# innovation – making thinking work

# Annual Review 2005

Welcome to Telstra’s 2005 Annual Review. The Annual Review is a ‘short form’ overview, designed to provide you with a concise summary of Telstra’s activities and financial performance for the year ended 30 June 2005.

The Annual Review does not represent or summarise all publicly available information about Telstra. There is further publicly available information about Telstra in our full Annual Report, as well as information provided to the Australian Stock Exchange and the Australian Securities & Investments Commission. To obtain a free copy of the Annual Report please call 1300 88 66 77.

Electronic Communications

The Annual Review, Annual Report and a variety of public information on Telstra are available through the Internet at http://www.telstra.com.au/abouttelstra/investor

Shareholders also have the option of receiving Telstra’s communications including the Annual Review and Annual General Meeting materials electronically. For further information please refer to our investor information section on page 65.

Nothing in this Annual Review is or should be taken as an invitation or application or offer to subscribe for or buy securities in Telstra.

Telstra Corporation Limited ABN 33 051 775 556.

Front Cover Image

The digital home featured on the cover demonstrates how we turn ideas into reality at the Telstra Innovation Centres.

Our Innovation Centres display Telstra's latest technologies in a range of 'real-life' everyday environments.

Our product designers collaborate with our customers to conceive, design, create and trial new products, to help fast-track innovative solutions to market.

Our innovative processes are based on customer need – not technological wizardry.

Annual General Meeting

Telstra’s 2005 Annual General Meeting will be held on Tuesday 25 October 2005 at the Sydney Convention and Exhibition Centre. Your Notice of Meeting contains details about the location and meeting time.

Dividend Payment

A final fully franked dividend of 14 cents per share, and an additional special fully franked dividend of 6 cents per share will be paid on 31 October 2005 to shareholders registered on the Share Register on 30 September 2005.

Investor Information

Financial Calendar 2006

Half-year results announcement 9 Feb

Ex-dividend share trading commences 20 Feb

Record date for interim dividend 24 Feb

Interim dividend paid 24 Mar

Annual results announcement 10 Aug

Ex-dividend share trading commences 21 Aug

Record date for final dividend 25 Aug

Final dividend paid 22 Sep

Annual General Meeting 14 Nov

Note: timing of events may be subject to change

Telstra delivered a solid result in 2004/05. We have maintained our commitment to maximising cash returns to our shareholders by declaring year-end fully franked dividends amounting to 20 cents per share, comprising a 14 cent ordinary dividend and a 6 cent special dividend to be paid in October 2005. We have announced an intention to pay another 6 cents per share special dividend with our 2005/06 interim dividend.

FINANCIAL HIGHLIGHTS

Sales revenue

Sales revenue increased by 6.9% to $22,161 million. Mobiles, internet and IP, and advertising and directories once again experienced strong growth, offset by declines in fixed line PSTN revenue. Acquisitions of new entities also contributed to the revenue increase.

Net profit after minorities

Net profit after minorities increased to $4,447 million, an increase of 8.0% on the prior year.

Dividends

Ordinary dividends increased to 28 cents per share, up 7.7%. As part of our capital management program we also declared two 6 cents per share special dividends. The first 6 cent special dividend was paid with the 14 cent interim dividend in April 2005. The second 6 cent special dividend will be paid with the final ordinary dividend of 14 cents per share in October 2005.

\* % change on ordinary dividends

message from our Chairman

# Dear shareholders,

This has been a very important year for Telstra and will, I believe, be recognised as such in the years ahead. This year we have made decisions to begin reshaping Telstra, decisions heralded by the arrival of your new Chief Executive Officer, Sol Trujillo.

I welcome Sol on behalf of all shareholders. His broad range of experience, including strong credentials in change management, in a career spanning 30 years across several telecommunications companies operating in more than 20 countries around the world, will be invaluable to Telstra. Sol has made it very clear that everything we do at Telstra will be centred on customers.

Your Board began the process of more actively engaging with all our key stakeholders to ensure that our customers across Australia have access to the best telecommunication services available.

We affirmed our commitment to providing services to rural and remote Australia through our continued focus with Telstra Country Wide and to our legislative obligations.

We also reaffirmed our commitment and belief in Telstra working hand-in-hand with the community and governments to provide jobs, stimulate growth and promote the innovation in telecommunications needed to make sure Australia succeeds in the 21st century.

This year has been punctuated with debate about the selling of the Federal Government’s remaining shares in Telstra – T3 – and the regulatory framework in which Telstra will operate following full privatisation.

It is your Board’s and management’s view that regulations should allow all Australians to receive the best services at the best prices and that this country has a world class telecommunications industry to serve its people, its enterprises and its communities – no matter where they are located.

Ultimately Telstra will and must operate in the regulatory environment designed by the Government. We will do our best to represent the interests of our shareholders and customers in all discussions and in doing so we believe we will be working to deliver the best possible outcome for Australia now and in the future.

It is worth noting that we believe Australia must have an industry-focus to deliver the best telecommunications services to everyone. This will not be achieved by Telstra alone.

Telstra has now embarked on a strategy to connect with its customers like never before. Under Sol’s leadership, we move towards full privatisation of the company with renewed vigour and enthusiasm.

During the year, we re-affirmed our commitment to shareholders by declaring strong dividends – over the year we returned almost $5 billion cash in ordinary dividends, special dividends and a share buy-back.

Operationally, again the standout business performers were broadband, mobiles and Sensis, our advertising and directories business.

On the downside, pressure on traditional fixed line voice revenues is intensifying. Usage of new communication platforms such as mobiles, email and the internet is increasing at the expense of the fixed line phone call. This is not a trend unique to Telstra, but we will evolve further into new services for our customers to offset pressure on traditional revenues.

I want to put on record my sincere thanks to three people who have moved on from the company. John Ralph and Tony Clark recently retired as Telstra directors. Their experience and judgement were great assets to the Board and to Telstra’s performance and they will be hard to replace. We are conducting a formal search to fill the vacancies.

I also sincerely thank our previous Chief Executive Officer Ziggy Switkowski for his valuable contribution in often complex and difficult circumstances.

There is now a new energy within Telstra, and we have a greater voice in our future. I am confident we can harness this new momentum to build a new approach for the future that is in the long term interests of our customers, our shareholders, our company and indeed, our nation.

Yours sincerely

Donald G McGauchie – AO

Chairman

message from our Chief Executive Officer

# Dear shareholders,

It is a privilege to have the opportunity to lead this great company, one of the few remaining fully integrated telecommunications operators in the world.

Since I started as Chief Executive Officer on 1 July, we have made good progress on a wide-ranging strategic review of Telstra. We are devising a new business strategy that is coherent, commercially sound and customer focused – a strategy for innovation and growth. Every part of the business – systems, processes and resources – is being reviewed as we explore ways both to widen and make simpler the choices available to our customers. We are reviewing our cost structures to ensure we are maximising resources allocated to customer-facing activities.

Our objective is simple. We will reposition this company around what is best for our customers and good stewardship for our shareholders. We will improve our responsiveness and simplify our processes for our customers. This approach will also lower our costs.

We are committed to improving the experience for all customers – large and small, business and residential, existing and new, without regard for where they choose to work, live and travel.

We are also committed to working together with business, consumers, government at all levels, and competitors to ensure this country has a world class telecommunications industry that stimulates local, regional and national economies and creates choices and opportunities for all Australians, both urban and rural.

We will strongly focus on the needs of our customers, segment by segment. We must do this in today’s tough, highly competitive market.

We will differentiate ourselves by encouraging innovation in the use of our technology, whether it’s in the provision of wireless and mobile offices, the delivery of mobile content, or in the way we manage customer relationships.

We are undertaking a comprehensive examination of our branding and marketing strategies to make sure they are truly speaking to our customers’ needs.

To achieve these ends, we have created a Program Office headed by Greg Winn who was recently appointed Chief Operations Officer of Telstra. This office will ensure the initiatives stemming from the strategic review are implemented. It will also identify and prioritise opportunities for streamlining, implementing and co-ordinating all aspects of the Company’s operations in order to deliver the best possible customer service.

In other recent management changes, Bill Stewart was appointed Group Managing Director and Head of Strategic Marketing and Phil Burgess was named Group Managing Director, Public Policy and Communications. Both executives are high performers who will bring new ideas and new approaches to our company as they join other members of the senior management team, including Group Managing Directors Bruce Akhurst, David Moffatt, Doug Campbell, David Thodey, John Stanhope, Michael Rocca, and Deena Shiff.

Recently two Group Managing Directors, Bill Scales and Ted Pretty, left Telstra. I sincerely thank each of these senior executives for their many valuable contributions over the years.

I wish to acknowledge the hard work from the management and employees in all parts of our company for delivering last year’s financial results. I also want to thank Board Chairman Donald McGauchie and the Telstra Board for their encouragement and steadfast support of our initiatives to take Telstra to the next level, one that will reflect the full potential of the digital revolution to enable a new and enhanced customer experience.

Looking ahead, there are challenges that require us to lift the performance of the company and grow our business by introducing new products and services to our customers that are consistent with what they tell us they want.

How the future unfolds for Telstra will depend on multiple factors – the results of our strategic review, the scope of regulatory reform, the outcome of the Federal Government’s policy to sell its remaining shares in Telstra and, most importantly, our team’s ability to execute on a new vision for Telstra and its customers.

I look forward to meeting more of you as we mobilise resources to lead this great company into the future.

Sol Trujillo

Chief Executive Officer

# senior management and executive officers

Phil Burgess

PHD

Group Managing Director

Public Policy and Communications

Phil Burgess was appointed Group Managing Director, Public Policy and Communications on 15 August 2005. Phil has a long record of leadership in public policy and communications with broad experience as an academic, business executive, media commentator and writer on economic, political and cultural trends in the US and around the world. Prior to his appointment with Telstra, Phil has served most recently as President and Chief Executive of the National Academy of Public Administration in Washington, D.C. Phil also served as President of the Annapolis Institute, a US think tank established in 1993 to help leaders manage change – at every level in both the public and private sectors. Phil also serves as a Visiting Professor of Policy Studies at UCLA's public policy school, where he teaches in the graduate program on communications and culture.

Bruce Akhurst

LLB, BEc (Hons)

Chief Executive Officer of Sensis

Bruce Akhurst is the Chief Executive Officer of Sensis. Within Telstra, he has management responsibility for our digital media strategy, which includes our investment in FOXTEL. In March 2005 Bruce was appointed Chairman of the FOXTEL board. Prior to his appointment as CEO of Sensis, Bruce was Group Managing Director Telstra Wholesale , BigPond® and Media Services and he also headed our Legal and Company Secretariat group and was Telstra’s Group General Counsel. Bruce joined Telstra as General Counsel in 1996 and became Group Managing Director in 1999. Before joining the Company, he was the Managing Partner at a national law firm.

William J Stewart

BSc (Mathematics & Physics)

Group Managing Director

Strategic Marketing

Bill Stewart was appointed Group Managing Director of Strategic Marketing in July 2005. Prior to his appointment at Telstra, Bill was Executive Vice President of Strategic Marketing at Orange SA, based in London. Bill has over twenty five years experience in the communications industry, including positions at Harris Corporation, GTE Corporation and US West. Bill has an excellent record of achievement in driving customer-focused strategies and world class marketing in the US and Europe.

David Thodey

BA

Group Managing Director

Telstra Business and Government

David Thodey joined Telstra in April 2001 as Group Managing Director of Telstra Mobile. He was appointed to the position of Group Managing Director, Telstra Business and Government in December 2002 and is now responsible for the Company’s industry, government and business customers. Before joining the Company, David was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive marketing and sales positions within IBM.

David Moffatt

BBus (Mgt), FCPA

Group Managing Director

Telstra Consumer and Marketing

David Moffatt was appointed Group Managing Director, Telstra Consumer and Marketing from 1 October 2003. The group’s activities encompass the sales and marketing of fixed and mobile communications, broadband and entertainment services to the Australian consumer and small business customers, the management of the Telstra brand, advertising and sponsorships and implementing product bundling initiatives. The group also manages the Telstra shop chain and our extensive national network of mobile phone dealers as well as our payphone services. David is a Director and Chair of the Finance Committee at FOXTEL. David was previously Telstra Chief Financial Officer and Group Managing Director, Finance & Administration, a role he assumed in February 2001. Prior to joining the Company, David was Chief Executive Officer, General Electric – Australia and New Zealand.

Douglas Campbell

B.Eng, FAICD

Group Managing Director

Telstra Country Wide

Doug Campbell was appointed Group Managing Director, Telstra Country Wide on 4 June 2000, and has over 30 years experience in the telecommunications industry both in Australia and Canada. Between August 2002 and October 2003, Mr Campbell, combined his Group Managing Director of Telstra Country Wide role with management responsibility for the Telstra Technology unit. Prior to his appointment with Telstra Country Wide, Doug held the positions of Group Managing Director, Telstra Wholesale and International, and Group Managing Director, Carrier Services Business. He has also held the position of Group Managing Director, Network and Technology, and Group Managing Director, Consumer and Commercial. Before the merger of Telecom Australia and Overseas Telecommunications Commission in March 1992, Doug was Deputy Managing Director of Telecom Australia. Originally from Canada, Doug was the President of Canadian National Communications.

Deena Shiff

BSc (Econ) Hons, BA (Law) Hons

Group Managing Director

Telstra Wholesale

Deena Shiff has over fifteen years experience in the telecommunications industry. She held a number of positions in OTC Limited and, after the merger of AOTC and Telstra, in the company’s International business unit. Between 1995 and 1998 Deena was a partner of the law firm Mallesons Stephen Jaques. Deena rejoined Telstra in 1998 as Director of Regulatory, and in November 2001 was appointed to the Wholesale business unit. In December 2004 she was appointed Group Managing Director, Telstra Wholesale. Deena has held a number of non-executive directorships in both the telecommunications industry and other sectors. She was a Director of the government owned rail operator, Freightcorp, from 1995 until it was privatised in 2002. During that time she chaired the Compliance Committee and later the Privatisation Committee of the Freightcorp Board. Deena was educated at the London School of Economics and Cambridge University, and was admitted to the Bar in London in 1981.

Greg Winn

Chief Operations Officer

Greg Winn was appointed Telstra's Chief Operations Officer (COO) on 11 August 2005. His responsibilities include Infrastructure Services, Telstra Technology, Innovation and Products, human resources, corporate services, credit management, the newly formed program office and the productivity and billing directorates. Greg has more than 30 years experience in the telecommunications industry, with more than 10 years experience as a senior operations officer. Prior to joining Telstra, Greg served as Executive Vice President, Operations and Technologies, at US West, where he established and led major initiatives to increase productivity through systems improvement. Greg began his career in US West as a linesman and subsequently held positions in network services, corporate finance, small business services, product management, and sales. In 1994, he became Vice President, Consumer Sales and Customer service.

John Stanhope

B Com (Economics and Accounting), FCPA, FCA, FAICD, FAIM

Chief Financial Officer and Group Managing Director

Finance and Administration

John Stanhope was appointed to the role of Chief Financial Officer and Group Managing Director, Finance & Administration from 1 October 2003. He is responsible for finance, treasury, risk management and assurance, corporate development, investor relations and the Office of the Company Secretary. John previously served as Director, Finance. In this role, which he assumed in 1995, he contributed to T1 and T2, cost reduction programs, growth strategies, debt raising, capital management and organisational restructures. In 2003, John was elected as National President to the Group of 100 for a two year period. He was also appointed as a member of the CPA Australia’s Professional Education Board for a three year term and is Chairman of the Business Coalition for Tax Reform. John is a director of TelstraClear, Hong Kong CSL, Sensis, Telstra Super and is Chairman of REACH.

Michael Rocca

MBA, DipEng, GAICD

Group Managing Director

Infrastructure Services

Michael Rocca was appointed Group Managing Director of Infrastructure Services in August 2002. This unit of about 18,000 Telstra staff as well as an extensive contract workforce, has the responsibility for providing design, installation and maintenance services to Telstra’s 11 million customers. Prior to his current assignment, Michael held a range of posts during his career including Managing Director of a number of engineering and service organisations within Telstra. Michael Rocca is credited with dramatic improvements in regulated levels of customer service, greater customer engagement, network management, cost reduction, innovative workforce modelling and technology transformation. Michael holds a Master of Business Administration and post-graduate qualifications in Engineering and Management. Michael also has qualifications from INSEAD, Global Management, and is a graduate of the Australian Institute of Company Directors.

Strategic business units

• Telstra Consumer and Marketing is responsible for serving metropolitan consumer and small business customers with our full range of products and services including fixed, wireless and data, the overall management of our brands, advertising and sponsorships, consumer marketing and implementing our product bundling initiatives. It also has responsibility for Telstra’s consumer call centres, licensed shops and dealer network.

• Telstra Business and Government is responsible for providing innovative and leading edge communications and Information and Communication Technology (ICT) solutions to business and government enterprises in Australia and New Zealand. It also oversees our investment in TelstraClear.

• Telstra Technology Innovation and Products is responsible for the management of all technology, platform, systems and most product delivery. It develops and supports products and technologies specified by our market facing business units. It also undertakes substantial research and development to ensure that we remain at the forefront of technology in Australia.

• Telstra Country Wide is responsible for sales, service and the management of customer relationships in outer metropolitan, regional, rural and remote parts of Australia and the development and delivery of innovative communications solutions to meet the needs of customers living in these areas.

• Infrastructure Services builds, operates and maintains our telecommunications infrastructure and is our primary service delivery manager. It is responsible for the provisioning, restoration, operation and management of our fixed, mobile, IP and data networks, as well as the design and construction of network infrastructure. This includes voice and data, product and application platforms and the online environment. Over the past year Infrastructure Services’ capability has been augmented by the 3GIS joint venture with Hutchison and the integration of Telstra Business Systems (formerly Damovo).

• Telstra Wholesale provides a wide range of wholesale products and services to the Australian domestic market including fixed, wireless, data and Internet, transmission and IP, interconnection, access to our network facilities, and retail/rebill products. It also offers network design and construction solutions as well as operations and maintenance services, including management and maintenance of integrated IP networks, mobility solutions, fixed access, wireless access and transmission solutions. Recently, Telstra Wholesale has commenced servicing global wholesale markets to satisfy growing Internet and high bandwidth needs.

• Telstra BigPond® is our retail Internet business and is responsible for providing broadband and narrowband Internet services for consumer and small and medium business customers, as well as value added services and content services (including BigPond® Movies, BigPond® Music, BigPond® Sport, BigPond® Games).

• Sensis is a wholly owned subsidiary which is responsible for our advertising, directories and information services.

• Telstra Media is responsible for our FOXTEL investment.

• TelstraClear is New Zealand’s second largest full service telecommunications company.

• Telstra Asia manages our international interests in Asia, including CSL and our joint venture REACH in Hong Kong. It also directs our offshore growth strategy, with a current focus on enhancing the value of our existing investments, profitably rationalising non-core assets and positioning us to capture high growth opportunities in the region, particularly China and South East Asia.

• In August 2005, we announced changes to our organisational structure. We appointed a Chief Operations Officer (COO) to oversee the existing Infrastructure Services and Telstra Technology, Innovation and Products business units, as well as corporate services, credit management, human relations, the productivity and billing directorates and a new program office. The new program office will identify and prioritise opportunities for streamlining, implementing and co-ordinating all aspects of the company's operations in order to deliver the best possible customer service.

\* Bill Scales, former Group Managing Director, Corporate and Human Relations retired on 12 August 2005.

\* Ted Pretty, former Group Managing Director, Telstra Technology, Innovation and Products, ceased employment with Telstra on 19 August 2005.

Corporate centre business units

• Finance & Administration is responsible for corporate policy and support functions including finance, risk management and assurance, credit management, treasury, company secretary, investor relations, mergers and acquisitions, and other corporate services. It is also responsible for the financial management of the majority of our fixed assets, including network assets.

• Legal Services provides operational and strategic legal support and advice across the Company, with lawyers from Legal Services integrated with the other strategic and corporate centre business units.

• Public Policy and Communications is responsible for the management of all our regulatory issues, including liaison with regulatory bodies, the promotion and protection of our reputation by facilitating effective engagement of internal and external stakeholders including media, and the management of our interaction with Government at the Commonwealth and State level.

• Human Relations is responsible for all our human relations matters including health, safety and the environment, leadership development and training, and all workplace relations matters.

# consumer and marketing

Telstra Consumer and Marketing (TC&M) supports over nine million consumer and small business customer services Australia wide. Through our national call centres and more than 4,800 Telstra shops, Telstra licensees, dealer and retailer points of presence, we offer the most comprehensive range of communication products, services and applications in Australia. TC&M is also responsible for the management of our brand, major advertising and commercial sponsorships, fixed and mobile marketing and multi-product bundling initiatives.

Customer focus

Our aim is to consistently exceed customer expectations by offering the best combination of value, service and features on the latest range of communications products. Through a total customer focus we also aim to improve customer retention and loyalty and increase the number of customers with multiple Telstra products and services.

‘One Number One Voice®’, one of the world’s most sophisticated natural language speech recognition systems, celebrated its first year of operation. This system handled more than 30 million customer enquiries. In addition we made significant improvements to telstra.com® with the goal of making it easier for customers to access the majority of their Telstra services online.

Our dedicated inbound call centres serve over half a million customers a week. Via foreign language consultants our call centres provide customers with options of nine languages other than English. As part of our commitment to listening and responding to our customers’ feedback we have further simplified customer contracts for fixed line, mobile, broadband and dial-up services.

Telstra’s branded store ‘refresh’ program is a national program to progressively improve the customer experience by de-mystifying technology through highly trained staff capable of supporting the most extensive product range in our industry. During the year we renegotiated mobile agreements with the majority of our dealer network, who form an essential part of our customer sales and service operations.

Customer innovation

New products, new services and innovative new calling plans were a highlight of our marketing activities during the year.

Only with Telstra can our customers now send an SMS from their home phone and use our popular Telstra Home Message 101® service. We recently introduced two exciting new offers with Australia’s first combined home and mobile calling cap, and, for our prepaid mobile customers, we launched a unique offer where customers are rewarded for the calls they receive. More than 850,000 customers have signed up to one of our Telstra Reward Options. The 50 and 125 free local calls per month offers have proved the most popular Reward Option choices with our customers.

During the year we introduced i-mode®, a service with 50 million subscribers worldwide. Telstra i-mode® is the internet simply and easily on your mobile and it is exclusive to Telstra in Australia. Telstra i-mode® offers over 200 information and content internet sites to assist customers who are on the move with news, maps, traffic reports, banking and travel through recognised content partners including eBay, Citibank, CNN, Fox Sports\*, Whereis®, and Flight Centre. In addition we recently announced high-speed 3GSM mobile services which offer video calling and MessageBank®, enabling callers to leave a video message after seeing a pre-recorded greeting. High-speed 3GSM will also feature Telstra i-mode® and Telstra Active™, offering the most comprehensive range of mobile content available in Australia.

**Performance indicators June 2005 June 2004 % Change**

Basic access lines in service (in millions) 10.12 10.28 (1.6)

Local calls (in millions) 8,469 9,397 (9.9)

Mobile services in operation (SIO) (in thousands)

– GSM 6,894 6,653 3.6

– CDMA 1,333 951 40.2

Total 8,227 7,604 8.2

Mobile voice telephone minutes (in millions) 6,746 6,145 9.8

Number of SMS sent (in millions) 2,289 1,944 17.7

DID YOU KNOW:

ON NEW YEAR’S EVE AND

NEW YEAR’S DAY OVER

22 MILLION TEXT MESSAGES WERE SENT

VIA TELSTRA’S MOBILE NETWORKS

TELSTRA ANSWERS OVER

57 MILLION CUSTOMER ENQUIRIES A YEAR

# business and government

Telstra Business & Government (TB&G) aims to improve our clients’ competitiveness and business performance by providing carriage, solutions and Information and Communication Technology (ICT) services to more than 56,000 business and government customers in Australia and New Zealand.

TB&G is focused on three key segments; government, industry (our largest corporate customers) and business (our medium and small business customers).

Transformation to a full service ICT provider

TB&G has embarked on a journey to transform from a carriage based enterprise offering voice, data and mobiles to a full service ICT solutions provider to meet evolving customer needs.

The acquisitions of KAZ and Damovo, now Telstra Business Systems, in early 2004/05 was an important step in that journey. KAZ combines with Telstra to service our business customers’ IT and communications needs such as desktop management, professional services advice and business process outsourcing. The acquisition of Damovo allows us to strengthen customer relationships through the provision and maintenance of customer premises equipment. Both of these acquisitions collectively differentiate us as the largest Australian operated end-to-end ICT business.

Delivering shareholder value

TB&G aims to deliver shareholder value by:

• maintaining and growing customer relationships through providing innovative solutions;

• investing in the growth of IP solutions, managed services and applications to meet the customers’ needs; and

• improving customer service through innovative programs.

The following case studies demonstrate our ability to deliver shareholder value.

Fixed and mobile services converge in Telstra Wireless Office trial

Telstra, in conjunction with Alcatel, has launched a technical trial of Telstra Wireless Office, an innovative telecommunications solution that links separate fixed and mobile services into a single, seamless solution for businesses and their staff. The trial will test technology that enables calls from a mobile to be charged at fixed line rates when used within the office, reverting back to mobile rates when used outside the office. It is designed for large business and government customers and is compatible with most IP telephony platforms, providing full mobility capability from a single handset.

Telstra Wireless Office delivers a cost effective communication solution that supports greater mobility in the workforce. It will help improve our enterprise and government customers’ operating efficiency, with the potential to deliver real cost savings. It will also ensure we remain at the forefront of delivering next generation technologies to Australian businesses.

Broadband boost for schools

To deliver broadband services to all schools in Victoria, Telstra, as part of the Victorian State Government’s SmartOne initiative is upgrading around 700 exchanges. We were delighted to commit to delivering this additional broadband investment which aims to significantly improve the learning resources available to Victorian school children. The provision of optical fibre to all government schools will significantly improve broadband speeds and ultimately benefit businesses and communities across the state.

Innovative and flexible working solutions

TB&G continues to develop innovative and flexible working solutions for our customers. The BlackBerry\* continues to gain in popularity with our business customers who benefit from real time mobile access to their email. An I-mate (personal digital assistant) on a Wireless PC Pack gives our business customers even more options.

Telstra Mobile Broadband® a clear choice for Canon

Canon Australia became one of the first companies in Australia to implement Telstra’s mobile broadband (1xEV-DO) solution, a wireless service that provides its field workforce with access to company and customer information, including access to Canon’s technical support systems while on the road. The system is as secure as logging in at the office, and means technicians no longer need to find a phone line to log in, and the data speeds reduce the length of time it takes to get the information to complete each job.

Telstra wins $40 million whole of business contract with CSR Limited

TB&G recently won a five-year contract to provide Australian manufacturing company CSR with mobile, managed voice and data services, including a proposal to roll out 4,000 IP telephony handsets.

CSR’s chief information officer, Mr Gary Vickers noted, ‘The benefits of partnering with Telstra include confidence that we have a secure, scalable and future-proof solution, and the breadth of its products and services means we only have to work with one provider.’

Community information and warning system

Telstra has identified a range of managed service products to help emergency services organisations handle incidents. One of these initiatives is the community information and warning system (CIWS). Telstra and the Victorian Government have begun a three month trial of the CIWS, which will allow emergency services to simultaneously telephone every household in a designated area, alerting people of impending danger. There is also the possibility of using the system to send a message to all mobile phones in an impacted area, in addition to all fixed lines.

# technology, innovation & products

Telstra Technology Innovation and Products (TTIP) is Telstra’s engine for profitable growth, combining technology, systems, products, research and innovation capabilities into one group focused on driving our ongoing success.

Our core voice products continue to provide great service and reliability. Recent innovations have delivered enhanced value from these products by converging them with new customer equipment and integrated messaging solutions across fixed, mobile and data services.

Telstra is an Australian leader in offering new technologies, including Voice over Internet Protocol (VoIP), Fibre to the Premises (FTTP) and 3G technologies – the latest cellular network technology enabling high-speed voice and data over mobiles. These technologies give customers more communications capabilities through the convergence of data and voice services.

Innovation Centres

Innovation@Telstra was launched in October 2004, with the opening of Innovation Centres in North Ryde, Sydney and Melbourne’s Docklands. Since then, thousands of people have visited the centres, gaining hands-on experience with Telstra products and services. The centres are also used as a venue to develop customer-focused solutions that are able to be deployed to the market place quickly.

Telstra Mobile Broadband® (launch of 1xEV-DO wireless data service)

Launched in November 2004, Telstra Mobile Broadband® allows business customers to work while away from the office. Utilising the latest addition to our CDMA network – 1xEV-DO, customers can access the internet or company networks using compatible mobile devices such as laptops and personal digital assistants (PDAs), at broadband equivalent speeds when in a coverage area. 1xEV-DO is a third-generation mobile technology that evolved from the CDMA 1x network.

IP wireless service

Customers with a 1xEV-DO service can route their data from Telstra’s 1xEV-DO network into the IP network, ensuring their information remains within the Telstra network and does not traverse the internet. 1xEV-DO users maintain their data sessions with no break in connectivity when they move from a 1xEV-DO coverage area into a CDMA 1x zone and vice versa.

Telstra IP Telephony (TIPT)

Telstra led the business market into convergence in 2003 as the first major carrier to launch an IP telephony service, allowing business customers to make calls and access the internet on a single line. The second stage of the project is under way to provide systems, process automation, improved scalability and service level agreement reporting.

CustomNet® Multi-media

CustomNet® is a sophisticated, fully-managed telephone system for businesses that can replace the expense and complexity of a private telephone network. CustomNet® Multi-media introduces multimedia functionality to CustomNet® services, while providing customers with a migration path to full IP telephony. The enhanced functionality will enable close interworking between customers’ desktop applications and their telephone service.

Computer Telephony Integration/Interactive Voice Response (CTI/IVR)

CTI/IVR integration enhances and integrates two previously separate call routing products and capabilities used by our business customers. These ensure Telstra has a seamless mechanism for handling inbound traffic, including calls to 1800, 13 and 1300 numbers. This capability will assist in retaining existing customers as well as winning new ones.

Consumer Voice over Broadband (VoBB)

We have also been trialling VoBB. This solution will be provided as a second-line voice solution offering a range of features and functionality for users with a broadband connection. During fiscal 2005, a VoBB network trial was completed with 150 employees in Melbourne.

Fibre to the Premises (FTTP)

FTTP is a next-generation access infrastructure technology that delivers telephony, broadband data and video and digital subscription television services to customer premises on an optical fibre platform. FTTP is the ultimate access infrastructure and will play a role in Telstra’s customer access network, along with copper, wireless and satellite technologies. A successful June 2004 pilot of FTTP in two Queensland sites is now providing services to homes and insights into the ongoing effectiveness of FTTP as an access technology for our residential customers.

DID YOU KNOW:

OUR MOBILE NETWORKS COVER MORE THAN **98%** OF THE AUSTRALIAN POPULATION

APPROXIMATELY **96%** OF THE POPULATION CAN ACCESS THE ISDN NETWORK

TELSTRA’S HYBRID FIBRE COAXIAL (HFC) BROADBAND NETWORK PASSES APPROXIMATELY **2.7** MILLION HOMES

# country wide

Telstra Country Wide (TCW) is responsible for sales, service and management of customer relationships in outer metropolitan, regional, rural and remote parts of Australia and the development and delivery of innovative communications solutions to meet the needs of customers living in these areas.

The business is built around the local presence of area general managers located across Australia and draws on the strengths of other Telstra groups to meet the priorities of its customers. The key success factor of the TCW model is its ‘Local Presence, Local Knowledge and Local Solutions’ strategy.

TCW has its own Advisory Board which provides advice on policies and priorities to improve service delivery to TCW customers. By engaging with government authorities, businesses, community groups and individuals, Advisory Board members hear first-hand the communications issues that are important to people in outer metropolitan, regional, rural and remote Australia.

TCW’s excellence in customer service is highlighted by both its Customer Service Satisfaction and Stakeholder Survey results. The 2004/05 Customer Service Survey, which measures customer satisfaction with the handling of calls made to TCW area offices, showed customers rated our performance 7.9 out of 10 on average. The results of our annual surveys of key stakeholders across Australia have also significantly improved. Results of the overall performance of communications services moved from 5.9 out of 10 in 2000 to 8.3 in 2004.

In 2004/05 TCW provided ADSL to 627 exchanges bringing the total number of exchanges in TCW areas with ADSL to 1,283. By the end of 2004/05, of these 627 exchanges, 595 were upgraded to ADSL with assistance from the Australian Government’s Higher Bandwidth Incentive Scheme (HiBIS). A further 265 exchanges are expected to be upgraded to ADSL in 2005/06 using the existing HiBIS funding. The Australian Government made HiBIS funding available to Internet Service Providers (ISP) on a competitive basis for the provision of broadband services to rural customers where fixed broadband services were not available when the scheme started. By the end of 2004/05 in excess of 462,000 more people in rural and regional Australia had the ability to access ADSL broadband services compared with April 2004 when the HiBIS scheme was launched.

In December 2004, Telstra completed its $31 million rollout of high-speed wireless data services across the entire CDMA mobile network, which provides coverage to more than 98 per cent of the Australian population.

During the year, TCW established a National Indigenous Directorate based in Darwin. The Directorate will work closely with remote indigenous communities and key indigenous groups across Australia to co-ordinate and develop a range of indigenous products and services, and training opportunities within the company. The Directorate will also manage Telstra’s involvement in a number of indigenous sponsorships, including the National Aboriginal and Torres Strait Islander Art Award.

BY JULY 2005 ALMOST **90%** OF CUSTOMER CALLS TO LOCAL TCW OFFICES WERE ANSWERED PERSONALLY WITHOUT ANY QUEUEING

# infrastructure services

Infrastructure Services (IS) builds, operates and maintains the telecommunications infrastructure for all products and services delivered to Telstra’s customers across Australia.

As technology developments create changing communication demands, IS maintains a skilled workforce capable of meeting rapidly changing customer expectations. Our workforce has a national presence, with 29% of our people located in regional areas, and combined with our contractor partners, totals approximately 30,000 full time equivalent employees.

Network commitment

The Global Operations Centre monitors and controls Telstra’s network and operates 24 hours a day, all year round. On a normal business day, this world class centre manages more than 70 million voice and data calls and 21 million mobile calls.

During 2004/05, $2.2 billion was committed to improve Telstra’s network through a variety of capital projects.

Supporting innovation and growth

In its service delivery role, IS supports the growth of Telstra’s customer facing business units and the technology strategies developed within Telstra Technology, Innovation & Products.

We are currently witnessing explosive growth in broadband, with the number of Australian users expected to double in the next few years. Despite the fluctuating demands in this environment, IS has continued to maintain a high level of service delivery to our customers.

The recent acquisitions of KAZ and Telstra Business Systems (formerly Damovo) provides the opportunity to further leverage this capability, particularly in the managed service and small and medium enterprise market.

Customer-focused business model

With the guiding principle of superior customer service in mind, a new business model was implemented over the year. This model has given IS improved flexibility, accountabilities, work throughput and capability for future needs.

Field workgroups have been aligned according to service complexity and infrastructure type, enabling delivery of customised levels of service. An important element of the new IS business model is an end-to-end service management capability. Through ongoing improvements to workforce deployment processes and systems, internal and external workforces will be more effectively managed.

FEATURES INCLUDE:

– HIGHLY SKILLED WORKFORCE

– WORLD CLASS GLOBAL OPERATIONS CENTRE

– SUPERIOR IP, MOBILE AND DATA NETWORKS

# wholesale

Telstra Wholesale is Australia’s leading full service wholesaler of telecommunications solutions and network capacity. We aim to be the network provider of choice to our wholesale customers.

Telstra Wholesale’s continuing development of innovative solutions across the telecommunications spectrum has delivered significant revenue growth. Over 2004/05, Telstra Wholesale grew sales revenues by approximately 12%.

Broadband

Telstra Wholesale has again experienced major broadband growth, with DSL services in operation increasing by 123% on the previous year, contributing to Telstra exceeding its target of one million broadband customers ahead of time.

Mobiles

Wholesale mobile revenue grew 37% year on year driven by CDMA and GSM roaming and resale and SMS interconnect.

In December 2004, Telstra and Hutchison entered into a 3GSM radio access network sharing arrangement. The network is operated by 3GIS, a joint Telstra-Hutchison partnership that is responsible for its deployment and operations. The partnership will deliver low cost 3G mobile services by providing Telstra with access to a fully optimised and operational network across six capital cities in 2005.

New global wholesale

Telstra Wholesale’s global customer business now includes the offshore sales teams for key global carriers. Staff transferred from REACH to Telstra Wholesale in the United States and Hong Kong will work with existing Telstra sales resources across Europe, North America, Asia and Australia to leverage existing relationships and support global customers.

Operations

We are continuing to develop our business-to-business solution through the interactive IP gateway which delivers productivity and cost benefits. This year we have processed record volumes of orders via our online platforms – more than 1.2 million in total. The automation rate year on year has improved by 17% as overall volumes have increased.

The recently launched LinxOnline™ Service (LOLS), which gives wholesale customers the ability to log, test and track customer faults via a secure online platform, is already being used by 19 wholesale customers.

ON AVERAGE **40,000** WHOLESALE DSL CONNECTIONS PER MONTH OVER 2004/05

# BigPond®

BigPond® is Australia’s leading Internet Service Provider (ISP) with more than two million broadband and dial-up customers. During 2004/05, BigPond® total revenues grew 37% and more than 400,000 broadband customers were added. BigPond® is an extremely important part of Telstra’s business and will continue to be a key driver of future growth.

BigPond’s accessible pricing, innovative plans and value-added content have stimulated record broadband uptake in Australia. We expect this growth to accelerate as more Australians take advantage of the faster speed and additional benefits of a broadband connection.

Through a combination of ADSL, cable, satellite and ISDN services, BigPond® provides high-speed solutions, value added services and exclusive content with coverage available to virtually 100% of the Australian population.

Customer service

Improving customer service is a priority for BigPond® and this year has seen large improvements in customer satisfaction. Self-help account management options have been improved on BigPond.com and the introduction of BPay has been embraced by many customers. Service levels in our call centres doubled and ADSL installation times were reduced by two thirds.

Content

BigPond’s award winning content has grown in scope and popularity this year.

BigPond® Music, Telstra’s online music store, has a broad and extensive range of more than 400,000 tracks. This includes exclusive pre-store release songs, as well as music news, video clips and live and on-demand concert streaming.

GameNow™ is an exciting games-on-demand subscription service with more than 100 popular PC titles available for download. It was launched in April to complement GameArena®, BigPond’s multiplayer site that has grown to more than 100,000 unique visitors each week.

BigPond® Movies is now Australia’s largest online DVD store with more than 16,000 titles consumers can select via their PC and have delivered to their door.

Further broadband content innovations are under way including a service that will enable people to download video content direct to their PC.

FEATURES INCLUDE:

– BIGPOND® MUSIC

– GAMENOW™

– GAMEARENA®

– BIGPOND® MOVIES

# Sensis

Sensis continues to drive profitable growth for Telstra, this year growing 18.8% including the acquisitions of Universal Publishers Pty Ltd and the Trading Post Group. Excluding these acquisitions, Sensis revenue grew 10.5% year on year.

The Sensis® advertising network

Sensis is Telstra’s advertising subsidiary, a leading Australian advertising and information business. Sensis provides Australian consumers with a network of relevant information that makes it easier for them to find, contact, and make a purchase. More than 12.5 million Australians use a Sensis service a total of more than 110 million times a month1. This high usage means our advertisers can reach more potential customers. The Sensis advertising network can connect buyers and sellers through print, online, wireless and voice channels.

Small business

Sensis is one of Australia’s most ardent supporters of small business. Sensis is committed to helping Australia’s small and medium enterprises (SMEs) take care of business. Our range of SME support initiatives, which are regularly referenced by businesses, organisations and governments all over Australia, includes the Sensis® Business Index, the Sensis® Consumer Report, the Sensis® e-Business Report, the Bread® TV small business television program, and the Yellow Pages® Business Ideas Grants.

Innovation

Sensis is focused on optimising the value and service we deliver to both consumers and advertisers. We are taking advantage of the rapid changes in advertising and technology to continually deliver new ways for Australians to find the information they need and for advertisers to find customers.

Our commitment to innovation has led to the development of many new products in the past 12 months. These include the launch of Yellow Pages® OnLine map-based and keyword search, a new national brand and online services for Trading Post\*, and a range of new initiatives in our print directories. These include WebGuides – panels under selected headings that provide easy-to-find advertiser web addresses.

Universal Publishers Pty Ltd

In December 2004, Sensis acquired one of Australia’s most successful mapping and street directories businesses – Universal Publishers Pty Ltd. As a result, Sensis has brought in house the core mapping content and capabilities that underpin our successful Whereis® digital mapping services, while acquiring two of Australia’s most popular mapping brands – UBD\* and Gregory’s\*.

sensis.com.au

In July 2004, Sensis launched sensis.com.au – the search engine for Australians. Over the past 12 months, sensis.com.au has grown its user base substantially to the point where it was used in June 2005 by more than 790,000 Australians2. Sensis has also launched a range of new sensis.com.au features over the past 12 months. These include the inclusion of Trading Post\* content, the creation of an innovative new two-column results format that delivers both local and global results in the one page, and the sensis.com.au toolbar.

Sensis® 1234

Sensis® 1234, an operator assisted tele-search service, has performed exceptionally well this year. A number of new services have been introduced including a turn-by-turn directions service launched in October 2004, a world-first text advertisements where advertising is sold on SMS space and promotional text which allows advertisers to place a promotional text message on all SMS messages provided via Sensis® 1234 to promote special offerings.

Wireless applications

Sensis has also launched a portfolio of mobile services for both WAP and i-mode® users. These services are available on Telstra i-mode® phones and include CitySearch® nightlife, Whereis® Maps & Directions and Whereis® Nearby. The product offering will be extended as new innovative services are introduced in the future.

LinkMe\*

In June 2005, Sensis joined forces with the widely respected and experienced Morgan and Banks Investments to announce the launch of LinkMe\*, an innovative online career networking site set to change the traditional employment market in Australia. With a unique candidate focus, LinkMe\* offers job hunters, employers, networkers and recruiters distinctive benefits provided by no other website in Australia.

**Performance indicators June 2005 June 2004 % Change**

Unique visitors to a Sensis site

Sensis total 5,982,825 4,277,680 39.9

White Pages® Online 2,982,810 2,326,905 28.2

Yellow Pages® Online 1,926,239 1,570,091 22.7

CitySearch® site 913,458 879,796 3.8

Trading Post\* 1,038,281 875,427 18.6

FEATURES INCLUDE:

– YELLOW PAGES®

– WHITE PAGES®

– CITYSEARCH\*

– WHEREIS®

– TRADING POST\*

– INVIZAGE\*

– SENSIS.COM.AU

* SENSIS® 1234

DID YOU KNOW:

ON AVERAGE, OVER A 4 WEEK PERIOD, **12.5** MILLION AUSTRALIANS USE SENSIS PRODUCTS

APPROXIMATELY **10.8** MILLION AUSTRALIANS USE EITHER THE YELLOW PAGES® OR THE WHITE PAGES® PRINT DIRECTORIES ON AVERAGE EVERY 4 WEEKS

Source Roy Morgan – Year to March 2005

1 Roy Morgan Single Source Australia, January – December 2004. Base: Australians 14+

2 Nielsen//NetRatings Site Census 2005

# FOXTEL

Telstra holds a 50% share in FOXTEL, Australia’s leading subscription television provider. FOXTEL has grown its customer base 13% over 2004/05 and reached the milestone of one million customers in June 2005.

Following its successful launch in March 2004, FOXTEL Digital\* is now seen in more than 700,000 Australian homes or around 70% of its total customer base, with this number growing every month.

During 2004/05, FOXTEL Digital\* continued to roll out innovative new services and features. These included launching interactive voting, enhanced interactive weather applications, additional sports active applications (e.g. for cricket and Super 12 Rugby), closed captioning on a range of channels to assist the deaf and hearing impaired, as well as the FOXTEL iQ\*, a personal digital recorder. FOXTEL iQ\* represents a powerful enhancement to the FOXTEL Digital\* service that delivers customers unprecedented control over their television viewing, enabling recording and playback with breakthrough simplicity. FOXTEL iQ\* customers can record two broadcast programs at the same time, while simultaneously watching a third previously recorded program.

In February 2005, FOXTEL began carrying the services of TVN, a thoroughbred racing channel on its digital cable platform. TVN is the first third party to utilise FOXTEL’s digital open access regime. Under the FOXTEL Digital\* Access Agreement, third parties pay for their use of FOXTEL’s transmission service, including FOXTEL’s cable set top boxes. Access users are responsible for the content and marketing of their channels and the management and billing of their own customer bases.

**Performance indicators June 2005 June 2004 % Change**

Telstra FOXTEL bundling subscribers (in thousands) 280 235 19.1

Total subscribers# (in thousands) 1,023 904 13.2

# Excludes Optus & TransACT Wholesale Subscribers

OVER **1** MILLION FOXTEL CUSTOMERS

# International

TelstraClear

TelstraClear is our fully owned, New Zealand based subsidiary. The company has spent the last year developing new capabilities and establishing the base for new services.

As New Zealand's leading telecommunications challenger to the incumbent operator, TelstraClear has continued to win significant corporate and government customers, and has enhanced its Information and Communications Technology (ICT) capability through the acquisition of the Sytec Group.

TelstraClear has also expanded its backbone network and is employing wireless local loop technology to increase its network reach.

In Wellington and Christchurch, TelstraClear offers the country's fastest, best value broadband services over its own network, which will soon carry digital television services.

CSL

CSL is Telstra’s wholly owned subsidiary, operating in Hong Kong. With around 1.3 million mobile customers, CSL is a leader in the Hong Kong wireless sector.

In December 2004, CSL announced the launch of its pioneering integrated 3G network offering both businesses and consumers high-speed data access and an enhanced experience across a wide range of mobile multimedia services. Complementing CSL's solution for wireless broadband connectivity, the company also launched its domestic Wi-Fi service.

REACH

REACH, Telstra's 50% owned joint venture with Hong Kong-based PCCW, is the premier provider of international voice and satellite services in Asia. REACH also delivers the international voice and data service requirements of Telstra and PCCW via the operation and management of the most diverse high-speed network in the region.

REACH’s operational performance is tracking satisfactorily against plan, with a continued focus on core business and cost containment.

During fiscal 2005 the shareholders (Telstra and PCCW) announced a number of improvements to the REACH operating model. Under the new model REACH is focused on meeting increasing shareholder demand and is withdrawing from third party data sales, while continuing to provide voice and satellite services to third party customers.

Telstra Asia business development

Telstra has identified high growth opportunities in a number of Asian markets, particularly China. Several carriers have expressed interest in partnering or co-operating with Telstra, based on its experience and capabilities, rather than financial capital. In 2004 Telstra renewed its telecommunications consultancy contract with the Beijing 2008 Olympic Organising Committee.

# corporate social responsibility

At Telstra, we believe that corporate social responsibility is a values-based approach to how we do business, leading us beyond legal compliance to make a positive contribution to the industries and communities in which we partner and participate.

This year we participated in the second Australian Business in the Community Corporate Responsibility Index, overseen in Australia by the St James Ethics Centre. We were placed sixth out of 26 participating companies and received an almost five percent increase on our previous year’s score due to better reporting practices. We also regularly participate in the FTSE4Good survey and a number of ethical investment surveys and indices.

The community

Telstra people demonstrated tremendous generosity in donating and raising funds for the Indian Ocean tsunami disaster. Telstra Corporation and Telstra employees donated over $1.5 million to tsunami relief aid funds. In addition, we provided approximately $250,000 of services, which included establishing and staffing call centres for aid agencies, fundraising drives, providing extra phone lines, waiving call costs where appropriate and providing staff volunteer support.

Telstra Friends, our 4,000-strong volunteer network, donated more than 12,000 hours at 251 community events and raised in excess of $192,000 for charities, the highest ever annual amount raised by Telstra Friends. Support in volunteer hours for our community sponsorships increased 237% over the period. Telstra’s volunteer support for the international Deaflympics in January 2005, particularly in Ballarat Victoria where Telstra volunteers took a lead organisational role, was crucial to the success of the event.

This year we renewed our sponsorship commitment with the Telstra Child Flight helicopter retrieval service for $1.5 million over the next two years, which will assist in providing intensive care transportation for seriously ill babies and children in NSW and ACT. In May 2005, we ran a fundraising appeal in partnership with Child Flight at Darling Harbour in Sydney, which raised more than $117,000 for the service.

Now in its fourth year, the Telstra Foundation® continues to support Australian children and young people to reach their potential and build stronger and more cohesive communities. Through the Foundation’s Community Development Fund and the Telstra’s Kids Fund, we supported 855 community projects and provided grants to the value of $4.4 million.

Environment

The Sensis® Directory recycling program in 2004 achieved a 79% recycling rate for old directories, saving more than 32,300 tonnes of paper.

On 1 May 2005, Telstra and Landcare Australia entered into an agreement under which Telstra will make a donation to Landcare Australia for each customer who chooses to ‘go paperless’ by switching to online over traditional paper bills. Not only will this reduce the amount of greenhouse gas produced through the production, distribution and disposal of paper bills in the paper lifecycle, it will also see more trees in the ground across the country.

Workplace

In October 2004, Telstra was awarded the Australian Human Resources Institute (AHRI) National Award for Excellence in People Management in our sector.

We introduced the ‘Mental Health – Creating a supportive workplace’ program to raise awareness of mental health issues and how to assist by providing support in the workplace.

Marketplace

The 2005 Low Income Measures Assessment Committee (LIMAC) Report recognised the significant effort made by Telstra to improve access to affordable telecommunications for Australians on low incomes. The report showed an overall improvement in access to telecommunications for low-income transient and homeless people and Indigenous Australians. In June 2005, Telstra launched a new service called BudgetPay that allows customers to spread their estimated yearly home phone costs over equal fortnightly or monthly payments.

We provided assistance, in the form of rebates, for customers affected by the explosions in London.

Released during the year, Telstra’s big button multi-purpose phone, for customers with a range of disabilities, is an example of how innovative thinking, consultation, user input, local technology and partnerships can work together to release a unique product.

FEATURES INCLUDE:

– TELSTRA FRIENDS

– TELSTRA CHILD FLIGHT

– TELSTRA FOUNDATION®

DID YOU KNOW:

TELSTRA CORPORATION AND TELSTRA EMPLOYEES DONATED **$1,561,280** TO TSUNAMI RELIEF AID FUNDS

TELSTRA FRIENDS DONATED MORE THAN **12,000** HOURS AT 251 COMMUNITY EVENTS AND RAISED IN EXCESS OF **$192,000** FOR CHARITIES

# board of directors

Donald G McGauchie – AO

Chairman

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.

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.

Solomon D Trujillo

BSc, BBus, MBA, Hon Doctor of Law Degrees (Wyoming and Colorado)

Chief Executive Officer

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

Catherine B Livingstone

BA (Hons), FCA, FTSE

Catherine Livingstone joined Telstra as a non-executive Director in November 2000.

She is a member of the Audit Committee and the Technology Committee. 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

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. 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).

Belinda J Hutchinson

BEc, FCA

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

John W Stocker – AO

MB, BSc, BMedSc, PhD,

FRACP, FTSE

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

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).

John E Fletcher

FCPA

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

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.

During the year and through to the date of the Directors’ report, the following directors left the Board:

Samuel H Chisholm

Age 64

Director since November 2000. Retired 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.

John T Ralph – AC

FCPA, FTSE, LFAICD, FAIM, FAusIMM, Hon LLD (Melbourne & Queensland), DUniv(ACU)

John Ralph joined Telstra as non-executive director and Deputy Chairman in October 1996 and retired effective 11 August 2005. He served on the Audit Committee, Nomination Committee and Remuneration Committee. 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 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).

Zygmunt E Switkowski

BSc (Hons), PhD, FAICD

Age 56

Chief Executive Officer (CEO) and Managing Director

CEO and Managing Director since March 1999. Ceased as CEO and Managing Director effective 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.

Anthony J Clark – AM

FCA, FAICD

Tony Clark joined Telstra as a non-executive Director in October 1996 and retired effective 11 August 2005. He served on the Audit Committee until February 2005. 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).

# directors’ report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited and the entities it controlled at the end of or during the year ended 30 June 2005.

Principal activity

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

Results of operations

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

• net borrowing costs of $736 million (2004: $712 million); and

• income tax expense of $1,822 million (2004: $1,731 million).

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

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

Review of operations

**Financial performance**

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

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

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

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

• mobile goods and services – $319 million or 8.3%;

• internet and IP solutions revenue – $364 million or 35.9%;

• advertising and directories revenue – $244 million or 18.2%; and

• pay TV bundling – $109 million or 70.8%.

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

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

• the roll out of high speed wireless services (EV-DO);

• the i-mode® alliance with more than 200 content sites; and

• the growth in the use of mobile data products, including BlackBerry\* devices.

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

• growth in the number of subscribers to our BigPond® broadband product; and

• growth in our wholesale broadband revenues.

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

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

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

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

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

• labour – $475 million or 14.8%; and

• goods and services purchased – $593 million or 16.7%.

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

• staff taken on as a result of our newly acquired controlled entities;

• annual salary increases due to enterprise agreements and annual salary reviews;

• increased use of casual staff to improve customer service and account management; and

• an increase in the use of overtime and contract and agency payments to improve front of house service and meet growth in field volumes across broadband and pay TV in particular.

Goods and services purchased increased due to the following:

• purchases of pay TV services to enable us to provide bundled products;

• higher cost of goods sold due to increased handset sales volumes and growth in broadband modem sales;

• higher handset subsidies due to the promotions offered in prior periods; and

• increased usage commissions due to higher prepaid mobile recharge commissions.

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

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

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

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

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

**Financial condition**

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

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

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

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

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

During the financial year our credit rating outlook was adjusted by Standard & Poors from stable to negative. This change was generated by the uncertain environment in which we are operating. 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 $1,497 million to shareholders via a special dividend and a share-buy-back. In fiscal 2005, we paid a special dividend of 6 cents per share ($747 million) with our interim dividend and bought back 185,284,669 ordinary shares. In total, 1.47% of our total issued ordinary shares, or 3.0% of our non-Commonwealth owned ordinary shares, were bought back. The cost of the share buy-back comprised the purchase consideration of $750 million and associated transaction costs of $6 million. The ordinary shares were bought back at $4.05 per share, comprising a fully franked dividend of $2.55 per share and a capital component of $1.50 per share.

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

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

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

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

**Investor return and other key ratios**

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

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

• Return on average assets – 2005: 20.4% (2004: 19.4%)

• Return on average equity – 2005: 29.4% (2004: 26.8%)

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

**Strategy**

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

• migration of customer demand from traditional products and services, particularly PSTN, to the emerging products and   
services of the business, in particular mobiles and broadband internet services;

• cost and productivity improvements;

• continual improvement of customer service levels; and

• alignment of investment with revenue growth drivers.

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

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

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

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

• declaration of ordinary dividends of around 80% of net profit after tax (before any unusual items such as write downs of assets and investments); and

• the return of $1,500 million to shareholders each year until fiscal 2007 through special dividends and/or share buy-backs, subject to maintaining our target financial parameters.

**Industry dynamics**

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

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

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

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

**Sale of the Commonwealth’s remaining interest**

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

Dividends

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

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

During fiscal 2005, the following dividends were paid:

**Dividend Date declared Date paid Dividend per share Total dividend**

Final dividend for the year   
ended 30 June 2004 12 August 2004 29 October 2004 13 cents franked to 100% $1,642 million

Interim dividend for the year   
ended 30 June 2005 10 February 2005 29 April 2005 14 cents franked to 100% $1,742 million

Special dividend for the year   
ended 30 June 2005 10 February 2005 29 April 2005 6 cents franked to 100% $747 million

At present, it is expected that we will be able to fully frank declared dividends out of fiscal 2006 earnings. However, the Directors can give no assurance as to the future level of dividends, if any, or of franking of dividends. This is because our ability to frank dividends depends upon, among other factors, our earnings, Government legislation and our tax position.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of our Company during the financial year ended 30 June 2005.

Likely developments and prospects

The directors believe, on reasonable grounds, that Telstra would be likely to be unreasonably prejudiced if the directors were to provide more information than there is in this report or the financial report about:

• the likely developments and future prospects of Telstra’s operations; or

• the expected results of those operations in the future.

Events occurring after the end of the financial year

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year that, in their opinion, has significantly affected or may significantly affect in future years Telstra’s operations, the results of those operations or the state of Telstra’s affairs other than:

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

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

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

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

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

Details about directors and executives

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

• On 20 July 2004, Donald G McGauchie was appointed Chairman of the Board of Directors. On appointment, he replaced John T Ralph who was acting Interim Chairman for the period 14 April 2004 to 20 July 2004;

• Samuel H Chisholm resigned as Director on 28 October 2004;

• Zygmunt E Switkowski resigned as CEO and Managing Director on 1 July 2005; and

• Solomon D Trujillo was appointed CEO and Executive Director on 1 July 2005.

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

Information about directors and senior executives is provided as follows and forms part of this directors’ report:

• names of directors and details of their qualifications, experience and special responsibilities are given on pages 24 to 25;

• details of the directorships of other listed companies held by each director in the past 3 years is provided on pages 24 to 25;

• number of Board and Committee meetings and attendance by directors at these meetings is provided on page 32;

• details of directors’ and senior executive shareholdings in Telstra are shown on page 33; and

• details of directors’ and senior executive emoluments is detailed in the Remuneration report on pages 34 to 47.

**Company secretary**

The qualifications, experience and responsibilities of our company secretary are provided at page 25 and forms part of this report.

**Equity based compensation**

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

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

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

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

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

Refer to note 19 of the financial statements contained in our ‘Annual Report 2005’ for a detailed explanation of all employee share plans and the accounting treatment applied to each.

**Directors’ and officers’ indemnity**

Constitution

Our constitution provides for us to indemnify each officer to the maximum extent permitted by law for any liability incurred as an officer provided that:

• the liability is not owed to us or a related body corporate;

• the liability is not for a pecuniary penalty or compensation order made by a Court under the Corporations Act 2001; and

• the liability does not arise out of conduct involving a lack of good faith.

Our constitution also provides for us to indemnify each officer, to the maximum extent permitted by law, for legal costs and expenses incurred in defending civil or criminal proceedings.

If one of our officers or employees is asked by us to be a director or alternate director of a company which is not related to us, our constitution provides for us to indemnify the officer or employee out of our property for any liability he or she incurs. This indemnity only applies if the liability was incurred in the officer’s or employee’s capacity as a director of that other company. It is also subject to any corporate policy made by our chief executive officer. Our constitution also allows us to indemnify employees and outside officers in some circumstances. The terms ‘officer’, ‘employee’ and ‘outside officer’ are defined in our constitution.

Deeds of indemnity in favour of directors, officers and employees

Telstra has also executed deeds of indemnity in favour of:

• directors of the Telstra Entity (including past directors);

• secretaries and executive officers of the Telstra Entity (other than Telstra Entity directors) and directors, secretaries and executive officers of our wholly owned subsidiaries;

• directors, secretaries and executive officers of a related body corporate of the Telstra Entity (other than a wholly owned subsidiary) while the director, secretary or executive officer was also an employee of the Telstra Entity or a director or employee of a wholly owned subsidiary of the Telstra Entity (other than Telstra Entity directors);

• employees of Telstra appointed to the boards of other companies as our nominees; and

• employees (including executive officers other than directors) involved in the formulation, entering into or carrying out, of a Telstra Sale Scheme (as defined in the Telstra Corporation Act 1991 (Cwth)).

Each of these deeds provides an indemnity on substantially the same terms as the indemnity provided in the constitution in favour of officers. The indemnity in favour of directors also gives directors a right of access to Board papers and requires Telstra to maintain insurance cover for the directors.

The indemnity in favour of employees relating to Telstra Sale Schemes is confined to liabilities incurred as an employee in connection with the formulation, entering into or carrying out, of a Telstra Sale Scheme.

Directors’ and officers’ insurance

Telstra maintains a directors’ and officers’ insurance policy that, subject to some exceptions, provides worldwide insurance cover to past, present or future directors, secretaries or executive officers of the Telstra Entity and its subsidiaries. Telstra has paid the premium for the policy. The directors’ and officers’ insurance policy prohibits disclosure of the premium payable under the policy and the nature of the liabilities insured.

Environmental regulation and performance

Performance in relation to particular and significant environmental legislation

Telstra’s operations are subject to some significant environmental regulation under Commonwealth, State and Territory law, particularly with regard to:

• the impact of the rollout of telecommunications infrastructure;

• site contamination; and

• waste management.

Telstra has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

The directors are not aware of any significant breaches of environmental regulation during the financial year.

Legal and Regulatory Compliance

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

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

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

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

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

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

Audit and non-audit services

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

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

• bookkeeping services and other services related to preparing Telstra’s accounting records of financial statements;

• financial information system design and implementation services;

• appraisal or valuation services, fairness opinions, or contribution in kind reports;

• actuarial services;

• internal audit services;

• management function or human resources;

• broker or dealer, investment adviser, or investment banking services; and

• legal services or expert services unrelated to the audit.

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

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

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

A copy of the independence of the auditor declaration is set out on page 33 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, contained in our ‘Annual Report 2005’.

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’ profiles

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

**Year of initial Year last**

**Name Age Position appointment 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 on 11 August 2005.

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

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

A brief biography for each of the directors as at 11 August 2005 is presented on pages 24 to 25.

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)**

**Nominations and   
Name Audit Remuneration (7) Technology**

**a b a b a b a b**

D G McGauchie (1) 13 13 – – 9 9 – –

J T Ralph (4) 13 12 5 4 9 8 – –

Z E Switkowski (5) 11 11 – – – – 3 3

S H Chisholm (2) 6 6 – – – – – –

A J Clark (3) 13 10 2 2 – – – –

J E Fletcher (9) 13 12 – – 8 7 – –

B J Hutchinson (6) 13 13 2 2 – – – –

C B Livingstone 13 13 5 5 – – 3 3

C Macek (10) 13 12 5 5 9 8 – –

J W Stocker (8) 13 13 5 5 1 1 3 3

Column a: number of meetings held while a member.

Column b: number of meetings attended.

(1) Appointed as Chairman of the Board on 20 July 2004. Served as Chairman of Nominations and Remuneration Committee from 3 December 2003 to 23 March 2005. Appointed   
Chairman of Nomination Committee on 23 March 2005 following the division of the Nominations and Remuneration Committee.

(2) Retired as a Director on 28 October 2004.

(3) Resigned from the Audit Committee on 7 February 2005.

(4) Resumed as a member of the Audit Committee from 20 July 2004 after completing role as interim Chairman.

(5) Two board meetings throughout the year were held for non-executive directors only – Dr Switkowski was therefore not required to attend these meetings. Resigned as   
Chief Executive Officer and Managing Director on 1 July 2005.

(6) Appointed as a member of the Audit Committee on 10 February 2005.

(7) The Nominations and Remuneration Committee divided into two committees (Nomination Committee and Remuneration Committee) on 23 March 2005. Subsequent   
to this date there was one meeting held by each of the Nomination Committee and the Remuneration Committee. D G McGauchie, C Macek and J E Fletcher attended each of these meetings, J Ralph was an apology at both meetings.

(8) Resigned from the Nominations and Remuneration Committee on 11 August 2004.

(9) Appointed to the Nominations and Remuneration Committee on 11 August 2004.

(10) Appointed Chairman of Remuneration Committee on 23 March 2005 following the division of the Nominations and Remuneration Committee.

(11) Committee meetings are open to all Directors to attend in an ex officio capacity.

Directors’ and senior executives’ shareholdings in Telstra

As at 11 August 2005:

**Directors Number of shares held**

**Direct interest Indirect interest (1) Total**

Donald G McGauchie – 41,445 41,445

John T Ralph 1,000 82,541 83,541

Solomon D Trujillo – – –

Anthony J Clark 10,000 45,026 55,026

John E Fletcher – 52,934 52,934

Belinda J Hutchinson 37,111 29,996 67,107

Catherine B Livingstone 10,400 18,184 28,584

Charles Macek – 42,005 42,005

John W Stocker 800 89,067 89,867

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

**Senior executives Number of shares held**

**Direct interest Indirect interest Total**

Bruce Akhurst 7,780 54,711 62,491

Douglas Campbell 9,700 27,500 37,200

David Moffatt 600 3,100 3,700

Ted Pretty – 2,400 2,400

Michael Rocca 12,000 – 12,000

Bill Scales 8,516 1,400 9,916

Deena Shiff 5,680 8,800 14,480

John Stanhope 6,980 3,960 10,940

David Thodey 12,462 5,800 18,262

Auditor’s independence declaration

to the Directors of Telstra Corporation Limited

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

Ian McPhee

Auditor-General

11 August 2005

Canberra, Australia

# remuneration report

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

Introduction

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

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

• the short-term incentive (STI) plan, where individuals are assessed against a combination of quantitative and qualitative measures of performance over the past year; and

• the long-term incentive (LTI) plan through the use of performance rights, all of which have long-term performance measures which ensure the rights can only be exercised when the Company achieves previously set targets.

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

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

• non-executive directors; and

• the CEO and senior executives.

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

Non-executive directors

**Remuneration policy**

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

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

• an aggregate limit of fees is set and varied only by approval of a resolution of shareholders at the annual general meeting; and

• the Board determines how those fees are allocated among the directors within the fee pool.

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

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

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

• the Company’s existing remuneration policies;

• independent professional advice;

• the fee pool of other comparable companies;

• fees paid to individual directors by comparable companies;

• the general time commitment and responsibilities involved;

• the risks associated with discharging the duties attaching to the role of director; and

• the level of fees necessary to attract and retain directors of a suitable calibre.

**Remuneration structure 2004/05**

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

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

**Board fees**

Board members are paid the following fees.

• Chairman $308,000

• Deputy Chairman $154,000

• Director $88,000

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

**Committee fees**

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

• Audit Committee Chairman $50,000

• Audit Committee member $25,000

• Remuneration Committee Chairman $10,000

• Remuneration Committee member $5,000

• Nomination Committee member $5,000

• Technology Committee Chairman and member $5,000

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

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

**Components of the total remuneration package**

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

• at least 30% must be taken as cash;

• at least 20% must be taken as Directshares; and

• the minimum superannuation guarantee, where applicable.

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

**Equity compensation – Directshare**

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

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

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

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

**Superannuation**

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

**Other benefits**

In accordance with Board policy, and as permitted under Rule 16.4 of our Constitution, directors also receive reimbursement for reasonable travelling, accommodation and other expenses incurred in travelling to or from meetings of the Board or committees, or when otherwise engaged on the business of the Company. We also provide directors with telecommunications and other services and equipment to assist them in performing their duties. From time-to-time, we may also make products and services available to directors without charge to allow them to familiarise themselves with our products and services and recent technological developments.

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

**Details of non-executive directors’ remuneration**

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

Figure 1: Non-executive directors’ remuneration details

**Primary benefits Post Equity Other Total  
 Employment**

**Salary Non- Super- Retirement Directshare Other**

**and fees monetary annuation benefits fees**

**(1) (2) accrued**

**Name ($) ($) ($) ($) ($) ($) ($)**

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 32.

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

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

(4) This amount was paid to Mr McGauchie for membership of the Telstra Country Wide (TCW) Advisory Board and is for contribution of services in addition to his Board duties.

Payment of fees for membership of the TCW Advisory Board ceased on Mr McGauchie’s election as Chairman.

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

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

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

**Retirement benefits**

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

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

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

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

**Name Balance as at Increase during Payment to director if they**

**2004 fiscal 2005 had retired on 30 June 2005**

**($) ($) ($)**

Donald G McGauchie 145,277 195,396 340,673

John T Ralph 371,735 79,940 451,675

Samuel H Chisholm – – –

Anthony J Clark 223,882 48,811 272,693

John E Fletcher 90,535 35,603 126,138

Belinda J Hutchinson 71,790 32,004 103,794

Catherine B Livingstone 96,858 46,216 143,074

Charles Macek 77,789 40,160 117,949

John W Stocker 269,046 73,130 342,176

CEO and senior executives

**Remuneration policy**

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

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

The Committee’s policy is that executive remuneration should:

• reflect the size and scope of the role and be market competitive in order to attract and retain talent;

• be linked to the financial and operational performance of the Company;

• be aligned with the achievement of the Company’s long-term business objectives; and

• be differentiated based on individual performance.

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

• remuneration practices in other major corporations in Australia (both in terms of salary levels and the ratio between fixed and ‘at risk’ components); and

• a range of macro-economic indicators used to determine likely movements in broad salary rates.

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

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

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

**Remuneration structure 2004/05**

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 Maximum Maximum Maximum**

**remuneration STI achievable LTI achievable 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%

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

**Fixed remuneration**

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

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

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

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

**Short-term incentive (STI)**

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

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

Components of the STI: cash and rights

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

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

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

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

How the STI is calculated

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

The plan focuses on the Company performance measures of:

• EBIT growth;

• revenue growth;

• customer retention; and

• (for the CEO) underlying EBITDA margin.

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

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

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

• achievement of their respective business unit financial performance measures (33.3%);

• key business unit customer service measures (12.5%); and

• performance against individual, measurable key performance indicators (12.5%) which further support the improved operation of the business unit, as agreed with the CEO.

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

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

Required performance levels

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

Figure 4: Performance level and value received

**Performance level % of STI received for % of STI received for**

**financial measure other measure**

Below target 0% 0%

Gateway 25% 33.3%

Above gateway 50% 66.7%

Stretch target 100% 100%\*

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

The Board’s decision-making process

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

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

**Long-term incentive (LTI)**

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

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

Components of the LTI: performance rights

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

How the LTI is calculated at allocation

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

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

The value of the LTI at vesting

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

Exercising performance rights

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

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

• resigns and their performance rights are not yet exercisable, those rights will lapse;

• retires or ceases employment due to death or total permanent incapacity, and their performance rights are not yet exercisable, those rights do not lapse and will be exercisable if the relevant performance measure is met;

• is made redundant, and their performance rights are not yet exercisable, the number of unvested rights is adjusted to reflect the executive’s service period and will be exercisable if the relevant performance measure is met; or

• ceases employment with Telstra for any other reason and their performance rights are not yet exercisable, the Board will decide whether those rights should lapse or remain available for exercise if the relevant performance hurdle is met.

Performance measures

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

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

TSR performance measure

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

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

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

Figure 5: Vesting schedule for TSR performance rights

**Performance TSR ranking below TSR ranking at 50th TSR ranking between TSR ranking at or   
 50th percentile percentile (gateway) 50th and 75th above 75th percentile  
 percentile (maximum)**

Vesting Nil 50% Progressive vesting 100%

from 51% to 99%

EPS performance measure

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

Figure 6: Vesting schedule for EPS performance rights

**Performance EPS growth below 5% EPS growth at 5% EPS growth between EPS growth at or**

**(gateway) 5% and 10% above 10% (maximum)**

Vesting Nil 50% Progressive vesting from 100%  
 51% to 99%

**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 focused on achieving operational targets and the LTI is focused on achieving long term growth in shareholder wealth.

**Shareholder wealth**

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

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

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

**Year ended Year ended Year ended Year ended Year ended**

**30 June 2005 30 June 2004 30 June 2003 30 June 2002 30 June 2001**

Share Price ($) 5.06 5.03 4.40 4.66 5.38

Total dividends paid per share (¢) 33.0 25.0 26.0 22.0 18.0

Earnings Per Share (¢) 35.5 32.4 26.6 28.5 31.5

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

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

Figure 8: Share buy-backs

**Date Number of ordinary Cost Buy-back Franked Capital  
 shares bought back price per dividend component**

**Purchase Transaction share component per share consideration costs per share**

**$m $m $ $ $**

24 Nov 2003 238,241,174 1,001 8 4.20 2.70 1.50

15 Nov 2004 185,284,669 750 6 4.05 2.55 1.50

**Earnings**

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

Figure 9: Our 5-year earnings

**Year ending Year ending Year ending Year ending Year ending**

**30 June 2005 30 June 2004 30 June 2003 30 June 2002 30 June 2001**

**$m $m $m $m $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 Year ending Year ending Year ending Year ending**

**30 June 2005 30 June 2004 30 June 2003 30 June 2002 30 June 2001**

STI received 54.6%(1) 31.4% 41.1% 57.6% 31.7%

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

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

**Long term incentive**

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

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

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

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

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

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

**Fiscal Fiscal Fiscal Fiscal Fiscal**

**2005 2004 2003 2002 2001**

% of allocation which 50% of 2001  
has vested 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 five highest paid executives in the Telstra Group as required under section 300A of the Corporations Act 2001.

Figure 12: Senior executives’ remuneration

**Primary benefits Post Employment Equity compensation Total**

**Salary Short-term Non- Other(4) Super- Annualised Annualised**

**and fees(1) incentive(2) monetary(3) annuation(5) value of value of**

**deferred LTI equity(7)**

**shares (6)**

**Name ($) ($) ($) ($) ($) ($) ($) ($)**

Zygmunt E Switkowski (8) –

Chief Executive Officer 1,830,900 1,961,000 24,357 – 101,850 725,912 2,045,313 6,689,332

Bruce Akhurst (9) –

Chief Executive Officer, Sensis 927,664 523,600 11,893 – 177,086 196,141 732,594 2,568,978

Douglas Campbell –

Group Managing Director,

Telstra Country Wide 941,394 310,600 10,149 – 88,356 196,141 732,354 2,278,994

David Moffatt –

Group Managing Director,

Telstra Consumer & Marketing 1,133,165 248,300 18,781 400,000 11,585 220,968 801,183 2,833,982

Ted Pretty – Group Managing

Director, Telstra Technology,

Innovation & Products 1,120,581 540,500 22,370 260,000 24,169 224,936 789,217 2,981,773

Michael Rocca –

Group Managing Director,

Infrastructure Services 735,791 416,600 9,817 – 140,459 145,754 401,479 1,849,900

Bill Scales (10) – Group Managing

Director, Regulatory, Corporate &

Human Relations 681,167 428,700 9,635 – 117,583 121,946 326,788 1,685,819

Deena Shiff (11) – Group Managing

Director, Telstra Wholesale 277,321 295,150 1,326 – 47,680 30,641 102,562 754,680

John Stanhope – CFO and Group

Managing Director, Finance &

Administration 800,685 240,150 11,398 – 99,065 105,628 365,338 1,622,264

David Thodey – Group Managing

Director, Telstra Business &

Government 966,890 206,200 8,375 – 52,360 176,235 560,447 1,970,507

TOTAL 9,415,558 5,170,800 128,101 660,000 860,193 2,144,302 6,857,275 25,236,229

(1) Includes salary, salary sacrifice benefits (excluding salary sacrifice superannuation which is included under Superannuation) and fringe benefits tax.

(2) Short-term incentive relates to the cash component only for performance in fiscal 2005 and is based on actual performance for Telstra and the individual. For the executives,   
other than Dr Switkowski and Mr Scales, the remaining 50% of the STI will be provided in the form of rights to Telstra shares in accordance with the STI equity plan. The value of the rights to Telstra shares granted for the year ended 30 June 2005 will be reflected in remuneration over the next 3 years as the shares vest over their performance period. STI payments to Dr Switkowski and Mr Scales will be paid as cash only as their employment relationship with Telstra ceases prior to the allocation of equity.

(3) Includes the benefit of interest-free loans under TESOP97 and TESOP99 and the value of the personal use of products and services related to Telstra employment.

(4) Includes payments made to executives for continued service with Telstra as part of their employment contract.

(5) Represents company contributions to superannuation as well as any additional superannuation contribution made through salary sacrifice by executives.

(6) The value included in deferred shares relates to the current year amortised value of unvested shares issued in fiscal 2003 and fiscal 2004 under the Deferred Remuneration   
Plan. No deferred shares were allocated in fiscal 2005 as the plan was discontinued. The value of each share is calculated by applying valuation methodologies as described in note 19 to the financial statements contained in our ‘Annual Report 2005’ 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, BigPond®, Media and Sensis and   
Group General Counsel.

(10) Mr Scales retires on 12 August 2005.

(11) Ms Shiff was appointed Group Managing Director, Wholesale effective 1 January 2005. Prior to that, Ms Shiff was the Managing Director, Wholesale. In accordance with   
relevant accounting standards only remuneration from the date of Ms Shiff’s commencement as a Group Managing Director is included above.

**Short term incentive for 2005**

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

Figure 13: STI for fiscal 2005

**Name Maximum potential Actual STI (2) % of the maximum**

**STI (1) – both cash and – both cash and potential (3)**

**equity components equity components**

**($) ($)**

Zygmunt E Switkowski 3,764,000 1,961,000 52.1%

Bruce Akhurst (4) 1,479,600 1,047,200 70.8%

Douglas Campbell 1,353,600 621,200 45.9%

David Moffatt 1,504,800 496,600 33.0%

Ted Pretty 1,504,800 1,081,000 71.8%

Michael Rocca 1,177,200 833,200 70.8%

Bill Scales 622,800 428,700 68.8%

Deena Shiff (5) 819,000 590,300 72.1%

John Stanhope 709,200 480,300 67.7%

David Thodey 1,364,400 412,400 30.2%

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

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

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

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

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

**Long term incentive valuations**

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

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

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

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

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

**Amortised value of LTI equity allocations (1) (2) Total**

**Options (3) (4) Performance rights (4) Restricted shares (3)**

**($) ($) ($) ($)**

Zygmunt E Switkowski 772,731 1,191,643 80,939 2,045,313

Bruce Akhurst 345,383 354,173 33,038 732,594

Douglas Campbell 352,391 343,609 36,354 732,354

David Moffatt 380,380 390,643 30,160 801,183

Ted Pretty 387,991 396,424 4,802 789,217

Michael Rocca 141,424 248,585 11,470 401,479

Bill Scales 106,340 216,828 3,620 326,788

Deena Shiff 44,076 56,676 1,810 102,562

John Stanhope 134,511 218,175 12,652 365,338

David Thodey 241,368 319,079 – 560,447

(1) The value of each instrument is calculated by applying option valuation methodologies as described in note 19 to the financial statements contained in our ‘Annual Report   
2005’ and is then amortised over the relevant vesting period. The values included in the table relates to the current year amortised value of all instruments. The valuations used in current year disclosures are based on the same underlying assumptions as the prior year.

(2) Where a vesting scale is used, the table reflects the maximum achievable allocation.

(3) The September 1999 plan failed to satisfy the performance measure during the performance period, and as a result all restricted shares and options lapsed on 13 September   
2004.

(4) The September 2001 plan failed to satisfy the performance measure in the first quarter of the performance period. In accordance with the terms of the plan half the maximum   
potential allocation lapsed on 6 December 2004. The performance measure was subsequently achieved in the performance period and the remaining performance rights and options vested. As at 30 June 2005 no performance rights or options had been exercised by any participants.

**CEO and senior executives’ outstanding equity-based instruments**

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

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

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

**Aggregate**

**Granted during period (1) Exercised Lapsed granted,**

**exercised**

**% of total remuneration (2)  and lapsed**

**($) ($) ($) ($) ($)**

Zygmunt E Switkowski 1,747,446 26.1% – – 1,747,446

Bruce Akhurst 490,320 19.1% – – 490,320

Doug Campbell 448,098 19.7% – – 448,098

David Moffatt 498,492 17.6% – – 498,492

Ted Pretty 498,492 16.7% – – 498,492

Michael Rocca 391,575 21.2% – – 391,575

Bill Scales 362,292 21.5% – – 362,292

Deena Shiff (3) 170,250 22.6% – – 170,250

John Stanhope 410,643 25.3% – – 410,643

David Thodey 452,865 23.0% – – 452,865

(1) This represents the accounting value at grant date of TSR and EPS performance rights granted in fiscal 2005.

(2) Total remuneration is the sum of primary benefits, post employment benefits and equity compensation as detailed in figure 12.

(3) Ms Shiff’s equity allocation under the annual LTI plan was made prior to her commencing as GMD Wholesale.

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

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

**Instrument Balance Granted Exercised Lapsed Balance Vested but not**

**at 1 July during during during at 30 June exercised during**

**2004 period (1) period period (2) 2005 (3) 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 six months notice. If an executive’s employment is terminated by Telstra for reasons other than misconduct, they are entitled to six months’ notice or payment in lieu of notice, and a termination payment equal to 12 months pay. Both elements are calculated on fixed remuneration at the time of termination.

**Payments made to Dr Switkowski on ceasing employment with us**

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

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

• Short-term incentive – $1,961,000, as detailed in figure 12.

• Accrued leave – $1,059,526 representing all remaining leave due to him at the time his employment ceased, calculated at the fixed remuneration rate.

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

• Deferred remuneration

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

**Year of Plan Number of deferred   
 shares allocated**

2002 249,100

2003 251,600

Total 500,700

• Long-term incentive

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

**Year Instrument type Allocations**

2000 Restricted shares 96,000

2000 Options at $6.28 exercise price 464,000

2001 Performance rights 129,000

2001 Options at $4.90 exercise price 1,346,000

2002 Performance rights 498,200

2003 Performance rights 503,200

2004 TSR Performance rights 256,600

2004 EPS Performance rights 256,600

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

**Appointment of Mr Solomon Trujillo**

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

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

Mr Trujillo receives:

• A fixed remuneration package including salary, superannuation in accordance with legislation, salary sacrifice benefits and any applicable fringe benefits tax incurred by us to the value of $3,000,000 per annum;

• a sign-on payment of $1,000,000 on commencement of his employment with us and pre-payment of 50% ($1,500,000) of his potential fiscal 2006 short-term incentive.

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

• Short-term incentive

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

• Long-term incentive

Mr Trujillo will be invited to participate in our LTI plan. The remuneration value attributed to the LTI plan will be equivalent to 1331⁄3% of fixed remuneration ($4,000,000) for achieving pre-determined maximum hurdles as defined by the Board. Achievement of these targets will require significant performance by the Company and a gateway target will need to be met in order to qualify for any equity. Failure to meet the gateway targets will result in no vesting of the performance rights. However, achievement of the gateway targets for the CEO will qualify performance rights to the value of 100% of fixed remuneration ($3,000,000) to vest.

A linear scale exists for performance between the gateway targets and the pre-determined target hurdles. The weighting for achieving the maximum and gateway hurdles vary from those that applied to the CEO in 2004/05 as described earlier in this report.

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

**Termination arrangements**

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

• a termination payment of:

(a) twenty four months fixed remuneration if the termination occurs within the first twelve months of employment; or

(b) twelve months fixed remuneration if the termination occurs after the first twelve months of employment a pro-rata payment in respect of his participation in the STI plan for the year in which termination occurs.

• a pro-rata payment in respect of his participation in the STI plan for the year in which termination occurs;

• the rights to equity allocated through the LTI plan prior to termination subject to it achieving the respective performance hurdles in accordance with the terms of the plan; and

• reimbursement of any taxation penalties that may occur in the event of an early return to the United States.

# concise financial report

**statement of financial performance** for the year ended 30 June 2005 Telstra Group

Year ended 30 June

2005 2004

Note $m $m

Ordinary activities

Revenue

Sales revenue 22,161 20,737

Other revenue (excluding interest revenue) 4 496 543

22,657 21,280

Expenses

Labour 3,693 3,218

Goods and services purchased 4,147 3,554

Other expenses 4 4,055 4,255

11,895 11,027

Share of net (profit)/loss from joint venture entities and associated entities (9) 78

11,886 11,105

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) 1 10,771 10,175

Depreciation and amortisation 3,766 3,615

Earnings before interest and income tax expense (EBIT) 1 7,005 6,560

Interest revenue 103 55

Borrowing costs 839 767

Net borrowing costs 736 712

Profit before income tax expense 6,269 5,848

Income tax expense 4 1,822 1,731

Net profit 4,447 4,117

Outside equity interests in net loss – 1

Net profit available to Telstra Entity shareholders 4,447 4,118

Other valuation adjustments to equity

Net exchange differences on translation of financial statements of non-

Australian controlled entities (43) 21

Reserves recognised on equity accounting our interest in joint venture

entities and associated entities 3 (5)

Valuation adjustments attributable to Telstra Entity shareholders

and recognised directly in equity (40) 16

Total changes in equity other than those resulting from transactions

with Telstra Entity shareholders as owners 4,407 4,134

¢ ¢

Basic and diluted earnings per share (cents per share) 35.5 32.4

Total dividends paid/declared (cents per share) 3, 5 40.0 26.0

The above statement of financial performance should be read in conjunction with the accompanying notes and discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the ‘Annual Report 2005’. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the ‘Annual Report 2005’ which is available, free of charge, upon request to Telstra.

discussion and analysis

**statement of financial performance**

Our net profit for the year was $4,447 million, representing an increase of 8.0% on the prior year’s net profit of $4,118 million. Earnings before interest and income tax expense (EBIT) for fiscal 2005 was $7,005 million representing an increase of 6.8% on the prior year of $6,560 million.

Total revenue (excluding interest revenue) for the year increased by 6.5% to $22,657 million (2004: $21,280 million). Sales revenue was $22,161 million, representing a 6.9% increase on the prior year sales revenue of $20,737 million. Total revenues included $548 million of revenue generated by controlled entities acquired during the year. The entities we acquired include the KAZ Group (KAZ), the Damovo Group (Damovo) and the PSINet Group (PSINet). The acquisition of KAZ expands our IT services capability, complementing our core strength in telecommunications. Damovo improves our ability to provide advanced voice and data communication solutions, and PSINet assists us in providing converged communication and technology services internationally.

Excluding the impact of our newly acquired entities, revenue growth was mainly attributable to:

• mobile goods and services growth of $319 million or 8.3%;

• an increase in internet and IP solutions revenue of $364 million or 35.9%;

• advertising and directories revenue growth of $244 million or 18.2%; and

• an increase in pay TV bundling of $109 million or 70.8%.

These increases have been partially offset by a decline in PSTN revenues of $275 million or 3.4%. While PSTN remains a significant contributor to our revenue, it is declining as the market continues to move towards new products and services to satisfy requirements.

Mobile goods and services revenue increased largely due to the strength 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.

Internet and IP solutions revenue experienced significant growth, driven by increased numbers of broadband subscribers for both our retail and wholesale offerings. Our advertising and directories revenue increased over the prior year due to the inclusion of a full year of trading activity for the Trading Post Group in fiscal 2005. In addition, further growth was experienced due to the continued take up of our new advertising offerings.

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

Other revenue decreased by $47 million to $496 million, due primarily to the inclusion of proceeds on sale of our shareholding in IBM Global Services Australia Limited (IBMGSA) of $154 million in fiscal 2004. Our other revenue in fiscal 2005 was primarily made up of the redemption of our PCCW converting note realising $76 million and investment sales of our interests in Infonet and Intelsat amounting to $146 million.

Total expenses (before borrowing costs and income tax expense) increased by 6.3% to $15,652 million from $14,720 million in the prior year. A significant portion of this increase ($566 million) was attributable to our newly acquired controlled entities.

Labour expenses increased by 14.8% to $3,693 million (2004: $3,218 million). This increase was largely attributable to staff taken on as a result of the acquisition of controlled entities, annual salary increases due to enterprise agreements and annual reviews, and increased use of overtime and contract and agency payments to improve our front of house service and meet increased field volumes across broadband and pay TV in particular. We have also increased staff numbers and the use of casual staff to improve customer service and account management.

Goods and services purchased increased by 16.7% to $4,147 million in fiscal 2005 (2004: $3,554 million) due to higher handset sales and increased usage commissions due to higher prepaid mobile recharge commissions. Other increases resulted from higher handset subsidies due to the promotions offered in prior periods, growth in broadband volumes, increased bundling of pay TV services and higher network payments as a result of increased international roaming.

Depreciation and amortisation expense increased by 4.2% to $3,766 million (2004: $3,615 million), due mainly to the growth in communications plant and software asset additions required to support the increasing demand for broadband services.

Other expenses decreased by 4.7% to $4,055 million (2004: $4,255 million) mainly due to fiscal 2004 including a write down of additional funding to Reach Ltd (REACH) of $226 million and $130 million to exit our contracts for information technology services with IBMGSA, corresponding with the sale of our interest in this business. In fiscal 2005 other expenses included costs from our recently acquired controlled entities and an increase in the book value of property sold and investment sales.

Income tax expense increased by 5.3% to $1,822 million in fiscal 2005, giving an overall effective tax rate of 29.1%. The increase in tax expense was primarily due to the higher profit and the fact that the prior year tax expense included a benefit of $58 million associated with the adoption of tax consolidation.

**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 share ($1,742 million) and a fully franked special dividend of 6 cents per share ($747 million) to be paid with the final dividend, bringing dividends per share declared for fiscal 2005 to 40 cents per share (including special dividends of 12 cents per share). The prior year dividends declared amounted to 26 cents per share. We also returned $750 million to shareholders through an off market share buy-back during fiscal 2005. 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 as previously discussed. The increase in 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.

**statement of financial position** as at 30 June 2005 **Telstra Group**

**As at 30 June**

**2005 2004**

**$m $m**

Current assets

Cash assets 1,540 687

Receivables 3,609 3,608

Inventories 232 229

Other assets 796 803

Total current assets 6,177 5,327

Non current assets

Receivables 240 740

Inventories 15 10

Investments – accounted for using the equity method 49 40

Investments – other – 80

Property, plant and equipment 23,351 22,863

Intangibles – goodwill 2,287 2,104

Intangibles – other 1,581 1,501

Other assets 2,610 2,328

Total non current assets 30,133 29,666

Total assets 36,310 34,993

Current liabilities

Payables 2,809 2,338

Interest-bearing liabilities 1,518 3,246

Income tax payable 534 539

Provisions 389 358

Revenue received in advance 1,132 1,095

Total current liabilities 6,382 7,576

Non current liabilities

Payables 122 49

Interest-bearing liabilities 11,816 9,014

Provision for deferred income tax 1,885 1,807

Provisions 836 778

Revenue received in advance 388 408

Total non current liabilities 15,047 12,056

Total liabilities 21,429 19,632

Net assets 14,881 15,361

Shareholders’ equity

Telstra Entity

Contributed equity 5,793 6,073

Reserves (157) (105)

Retained profits 9,243 9,391

Shareholders’ equity available to Telstra Entity shareholders 14,879 15,359

Outside equity interests

Contributed equity 2 2

Total outside equity interests 2 2

Total shareholders’ equity 14,881 15,361

The above statement of financial position should be read in conjunction with the accompanying notes and discussion and analysis. The financial statements and specific disclosures have been derived from the financial report contained in the ‘Annual Report 2005’. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and cash flow activities of Telstra as the financial report. Further financial information can be obtained from the ‘Annual Report 2005’ which is available, free of charge, upon request to Telstra.

statement of cash flows for the year ended 30 June 2005 **Telstra Group**

**Year ended 30 June** **2005 2004  
 $m $m**

Cash flows from operating activities

Receipts from trade and other receivables 24,526 23,205

Payments of accounts payable and to employees (12,754) (12,067)

Interest received 80 51

Borrowing costs paid (879) (846)

Dividends received 2 2

Income taxes paid (1,718) (1,856)

GST remitted to the Australian Taxation Office (1,094) (1,056)

Net cash provided by operating activities 8,163 7,433

Cash flows from investing activities

Payment for:

– property, plant and equipment (2,995) (2,572)

– internal use software assets (523) (435)

– intangibles (6) (2)

– deferred expenditure (15) (6)

Capital expenditure (before investments) (3,539) (3,015)

– shares in controlled entities (574) (667)

– investment in joint venture entities (10) (1)

– investments in associated entities (including share buy-back) (4) 1

– shares in listed securities and other investments (2) (1)

Investment expenditure (590) (668)

Total capital expenditure (4,129) (3,683)

Proceeds from:

– sale of property, plant and equipment 68 168

– sale of joint venture entities and associated entities 30 221

– sale of listed securities and other investments 146 24

– redemption of PCCW converting note 76 –

Net cash used in investing activities (3,809) (3,270)

Operating cash flows less investing cash flows 4,354 4,163

Cash flows from financing activities

Proceeds from:

– borrowings 6,433 4,119

– Telstra bonds 983 –

Repayment of:

– borrowings (5,735) (4,274)

– Telstra bonds (272) (211)

– finance leases principal amount (16) (13)

Employee share loans 19 24

Loan to joint venture entities and associated entities (37) (226)

Dividends paid (4,131) (3,186)

Share buy-back (756) (1,009)

Net cash used in financing activities (3,512) (4,776)

Net increase/(decrease)in cash 842 (613)

Foreign currency conversion (3) –

Cash at the beginning of the year 687 1,300

Cash at the end of the year 1,526 687

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**Year ended 30 June**

**2005 2004**

**$m $m**

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# discussion and analysis

statement of financial position

We continued to maintain a strong financial position with net assets of $14,881 million, compared with net assets of $15,361 million as at 30 June 2004. The decrease in net assets by $480 million comprised an increase in total liabilities of $1,797 million, offset by an increase in our total assets of $1,317 million.

The increase in total liabilities of $1,797 million was primarily due to a $1,074 million increase in total interest-bearing liabilities in order to fund the special dividend and share buy-back during fiscal 2005. The increase was facilitated by bond issues in Europe, Switzerland, New Zealand and Australia. A stronger Australian dollar has also contributed to increased interest-bearing liabilities as our cross currency swap position has moved from a net receivable to a net payable. In addition, our payables have increased by $544 million due to deferred payment terms on our acquisition of the 3G radio access network assets described below.

The increase in total assets of $1,317 million was primarily due to the following movements during the year:

• Cash assets increased by $853 million partially due to the proceeds on our €1 billion Eurobond issue being received just prior to 30 June 2005, which was invested in the short term money market at balance date;

• Our property, plant and equipment increased by $488 million, largely due to the recognition of our share of third generation (3G) radio access network assets acquired as part of the formation of a partnership with Hutchison 3G Australia Pty Ltd;

• Intangibles – goodwill increased by $183 million to $2,287 million (2004: $2,104 million) as a result of goodwill acquired on our investment acquisitions in KAZ, Damovo and PSINet;

• Non current – other assets increased by $282 million to $2,610 million, mainly due to an arrangement where our joint venture entity, Reach Ltd, allocated its international cable capacity between us and our joint venture partner, PCCW, as an indefeasible right of use agreement with a value of $216 million. As consideration, we discharged REACH’s liability to us under the capacity prepayment, previously recognised within non current receivables; and

• Non current receivables decreased by $500 million to $240 million

(2004: $740 million) due to the termination of the capacity prepayment and the movement in the cross currency swaps portfolio to a net payable position.

statement of cash flows

The group reported a strong free cash flow position, which enabled the Company to increase declared dividends, fund the acquisition of a number of new entities and complete an off market share buy-back. We have sourced our cash through our operating activities and careful capital and cash management.

Our cash flows from operating activities grew by 9.8% to $8,163 million (2004: $7,433 million). This position was the result of higher sales revenues and continued tight control of expenditure and working capital management.

Cash used in investing activities was $3,809 million, representing an increase of $539 million over the prior year. These cash flows include consideration paid for the acquisition of KAZ, Damovo, PSINet, and various other controlled entities amounting to $574 million and substantial capital expenditure to upgrade our telecommunications networks, eliminate components that are no longer useful and improve the systems used to operate our networks.

Total cash flow before financing activities (free cash flow) increased by 4.6% to $4,354 million (2004: $4,163 million).

Our cash used in financing activities was $3,512 million (2004: $4,776 million) due mainly to dividend payments of $4,131 million (2004: $3,186 million) and a share buy-back of $756 million (2004: $1,009 million). These outflows were offset by net proceeds from borrowings of $1,375 million sourced from bond issues during the year (2004: net repayment $581 million).

statement of changes in shareholders’ equity

Telstra Group Reserves

Asset Foreign Consoli- Outside

Contributed revaluation currency General dation Retained equity

equity (i) translation(ii) (iii) fair value(iv) profits interests Total

$m $m $m $m $m $m $m $m

Balance at 30 June 2003 6,433 32 (240) 8 50 9,137 2 15,422

– change in outside equity interests’ capital,   
reserves and accumulated losses (apart from   
interest in net loss) – – – – – – 1 1

– net profit/(loss) – – – – – 4,118 (1) 4,117

– reserves recognised on equity accounting our   
interest in joint venture entities and   
associated entities – – (5) – – – – (5)

– adjustments on translation of financial   
statements of non-Australian controlled entities – – 21 – – – – 21

– fair value adjustment on acquisition of   
controlling interest in joint venture entity – – – – (6) 6 – –

– transfer of foreign currency translation reserve   
and general reserve on sale of controlled entities   
and associates – – 38 (3) – (35) – –

– share buy-back (v) (360) – – – – (649) – (1,009)

– dividends (note 3) – – – – – (3,186) – (3,186)

Balance at 30 June 2004 6,073 32 (186) 5 44 9,391 2 15,361

– net profit – – – – – 4,447 – 4,447

– reserves recognised on equity accounting our   
interest in joint venture entities and   
associated entities – – (2) 5 – – – 3

– adjustments on translation of financial   
statements of non-Australian controlled entities – – (43) – – – – (43)

– fair value adjustment on acquisition of   
controlling interest in joint venture entity – – – – (6) 6 – –

– transfer of general reserve on sale of associates – – – (6) – 6 – –

– share buy-back (v) (280) – – – – (476) – (756)

– dividends (note 3) – – – – – (4,131) – (4,131)

Balance at 30 June 2005 5,793 32 (231) 4 38 9,243 2 14,881

(i) The asset revaluation reserve was previously used to record changes in the value of non current assets. Under AASB 1041: ‘Revaluation of Non-Current Assets’, we previously deemed the carrying value of our property, plant and equipment assets to be cost. As a result, the asset revaluation reserve may no longer be used to record the writedowns of these assets to recoverable amount. Any writedowns of these assets to recoverable amount must be made through the statement of financial performance.

As a consequence of applying the cost method of accounting, we have discontinued our policy of revaluing property, plant and equipment upwards. The asset revaluation reserve can no longer be used for distribution to shareholders or for offsetting revaluation decrements due to legal and accounting restrictions.

(ii) The foreign currency translation reserve is used to record exchange differences arising from the conversion of the financial statements of our self sustaining non-Australian operations into Australian dollars. Conversion of operations where entities operate on their own are taken to the foreign currency translation reserve, while conversion of those entities that operate with us are taken to the statement of financial performance.

This reserve is also used to record our percentage share of exchange differences arising from equity accounting our non-Australian investments in joint venture entities and associated entities.

(iii) The general reserve represents our share of the capital reserve of joint venture entities and associated entities as a result of equity accounting.

(iv) The consolidation fair value reserve represents our share of the fair value adjustments to TelstraClear Limited net assets upon acquisition of a controlling interest. The reserve balance is amortised over the useful life of the underlying revalued assets (average of 18 years).

(v) On 15 November 2004, we completed an off-market share buy-back of 185,284,669 ordinary shares as part of our ongoing capital management program. During fiscal 2004, we also completed an off-market share buy-back of 238,241,174 ordinary shares.

# notes to the concise financial statements

1. Accounting policies

**Basis of preparation of the concise financial report**

The principal accounting policies adopted in preparing the concise financial report of Telstra Corporation Limited and its controlled entities (referred to as the Telstra Group) are included in the financial report which forms part of the detailed ‘Annual Report 2005’.

This concise financial report has been prepared in accordance with the Corporations Act 2001 and AASB 1039: ‘Concise Financial Reports’ and is derived from the detailed ‘Annual Report 2005’.

These accounting policies are consistent with those adopted in previous periods. There have been no changes in accounting policies in fiscal 2005.

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

Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of interest revenue, borrowing costs, income taxes, depreciation and amortisation. We believe that EBITDA is a relevant and useful financial measure used by management to measure the Company’s operating profit.

Our management uses EBITDA, in combination with other financial measures, primarily to evaluate the Company’s operating performance before financing costs, income tax expense and non-cash capital related expenses. In consideration of the capital intensive nature of our business, EBITDA is a useful supplement to net income in understanding cash flows generated from operations that are available for payment of income taxes, debt service and capital expenditure.

In addition, we believe EBITDA is useful to investors because analysts and other members of the investment community largely view EBITDA as a key and widely recognised measure of operating performance.

EBITDA is not a USGAAP (United States generally accepted accounting principles) measure of income or cash flow from operations and should not be considered as an alternative to net income as an indication of our financial performance or as an alternative to cash flow from operating activities as a measure of our liquidity.

Earnings before interest and income tax expense (EBIT) is a similar measure to EBITDA but takes into account the effect of depreciation and amortisation.

When a specific revenue or an expense from ordinary activities is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance for the reporting period, its nature and amount have been disclosed separately in note 4.

**Adoption of International Financial Reporting Standards (A-IFRS)**

Australian entities reporting under the Corporations Act 2001 must prepare their financial statements for financial years commencing on or after 1 January 2005 under the Australian equivalents of International Financial Reporting Standards (A-IFRS) as adopted by the Australian Accounting Standards Board (AASB). This will involve preparing our first set of financial statements applying A-IFRS for the half-year ending 31 December 2005 and for the financial year ending 30 June 2006.

The transitional rules for first time adoption of A-IFRS require that we restate our comparative financial statements using A-IFRS, except for AASB 132: ‘Financial Instruments: Disclosure and Presentation’ and AASB 139: ‘Financial Instruments: Recognition and Measurement’ where comparative information is not required to be restated.

For reporting in the 2006 fiscal year, comparatives will be remeasured and restated for the half-year ended 31 December 2004 and the financial year ended 30 June 2005. Most of the adjustments on transition are required to be made to opening retained profits at the beginning of the first comparative period (ie. at 1 July 2004).

We have a formal IFRS project team to manage the convergence to A-IFRS and enable us to be prepared to report for the first time in accordance with the timetable outlined above. The project team is monitored by a governance committee comprising senior members of management, which reports regularly on progress to the Audit Committee of the Telstra Board of Directors. The governance committee is monitoring our adoption of A-IFRS in accordance with an established project implementation plan. The committee has also been following the developments in IFRS and the potential impact for our transition to A-IFRS.

The IFRS project is comprised of dedicated workstreams with project teams responsible for evaluating the impact of a specific group of accounting changes resulting from the adoption of A-IFRS. The technical evaluation phase of each workstream is substantially complete and the project is in the implementation and review phases. The project is achieving its scheduled milestones and we expect to be in a position to fully comply with the requirements of A-IFRS for the 2006 financial year.

Under A-IFRS, we expect our net profit to be more volatile compared with existing Australian reporting requirements. However, we expect that the adoption of A-IFRS will not significantly affect our net cash flow, our ability to borrow funds or our capacity to pay dividends to our shareholders. In our detailed ‘Annual Report 2005’ we have identified the key differences in accounting policy and our known estimable transitional differences from application of A-IFRS. In addition we have included the likely impacts on the 2005 fiscal year result and financial position where known, and the transitional adjustments for AASB 132/AASB 139 as at 1 July 2005. The following areas have been identified as significant for the A-IFRS disclosure in our ‘Annual Report 2005’:

• share based payments;

• business combinations;

• income taxes;

• property, plant and equipment;

• employee benefits;

• changes in foreign exchange rates;

• borrowing costs;

• investments in associates and joint ventures;

• impairment of assets;

• intangible assets; and

• financial instruments.

For detailed information on these areas please refer to note 1.4 in the financial report which forms part of the detailed ‘Annual Report 2005’.

2. Segment information

We report our segment information on the basis of business segments as our risks and returns are affected predominantly by differences in the products and services we provide through those segments.

Our internal management reporting structure drives how our Company is organised and managed. This internal structure provides the initial basis for determining our business segments.

Our business segments are predominantly distinguishable by the type and location of customers for our key products and services delivered. Our customer facing business segments service different customer types with our full range of products and services. Other reportable business segments are also aligned with our specific customer or business needs. These segments provide operational support services or product support services to our customer facing business segments, or service other telecommunication carriers. Our ‘Other’ segment consists of various business units that do not qualify as business segments in their own right and which service a variety of customer or business needs.

The main adjustment from our internal management reporting structure to our reported business segments is that the TelstraClear group (TelstraClear) in New Zealand is reported as part of a segment we have called Telstra International for segment reporting purposes. For internal management reporting purposes, TelstraClear is included with Telstra Business and Government. For the purposes of the applicable accounting standard, we consider that the risks and returns of TelstraClear differ from those of our local operations and as a result we have grouped these operations into the Telstra International business segment.

**Business segments**

During the current year, we restructured our pre-existing business unit known as the BigPond®, Media and Sensis group. This restructure resulted in the establishment of Telstra BigPond, Telstra Media and Sensis as separate business units.

In fiscal 2004, we formed a new group being Telstra Technology, Innovation and Products. This business segment brought together product development areas, network technologies, information technology systems and the Telstra Research Laboratories.

Those business segments not impacted by the above restructures are substantially consistent with the structure in prior years. We have restated all our comparative information to reflect our current reporting position as if all our new business segments and segment accounting policies existed in those prior years.

For segment reporting purposes, the Telstra Group is organised into the following business segments:

Telstra Consumer and Marketing (TC&M) is responsible for:

• the provision of the full range of telecommunication products and services to metropolitan consumer customers;

• management of Telstra brands, advertising and sponsorship; and

• implementing our bundling initiatives.

Telstra Country Wide (TCW) is responsible for:

• the provision of the full range of telecommunication products and services to consumer, small business, enterprise and some government customers outside the mainland state capital cities, in outer metropolitan areas, and in Tasmania and the Northern Territory.

Telstra Business and Government (TB&G) is responsible for:

• the provision of the full range of telecommunication products and services, communication solutions, and information and communication technology (ICT) services to corporate, small to medium enterprises and government customers; and

• the provision of global communication solutions to multi-national corporations through our interests in the United Kingdom, Asia and North America.

Telstra International (TInt.) is the combination of our Telstra Asia business unit and TelstraClear. These business units have been combined for segment reporting purposes as we consider that the risks and returns of these international operations differ from those of our local operations.

• Telstra Asia is responsible for our Asia-Pacific investments. In particular this includes our operations in Hong Kong that mainly generate revenues from the mobiles market; and

• TelstraClear is our New Zealand subsidiary that provides integrated telecommunication services to the New Zealand market.

Infrastructure Services (IS) is responsible for:

• the provisioning, restoration, operation and maintenance of our fixed, mobile, Internet protocol (IP) and data networks to supply products and services as our primary service delivery manager; and

• the design and construction of infrastructure for voice, data and transmission networks, as well as product and application platforms and the online environment.

Telstra Wholesale (TW) is responsible for:

• the provision of the full range of telecommunication products and services, including design, construction, and operations and maintenance, delivered over our networks and associated support systems to:

• non-Telstra branded carriers, carriage service providers, Internet service providers, system integrators, application service providers and commercially driven infrastructure sharing agreements; and

• infrastructure owners and managers who acquire infrastructure services.

Telstra Technology Innovation and Products (TTIP) is responsible for:

• leading product, technology and information technology strategy for our Company;

• the overall planning, design specification of standards and commissioning construction of our communication networks;

• the delivery of information technology solutions to support our products, services and customer support function;

• product development and management;

• the office of the Chief Information Officer; and

• the Telstra Research Laboratories.

Telstra BigPond® is responsible for:

• the management and control of our retail Internet products, services and content, contact centres, customer relations and associated functions, for broadband and narrowband delivery.

Telstra Media is responsible for:

• the management of our interest in the FOXTEL partnership, along with the development and management of the hybrid fibre coaxial (HFC) broadband cable network.

Sensis is responsible for:

• the management and growth of the information, advertising and directories business, including printed publications, voice and online products and services.

Corporate areas include:

• Legal Services – provides legal services across the Company;

• Regulatory, Corporate and Human Relations – responsible for managing our relationships and positioning with key groups such as our customers, the media, governments, community groups and staff. It manages personnel, health and safety, environment, remuneration and training. It also has responsibility for regulatory positioning and negotiation; and

• Finance and Administration – encompasses the functions of business and finance services, treasury, productivity, risk management and assurance, credit management, billing directorate, corporate services, corporate development and the office of the company secretary. It also includes the financial management of the majority of the Telstra Entity fixed assets (including network assets) through the Asset Accounting Group.

The Corporate areas and the Telstra BigPond®, Telstra Media and Sensis business segments are not reportable segments in their own right and have been aggregated in the ‘Other’ category.

**Segment financial results**

Our internal management reporting structure provides the initial basis for identifying those items that can be directly attributable, or reasonably allocated to each respective business segment. Items are initially allocated to each business unit for internal management reporting on a basis that is considered suitable for senior management to manage the business. For financial reporting purposes, we have reallocated certain items between the respective business segments pursuant to the definitions of segment revenues, segment expenses, segment assets and segment liabilities in accordance with the requirements of the applicable accounting standard, where a reasonable allocation basis exists.

Where no reasonable allocation basis exists, we have not reallocated individual items to alternative segments. For financial reporting purposes, these items are reported within the same business segment as for internal management reporting. As a result, our segment revenues, segment expenses, segment assets and segment liabilities do not reflect actual operating results achieved for our business segments in certain circumstances.

The following narrative further explains our segment results for those individual items where it is considered that no reasonable allocation basis exists:

• Sales revenue associated with mobile handsets for TC&M, TB&G and TCW are allocated totally to the TC&M segment, with the exception of products sold in relation to small to medium enterprises which are allocated to TB&G. Ongoing prepaid and postpaid mobile revenues derived from our mobile usage is recorded in TC&M, TB&G and TCW depending on the type and location of customer serviced. In addition, the majority of goods and services purchased, associated with our mobile revenues, are allocated to the TC&M segment. As a result, the TC&M segment also holds segment assets and segment liabilities related to those revenues and expenses recorded in TC&M;

• trade debtors in relation to the mobile repayment option on mobile handsets sold by our dealers are allocated totally to TC&M; and

• revenue received in advance in relation to installation and connection fees is allocated totally to TC&M.

These allocations reflect management’s accountability framework and internal reporting system and accordingly no reasonable basis for reallocation to the respective business segments exist.

In addition, revenue derived from our BigPond Internet products and its related segment assets are recorded in the customer facing business units of TC&M, TB&G and TCW. Certain distribution costs in relation to these products are recognised in these three business segments. IS and TTIP recognise certain expenses in relation to the installation and running of the broadband cable network. The related segment assets are managed by the Asset Accounting Group. In accordance with our application of the definition of business segment in relation to customer type, we have not reallocated these items to the Telstra BigPond business segment.

**Change in segment accounting policies**

The following segment accounting policy change occurred during fiscal 2005:

**Small to medium enterprise revenue**

In previous financial years, our segment accounting policy was to recognise sales revenue relating to our small to medium enterprises below a certain limit in the TC&M segment. In fiscal 2005, the revenue earned from our small to medium enterprises was allocated to the TB&G segment in accordance with a revised threshold for small to medium enterprises.

In addition, the related expenses of these customers has also been allocated to the TB&G segment. Sales revenue in TC&M was reduced and sales revenue in TB&G was increased by $442 million in fiscal 2004 and $471 million in fiscal 2003 to reflect this change in policy.

**Inter-segment transfers**

We account for all transactions of entities within the Telstra Group, including international transactions between Australian and non-Australian businesses, at market value. For segment reporting purposes, transfer pricing is not used within the Company. As such the inter-segment revenue line purely relates to intercompany revenue.

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

**Segment assets and liabilities**

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

The Asset Accounting Group performs a company wide function in relation to the financial management of certain assets. These assets are accounted for at the corporate level (aggregated in the ‘Other’ segment) and not allocated across segment.

**Telstra Group**

**Elimi-**

**TC&M TCW TB&G TInt. IS TW TTIP Other(i) nations Total**

**$m $m $m $m $m $m $m $m $m $m**

Year ended 30 June 2005

Sales revenue from external customers 5,030 5,751 5,214 1,359 67 2,940 1 1,799 – 22,161

Other revenue from external customers 96 132 5 82 11 3 35 161 (29) 496

Total revenue from external customers

(excluding interest revenue) 5,126 5,883 5,219 1,441 78 2,943 36 1,960 (29) 22,657

Less sale of investment/dividend revenue 95 – – 81 – – – – – 176

Segment revenue from external customers 5,031 5,883 5,219 1,360 78 2,943 36 1,960 (29) 22,481

Add inter-segment revenue – – 53 37 54 284 23 13 (464) –

Total segment revenue 5,031 5,883 5,272 1,397 132 3,227 59 1,973 (493) 22,481

Segment result under AGAAP 2,420 4,944 3,255 (34) (1,702) 2,973 (1,374) (3,572) 3 6,913

Share of equity accounted net losses/(profits) 3 – 8 3 – – – (5) – 9

Net book value of investments sold (25) – – (68) – – – – – (93)

Sale of investment/dividend revenue 95 – – 81 – – – – – 176

Earnings before interest and income

tax expense (EBIT) – segment result

under USGAAP 2,493 4,944 3,263 (18) (1,702) 2,973 (1,374) (3,577) 3 7,005

Earnings has been calculated after

charging/(crediting) the following:

Depreciation and amortisation – – 69 377 – – – 3,320 – 3,766

Non cash expenses excluding depreciation

and amortisation 499 52 15 75 41 1 8 173 (29) 835

Non current segment assets acquired

(excluding acquisition of investments) 16 10 42 246 1,881 503 1,113 235 – 4,046

As at 30 June 2005

Segment assets (ii) 1,266 692 1,661 3,911 1,101 1,216 717 27,918 (2,172) 36,310

Segment assets include:

Investment in joint venture entities – – 3 30 – – – – – 33

Investment in associated entities – – 12 – – – – 4 – 16

Segment liabilities 877 284 953 734 900 590 578 19,410 (2,897) 21,429

(i) Sales revenue for the other segment relates primarily to our advertising and directories revenue earned by Sensis. The Asset Accounting Group is the main contributor to the   
result for this segment, which is primarily depreciation and amortisation charges.

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

**Telstra Group**

**TC&M TCW TB&G TInt. IS TW TTIP Other Elimi- Total**

**(iii) (i)(iv) nations**

**$m $m $m $m $m $m $m $m $m $m**

Year ended 30 June 2004

Sales revenue from external customers 4,956 5,508 4,786 1,301 60 2,631 1 1,494 – 20,737

Other revenue from external customers 1 136 199 51 12 – 4 147 (7) 543

Total revenue from external customers

(excluding interest revenue) 4,957 5,644 4,985 1,352 72 2,631 5 1,641 (7) 21,280

Less sale of investment/dividend revenue – – 178 51 – – – – – 229

Segment revenue from external customers 4,957 5,644 4,807 1,301 72 2,631 5 1,641 (7) 21,051

Add inter-segment revenue – – 38 36 54 271 51 12 (462) –

Total segment revenue 4,957 5,644 4,845 1,337 126 2,902 56 1,653 (469) 21,051

Segment result under AGAAP 2,549 4,784 3,455 (18) (1,625) 2,709 (1,557) (3,856) 18 6,459

Share of equity accounted net losses/(profits) 2 – 2 (38) – – – (44) – (78)

Net book value of investments sold – – (21) (29) – – – – – (50)

Sale of investment/dividend revenue – – 178 51 – – – – – 229

Earnings before interest and income tax

expense (EBIT) – segment result

under USGAAP 2,551 4,784 3,614 (34) (1,625) 2,709 (1,557) (3,900) 18 6,560

Earnings has been calculated after

charging/(crediting) the following:

Depreciation and amortisation – – 20 363 3 – – 3,229 – 3,615

Non cash expenses excluding depreciation

and amortisation 339 63 44 44 49 (2) 1 293 (7) 824

Non current segment assets acquired

(excluding acquisition of investments) 21 – 11 188 1,729 35 871 270 – 3,125

As at 30 June 2004

Segment assets (ii) 1,361 684 882 3,999 1,190 659 591 27,008 (1,381) 34,993

Segment assets include:

Investment in joint venture entities 11 – – 29 – – – – – 40

Segment liabilities 944 317 495 765 879 128 559 18,150 (2,605) 19,632

(i) Sales revenue for the other segment relates primarily to our advertising and directories revenue earned by Sensis. The Asset Accounting Group is the main contributor to the   
result for this segment, which is primarily depreciation and amortisation charges.

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

(iii) Included in revenue from sale of investments and dividends is the sale of our 22.6% shareholding in our associated entity IBM Global Services Australia Limited (IBMGSA),   
amounting to $154 million. Refer to note 4 for further information.

(iv) Included in the segment result for the other segment is the provision for the non recoverability of our loan to Reach Ltd, amounting to $226 million. Refer to note 4 for further   
information.

3. Dividends

**Telstra Group**

**Year ended 30 June**

**2005 2004**

**$m $m**

Ordinary shares

Previous year final dividend paid 29 October 2004 (2004: 31 October 2003) 1,642 1,544

Interim dividend paid 29 April 2005 (2004: 30 April 2004) 1,742 1,642

Special dividend paid 29 April 2005 747 –

Total dividends paid 4,131 3,186

Dividends per ordinary share (cents) ¢ ¢

Previous year final dividend paid 13.0 12.0

Interim dividend paid 14.0 13.0

Special dividend paid with the interim dividend 6.0 –

Total dividends paid 33.0 25.0

Our dividends paid or provided for during fiscal 2005 and fiscal 2004 are fully franked   
at a tax rate of 30%, in aggregate and per share, to the same amount as in the   
relevant tables above.

As our final dividend (including the special dividend to be paid with the final dividend)   
for fiscal 2005 was not declared, determined or publicly recommended as at 30 June 2005,   
no provision has been raised in the statement of financial position. Our final dividend   
(including the special dividend to be paid with the final dividend) has been reported   
as an event subsequent to balance date and the provision for dividend has been raised   
at the declaration date.

Dividends paid/declared per ordinary share (cents) ¢ ¢

Interim dividend 14.0 13.0

Special dividend paid with the interim dividend 6.0 –

Final dividend 14.0 13.0

Special dividend to be paid with the final dividend 6.0 –

Total 40.0 26.0

4. Items requiring specific disclosure

**Telstra Group**

**Year ended 30 June**

**2005 2004**

**$m $m**

The following items form part of the ordinary operations of our business and their   
disclosure is relevant in explaining the financial performance of the group.  
Our net profit has been calculated after charging/(crediting) specific revenue and   
expense items from our ordinary activities as follows:

Items included in revenue:

Other revenue (excluding interest revenue)

– proceeds on sale of our investment in IBM Global Services Australia Limited (i) – 154

– 154

Items included in expense:

Other expenses

– Net book value of investment and modification of information technology

  services contract with IBM Global Services Australia Limited (i) – (135)

– provision for the non recoverability of funding to Reach Ltd (ii) – (226)

– (361)

Net items – (207)

Income tax benefit attributable to those items requiring specific disclosure – 39

Effect of reset tax values on entering tax consolidation (iii) – 58

Net specific items after income tax expense – (110)

During fiscal 2004, we identified the following transactions as requiring disclosure:

(i) Sale of IBM Global Services Australia Limited (IBMGSA)

On 28 August 2003, we sold our 22.6% shareholding in our associated entity IBMGSA with a book value of $5 million. Proceeds from this investment amounted to $154 million, resulting in a profit before income tax expense of $149 million.

As part of the disposal we negotiated changes to a 10 year contract with IBMGSA to provide technology services. This modification to our service contract resulted in an expense of $130 million being recognised and the removal of $1,596 million of expenditure commitments disclosed in our 30 June 2003 financial report. The net impact on our profit before income tax expense of this transaction was a profit of $19 million ($58 million after taking into account an income tax benefit).

(ii) Provision for the non recoverability of a loan to Reach Ltd

During fiscal 2004, together with our co-shareholder PCCW Limited (PCCW), we purchased the loan facility previously owed to a banking syndicate by Reach Finance Ltd, a subsidiary of our 50% owned joint venture, Reach Ltd (REACH).

Our share of the acquisition cost of the loan was US$155.5 million, which was recognised as a receivable at the date of the transaction. At 30 June 2004, we provided for the non recoverability of the debt, amounting to $226 million, as we consider that REACH will not be in a position to repay the amount in the medium term.

(iii) Effect of reset tax values on entering tax consolidation

During fiscal 2003, legislation was enacted which enabled the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity (or head entity) elected to form a tax consolidated group from 1 July 2002.

On formation of the tax consolidated group, the head entity had the option to bring the assets of each subsidiary member into the tax consolidated group by choosing between two alternative methods, the Allocable Cost Amount (ACA) method or Transitional Method.

We chose the ACA method for a number of our subsidiaries. Under this method, the tax values of a subsidiary’s assets were reset according to certain allocation rules, which consequently impacts future tax deductions and our deferred tax balances. A once-off benefit of $201 million was recognised in fiscal 2003 reflecting the increase in future tax deductions arising from these reset tax values. Subsequent analysis of this adjustment resulted in a further tax benefit of $58 million being recognised in fiscal 2004.

5. Events after balance date

We are not aware of any matter or circumstance that has occurred since 30 June 2005 that, in our opinion, has significantly affected

or may significantly affect in future years:

• our operations;

• the results of those operations; or

• the state of our affairs;

other than:

**Dividend declaration**

On 11 August 2005, we declared a fully franked final dividend of 14 cents per ordinary share and a fully franked special dividend of 6 cents per ordinary share. 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 the entitlement to the dividends on 26 September 2005.

A provision for dividend payable has been raised as at the date of declaration, amounting to $2,489 million. The financial effect of the dividend declaration was not brought to account as at 30 June 2005.

On 11 August 2005, we also disclosed the intention to pay a fully franked special dividend of 6 cents per ordinary share with the interim dividend in fiscal 2006. The proposed special dividend is part of the execution of our capital management program, whereby it is our intention to return approximately $1,500 million to shareholders each year through to fiscal 2007. The financial effect of the special dividend will be reflected in fiscal 2006 financial statements.

**Business acquisition**

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

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

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

As at 30 June 2005 neither the acquisition nor the return of capital has been recognised in our financial statements.

**Appointment of CEO**

We have appointed Sol Trujillo as our new Chief Executive Officer (CEO), 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.

# independent audit report to the members

of Telstra Corporation Limited

Scope

**The financial report and directors’ responsibility**

The concise financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, statement of changes in shareholders’ equity and the accompanying notes to the financial statements for the consolidated entity for the year ended 30 June 2005. The consolidated entity comprises both Telstra Corporation Limited (the Telstra Entity) and the entities it controlled during the year (the Telstra Group).

The directors of the Telstra Entity are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 ‘Concise Financial Reports’, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

**Audit approach**

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Telstra Entity. The audit was conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

Audit procedures were performed to assess whether in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 ‘Concise Financial Reports’. I formed my audit opinion on the basis of these procedures, which included:

• testing that the information in the concise financial report is consistent with the full financial report, and

• examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report.

I have also performed an independent audit of the full financial report of the Telstra Entity and the Telstra Group for the year ended 30 June 2005. My audit report in the full financial report was signed on 11 August 2005, and was not subject to any qualification. For a better understanding of my approach to the audit of the full financial report, this report should be read in conjunction with my audit report on the full financial report.

Independence

I am independent of the Telstra Group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. I have given to the directors of the company a written Auditor’s Independence Declaration, a copy of which is included in the directors’ report. In addition to the audit of the financial report, additional services were undertaken as disclosed in the notes to the financial statements. The provision of these services has not impaired my independence.

Audit opinion

In my opinion, the concise financial report of the Telstra Group complies with Accounting Standard AASB 1039 ‘Concise Financial Reports’.

Ian McPhee

Auditor – General

11 August 2005

Canberra, Australia

# five year financial summary

**2005 2004 2003 2002 2001**

**$m $m $m $m $m**

Sales revenue 22,161 20,737 20,495 20,196 18,679

Total revenue (including interest) 22,760 21,335 21,700 20,928 23,086

EBITDA (1) 10,771 10,175 9,170 9,483 9,834

Profit before income tax expense 6,269 5,848 4,928 5,446 6,297

Net profit after minorities 4,447 4,118 3,429 3,661 4,058

Dividends declared for the fiscal year (2) 4,978 3,284 3,474 2,830 2,445

Dividends declared for the fiscal year (cents per share) (2) 40.0 26.0 27.0 22.0 19.0

Total assets 36,310 34,993 35,599 38,219 38,003

Gross debt 13,330 11,854 12,272 13,726 13,990

Net debt 11,790 11,167 10,972 12,268 12,505

Shareholders' equity 14,881 15,361 15,422 14,106 13,722

Capital expenditure and investments (including   
capitalised interest) 4,219 3,757 3,437 3,777 7,712

Free cash flow (operating cash flows less investing   
cash flows) 4,354 4,163 4,565 3,840 229

Financial Ratios % % % % %

Return on average assets 20.4 19.4 16.3 17.5 21.6

Return on average equity 29.4 26.8 23.2 26.8 32.7

EBIT interest cover (times) (1) 8.5 8.3 6.4 7.0 9.0

EBITDA interest cover (times) (1) 13.0 12.9 10.2 10.7 12.7

Gross debt to capitalisation (3) 47.3 43.6 44.3 49.3 50.5

Net debt to capitalisation (4) 44.2 42.1 41.6 46.5 47.7

Net debt to EBITDA (1) 1.1 1.1 1.2 1.3 1.3

(1) Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) reflects our net profit prior to including the effect of interest revenue, borrowing   
costs, income taxes, depreciation and amortisation. Similarly, earnings before interest and income tax expense (EBIT) reflects our net profit prior to including the effects of interest revenue, borrowing costs and income taxes. EBITDA and EBIT are not USGAAP measures of income or cash flow from operations and should not be considered as an alternative to net income as an indication of our financial performance or as an alternative to cash flow from operating activities as a measure of our liquidity. EBITDA and EBIT are useful to investors because analysts and other members of the investment community largely view them as key and widely recognised measures of operating performance.

(2) Dividends declared in 2005 include a 6 cent special dividend paid with the interim dividend and a 6 cent special dividend to be paid with the final dividend. Dividends   
declared in 2003 included a 3 cent special dividend.

(3) Based on gross debt (total current and non current borrowings) as a percentage of gross debt plus shareholders' equity.

(4) Based on net debt (gross debt less liquid interest bearing assets) as a percentage of net debt plus shareholders' equity.

# Telstra facts

• Telstra's market capitalisation was approximately $63 billion as at 30 June 2005, making Telstra the 12th largest telco in the world, by market capitalisation.

• Market capitalisation is calculated by the number of shares multiplied by the share price

Telstra's strong balance sheet and cash flows make it a significant contributor to the Australian economy.

Telstra has more than:

$36 billion of assets

$22 billion of sales revenue

$4 billion of free cash flow

40 thousand staff

$3 billion of capital expenditure

1.6 million shareholders

A+ credit rating\*

# investor information

How can I access information about my shareholding?

You can contact the Telstra Share Registry on 1300 88 66 77 or you can visit our website www.telstra.com.au/abouttelstra/investor/services.cfm. From this site you can access your holding information, you can make changes to your holding record, or you can download forms to complete and return to the Telstra Share Registry to ensure that your details are up to date.

To access your shareholder information via this secure website you will need to log in using your Securityholder Reference Number (SRN) or Holder Identification Number (HIN), as well as your surname or company name and postcode.

How can I get my shareholder information electronically?

Australian shareholders can elect to receive all or some of their communications electronically and assist the environment at the same time. Telstra is proud to be associated with eTree, an initiative of leading Australian companies and Landcare Australia. Since the scheme was launched in 2004, more than 163,000 Telstra shareholders have signed up resulting in a donation of more than $214,000.

Becoming an electronic shareholder is entirely your choice. If you want to receive some or all of your shareholder communications electronically, just log in to your holding record on www.telstra.com.au/abouttelstra/investor/services.cfm as outlined above and select ‘Yes – I would like to be an e-shareholder’. You will need to type in your email address and make your election to ‘e-mail Notice of Meeting, Proxy and Annual Report’. If you want to get your direct credit dividend advices electronically as well, then select the ‘email’ choice.

Telstra currently donates $2 to Landcare Australia for every shareholder who chooses to receive all their communications electronically (including their dividend statements) or $1 for every shareholder who chooses to just receive their shareholder reports and meeting notices electronically.

Keeping Telstra Australian owned

The Telstra Corporation Act restricts foreign ownership. That is, foreign persons collectively cannot control more than 35% of the non-Commonwealth owned Telstra shares and individual foreign persons cannot control more than 5% of them. Telstra will divest shares if an unacceptable foreign ownership situation arises. Telstra will also keep relevant stock exchanges advised of foreign ownership levels.

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Incorporated in the Australian

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Website

This review and the Annual Report may also be found via Telstra’s Investor Relations home page at:

http://www.telstra.com.au/abouttelstra/investor

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