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 A$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.

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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 A$308,000
- Deputy Chairman A$154,000
- Director A$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 A$50,000
- Audit Committee member A$25,000
- Remuneration Committee Chairman A$10,000
- Remuneration Committee member A$5,000
- Nomination Committee member A$5,000
- Technology Committee Chairman and member A$5,000

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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.

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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] (A$)	Non-monetary[2] (A$)	Superannuation (A$)	Retirement benefits accrued (A$)	Directshare (A$)	Other fees (A$)	(A$)
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 202.*
(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.*

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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 (A$)	Increase during fiscal 2005 (A$)	Payment to director if they had retired on 30 June 2005 (A$)
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.

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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

Role	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.

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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.

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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.

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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.

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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 50th percentile	TSR ranking at 50th percentile (gateway)	TSR ranking between 50th and 75th percentile	TSR ranking at or above 75th 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 growthat 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%

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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 A$4.63 and a high of A$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 (A$)	5.06	5.03	4.40	4.66	5.38
Total dividends paid (A¢)	33.0	25.0	26.0	22.0	18.0
Earnings Per Share (A¢)	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 A$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 A$	Franked dividend component per share A$	Capital component per share A$
		Purchase consideration A$m	Transaction costs A$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

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Earnings

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

Figure 9: Our five-year earnings

	Year ending 30 June 2005 A$m	Year ending 30 June 2004 A$m	Year ending 30 June 2003 A$m	Year ending 30 June 2002 A$m	Year ending 30 June 2001 A$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

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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.

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Figure 12: Senior executives remuneration

	Primary benefits				Post employment	Equity compensation		Total
	Salary & fees [1] (A$)	Short term incentive [2] (A$)	Non-monetary [3] (A$)	Other [4] (A$)	Superannuation [5] (A$)	Annualised value of Deferred shares [6] (A$)	Annualised value of LTI equity [7] (A$)	(A$)
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

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Senior executives remuneration (continued)

(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 figure 12 represents 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 (A$)	Actual STI (2) - both cash and equity components (A$)	% 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%

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STI for fiscal 2005 (continued)

(1) *The Board may determine the minimum value of the short term incentive to be A$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) (A$)	Performance rights (4) (A$)	Restricted shares (3) (A$)	(A$)
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.*

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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
	(A$)	% of Total Remuneration (2)	(A$)	(A$)	(A$)
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.

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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,

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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 A$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 – A$1,961,000, as detailed in figure 12.
- Accrued leave – A$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 A$6.28 exercise price	464,000
2001	Performance rights	129,000
2001	Options at A$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.

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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 as CEO 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 A$3,000,000 per annum;
- a sign-on payment of A$1,000,000 on commencement of his employment with us and pre-payment of 50% (A$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 (A$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 A$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 (A$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 (A$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.

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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.

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