior executive emoluments is detailed in the Remuneration report on pages 205 to 225.

Company secretary

The qualifications, experience and responsibilities of our company secretary are provided at page 201 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.

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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 A\$17 million (2004: A\$19 million) relating to instruments issued during the year for AGAAP and an expense of A\$15 million (2004: A\$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);

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- 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

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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,

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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 204 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.



Donald McGauchie
Chairman
11 August 2005

Directors' report

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	1996	2003
Solomon D Trujillo ⁽³⁾	53	CEO and 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 Chief Executive Officer 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.

Directors' report

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.

Directors' report

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 -).

Directors' report

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).

Directors' report

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; and Chairman, 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.

Directors' report

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 Gration - FCIS, BSc, LLB (Hons), GDip AppFin,

Age 39

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

Before joining Telstra, Mr Gration 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 Gration 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' report

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' report

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

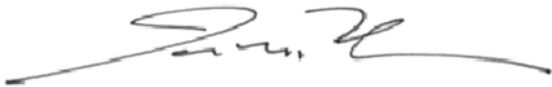
	Number of shares held		
	Direct Interest	Indirect interest ⁽¹⁾	Total
Bruce Akhurst	7,780	54,711	62,491
Douglas Campbell	9,700	27,500	37,200
David Moffatt	600	3,100	3,700
Ted Pretty	-	2,400	2,400
Michael Rocca	12,000	-	12,000
Bill Scales	8,516	1,400	9,916
Deena Shiff	5,680	8,800	14,480
John Stanhope	6,980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

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

Directors' report

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.



Ian McPhee
Auditor-General

11 August 2005
Canberra, Australia