

## Directors, Management and Employees

### Directors

As at 5 September 2003, our directors were as follows:

Name	Age	Position	Year of initial appointment	Year last re-elected <sup>(1)</sup>
Robert C Mansfield	52	Chairman	1999	2002
John T Ralph	70	Deputy Chairman	1996	2000
Zygmunt E Switkowski <sup>(2)</sup>	55	Chief Executive Officer and Managing Director	1999	-
Samuel H Chisholm	63	Director	2000	2002
Anthony J Clark	64	Director	1996	2002
John E Fletcher	52	Director	2000	-
Belinda J Hutchinson	50	Director	2001	-
Catherine B Livingstone	47	Director	2000	2002
Charles Macek	56	Director	2001	-
Donald G McGauchie	53	Director	1998	2001
William A Owens	63	Director	2001	-
John W Stocker	58	Director	1996	2001

<sup>(1)</sup> Other than the Chief Executive Officer, one third of directors are subject to re-election by rotation each year.

<sup>(2)</sup> On 27 August 2003, the Telstra board of directors re-appointed the Chief Executive Officer, Zygmunt E Switkowski, for a further term until 31 December 2007.

A brief biography for each of the directors as at 5 September 2003 is presented below.

**Robert C Mansfield** - AO, BCom, FCPA

**Age 52**

**Chairman**

Director since November 1999 and Chairman since January 2000

Chairman, CDS Technologies Pty Ltd; Director, Dimension Data Holdings plc, Westfield Management Limited and Westfield America Management Limited; formerly Chief Executive Officer of McDonald's Australia Ltd, Wormald International Limited, Optus Communications Limited and John Fairfax Holdings Limited.

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

**Age 70**

**Deputy Chairman**

Director and Deputy Chairman since October 1996

Chairman, Commonwealth Bank of Australia and Australian Foundation for Science; Member, Board of Melbourne Business School. Mr Ralph was formerly Chief Executive and Managing Director of CRA Limited and Director of BHP Billiton Ltd and BHP Billiton plc.

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

**Age 55**

**Chief Executive Officer and Managing Director**

Chief Executive Officer and Managing Director since March 1999

Dr Switkowski has been Chief Executive Officer of Optus Communications Ltd and Chairman and Managing Director of Kodak (Australasia) Pty Ltd. He is a Director of Reach Ltd, FOXTEL and the Business Council of Australia.

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### **Samuel H Chisholm**

**Age 63**

Director since November 2000

Chairman, FOXTEL (FOXTEL Management Pty Ltd, FOXTEL Cable Television Pty Ltd, Customer Services Pty Ltd) and Chairman of the Macquarie Radio Network. 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.

### **Anthony J Clark - AM, FCA, FAICD**

**Age 64**

Director since October 1996

Chartered Accountant; formerly Managing Partner KPMG NSW (1992–1998); Chairman, Maritime Industry Finance Company Ltd and Cumnock Coal Limited; Deputy Chairman, Australian Tourist Commission; Director, Amalgamated Holdings Ltd Group, Ramsay Health Care Ltd and Carlton Investments Ltd.

### **John E Fletcher – FCPA**

**Age 52**

Director since November 2000

Managing Director and Chief Executive Officer of Coles Myer Ltd from 10 September 2001. Formerly Chief Executive and Managing Director of Brambles Industries Ltd (retired 1 August 2001). Mr Fletcher was employed by Brambles in various management positions for 27 years including an assignment in Europe.

### **Belinda J Hutchinson – BEc, FCA**

**Age 50**

Director since November 2001

Director, Energy Australia Limited, TAB Ltd, QBE Insurance Group Limited, Crane Group Ltd, St Vincent's and Mater Health Sydney Ltd and State Library of NSW. Consultant, Macquarie Bank Limited. Ms Hutchinson has a long association with the banking industry and has been associated with the Macquarie Bank since 1993. Ms Hutchinson was an Executive Director of Macquarie Bank and was previously a Vice President of Citibank Ltd.

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

**Age 47**

Director since November 2000

Chairman, CSIRO and the Australian Business Foundation; Director, Rural Press Ltd and the Sydney Institute; Member, Department of Accounting and Finance Advisory Board Macquarie University. Formerly Managing Director of Cochlear Ltd and Director of Goodman Fielder Ltd until 19 March 2003.

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

**Age 56**

Director since November 2001

Chairman, Sustainable Investment Research Institute Pty Ltd, Financial Reporting Council (FRC) and Centre for Eye Research Australia Ltd; Director, Famoice Technology Pty Ltd and Wesfarmers Ltd; Victorian Councillor, Australian Institute of Company Directors. Former roles include 16 years as Founding Managing Director and Chief Investment Officer and subsequently Chairman of County Investment Management Ltd. He was also Chairman and Director of IOOF Holdings Ltd. Mr Macek has had a long association with the finance and investment industry.

**Donald G McGauchie**

**Age 53**

Director since September 1998

Chairman, Rural Finance Corporation of Victoria and Telstra Country Wide Advisory Board; Deputy Chairman, Ridley Corporation Ltd; Director, Reserve Bank of Australia, National Foods Limited and James Hardie Industries NV. Mr McGauchie has had extensive commercial and 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. Mr McGauchie was Chairman of Woolstock Australia Limited from 1999-2002 and President of the National Farmers Federation from 1994-1998. He is a partner in C&E McGauchie - Terrick West Estate.

**William A Owens** - BS Maths, BA, MA, MBA (Hons)

**Age 63**

Director since November 2001

Chairman and Chief Executive Officer, Teledesic LLC; Vice-Chairman, ICO Global Communications (Holdings) Ltd; Director, Polycom Inc, Viasat Inc, Microvision Inc, Symantec Inc, Metal Storm Ltd, BAT Ltd, Biolase Inc, Cray Inc, Nortel Networks, IDT Inc, WFI Networks Inc and TIBCO Inc. Former roles include President and Chief Operating Officer, Science Applications International Corporation (SAIC); Vice Chairman, US Joint Chiefs of Staff; Deputy Chief, US Naval Operations; Commander, US Sixth Fleet. Mr Owens has had a strong history in corporate management of broadband telecommunications, information technology and internet applications.

**John W Stocker** - AO, MB, BS, BMedSc, PhD, FRACP, FTSE

**Age 58**

Director since October 1996

Chairman, Grape and Wine Research and Development Corporation and Sigma Company Ltd; Director, Cambridge Antibody Technology Group plc, Circadian Technologies Ltd and Nufarm Ltd; Principal, Foursight Associates Pty Ltd. Formerly Chief Scientist, Commonwealth of Australia.

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### Senior management

The executive officers who are not directors are:

Name	Position	Year appointed to a GMD position	Year appointed to Telstra
Bruce Akhurst	Group Managing Director, Telstra Wholesale and Telstra Broadband & Media and Group General Counsel	1999	1996
Douglas Campbell	Group Managing Director, Telstra Country Wide and Telstra Technology	1992	1989
David Moffatt	Group Managing Director, Finance & Administration and Chief Financial Officer	2001	2001
Ted Pretty	Group Managing Director, Telstra Consumer and Marketing	2000	1997
Michael Rocca	Group Managing Director, Infrastructure Services	2002	1968
Bill Scales	Group Managing Director, Regulatory Corporate and Human Relations and Chief of Staff	2002	2000
David Thodey	Group Managing Director, Telstra Business and Government	2001	2001

A brief biography of each of the executive officers who are not directors is as follows:

#### **Bruce J Akhurst** - BEc (Hons), LLB

Mr Akhurst joined Telstra as General Counsel in 1996 and became Group Managing Director, Legal & Regulatory in 1999. He assumed responsibility for Telstra Wholesale in 2001. In January 2003, Mr Akhurst became Group Managing Director, Telstra Wholesale and Telstra Broadband & Media. Mr Akhurst's portfolio includes the nationwide wholesale network of Telstra Wholesale; Australia's biggest internet service provider, BigPond™; the company's interest in subscription television provider FOXTEL; and the wholly-owned advertising and directory business, Sensis. Mr Akhurst is also Group General Counsel and a member of the boards of Hong Kong mobile carrier CSL and FOXTEL. Prior to his role at Telstra, Mr Akhurst was managing partner of a national law firm.

#### **Douglas C Campbell** - BEng, FAICD

Mr Campbell has 30 years experience in the telecommunications industry. He has previously served in a number of Group Managing Director positions including Wholesale & International and Network and Technology. He was appointed Group Managing Director, Telstra Country Wide in June 2000 and added the position of Group Managing Director, Telstra Technology to his portfolio in August 2002. He has also been the Deputy Managing Director of Telecom and President of Canadian National Communications. He is a Fellow of the Australian Institute of Company Directors.

#### **David Moffatt** - BBus (Mgt), FCPA

Mr Moffatt joined Telstra in February 2001 as Group Managing Director, Finance & Administration and Chief Financial Officer. Prior to joining Telstra, Mr Moffatt was Chief Executive Officer, General Electric - Australia and New Zealand. Prior to that, he was CEO, GE Capital - Australia and New Zealand where he planned and managed GE Capital's entry into Australia and New Zealand.

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### **Ted N Pretty** - BA, LLB (Hons)

Prior to joining Telstra, Mr Pretty was a director of Optus Communications and an adviser to BellSouth Corporation. Mr Pretty was previously a partner in one of Australia's leading telecommunications, regulatory and media law firms. Mr Pretty was initially appointed to the position of Managing Director of the International Division of Telstra, responsible for Telstra's investments and operations worldwide, then appointed Group Managing Director, Convergent Business and later Group Managing Director, Telstra Retail prior to his current appointment in January 2003.

### **Michael Rocca** – DipEng, MBA, AICD

Mr Rocca was appointed to the position of Group Managing Director, Infrastructure Services in August 2002, responsible for the strategic management of Telstra's service delivery to more than 10 million customers nationwide. Prior to his current assignment Mr Rocca held a range of posts during his 34 year career with Telstra including being managing director of a number of engineering and service organisations within the Company.

### **Bill Scales** – AO, BEc, FIPAA

Mr Scales joined Telstra in November 2000 as Managing Director, Human Resources and Chief of Staff. He was appointed Group Managing Director, Corporate and Human Relations on 1 August 2002 responsible for the management of human resources, corporate and political relations, employee communications and Chief of Staff to the CEO. In January 2003, Mr Scales took on additional responsibilities for regulatory affairs and was appointed Group Managing Director, Regulatory, Corporate and Human Relations and Chief of Staff.

Prior to joining Telstra, Mr Scales was Secretary of the Victoria Department of Premier and Cabinet. He was for 6 years Chairman and CEO of the Industry Commission and prior to that Chairman and CEO of the Automotive Industry Authority. Prior to his involvement with Governments, Mr Scales held general management positions in the manufacturing sector.

### **David Thodey** - BA

Mr Thodey joined Telstra in April 2001 as Group Managing Director, Telstra Mobile. He was appointed to the position of Group Managing Director, Telstra Business and Government in January 2003 and is now responsible for the company's corporate, Government, large and small business customers. Before joining Telstra, Mr Thodey was Chief Executive Officer of IBM Australia/New Zealand and previously held several senior executive marketing and sales positions within IBM.

Mr Thodey is the Chairman of TelstraClear in New Zealand and is also the Chairman of the IT Skills Hub (incorporating the IT & Titab). He holds a Bachelor of Arts in Anthropology and English from Victoria University in New Zealand. Mr Thodey attended the Kellogg Post-Graduate School General Management Program at Northwestern University in Chicago.

Following the organisational changes announced by the Company on 3 September 2003 (see "Information on the Company – Organisational structure" for further information), the following changes to the executive officers of the Company have been announced with effect from 1 October 2003:

- Mr Ted Pretty has been appointed Group Managing Director, Telstra Technology, Innovation and Products;
- Mr Doug Campbell returns to heading Telstra Country Wide;

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- Mr David Moffatt is appointed Group Managing Director, Telstra Consumer and Marketing and President, International; and
- Mr John Stanhope, currently Director of Finance, is appointed Chief Financial Officer and Group Managing Director, Finance & Administration.

A brief biography of Mr John Stanhope can be found on our website, [www.telstra.com.au/investor](http://www.telstra.com.au/investor).

In July 2002 Gerry Moriarty, former Group Managing Director, Infrastructure Services completed service with us and in February 2003 Dick Simpson, former President, International completed service with us.

### Business address

The business address for each of the above directors and officers is:

c/- the Company Secretary  
Telstra Corporation Limited  
Level 41, 242 Exhibition Street  
Melbourne Vic 3000  
Australia

### Compensation of directors and officers

For fiscal 2003, the aggregate amount of remuneration earned by the directors and executive officers as a group was A\$13.12 million. Executive officers refers to not only those who hold these positions as at 28 August 2003, but also those who completed their service with us during the year, as described under "Directors" and "Senior management".

This amount consists of:

- A\$0.79 million that has been set aside or accrued during fiscal 2003 to provide pension and retirement benefits; and
- A\$12.33 million representing remuneration, other than amounts for pension and retirement benefits.

Our senior managers, as shown under "Directors, Management and Employees – Senior management", participate in the Manager Incentive Plan (MIP) and any amounts paid and accrued under this plan for fiscal 2003 are included in the abovementioned figures.

### Emoluments for board members and senior executives

#### Non-executive directors' remuneration

Telstra directors are remunerated in accordance with the Company's constitution which provides for the aggregate limit for directors' fees to be set and varied by approval of a resolution at the annual general meeting of shareholders. The constitution of the Company provides that the allocation of fees among the directors within the pool limit shall be determined by the board. The actual fees paid are disclosed below. The current pool approved by shareholders is A\$1,150,000. Directors are required to take at least 20% of their fees in shares which are purchased on market.

Directors 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 in accordance with board policy. We also provide directors with telecommunications and other services and equipment to assist directors in performing their duties. From time to time we also make products and services available to directors without charge to allow directors to familiarise themselves with the Company's products and services and recent technological developments. To the extent the Company

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considers that this provides a personal benefit to a director, this is included in the “other benefits” column in the table below.

Name	Position	Base fee A\$	DirectShare A\$	Other benefits <sup>(1)</sup> A\$	Total A\$
Robert C Mansfield . . . . .	Chairman	197,374	53,333	24,000	274,707
John T Ralph . . . . .	Deputy Chairman	106,667	26,667	6,340	139,674
Samuel H Chisholm <sup>(2)</sup> . . . . .	Director	-	-	-	-
Anthony J Clark . . . . .	Director	65,252	17,667	11,481	94,400
John E Fletcher . . . . .	Director	55,440	10,600	11,150	77,190
Belinda J Hutchinson. . . . .	Director	60,905	15,949	11,582	88,436
Catherine B Livingstone . . . . .	Director	56,221	15,000	11,133	82,354
Charles Macek . . . . .	Director	65,252	17,667	10,696	93,615
Donald G McGauchie <sup>(3)</sup> . . . . .	Director	49,976	22,000	63,518	135,494
William A Owens <sup>(4)</sup> . . . . .	Director	66,000	24,000	50,691	140,691
John W Stocker . . . . .	Director	55,203	48,531	8,540	112,274

<sup>(1)</sup> Other benefits include superannuation, the value of the personal use of products and services and fees for services other than as a director.

<sup>(2)</sup> Fee declined by director.

<sup>(3)</sup> Other benefits include \$50,000 for chairing of the Telstra Country Wide Advisory Board. This fee is for services other than as a director.

<sup>(4)</sup> Mr Owens, a US based director, received management consultancy fees (paid in US dollars). This fee is for services other than as a director.

### DirectShare

As part of the overall remuneration strategy and to encourage a longer term perspective, directors are required to receive a minimum of 20% of their remuneration by way of restricted Telstra shares through the DirectShare Plan. The shares are purchased on market and allocated to the participating director at market price. The shares are held in trust for a period of 5 years unless the participating director ceases earlier with the Telstra Group.

In accordance with the ASX Principles of Good Corporate Governance, directors are restricted from entering into arrangements which effectively operate to limit the economic risk of their security holdings in those shares allocated under the DirectShare Plan during the period the shares are held in trust.

As from 1 January 2003, directors may state a preference to increase their participation in the DirectShare Plan. Where this occurs, Telstra may provide a greater percentage of directors’ fees in Telstra shares.

### Superannuation

The directors may state a preference to increase the proportion of their fees taken as superannuation. Where this occurs, Telstra may provide a greater percentage of the director’s fees as superannuation contributions subject to normal legislative requirements in order to meet superannuation guarantee and other statutory obligations.

### Retirement benefits

In addition to their annual fees, directors also become eligible for retirement benefits on ceasing with the Company. Directors who have served 9 years or more are entitled to receive a maximum amount equal to their total emoluments 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 served as a director.

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During fiscal 2003, Telstra discontinued this practice for new appointments to the Telstra board. In order to fully represent the current remuneration liabilities to Telstra, the following table displays the estimated retirement benefit each eligible director would receive had they retired as a director of Telstra as at 30 June 2003.

Name	Position	Increase in year	Estimated Retirement Benefit as at 30 June 2003
		A\$	A\$
Robert C Mansfield . . . . .	Chairman	99,101	314,484
John T Ralph . . . . .	Deputy Chairman	69,066	292,839
Samuel H Chisholm <sup>(1)</sup> . . . . .	Director	-	-
Anthony J Clark . . . . .	Director	44,279	175,950
John E Fletcher . . . . .	Director	66,437	66,437
Belinda J Hutchinson. . . . .	Director	-	-
Catherine B Livingstone . . . . .	Director	66,854	66,854
Charles Macek . . . . .	Director	-	-
Donald G McGauchie. . . . .	Director	46,209	114,369
William A Owens . . . . .	Director	-	-
John W Stocker . . . . .	Director	81,963	208,456

<sup>(1)</sup> No estimated retirement benefits as an annual fee has been declined by the director.

### Chief Executive Officer and senior executive remuneration

Our Chief Executive Officer (CEO) and senior executives remuneration strategy provides competitive remuneration aimed at:

- aligning managers' rewards with generation of shareholder value;
- supporting business plans and corporate strategies; and
- rewarding superior performance.

The CEO and senior executives who report to the CEO participate in a semi-annual performance review process that assesses the individual's performance against set key business accountabilities. Performance against these accountabilities impacts directly on their annual incentive payments and salary movements.

### CEO and senior executive remuneration components

Telstra's senior executive remuneration strategy adopts a total remuneration approach which includes the senior executives' fixed remuneration and their "at target" short term incentive. Additionally, there are medium and long term remuneration elements to ensure ongoing individual performance is aligned to performance metrics that drive shareholder value.

**Total Cash Remuneration** for the senior executive team consists of fixed cash remuneration and short term variable cash components as follows:

- **Fixed cash remuneration**

Fixed cash remuneration is made up of salary, company superannuation contributions and benefits, including fringe benefits tax.

- **Short-term cash incentive**

The MIP rewards the senior executive team for meeting or exceeding specific key annual business objectives linked to the annual business plan at the corporate, business unit and individual level.



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The actual incentive for fiscal 2003 for members of this team range between 18.5% and 32.6% of their total cash remuneration depending on the senior executives performance and accountabilities. These incentive payments represent a range of 52.7% to 93.4% of the targeted incentive payment. Measures and targeted achievement levels are reviewed each year to reflect changes in the business. For fiscal 2003, the target achievement of the Company performance measures were designed to contribute 50% of the incentive payment, target achievement of the business unit performance measures were designed to contribute 20% of the incentive and fully satisfactory performance of individual performance results would contribute 30% of the plan. The measures include financial, customer service, employee opinion and individual measures that support our key business objectives.

The Company and business unit measures for the fiscal 2003 MIP contain minimum threshold targets for each individual measure which must be achieved before any payment is made. Similarly, significant stretch targets for each measure are included which, if achieved, return increased outcomes for senior executives. Each measure is capped which limits the payment to double the target incentive payment.

The CEO's short term incentive payment is approved by the Telstra board based on total Company performance metrics and the achievement of individual performance objectives. The actual MIP payment for the CEO for fiscal 2003 was 35.6% of his total cash remuneration (the calculation of the MIP payment does not include the values of deferred remuneration and long term incentives).

### Deferred Remuneration

During fiscal 2003, Telstra introduced a deferred remuneration plan where the CEO and senior executives are provided part of their annual fixed remuneration in the form of rights to Telstra shares through the Telstra Growthshare Trust. The deferred remuneration plan supports Telstra's operational and strategic plans through linking an element of CEO's and senior executive remuneration with sustained improvements in shareholder value.

A deferred share is a right to acquire a share in Telstra subject to satisfying certain employment requirements. As deferred shares are allocated as annual fixed remuneration they have no performance hurdle. In broad terms, if the CEO or senior executive continues to be employed on the 3rd anniversary of the effective allocation date, the deferred shares will vest. The CEO and senior executives may exercise their vested deferred shares at the nominal exercise price of A\$1.00 for all the deferred shares exercised on a particular day, irrespective of the number of deferred shares exercised.

Upon resignation by the CEO or a senior executive, all deferred shares which have not vested to them will lapse. If the CEO or a senior executive retires, the deferred shares may be vested. Where the CEO or a senior executive ceases employment for any other reason, the number of the deferred shares that may vest may be adjusted taking into account the reduced period of service.

### Long-term incentive

The CEO and senior executives participate in the long-term incentive plan based on equity administered through the Telstra Growthshare Trust. The allocation for the September 2002 and March 2003 was in the form of performance rights (allocation of options under the equity plan have been suspended with the last allocation in fiscal 2002), the right to exercise performance rights vests when a specified performance hurdle is achieved.

For fiscal 2003, the performance hurdle to achieve 50% of vesting entitlement of performance rights is that the Telstra 30 day average total shareholder return (TSR) must exceed the 50th percentile of the 30 day

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average TSR performance of the companies comprising the ASX 200 industrials (“Peer Group”) at allocation date between the third and fifth anniversary of allocation.

Performance rights vest on a performance scale. In order to achieve 100% of vesting entitlement of the performance rights, the TSR must exceed the 75th percentile of the Peer Group in Quarter 1 of the performance period or at least the 50th percentile in Quarter 1 and obtaining the 75th percentile in any of the remaining seven quarters. If the 50th percentile is not achieved in Quarter 1, no vesting above the 50% allocation is available.

Offers to participate in the deferred remuneration plan and the long term incentive plan are made to senior executives at the discretion of the board. For fiscal 2003, 43% of the CEO’s total reward and 34% of the senior manager’s potential total reward were delivered through these plans.

As Telstra is not able to issue new equity, Telstra Growthshare purchases shares on market in accordance with the allocation of performance rights and deferred shares and forward liabilities for all allocations, past and present. Telstra funds the proportion of shares that are purchased to underpin the allocation of performance rights and deferred shares and treats these funds as an expense by the Company. Cumulatively, over a five year period the total number of shares and options over shares delivered through Telstra Growthshare is not expected to exceed 1% of shares on issue.

In previous equity plans, where options have been issued, Telstra provides a loan to Telstra Growthshare to fund the purchase of shares to underpin the options which are allocated. This loan is treated as a receivable on the statement of financial position. The Telstra Growthshare trustee pays interest to Telstra on the loan balance and may repay capital from time to time. If options are exercised the senior executive pays the original exercise price to the Telstra Growthshare trustee and the loan is repaid. As a result, there is no direct cash expense incurred by Telstra.

### **Telstra employee share ownership plans**

All employees, including our senior managers, who were classed as “eligible employees” at 20 September 1997 and again on 27 August 1999, were eligible to participate in the Telstra employee share ownership plans, TESOP97 and TESOP99. The terms and conditions of participation in these plans for senior managers were the same as for all other employees.

### **Telstra OwnShare**

To facilitate increasing employee shareholding in Telstra, Telstra operates a restricted share plan (Telstra OwnShare) through which employees may state a preference to take part of their remuneration as Telstra shares. The shares are purchased on market and allocated at market value and held in trust for either a three or five year period (unless the employee leaves the Telstra Group earlier).

### **Senior executive emoluments**

The Australian Corporations Act 2001 requires disclosure of the details of the nature and amount of each element of the emolument of each director and each of the five executives of the Company receiving the highest emoluments. The information for the CEO, who is also a director, and the five other officers currently employed who received the highest emoluments during fiscal 2003 is provided in the following table:

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Name & Position	Remuneration of Chief Executive Officer and the five highest paid Executives					
	Fixed Remuneration (1)&(5)	Short Term Incentive (2)	Cash Value of Other benefits (3)	Total Cash Payment	Deferred Remuneration (4)	Total Cash & Deferred Remuneration
	A\$	A\$	A\$	A\$	A\$	A\$
<b>Zygmunt Switkowski</b> Director and Chief Executive Officer	1,354,500	750,000	8,551	2,113,051	299,920	2,412,971
<b>David Moffatt</b> Group Managing Director, Finance & Administration and Chief Financial Officer	948,750	371,000	400,000	1,719,750	91,866	1,811,616
<b>Ted Pretty</b> Group Managing Director, Telstra Consumer and Marketing	1,000,000	291,000	221,583	1,512,583	95,117	1,607,700
<b>Douglas Campbell</b> Group Managing Director, Telstra Country Wide and Telstra Technology	823,500	426,000	2,123	1,251,623	80,549	1,332,172
<b>Bruce Akhurst</b> Group Managing Director, Telstra Wholesale and Telstra Broadband & Media and Group General Counsel	823,500	356,000	835	1,180,335	80,549	1,260,884
<b>David Thodey</b> Group Managing Director, Telstra Business and Government	723,500	212,000	1,806	937,306	71,037	1,008,343

(1) Fixed Remuneration is the sum of salary, benefits and all superannuation contributions and fringe benefits tax.

(2) Short Term Incentive relates to performance for the year ended 30 June 2003 and is based on actual performance for Telstra and the individual.

(3) Includes the benefit of interest free loans under TESOP97 and TESOP99, the value of the personal use of products and services related to Telstra employment as well as special contractual payments.

(4) The value of deferred remuneration relates to the number of Telstra shares issued under the Deferred Remuneration Plan through Telstra Growthshare. The remuneration value is calculated by applying valuation simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. The value of the instruments is then amortised over the relevant vesting period. The value included in remuneration relates to the current year amortised value of the instruments that are yet to vest. For further detail on the assumptions used in our valuation methodologies, refer to note 19 to our financial statements.

(5) Where Telstra terminates the CEO's or a senior executive's employment prior to the expiration of their employment contract for reasons other than misconduct, they are entitled to 6 months notice or payment in lieu and an amount equal to 12 months pay. Both elements are calculated on fixed remuneration at time of termination.

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### Senior executives – remuneration values of all equity based instruments outstanding

Chief Executive Officer and the five highest paid executives - remuneration values of Long Term Incentive equity based instruments			
Name	Number of Long Term Incentive Performance Rights allocated during fiscal 2003 <sup>(1)</sup>	Amortisation of Long Term Incentive equity based instruments <sup>(2)</sup>	
		2003 A\$	2002 A\$
Z. Switkowski . . . . .	498,200	1,356,276	973,457
T. Pretty . . . . .	158,000	599,396	194,412
D. Moffatt . . . . .	152,600	672,918	577,032
D. Campbell . . . . .	133,800	580,374	451,248
B. Akhurst . . . . .	133,800	556,752	427,626
D. Thodey . . . . .	118,000	357,516	119,053

<sup>(1)</sup> September 2002 Growthshare allocations of performance rights. The number of performance rights allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$4.87. In determining the fair value of each performance right to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$2.99 per performance right. The number of performance rights disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.

<sup>(2)</sup> The value of equity based instruments relate to options, restricted shares, performance rights issued since the commencement of the long-term incentive plan. The value of each instrument is determined by applying option valuation simulation methodologies consistent with assumptions that apply under the binomial and modified Black-Scholes methods. The value of the instruments is then amortised over the relevant vesting period. The value included in remuneration relates to the current year amortised value of the instruments that are yet to vest. The valuations used in determining the component of remuneration derived from the issue of equity based instruments has differed from the values disclosed in prior fiscal periods. The valuations used in the current year disclosures are based on the same underlying assumptions as the prior year apart from the exclusion of adjustments for the possible non-retention of staff and the effect of non-transferability of the instruments. For further detail on the assumptions used in our valuation methodologies, refer to note 19 to our financial statements.

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Chief Executive Officer and the five highest paid executives - all equity based instruments outstanding			
Name and Position	Telstra Growthshare <sup>(1) &amp; (5)</sup>		
	Long Term Incentive Plans		Deferred Remuneration Plans
	Performance Rights/ Restricted Shares	Options	Deferred Shares
<b>Zygmunt Switkowski</b> Director and Chief Executive Officer	50,000 <sup>(2)</sup>	300,000 <sup>(2)</sup>	249,100 <sup>(8)</sup>
	96,000 <sup>(3)</sup>	464,000 <sup>(3)</sup>	
	258,000 <sup>(6)</sup>	2,692,000 <sup>(6)</sup>	
	498,200 <sup>(8)</sup>		
<b>Ted Pretty</b> Group Managing Director, Telstra Consumer and Marketing	21,000 <sup>(2)</sup>	120,000 <sup>(2)</sup>	79,000 <sup>(8)</sup>
	136,000 <sup>(7)</sup>	1,602,000 <sup>(7)</sup>	
	158,000 <sup>(8)</sup>		
<b>David Moffatt</b> Group Managing Director, Finance & Administration and Chief Financial Officer	40,000 <sup>(7)</sup>	150,000 <sup>(7)</sup>	76,300 <sup>(8)</sup>
	142,000 <sup>(4)</sup>	1,480,000 <sup>(4)</sup>	
	152,600 <sup>(8)</sup>		
<b>David Thodey</b> Group Managing Director Telstra Business and Government	102,000 <sup>(6)</sup>	1,068,000 <sup>(6)</sup>	59,000 <sup>(8)</sup>
	118,000 <sup>(8)</sup>		
<b>Douglas Campbell</b> Group Managing Director, Telstra Country Wide and Telstra Technology	26,000 <sup>(2)</sup>	160,000 <sup>(2)</sup>	66,900 <sup>(8)</sup>
	42,000 <sup>(3)</sup>	203,000 <sup>(3)</sup>	
	118,000 <sup>(6)</sup>	1,234,000 <sup>(6)</sup>	
	133,800 <sup>(8)</sup>		
<b>Bruce Akhurst</b> Group Managing Director, Telstra Wholesale and Telstra Broadband & Media and Group General Counsel	21,000 <sup>(2)</sup>	120,000 <sup>(2)</sup>	66,900 <sup>(8)</sup>
	39,000 <sup>(3)</sup>	188,000 <sup>(3)</sup>	
	118,000 <sup>(6)</sup>	1,234,000 <sup>(6)</sup>	
	133,800 <sup>(8)</sup>		

### Details of current equity holdings of all managers under Telstra Growthshare

Instrument	Total Options/ Performance Rights/Deferred Shares allocated <sup>(1) &amp; (5)</sup>	Eligible managers participating	Exercise price	Expiry date	Allocation date	Market price at allocation date
			A\$			A\$
Options	1,533,722	21	8.02	13 Sept 2009	13 Sept 1999	8.02
	3,370,660	96	6.28	8 Sept 2010	8 Sept 2000	6.28
	150,000	1	6.55	16 Mar 2011	16 Mar 2001	6.55
	32,416,945	147	4.90	6 Sept 2011	6 Sept 2001	4.90
	1,854,000	3	5.63	14 Mar 2012	14 Mar 2002	5.63
Restricted shares	260,278	21	n/a	13 Sept 2004	13 Sept 1999	8.02
	697,960	96	n/a	8 Sept 2005	8 Sept 2000	6.28
	40,000	1	n/a	16 Mar 2006	16 Mar 2001	6.55
Performance Rights	3,098,155	147	n/a	6 Dec 2006	6 Sept 2001	4.90
	149,000	3	n/a	14 Jun 2007	14 Mar 2002	5.63
	4,034,226	166	n/a	5 Dec 2007	5 Sept 2002	4.87
	44,200	4	n/a	7 Jun 2008	7 Mar 2003	4.11
Deferred shares	2,022,498	166	n/a	5 Sept 2007	5 Sept 2002	4.87
	22,100	4	n/a	7 Mar 2008	7 Mar 2003	4.11

<sup>(1)</sup> For allocations prior to September 2001, an option or restricted share represents a right to own a share in Telstra. Generally, options or restricted shares may only be converted to Telstra shares if a performance hurdle is satisfied in the performance period and in the case of options, a payment of the exercise price is made. The performance hurdle for options and restricted shares allocated prior to September 2001 is that the 30 day average

## Directors, Management and Employees

- Telstra Accumulation Index must exceed the 30 day average S&P/ASX 200 Industrials Accumulation Index (replacing the superseded All Industrials Accumulation Index) any time during the stated performance period – that is, between the third and fifth anniversary of allocation. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the tenth anniversary of allocation, otherwise they will lapse. If the performance hurdle is satisfied in the performance period, restricted shares may be exercised at any time before the fifth anniversary of allocation, otherwise they will lapse. The market value was calculated as the weighted average price at which Telstra's ordinary shares were traded on the ASX during the 5 days prior to and including the allocation date.
- (2) **September 1999 Growthshare allocations of options and restricted shares.** The number of restricted shares allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$8.02 which is also the exercise price of an option applicable to this allocation. In determining the fair value of each option and restricted share to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$1.38 per option and A\$5.64 per restricted share. The number of restricted shares and options disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.
- (3) **September 2000 Growthshare allocations of options and restricted shares.** The number of restricted shares allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$6.28 which is also the exercise price of an option applicable to this allocation. In determining the fair value of each option and restricted share to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$1.59 per option and A\$3.62 per restricted share. The number of restricted shares and options disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.
- (4) **March 2001 Growthshare allocations of options and restricted shares.** The number of restricted shares allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$6.55 which is also the exercise price of an option applicable to this allocation. In determining the fair value of each option and restricted share to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$1.53 per option and A\$3.77 per restricted share. The number of restricted shares and options disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.
- (5) For allocation after fiscal 2001, an option or performance right represents a right to own a share in Telstra. Generally, options or performance rights may only be converted to Telstra shares if a performance hurdle is satisfied in the performance period and, in the case of options, a payment of the exercise price is made. The performance hurdle for options and performance rights allocated in fiscal 2002 is that the Telstra 30 day average total shareholder return 'TSR' must exceed the 50th percentile of the 30 day average TSR performance of the companies comprising the ASX 200 Industrials ("Peer Group") at allocation date between the third and fifth anniversary of allocation. Options and performance rights vest on a performance scale. If the 50th percentile ranking is achieved 50% of the allocation will vest. If at least the 50th percentile ranking is achieved in the first quarter of the performance window, additional options and performance rights may vest on a sliding scale where a higher ranking is achieved up to 75th percental ranking. The full allocation (ie 100%) will vest if the 75th percentile ranking is achieved. If the 50th percental ranking is not achieved in the first quarter of the performance period, half of the maximum allocation will have a A\$nil value and will lapse. If the performance hurdle is satisfied in the performance period, options may be exercised at any time before the tenth anniversary of allocation, otherwise they will lapse. If the performance hurdle is satisfied in the performance period, performance rights may be exercised at any time before the fifth anniversary plus 90 days of allocation, otherwise they will lapse. The market value was calculated as the weighted average price at which Telstra's ordinary shares were traded on the ASX during the 5 days prior to and including the allocation date.
- (6) **September 2001 Growthshare allocations of options and performance rights.** The number of options and performance rights allocated has been determined based on the market price of a Telstra share at the date of the allocation. The price at this date was A\$4.90 which is also the exercise price of an option applicable to this allocation. In determining the fair value of each option and performance right to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$1.13 per option and A\$2.86 per performance right. The number of performance rights and options disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.
- (7) **March 2002 Growthshare allocations of options and performance rights.** The number of options and performance rights allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$5.63 which is also the exercise price of an option applicable to this allocation. In determining the fair value of each option and performance right to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes method was used. This returned a fair value of A\$1.19 per option and A\$3.08 per performance right. The number of performance rights and options disclosed represent the number of instruments that have been allocated and may potentially vest if the relevant performance hurdle is achieved.
- (8) **September 2002 Growthshare allocations of performance rights and deferred remuneration.** The number of performance rights and deferred shares allocated has been determined based on the market price of a Telstra share at the date of allocation. The price at this date was A\$4.87. In determining the fair value of each performance right and deferred share to be included in remuneration, a simulation methodology consistent with assumptions that apply under the binomial and modified Black-Scholes methods was used. This returned a fair value of A\$2.99 per performance right and A\$4.41 per deferred share. The number of performance rights and deferred shares disclosed represent the number of instruments that have been allocated and for performance rights, the number of instruments which may potentially vest if the relevant performance hurdle is achieved.

## Directors, Management and Employees

### Directors' and senior management's shareholdings in Telstra

As at 28 August 2003:

#### Directors

	Number of shares held		
	Direct Interest	Indirect Interest <sup>(1)</sup>	Total
R C Mansfield . . . . .	20,000	67,404	87,404
J T Ralph . . . . .	1,000	69,104	70,104
Z E Switkowski <sup>(2) (3)</sup> . . . . .	46,520	89,130	135,650
S H Chisholm . . . . .	-	-	-
A J Clark . . . . .	10,000	58,609	68,609
J E Fletcher . . . . .	-	40,850	40,850
B J Hutchinson . . . . .	37,111	24,980	62,091
C B Livingstone . . . . .	10,400	12,147	22,547
C Macek . . . . .	-	35,568	35,568
D G McGauchie . . . . .	-	26,476	26,476
W A Owens . . . . .	-	7,495	7,495
J W Stocker . . . . .	800	65,080	65,880

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

<sup>(2)</sup> Includes:

- 400 shares acquired with an interest free loan and 200 free shares under the terms of the Telstra Employee Share Ownership Plan 1999;
- 2,000 shares acquired with an interest free loan plus 500 free shares under the terms of the Telstra Employee Share Ownership Plan 1997 and 200 loyalty shares obtained under the "one for ten loyalty offer" available to all employees who participated in the 1997 public offer; and
- 80 loyalty shares received under the "one for ten loyalty offer" available to all employees who participated in the 1999 public offer.

<sup>(3)</sup> During fiscal 2003, Dr Switkowski was granted 498,200 performance rights (ie. 100% of allocation) and 249,100 deferred shares under the terms and conditions of the Telstra Growthshare Trust Deed. These shares are in addition to the above.

#### Senior management

	Number of shares held		
	Direct Interest	Indirect Interest	Total
Bruce Akhurst . . . . .	7,780	22,220	30,000
Douglas Campbell . . . . .	9,700	-	9,700
David Moffatt . . . . .	600	3,100	3,700
Ted Pretty . . . . .	2,000	150,000	152,000
Michael Rocca . . . . .	4,700	2,120	6,820
Bill Scales . . . . .	-	-	-
David Thodey . . . . .	400	18,400	18,800

#### Employees

As a full service communications company, we continue to be one of Australia's largest employers.

	As at 30 June				
	2003	2002	2001	2000	1999
Full-time employees	37,169	40,427	44,874	50,761	52,840

## Directors, Management and Employees

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Our full-time employees include full-time staff, fixed-term contracted staff and expatriate staff in overseas controlled entities. The figures do not include a full-time equivalent measure of part-time and casual staff, overtime worked, full and part-time contracted staff or a measure of overseas local hires. If we were to include these elements the number of full-time equivalent staff for the Telstra Group would be 42,064 (2002 – 44,977). These figures do not include persons involved in work undertaken through outsourcing arrangements for work previously performed by employees. For these reasons, and due to the full service nature of our business, we believe that these measures of full-time employees may not be directly comparable with other telecommunications companies.

As at 30 June 2003, the total number of full-time staff in the Telstra Group was 39,639 (2002 – 43,179) and includes full-time staff employed in our offshore entities. This number does not include a full-time equivalent number for part-time and casual staff, overtime worked or contractors. As at 30 June 2003, Telstra Group staff were employed in the following geographical areas:

- Australia – 37,169;
- New Zealand – 1,250;
- Asia – 1,171; and
- Other – 49.

The Company continued to reduce full-time staff numbers during fiscal 2003 from 40,427 to 37,169. This was achieved through a range of significant company and business unit initiatives such as:

- the formation of the Telstra Business and Government business unit to address the competition in the corporate and medium business customer segments and to re-focus our efforts in the Government areas;
- improvement initiatives using the Six Sigma methodology;
- the consolidation of NDC into our core business;
- the continuing rationalisation of our call centres and the integration of our fixed and mobile customer service and sales areas;
- the rationalisation of our warehouse and distribution centres;
- improvements in the effectiveness and the rationalisation of our IT resources; and
- field force productivity initiatives.

The majority of our Australian employees receive superannuation benefits mainly through the Telstra Superannuation Scheme and, in the case of some employees who were employed prior to 1990, the Commonwealth Superannuation Scheme.

### Labour relations

Fiscal 2003 saw Telstra negotiate with its staff associations a new redundancy agreement and six separate business unit enterprise agreements. The agreements provide improved operating efficiencies for both management and staff and provide a firm basis for future productivity improvements and an increased ability to respond to our customers needs.

As provided for in the agreements, the staff covered by these agreements received a 2% salary increase in January 2003. A further four 2% salary increases will be paid every six months effective from July 2003.

These agreements are due to expire in June 2005 and implementation plans are presently underway towards realising the benefits provided for by these agreements.



## Major Shareholders and Related Parties

### Major shareholders

The following table shows the number of unlisted and listed shares on issue at 5 September 2003. The table also shows, as a group, the shareholdings of our directors and officers:

Title of class	Identity of person or group	Amount owned	% of class
Shares	The Commonwealth	6,446,207,123 <sup>(1)</sup>	50.1
Shares	Listed shareholders	6,420,393,077	49.9
		<u>12,866,600,200</u>	<u>100.0</u>
Shares	Directors and officers as a group	843,694 <sup>(2)</sup>	

<sup>(1)</sup> All shares held by the Commonwealth are unlisted, except for 211,629 listed shares.

<sup>(2)</sup> Refers to direct and indirect holdings.

The shareholdings of each person known by us to be the owner of more than 5% of our voting securities, as at 5 September 2003, is shown in the table titled "Twenty largest shareholders as at 5 September 2003". As at 5 September 2003, we are not aware of any individual shareholder, other than the Commonwealth, whose shares represent more than 5% of the issued and outstanding shares. The Commonwealth has equal voting rights with all other shareholders.

### Distribution of shares

The following table summarises the distribution of our public listed shares as at 5 September 2003:

Size of holding	Number of shareholders <sup>(1)</sup>		Shares <sup>(2)</sup>	
	Number	%	Number	%
1 - 1,000 . . . . .	1,084,671	60.15	670,959,081	10.45
1,001 - 2,000 . . . . .	341,935	18.96	535,072,852	8.33
2,001 - 5,000 . . . . .	268,929	14.91	847,403,624	13.20
5,001 - 10,000 . . . . .	71,617	3.97	515,415,384	8.03
10,001- 100,000 . . . . .	35,290	1.96	708,173,360	11.03
100,001 and over . . . . .	840	0.05	3,143,580,405	48.96
Total . . . . .	<u>1,803,282</u>	<u>100.00</u>	<u>6,420,604,706</u>	<u>100.00</u>

<sup>(1)</sup> Number of shareholders holding less than a marketable parcel of shares was 7,597 shareholders who held 586,521 shares.

<sup>(2)</sup> Not including those shares held by the Commonwealth, except for 211,629 listed shares which are held by the Commonwealth.

As at 5 September 2003, we had 1,410 shareholders who were resident in the US. This does not include ADS holders.

## Major Shareholders and Related Parties

### Twenty largest shareholders as at 5 September 2003

The following table sets out the top 20 shareholders other than the Commonwealth when multiple holdings are grouped together:

Shareholders	Number of shares	% of issued shares <sup>(1)</sup>
1 JP Morgan Nominees Australia Limited	558,174,675	8.69
2 Westpac Custodian Nominees Limited	432,589,207	6.74
3 National Nominees Limited	422,902,890	6.59
4 RBC Global Services Australia Nominees Pty Ltd	279,027,542	4.35
5 CitiCorp Nominees Pty Ltd	244,444,256	3.81
6 Queensland Investment Corporation	110,968,838	1.73
7 AMP Life Limited	92,154,348	1.44
8 Cogent Nominees Pty Ltd	77,834,425	1.21
9 ANZ Nominees Limited	71,692,906	1.12
10 Commonwealth Custodial Services Limited	69,127,826	1.08
11 Telstra ESOP Trustee Pty Ltd	67,525,700	1.05
12 Westpac Financial Services Limited	32,807,499	0.51
13 Government Superannuation Office	26,978,316	0.42
14 HSBC Custody Nominees (Australia) Limited	26,052,754	0.41
15 NRMA Nominees Pty Ltd	20,406,594	0.32
16 Victorian Workcover Authority	19,133,215	0.30
17 Zurich Investment Management Limited	18,587,480	0.29
18 Bond Street Custodians Limited	18,509,950	0.29
19 Merrill Lynch (Australia) Nominees Pty Ltd	17,656,215	0.27
20 Australian Foundation Investment Company Limited	17,359,100	0.27
<b>Total</b>	<b>2,623,933,736</b>	<b>40.87</b>

<sup>(1)</sup> Not including those shares held by the Commonwealth.

### Substantial shareholders

As at 5 September 2003, other than the Commonwealth of Australia, we did not have any substantial shareholders.

### Relationship with the Commonwealth of Australia

We have a number of distinct relationships with the Commonwealth, including as shareholder, regulator and customer. The Commonwealth is our controlling shareholder and has special rights and privileges under the Telstra Act. Our relationship with all of our shareholders (including the Commonwealth) is, in general, regulated by the Australian Corporations Act, the ASX Listing Rules and our constitution. Commonwealth departments and independent agencies are also responsible for the regulation of the telecommunications industry generally and Telstra in particular under the Telstra Act, the TPA, the Telecommunications Act and the Telecommunications (Consumer Protection and Service Standards) Act.

## Major Shareholders and Related Parties

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### The Commonwealth as shareholder

At the end of fiscal 2003, the Commonwealth owned approximately 50.1% of our shares. The Telstra Act precludes any reduction in the Commonwealth's voting rights, paid-up capital or rights to distributions of capital or profit, if any, below a 50.1% interest without amending legislation. The effect of this is that we cannot introduce a dividend reinvestment plan or raise new equity capital in a way that would reduce the Commonwealth's ownership below this level. There can be no assurance that the Commonwealth would be willing to subscribe for additional shares in us and our ability to raise additional equity capital could be constrained as a result.

In June 2003, the Commonwealth Government announced its intention to proceed with the introduction of legislation to sell the Commonwealth's remaining 50.1 per cent interest in Telstra. Telstra's board and management have consistently supported full privatisation of the Company and welcomed the announcement.

We are required under the Telstra Act to provide the Commonwealth with certain information that we would not generally be required to disclose concurrently, if at all, to other shareholders. This information includes:

- annual provision of our three-year corporate plan;
- interim financial statements, if requested by the Communications Minister; and
- reports regarding significant proposed events, including corporate restructurings, acquisitions and divestitures or joint venture and partnership activities.

We are also required to keep the Communications Minister and the Minister for Finance and Administration generally informed about our operations and to give them such information about our operations as they require. Our management is required to appear before and, with limited exceptions, provide information to Parliamentary committees.

The Communications Minister has the power under the Telstra Act to give us, after consultation with our board of directors, such written directions as appear to the Communications Minister to be necessary in the public interest. To date, no directions have been issued under this power. Our board of directors must ensure that we comply with any such direction. The Communications Minister may not give such directions in relation to the amounts to be charged for work done, or services, goods or information supplied by us. The Communications Minister, however, has some discretionary powers in relation to charges. The Communications Minister also has the power to direct us under the Telecommunications (Consumer Protection and Service Standards) Act. The Telstra Act deems the Commonwealth Auditor-General to have been appointed as our auditor for the purposes of the Australian Corporations Act. The Auditor-General cannot be removed without legislative amendment.

The Commonwealth has the ability to control us. This includes the power to pass any resolution at a shareholders' meeting requiring a simple majority, which includes the appointment and removal of directors, with the exception of matters upon which the Commonwealth is not permitted to vote under the Australian Corporations Act or applicable listing rules.

The Commonwealth has a set of general policies which apply to partially owned Government business enterprises, which provide significant commercial freedoms in the conduct of their business, subject to the oversight of appropriate Ministers. These general policies are applied principally through the Telstra Act, the Commonwealth Authorities and Companies Act 1997 (Cwth) and our constitution.

## Major Shareholders and Related Parties

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### **The Commonwealth as regulator**

We are currently regulated by the Commonwealth and its departments and independent agencies under a number of statutes including:

- the Telstra Act;
- the Telecommunications (Consumer Protection and Service Standards) Act 1999;
- the TPA; and
- the Telecommunications Act.

The Commonwealth's role as regulator is independent and distinct from its role as shareholder. Like other regulatory regimes, it is unlikely that the current regime will remain static. It will change over time in light of experience and new developments in the industry.

We are also subject to a range of other Commonwealth legislation, some of which does not apply to our competitors. This legislation covers a wide range of areas including administrative law, environmental law and employment related law.

### **The Commonwealth as customer**

The Commonwealth is a major user of our services and we estimate its expenditure on our services in fiscal 2003 was approximately A\$400 million. The Commonwealth, as a result of telecommunications liberalisation, is increasingly seeking to take advantage of open competition when purchasing telecommunications services. This has resulted, and may continue to result, in a reduction of business being awarded to us.

### **Related party transactions**

A discussion of our related party transactions is contained in "Operating and Financial Review and Prospects - Related party transactions".

## Listing Information

### Markets in which our shares are traded

We are listed, and those of our shares that are not held by the Commonwealth are quoted, on the ASX and on the New Zealand Stock Exchange (NZSE). ADSs, each representing five shares, have been issued by the Depositary and are listed on the New York Stock Exchange (NYSE).

The stock market operated by the ASX is the principal stock exchange in Australia. The exchange operates by way of the Stock Exchange Automated Trading System (SEATS) which is a fully computerised system.

Trading on SEATS takes place each business day between the hours of 10:00am and 4:05pm, Australian Eastern Standard Time or Australian Eastern Standard Summer Time. At 4:05pm each day, the ASX subsequently matches any buy and sell orders in the system that satisfy both buyers and sellers. The prices of all listed shares are continuously quoted while the market is open and the system prioritises orders first by price and second by time of placement in the system. Exchange participants can cross stock between buying and selling orders, at the buy or sell quote provided those quotes are no more than one marketable bid apart and can cross outside this range in amounts of A\$1 million or more. Transactions on the ASX are settled on the third business day following the trade date.

Our securities were initially listed on 17 November 1997. This followed the sale by the Commonwealth of 33.3% of its shares in Telstra. Subsequently on 18 October 1999, the Commonwealth sold an additional 16.6% of its shares in Telstra.

### Price history of our securities

The following tables give the price history of our securities.

Table A shows the high and low closing prices for shares and ADSs:

- highest and lowest closing sale prices for shares as derived from the daily official list of the ASX; and
- highest and lowest closing sale prices of ADSs quoted on the NYSE.

**Table A (1) - High and low closing price for shares and ADSs - on an annual basis - for a period of five years or time of trading if less than five years**

Period	A\$ per share		US\$ per ADS <sup>(1)</sup>	
	High	Low	High	Low
<b>Fiscal 2000</b> . . . . .	9.16	6.50	29.69	18.38
<b>Fiscal 2001</b> . . . . .	7.44	5.31	22.00	13.85
<b>Fiscal 2002</b> . . . . .	5.68	4.48	14.85	12.10
<b>Fiscal 2003</b> . . . . .	5.04	3.96	15.25	11.84

<sup>(1)</sup> Prior to 23 August 1999, each ADS represented 20 ordinary shares. Since then each ADS represents 5 ordinary shares.

## Listing Information

**Table A (2) - High and low closing price for shares and ADSs - on a quarterly basis for the two most recent full financial years**

Period	A\$ per share		US\$ per ADS <sup>(1)</sup>	
	High	Low	High	Low
<b>2001</b>				
1 January - 31 March . . . . .	7.19	6.28	19.81	15.61
1 April -30 June . . . . .	6.92	5.31	17.55	13.85
1 July - 30 September . . . . .	5.42	4.67	13.90	12.10
1 October - 31 December . . . . .	5.54	4.83	14.20	12.25
<b>2002</b>				
1 January - 31 March . . . . .	5.68	5.16	14.85	13.47
1 April -30 June . . . . .	5.37	4.48	14.57	12.60
1 July - 30 September . . . . .	5.04	4.65	13.88	12.51
1 October - 31 December . . . . .	4.85	4.38	13.60	12.33
<b>2003</b>				
1 January - 31 March . . . . .	4.68	3.96	13.80	11.84
1 April - 30 June . . . . .	4.53	4.09	15.25	12.30

<sup>(1)</sup> Prior to 23 August 1999, each ADS represented 20 ordinary shares. Since then each ADS represents 5 ordinary shares.

Table B shows for the most recent six months, the high and low market prices for each month.

**Table B - High and low market prices for the most recent six months**

Period	A\$ per share		US\$ per ADS <sup>(1)</sup>	
	High	Low	High	Low
<b>2003</b>				
March . . . . .	4.18	3.96	12.89	11.84
April . . . . .	4.24	4.09	13.06	12.30
May . . . . .	4.52	4.21	14.88	13.15
June . . . . .	4.53	4.40	15.25	14.58
July . . . . .	4.83	4.45	16.16	14.87
August . . . . .	5.02	4.66	16.45	15.20

<sup>(1)</sup> Each ADS represents 5 ordinary shares

There were 6,420,604,706 shares issued and available for trading on the market as at 30 June 2003. This includes 211,629 shares held by the Commonwealth and listed for trading. At that date, 5,426,116 ADSs (equivalent to 27,130,580 shares) were held by 32 record holders and 2,545,810 ordinary shares were held by 1,381 US record holders.

## Listing Information

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The closing price for our shares on the ASX on 17 September 2003 was A\$4.97 and the closing price for our ADSs on the New York stock exchange was US\$16.68.

## Legal Proceedings

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We are involved in routine litigation. Governmental authorities and other parties frequently threaten us with legal proceedings.

In November 2002, Seven Network Limited and C7 Pty Limited (“Seven”) commenced litigation against us and various other parties in relation to the contracts and arrangements between us and some of those other parties relating to the right to broadcast Australian Football League and National Rugby League, the contract between FOXTEL and us for the provision of broadband HFC cable services (the Broadband Co-operation Agreement) and other matters. Seven seeks unspecified damages and other relief, including that these contracts and arrangements are void. Seven also seeks orders which would, in effect, require a significant restructure of the subscription television/sports rights markets in Australia. The matter is proceeding before the courts but is unlikely to have any material effect on our overall business or financial position.

We do not consider that there are any other current proceedings which could materially adversely affect our overall business or financial position.



## Constitution and Documents on Display

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### Our constitution

The following provides information on the material provisions of our constitution. Our constitution describes many of the rights of a shareholder.

#### **We may issue further shares but the Commonwealth must hold at least 50.1% of our shares**

The directors may issue shares at their discretion. They must, however, act in accordance with our constitution, the Corporations Act, the Telstra Act, ASX Listing Rules, any special rights conferred on holders of any shares and any direction from the Company in general meeting where shareholders have been requested to authorise an issue of shares. However, under the Telstra Act, the Commonwealth must hold at least 50.1% of our issued shares. The Commonwealth may hold less than 50.1% of our issued shares only if legislation is passed permitting it to do so.

### Calls

Our directors may only make calls on shareholders in respect of money unpaid on their shares. Our shareholders have no other liability to further capital calls.

#### **Restrictions on foreign ownership**

Our constitution contains provisions designed to enable us to monitor and enforce the foreign ownership restrictions contained in the Telstra Act. We have adopted rules to implement these provisions which bind all shareholders. These are outlined in the “Exchange Controls and Foreign Ownership” section in this annual report.

#### **Alteration of rights**

The rights attaching to our shares may only be varied or abrogated with the written consent of the holders of three-quarters of the issued shares of that class or with the approval of a special resolution passed at a separate meeting of the holders of the issued shares of that class. Currently we have only one class of ordinary shares.

#### **Borrowing powers**

Our directors may exercise all of our borrowing powers in their absolute discretion. This power may only be varied by amending our constitution which would require a special resolution to be passed by our shareholders at a general meeting.

#### **Shareholders’ approval required**

The management of the business and affairs of Telstra is vested in our directors. However, the approval of shareholders is required for certain important matters, such as the election of directors and the sale or disposal of our main undertaking. As the Commonwealth holds 50.1% of our issued shares, it has the power to control most decisions made by shareholders.

#### **Directors and shareholders may call a meeting**

The directors may call a general meeting at their discretion. The directors must also call and arrange to hold a general meeting on the request of:

- shareholders who hold at least 5% of the votes that may be cast at the general meeting; or
- at least 100 shareholders who are entitled to vote at the general meeting.

## Constitution and Documents on Display

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### General meeting attendance and notice

All shareholders are notified of and may attend all general meetings. We send a notice of the meeting to all shareholders at least 28 days before the meeting.

### Voting rights

Shareholders (whether residents or non-residents of Australia) may vote at a meeting of shareholders in person, by proxy, attorney, or representative, depending on whether the shareholder is an individual or a company.

Three shareholders (one of whom must be the Commonwealth) must be present in person or by proxy, attorney or representative to form a quorum. If there is no quorum present at a meeting 15 minutes after the time set for the start of the meeting, then:

- if the meeting was called by a shareholder or shareholders, the meeting is adjourned to the same day, time and place in the next week or to such other day, time and place as the shareholder or shareholders who called the meeting appoint by notice to shareholders and others entitled to notice of the meeting; or
- in any other case, the meeting is adjourned to the same day, time and place in the next week or to such other day, time and place as the directors appoint by notice to shareholders and others entitled to notice of the meeting.

At the adjourned meeting, the quorum is two shareholders present in person or by proxy, attorney or representative. One shareholder must be the Commonwealth, unless the Commonwealth received written notice of the original meeting and did not attend that meeting. The adjourned meeting is dissolved if this quorum is not present within 15 minutes after the time specified for the meeting.

Shareholders must vote on a show of hands unless a poll is called. A poll may be called either before a vote is taken or before or immediately after the voting results on a show of hands are declared. A poll may be called by:

- the chairman of the meeting;
- not less than five shareholders who may vote on the resolution; or
- a shareholder or shareholders who together hold at least 5% of the votes that may be cast on the resolution on a poll.

If the demand for a poll is withdrawn, the vote is decided on a show of hands.

Subject to any rights or restrictions attaching to our shares, on a show of hands each shareholder present in person or by proxy, attorney or representative has one vote and on a poll, has one vote for each fully paid share held. Presently, we have only one class of fully paid ordinary shares and these do not have any voting restrictions. If shares are not fully paid, the number of votes attaching to the shares is pro-rated accordingly.

An ordinary resolution is passed:

- on a show of hands, by a majority of shareholders present in person or by proxy, attorney or representative voting in favour of the resolution; and
- on a poll, by shareholders present in person or by proxy, attorney or representative holding at least a majority of the votes cast in favour of the ordinary resolution.

## Constitution and Documents on Display

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A special resolution is passed:

- on a show of hands, by at least 75% of shareholders present in person or by proxy, attorney or representative voting in favour of the resolution; and
- on a poll, by shareholders present in person or by proxy, attorney or representative that represent at least 75% of the votes cast in favour of the special resolution.

### Dividends

Subject to any special rights attaching to our shares and to the terms of any issue of shares to the contrary, shareholders receive dividends according to the number of shares held and the amount paid up on those shares. Currently, no special rights attach to any of our shares.

### Rights to profits

The power to declare dividends, pay dividends and fix the time for their payment is vested in the board of directors. Our directors may, before declaring or paying a dividend, set aside out of our profits any amount that they think should be applied as a reserve. Our directors may also carry forward profits which they consider should not be distributed as a dividend, without transferring those profits to a reserve.

A declaration by our directors as to the amount of the profits available for dividend is conclusive and binding on all shareholders.

### Documents to be sent to shareholders

Shareholders will receive a copy of any financial statements or other documents which we must send to shareholders under our constitution, the Corporations Act and the ASX Listing Rules. We also offer shareholders the opportunity to receive electronic copies of these documents via e-mail as an alternative to receiving hard copies.

### Winding-up

If Telstra is wound up, our surplus assets must be applied first in the repayment of paid up capital (including credited as paid). Any remaining surplus assets will then be distributed to shareholders in the following order:

- to any shareholders with special rights attaching to their shares (presently, there are none); and
- to other shareholders in proportion to the capital paid up (including credited as paid) or which ought to have been paid up (including credited as paid) at the commencement of the winding-up on their shares.

### Number of directors

At all times, we must have between 3 and 13 directors on the board of directors. Shareholders may vote to increase the maximum number of directors.

### Directors' share qualification

Our directors do not require a share qualification.

### Retirement of directors

Our directors (other than the CEO) may not retain office for more than three years without offering themselves for re-election. At the annual general meeting (AGM) in each year, at least one-third of our directors (other than the CEO) must retire from office. The directors to retire by rotation at each AGM are those who have been longest in office.

## Constitution and Documents on Display

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In addition, our board has adopted a policy that requires our directors to:

- retire at the AGM following their 72nd birthday. Persons over the age of 72 may be appointed or re-appointed as directors but only if approved by shareholders passing a special resolution at a general meeting; and
- ensure that the maximum tenure of non-executive directors is 12 years (usually four terms of three years).

### **Directors' interests**

A director who has a material personal interest in a proposal, arrangement or contract that is being considered at a meeting of our directors has a limited right to be present at the relevant meeting and to vote on the matter.

The power to be present and vote only exists in certain circumstances prescribed by the Corporations Act. These are:

- when the board has passed a resolution that identifies the director and his/her interest and states that the other directors are satisfied that the interest should not disqualify the director from voting or being present; or
- where the Australian Securities & Investments Commission (ASIC) makes a declaration or class order that the director may be present and vote notwithstanding his/her material personal interest.

The directors' power to vote compensation to themselves in the absence of an independent quorum is limited. If there are not enough directors to form a quorum because interested directors are disqualified, the directors must:

- call a general meeting to consider a resolution to deal with the matter; or
- seek a declaration from ASIC allowing the interested director to vote and be included in the quorum. Note, however, that ASIC will only exercise this power when the matter needs to be dealt with urgently and cannot be dealt with in a general meeting.

### **Officers' indemnity and insurance**

Our constitution provides for us to indemnify each officer, to the maximum extent permitted by law, against 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; 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 successfully 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 CEO. 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.

## Constitution and Documents on Display

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We may pay an insurance premium insuring a person who is or has been a director, secretary or executive officer of Telstra or of one of our related bodies corporate against certain liabilities incurred by that person in such a capacity. The insurance will not cover liabilities which arise out of conduct involving a wilful breach of that person's duty to us or a breach of their duty not to improperly use their position or company information.

### **Dividend policy**

It is our current policy to declare ordinary dividends of at least 60% of operating profit attributable to shareholders, subject to taking into consideration a number of commercial factors including the interests of shareholders, cash requirements for future capital expenditure and investments and relevant industry practice.

### **Documents on display**

It is possible to read and copy documents referred to in this annual report that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington DC 20549. Please contact the SEC at 1-800-SEC-0330 for further information.

## Exchange Controls and Foreign Ownership

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### Absence of exchange controls

We will remit dividends, interest or other payments to holders of our securities, unless we are prohibited from doing so.

There are no general restrictions on moving money in or out of Australia. However, Australian foreign exchange and other controls are implemented from time to time against certain countries, entities and persons. Without prior approval of the Reserve Bank of Australia, we are currently prohibited from making payments to (or relating to) specified supporters of the former Milosevic regime of the Federal Republic of Yugoslavia and specified ministers and senior officials of the Government of Zimbabwe. Further, we are currently restricted from giving assets to the Taliban, Usama bin Laden, the Al-Qaida organisation and other persons and entities identified as terrorists or sponsors of terrorism without the permission of the Australian Government. We are also currently prohibited from transferring the assets of the previous Government of Iraq, Saddam Hussein, other senior officials of his regime and their immediate families other than to a development fund established to aid Iraq's reconstruction and rehabilitation.

### Restrictions on foreign ownership

#### Telstra Act

The Telstra Act provides that an “unacceptable foreign-ownership situation” will exist in relation to Telstra if all “foreign persons” and their associates hold, in total, a “particular type of stake” in us of more than 35% of shares held by persons other than the Commonwealth (Aggregate Limit) or if any foreign person and its associates hold a “particular type of stake” in Telstra of more than 5% of shares held by persons other than the Commonwealth (Individual Limit). “Foreign person”, “associate”, “group”, “particular type of stake”, “direct control interest” and “interest” in a share are all defined in the Telstra Act and are summarised below under “Definitions”.

Where an acquisition of shares or interests in shares in any company results in:

- an “unacceptable foreign-ownership situation” in relation to Telstra;
- an increase in the total of any type of stake held by any group of foreign persons in Telstra where there exists a breach of the Aggregate Limit; or
- an increase in any type of stake in Telstra held by any foreign person who is already in breach of the Individual Limit,

and the person acquiring the shares knew or was reckless as to whether the acquisition would have that result, that person is guilty of an offence punishable on conviction by a fine not exceeding A\$40,000.

The Communications Minister or Telstra may apply to the Federal Court for remedial orders where an unacceptable foreign ownership situation exists, including orders requiring the disposal of shares, restricting the exercise of rights attaching to shares or prohibiting or deferring receipt of sums due on shares. In addition, we are required under the Telstra Act to take all reasonable steps to ensure that an unacceptable foreign ownership situation does not exist in relation to us.

Our constitution contains provisions to enable us to monitor and enforce the foreign ownership restrictions. We have adopted rules to implement these provisions, which bind all shareholders. These are outlined below. They may be amended at any time by resolution of our board of directors.

## Exchange Controls and Foreign Ownership

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On or after registration of a transfer or transmission application for a share, when the acquirer first becomes a shareholder, the acquirer must generally notify us whether it is either:

- a person with an interest in a share who is either a foreign person or an associate of a foreign person; or
- a person who holds a share in which a foreign person or an associate of a foreign person has an interest (foreign holder).

The information derived from these notifications will be reflected in a register by means of a foreign coding.

Systems have been established for shares traded on the ASX so that notifications are given by brokers as part of routine provision of ASX settlement information (ASX systems). The ADR custodian under the ADR facilities is automatically treated as a foreign holder for the purposes of the constitution, as are all holders of shares on the New Zealand share register. In the case of other transfers or transmission applications, the onus is on the acquirer to notify us if it is a foreign holder.

All shares held by foreign holders will be treated as foreign unless the holder:

- notifies that some of its shares are ones in which a foreign person or associate of a foreign person has an interest (foreign shares) whereas others are not and either:
  - divides its holding into separate Holder Identification Numbers or Security Holder Reference Numbers under the ASX's CHES<sup>S</sup>\* system, one for foreign shares and one for shares which are not foreign; or
  - agrees to provide bi-monthly notices indicating the breakdown of its holding into foreign and non-foreign shares.

The constitution and rules also contain provisions permitting us to send notices to registered holders of shares with a view to determining whether they are foreign holders or not and requesting details of any foreign persons or associates of foreign persons having interests in the relevant shares and any other information relating to foreign ownership which may be requested. Such notices must be answered within 30 days.

If we determine, as a result of information obtained from the notifications and responses to notices referred to above, that an unacceptable foreign ownership situation exists in relation to us, there is power under our constitution to require divestment of shares to remedy this situation. In exercising this divestment power, we are entitled to rely on foreign codings in the relevant register and upon the notifications and responses to notices referred to above. We will notify the ASX, NZSE and NYSE if the level of foreign codings comes within five percentage points of the Aggregate Limit and after that at one percentage point intervals. The divestment powers are broadly framed and we and our directors are not liable to shareholders for the manner of their exercise.

If we believe that the Individual Limit has been breached, we may require that any shareholder whose shares are believed to form part of the contravening "stake" be divested within 30 days of the date a notice requiring divestment (disposal notice) is given.

If we believe the Aggregate Limit has been breached, the rules currently provide that disposal notices will be given to all holders whose foreign shares became registered in their names or which became coded as "foreign" on the day that the aggregate number of foreign coded registrations on the relevant register exceeded the limit and on each succeeding day whilst the limit is exceeded.

## Exchange Controls and Foreign Ownership

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The recipient of a disposal notice is required to divest the shares that are the subject of the notice before the divestment date specified in the notice. The divestment date will be the fifth business day of the month next following the month in which the disposal notice was issued, unless that would be less than 30 days after the date of issue of the notice, in which case the divestment date will be the fifth business day of the next month.

No divestment will be required on a divestment date if foreign shares, as shown on the relevant register on that date, do not exceed the Aggregate Limit. If a disposal notice is not complied with, the constitution contains provisions empowering us to sell the relevant shares on behalf of the holder on or after the relevant divestment date. The holder will lose the ability to transfer the shares itself after that date.

### Transfers among foreign holders and ADR holders

Special arrangements apply to certain transfers from one foreign holder to another.

Disposal notices will not be given in respect of:

- foreign shares acquired from the international underwriters on closing of the international offerings in 1997 and 1999;
- foreign shares acquired under a particular form of ASX “special crossing” for transfers among foreign holders. Shares can only be transferred under such a special crossing if they are not, and are not liable to become, the subject of a disposal notice; or
- shares registered on the New Zealand branch share register or represented by ADRs, though shares may only be transferred onto the New Zealand branch share register or ADR program if they are not, and are not liable to become, the subject of a disposal notice.

NZSE trading is only in shares registered on the New Zealand branch register.

All shares deposited in the ADR facility will be treated as foreign. Holders of ADRs are subject to the Individual Limit and must notify the Depositary, as applicable, if any of the ADRs they hold form part of a “stake” which breaches the Individual Limit. Where the Individual Limit is breached, the Depositary may be required to divest the relevant shares and the corresponding ADRs may be cancelled. The deposit agreement contains provisions permitting the Depositary to obtain and supply to us information relevant in monitoring and enforcing the foreign ownership limits.

The above summary is not complete and is subject to, and qualified by, reference to the constitution and current rules and procedures that have been adopted by us for the administration of the foreign ownership provisions in the Telstra Act. Copies of the constitution, the rules and the Telstra Act, are available for inspection through the Company Secretary, Telstra Corporation Limited, 242 Exhibition Street, Melbourne, Victoria 3000, Australia during normal working hours.

### Definitions

“Foreign person” is defined in the Telstra Act as:

- a foreign citizen (defined in the Telstra Act as a non-Australian citizen) not ordinarily resident in Australia (a “foreign citizen”);
- a company where a foreign citizen or a foreign company (defined in the Telstra Act as an overseas incorporated company) holds a particular type of stake in the company of more than 15%;
- a company where a group of two or more persons, each of whom is either a foreign citizen or a foreign company holds, in total, a particular type of stake in the company of more than 40%;



## Exchange Controls and Foreign Ownership

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- the trustee of a trust estate in which a foreign citizen or a foreign company holds a substantial interest (essentially a 15% beneficial interest, including such foreign citizen's or foreign company's associates' interests); or
- the trustee of a trust estate in which two or more persons, each of whom is either a foreign citizen or a foreign company, hold an aggregate substantial interest (essentially a 40% beneficial interest including each such foreign citizen's or foreign company's associates' interests).

A "particular type of stake" in any company held by any person is defined as the aggregate of the "direct control interests" of that type in that company held by that person and that person's associates.

An "associate" of a person is defined to include:

- a wide range of direct and indirect relationships such as relatives, partners, employees and employers of the person;
- if the person is an employee of an individual, other employees of the individual;
- if the person is a company, an officer of the company and, if the person is an officer of a company, the company and other officers of the company;
- the trustee of a discretionary trust where the person or an associate of the person is a beneficiary;
- a company whose directors are accustomed, or under an obligation, to act in accordance with the wishes, directions or instructions of the person;
- a company where the person is accustomed, or under an obligation, to act in accordance with the company's wishes, directions or instructions;
- a company in which the person has a particular type of stake of at least 15% or, if the person is a company, a person who holds a particular type of stake of at least 15% in it; and
- an associate of an associate of the person.

For purposes of determining foreign ownership of any company, a person's associates also include any other person with whom the person has an arrangement enabling the person to jointly exercise voting power or certain types of power over, or over the appointment of, the board of directors of such company.

"Group", in relation to the foreign ownership limits, includes one person alone or a number of persons, even if they are not in any way associated with each other or acting together.

A "direct control interest" of any person in any company is defined as the equivalent percentage of:

- the total paid up share capital of the company in which the person holds an interest;
- the voting power in the company that the person is in a position to control;
- the total rights to distributions of capital or profits of the company to its shareholders on a winding up held by the person;
- the total rights to distributions of capital or profits of the company to its shareholders, other than on a winding up, held by the person; and
- traced interests held via interposed entities.

## Exchange Controls and Foreign Ownership

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“Interest in a share” is defined to include:

- legal or equitable interests in a share;
- certain rights under a contract to purchase a share;
- options to acquire a share or an interest in a share;
- a right to have a share transferred to the person’s order; and
- an entitlement to acquire a share or an interest in a share or to exercise or control the exercise of a right attached to the share.

However, certain interests in shares are disregarded, including:

- certain interests of lenders under or following enforcement of security arrangements;
- interests of a trustee or manager of, or a custodian for, a unit trust or certain Australian complying or exempt superannuation funds, if such trustee, manager or custodian reasonably believes that foreign persons hold beneficial interests in less than 40% of the capital and income in the trust or fund;
- interests held by an Australian registered life insurance company or a custodian for it, in respect of a statutory fund, if the company reasonably believes that less than 40% of policy holder liabilities of the fund are owed to foreign persons;
- interests held by nominees, custodians or depositaries, or brokers acting on clients’ instructions in the ordinary course of business, provided in each case the holder has no beneficial interest or discretionary voting authority in respect of the underlying shares;
- certain interests held by the international underwriters and their related corporations;
- shareholder interests in companies other than us, which are not “foreign persons” under the Foreign Acquisitions and Takeovers Act 1975 (Cwth);
- interests held by persons who are not foreign persons and do not have any substantive foreign associates (that is, persons who directly or indirectly control them, with whom they act in concert or in accordance with whose wishes, instructions or directions they are obliged or accustomed to act);
- interests held by any person to the extent that, after such interests have been included in the “stake” of that person and any of its substantive foreign associates, such interests would also be included in the stake of a non-substantive associate of the person; and
- interests held by any person who is not a foreign person to the extent that, in determining the total of the stakes of a group of foreign persons, such interests would be counted more than once for that purpose.

References to “interests” in shares exclude disregarded interests.

## Exchange Controls and Foreign Ownership

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### **Foreign Acquisitions and Takeovers Act 1975 (Cwth)**

The Foreign Acquisitions and Takeovers Act 1975 (Cwth) applies to any acquisition of an interest in the shares of an Australian company with total assets of A\$50 million or more which results in the acquisition of or addition to a substantial interest in the Australian company. A “substantial interest” is defined to be any single foreign person and its associates controlling 15% or more, or two or more foreign persons and their associates in aggregate controlling 40% or more, of shares or voting power. Any proposed acquisition which would result in these thresholds being exceeded should be notified to the Federal Treasurer and a statement of no objection issued (with or without conditions) in advance of completion of the acquisition. When assessing the proposed acquisition, the Federal Treasurer will have regard to the limits prescribed by the Telstra Act which are also reflected in Australia’s Foreign Investment Policy.

### **Foreign ownership status**

At 5 September 2003, the number of Telstra shares recorded as foreign on the Telstra register was 7.0105% of the total number of issued Telstra shares.

## Taxation

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### **Australian taxation**

The Australian Taxation Office has provided an indicative opinion confirming the Australian income taxation implications of investment in shares and ADSs as summarised in the following discussion.

The tax profile of each investor will determine the applicable Australian income taxation implications for that investor. For example, some investors (such as financial institutions) may hold their investments on income account rather than on capital account, in which case the comments below concerning capital gains implications will not be applicable. Certain tax non-residents may, irrespective of whether the assets they dispose of are capital gains tax assets that have the necessary connection with Australia (for the purpose of these discussions, these assets are referred to as “taxable Australian assets”), be liable to tax in respect of a profit on a dealing in the asset as ordinary income.

This discussion is based on the law in force at the date of this annual report. In 1999, the Government conducted a review of business taxation in Australia and received an independent report setting out recommendations for consideration. Many of the recommendations have now been enacted. Other recommendations are currently before Parliament where both the House of Representatives and the Senate would need to pass appropriate legislation to give effect to the policy adopted. Some of the recommendations have been agreed to “in principle” by the Commonwealth Government, some have been rejected and some of the recommendations are still being considered. The legislation finally passed may have an effect on individual investors. There is a risk that changes to Australian business taxation may adversely affect us.

One of the recommendations which has been enacted during fiscal 2003 is legislation which enables the Telstra Entity and its Australian resident wholly owned entities to be treated as a single entity for income tax purposes. The Telstra Entity has elected to form a tax consolidated group from 1 July 2002.

### **Treatment of shares**

#### ***Taxation of dividends***

An imputation system operates in Australia in respect of company income tax. In the absence of an exemption or concession, Australian resident companies are liable for Australian income tax on their taxable income at the corporate rate which is currently 30%. The payment of Australian income tax by Australian companies generates a franking credit which, when the company pays a dividend to shareholders, generally flows through to Australian resident shareholders.

At present, it is expected that we will be able to fully frank declared ordinary dividends out of fiscal 2004 earnings. However, no assurance can be given as to the level of franking of ordinary dividends in the future. This is because it depends upon, amongst other factors, our earnings, Government legislation and our taxation position.

A tax off set equivalent to the franking credit (known as a “franking rebate”) may be available to certain Australian resident shareholders.

Under certain rules, there are circumstances where an investor may not be entitled to the benefit of franking credits. The application of these rules depends on the investor’s own circumstances including the period for which the shares are held and the extent to which the investor, if a resident, is “at risk” in relation to their investment.

Fully franked dividends paid to non-resident shareholders are not subject to dividend withholding tax (DWHT). Dividends to the extent that they are not fully franked are generally subject to DWHT at the rate of 30% (unless reduced by a double tax treaty). In the case of US tax residents who hold less than 10% of the

## Taxation

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voting power in Telstra, provided that the shares are not effectively connected with a permanent establishment or a fixed base of a tax non-resident in Australia through which the tax non-resident carries on business in Australia or provides independent personal services, the rate is reduced under the double tax treaty to 15%.

Accordingly, dividends paid by us to tax non-residents to the extent to which they are franked will not be subject to DWHT. The unfranked part of any dividends paid by us to tax non-residents will be subject to DWHT. We deduct DWHT and the tax non-resident receives dividends on the shares net of DWHT.

Fully franked dividends paid to tax non-residents and dividends that have been subject to DWHT are not subject to any further Australian income tax.

### ***Taxation of capital gains***

Tax non-residents will be liable for income tax under the capital gains provisions on the gains (in certain circumstances after an allowance for inflation in Australia or a capital gains tax discount) realised on the disposal of certain assets which are “taxable Australian assets”. Taxable Australian assets include a share (or interest in a share) in a public company where at any time in the preceding five years the non-resident’s holding (together with the holding of associates) in the public company is 10% or more.

Tax non-residents who, together with their associates, hold less than 10% of our shares (or an interest in a share) will, on disposal of the shares, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in Telstra should ensure that tax non-resident investors qualify for this exemption.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets, as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

Generally, the “business profits” articles of Australia’s double tax treaties provide that a resident of a treaty country is not subject to Australian income tax on “business profits” derived in Australia, unless derived at or through a permanent establishment in Australia. In the case of residents of the US, Article 7 (1) of the Convention between Australia and the US for the Avoidance of Double Taxation (the US Treaty) provides that the business profits of a US enterprise are only taxable in the US unless the enterprise carries on business in Australia through a permanent establishment situated in Australia. The term “permanent establishment” is defined in Article 5 of the US Treaty. In the view of the ATO, capital gains realised on the disposal of shares would not be “business profits” and the domestic capital gains tax provisions would apply. Investors should seek their own independent taxation advice should they wish to rely on a double tax treaty for relief from liability to pay Australian income tax upon the disposal of a share.

Investors who incur a liability for Australian income tax will be required to file an income tax return in Australia.

### **Treatment of American depositary receipts (ADRs)**

Non-resident holders of ADRs evidencing ADSs will be treated for Australian income tax purposes as the owners of the shares represented by the ADSs.

### ***Taxation of distributions***

The Depositary will receive dividends on the shares represented by the ADSs net of DWHT (where payable). Holders of ADRs will not be subject to any further Australian income tax on distributions representing fully franked dividends or dividends that have been subject to DWHT.

## Taxation

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### ***Taxation of capital gains***

A disposal of an ADR by a tax non-resident investor will constitute a disposal by the investor of the Telstra shares represented by the ADS evidenced by that ADR. Tax non-residents who, together with their associates, hold less than 10% of the shares or interests in our shares (including through ADSs) will, on disposal of ADRs, not be subject to any Australian income tax on capital gains. Restrictions on the extent of foreign ownership in Telstra should ensure that tax non-resident investors qualify for this exemption.

Certain tax non-residents may, irrespective of whether the assets they dispose of are taxable Australian assets, be liable to tax in respect of a profit on a dealing in the assets as ordinary income. A double tax treaty between Australia and the country of residence of the investor may give relief from liability to pay the Australian income tax on ordinary income.

As discussed above under “Treatment of Shares – Taxation of capital gains”, generally, the “business profits” articles of Australia’s double tax treaties provide that a resident of a treaty party is not subject to Australian income tax on “business profits” derived in Australia, unless derived at or through a permanent establishment in Australia. In the view of the ATO, capital gains realised on the disposal of ADRs would not be “business profits” and the domestic capital gains tax provisions would apply. Investors should seek their own independent taxation advice should they wish to rely on a double tax treaty for relief from liability to pay Australian income tax upon the disposal of a share or ADR.

### **Australian stamp duty**

As Telstra is incorporated in the Australian Capital Territory (ACT) the stamp duty treatment of the transfer of Telstra shares is determined by reference to the ACT’s stamp duty regime.

From 1 July 2001, stamp duty on the transfer of shares which are quoted on a recognised stock exchange was abolished in the ACT. This covers both the situation where the transfer of such shares is affected by way of an “on-market” transfer (ie. through a broker) or by way of an “off-market” transfer.

This abolition also applies to the transfer of ADRs because ADRs are treated in the same way as shares for stamp duty purposes. Accordingly, from 1 July 2001 the transfer of ADRs is also not subject to stamp duty in the ACT.

### **United States taxation**

This section describes the material US federal income tax consequences to a US holder (as defined below) of owning shares or ADSs. It applies to investors only if they hold their shares or ADSs as capital assets for tax purposes. This section does not apply to investors if they are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organisation;
- a life insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10% or more of Telstra’s voting stock;
- a person that holds shares or ADSs as part of a straddle or a hedging or conversion transaction; or
- a US holder (as defined below) whose functional currency is not the US dollar.

## Taxation

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This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, as well as on the US Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

An investor is a US holder if it is a beneficial owner of shares or ADSs and it is:

- a citizen or resident of the US;
- a domestic corporation;
- an estate whose income is subject to US federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

Investors should consult their own tax advisors regarding the US federal, state and local and the Australian and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances. In general, and taking into account the earlier assumptions, for US federal income tax purposes, if investors hold ADRs evidencing ADSs, they will be treated as the owner of the shares represented by those ADRs. Exchanges of shares for ADRs, and ADRs for shares, generally will not be subject to US federal income tax.

### **Taxation of distributions on shares or ADSs**

Under the US federal income tax laws, if an investor is a US holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for US federal income tax purposes) is subject to US federal income taxation. If an investor is a non-corporate US holder, dividends paid to them in taxable years beginning after December 31, 2002 and before January 1, 2009 that constitute qualified dividend income will be taxable to them at a maximum tax rate of 15% provided that they hold the shares or ADSs for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends Telstra pays with respect to the shares or ADSs generally will be qualified dividend income.

Investors must include any Australian tax withheld from the dividend payment in this gross amount even though they do not in fact receive it. The dividend is taxable to investors when they, in the case of shares, or the Depositary, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. The amount of the dividend distribution that investors must include in their income as a US holder will be the US dollar value of the Australian dollar payments made, determined at the spot A\$/US\$ rate on the date the dividend distribution is includible in their income, regardless of whether the payment is in fact converted into US\$. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date they include the dividend payment in income to the date they convert the payment into US\$ will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the US for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of their basis in the shares or ADSs and thereafter as capital gain.

Subject to certain limitations, the Australian tax withheld in accordance with the US Treaty and paid over to Australia will be creditable against investors' US federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate.

## Taxation

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Dividends will be income from sources outside the US, but generally will be "passive income" or "financial services income" which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to investors.

### ***Taxation of capital gains***

If an investor is a US holder and it sells or otherwise disposes of its shares or ADSs, it will recognize capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount that it realizes and its tax basis, determined in US\$, in its shares or ADSs. Capital gain of a non-corporate US holder that is recognized on or after 6 May 2003 and before 1 January 2009 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the US for foreign tax credit limitation purposes.



## Quantitative and Qualitative Disclosures about Market Risk

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The potential for change in the market value of our financial assets and liabilities is referred to as “market risk”. We enter into financial instruments to manage our exposure to interest rates and foreign currency rates that arise as part of our normal business operations.

Derivatives are financial instruments such as futures, foreign exchange forwards and swaps that derive their value from underlying assets, indices, reference rates or a combination of these factors. We use derivative financial instruments, in accordance with board approved policies, to hedge the market risks and volatility of financial outcomes arising from the underlying physical position.

### **We are exposed to interest rate risk due to our borrowings**

Our borrowings are generally for maturities of up to ten years and we manage our debt in accordance with targeted interest rate and debt portfolio maturity profiles. Where the actual interest rate profile on the physical debt profile differs from our desired target, we use interest rate swaps and futures contracts to achieve the target profile. Our net debt portfolio therefore includes both physical borrowings (such as bonds and commercial paper) and associated derivative instruments (such as interest rate swaps).

Our interest rate risk is calculated as the net of the interest rate exposure on our total debt portfolio, offset by any holdings of financial assets whose value is sensitive to interest rates.

The interest rate on a number of our foreign currency and \$A borrowings having an approximate face value equivalent to \$A 4.7 billion varies according to our credit rating from Standard & Poor’s or Moody’s Investor Service. The interest rates will increase by up to 0.25% to 0.50% pa if our minimum credit rating falls to A- (S&P) / A3 (Moody’s) or below depending on the particular trigger points of each borrowing and the extent of the rating change. In some cases, the interest rate will step-down again if the minimum credit rating was to subsequently increase above the previously mentioned trigger points.

### **We have exposure to foreign currency risk due to our normal business operations and borrowings**

Our foreign currency exchange risk arises from:

- firm or anticipated transactions for receipts and payments for international telecommunications services settled in foreign currencies;
- investments denominated in foreign currencies;
- purchase commitments for material and supplies with prices dependent on foreign currencies; and
- borrowings that are denominated in foreign currencies.

We manage the foreign exchange risk on the major component of our borrowings by effectively converting them to A\$ borrowings at drawdown by applying cross currency swaps. Where foreign currency borrowings are used to specifically hedge an underlying exposure they are not swapped to A\$ (eg. to hedge financial investments in foreign exchanges and offshore ventures). The remaining foreign exchange rate risks are managed principally through the use of forward foreign currency derivatives.

Our foreign exchange risk is assessed for each individual currency, calculated by aggregating the net exposure for that currency.

### **Our exposure to movements in market risks is assessed and measured on a fair value basis**

Two methods are used to assess our overall estimated market risk namely:

- sensitivity analysis; and
- value-at-risk or “VaR”.

## Quantitative and Qualitative Disclosures about Market Risk

These show the potential impacts of adverse movements in the fair value of the relevant portfolio at the reporting date as below. It should be recognised that the market rates move in both directions and can be advantageous as well as adverse. Hedging to protect against a downside risk can, in its establishment, remove or diminish the potential upside benefits.

### Sensitivity analysis

We undertake a sensitivity analysis on our net debt and foreign exchange exposure portfolios after application of all hedging transactions. This is based on an instantaneous adverse proportional movement of 10% in interest rates and exchange rates.

The probability of this occurring is not factored into this sensitivity analysis. Also, the diverse nature of the portfolios is not taken into account and concurrent adverse movements in all exchange rates and interest rates is assumed.

For these reasons, the analysis may be conservative and not represent likely market volatility since historically it is unlikely that there would be a concurrent adverse movement across all factors.

<i>Adverse proportional movement of 10% across risk categories</i>		
	As at 30 June	
	2003	2002
(A\$m)		
<b>Risk Categories</b>		
Interest rates . . . . .	<b>186</b>	388
Foreign currency rates . . . . .	<b>98</b>	10
<b>Total</b>	<b>284</b>	<b>398</b>

The foreign currency rate numbers include the translation exposure movements generated from our overseas investments in CSL and TelstraClear. The TelstraClear translation exposure has increased from the previous fiscal year due to a capital restructure undertaken in fiscal 2003 which generated an increase in the exposure level. The CSL exposure has reduced as a result of capital restructures undertaken in fiscal 2003. A proportion of both these exposures is hedged using a combination of foreign currency borrowings and foreign currency derivatives.

### VaR

VaR is used to assess the maximum potential adverse outcome due to market movements over a defined time horizon and with a specified confidence level based on historical volatilities.

For the VaR numbers reported below, a one month time horizon and a 99% confidence level were used. This time horizon differs from many financial institutions who hedge for trading purposes where a one day period may be more appropriate.

We consider a one month holding period is appropriate as our hedging activities are of a non-trading nature.

The monthly figures quoted can be approximately converted to daily assessments by multiplying by 0.22 or to 12 monthly estimates by multiplying by 3.5. For example, the VaR result for foreign exchange of \$47 million converts to an annual equivalent of approximately \$165 million.

We derive the potential fair value impact by applying historical volatility measures to the identified market risk. Unlike sensitivity analysis, VaR analysis takes into account the diversified nature of our net debt and net foreign exchange exposure portfolios and incorporates historical correlation between the markets. It should be noted that historical volatility is only an indication of future volatility and that actual volatility could be substantially different.

## Quantitative and Qualitative Disclosures about Market Risk

We arrived at the VaR numbers by using a Monte Carlo simulation model developed by our consulting actuaries, William M Mercer Pty Ltd, which uses the RiskMetrics<sup>#</sup> methodology and RiskMetrics<sup>#</sup> data sets. The data sets from RiskMetrics<sup>#</sup> comprise:

- interest rate and foreign exchange rate volatilities; and
- correlations between interest rates and foreign exchange rates.

The simulation model determines the distribution of the fair value of our debt portfolio and foreign exchange portfolio at future rates. This is undertaken by simulating interest and foreign exchange movements against our actual transaction portfolio. In deriving the VaR numbers, 50,000 simulations have been undertaken to ensure the production of stable, robust results.

The VaR methodology adopted determines the maximum potential adverse outcome on the fair value with a 99% confidence level (ie. the value for which there is a 1% chance of being exceeded).

<b>VaR<sup>(1)</sup></b>	<b>As at 30 June</b>	
	<b>2003</b>	<b>2002</b>
<b>One month holding period</b>	<b>(A\$m)</b>	
<b>Risk categories</b>		
Interest rates . . . . .	<b>240</b>	276
Foreign currency rates. . . . .	<b>47</b>	60
Sub-total . . . . .	<b>287</b>	336
Diversification effect <sup>(2)</sup> . . . . .	<b>(52)</b>	(50)
<b>Total</b>	<b>235</b>	286

(1) For approximate conversions from monthly VaR cost multiply by 0.22 to give daily VaR and 3.5 to give twelve monthly VaR. These conversion factors assume that the portfolios continue with the same basis profiles, such as maturity and debt mix.

(2) Equals the difference between the total monthly VaR and the sum of the monthly VaRs for the two risk categories. This effect arises because there is a degree of correlation between the two market risk categories.

## Quantitative and Qualitative Disclosures about Market Risk

VaR calculations were undertaken for portfolio balances at the end of each quarter during fiscal 2003. The following table shows the high, low and average amounts of the portfolio VaR based on these quarterly results. It should be noted that the portfolio composition changes each quarter and that the high and low quarters are selected based on the then existing portfolio values. It is therefore possible that these quarters do not represent the high or low for each particular component of interest rate and foreign exchange rate movements and that inter quarter exposures change significantly.

<b>VaR<sup>(1)</sup> analysis</b>	<b>As at 30 June 2003</b>		
	<b>High</b>	<b>Low</b>	<b>Average</b>
<b>One month holding period</b>		(A\$m)	
<b>Risk categories</b>			
Interest rates . . . . .	301	236	253
Foreign currency rates . . . . .	55	45	49
Sub-total . . . . .	356	281	302
Diversification effect <sup>(2)</sup> . . . . .	(36)	(46)	(39)
<b>Total</b>	<b>320</b>	<b>235</b>	<b>263</b>

<sup>(1)</sup> For approximate conversions from monthly VaR cost multiply by 0.22 to give daily VaR and 3.5 to give twelve monthly VaR. These conversion factors assume that the portfolios continue with the same basis profiles, such as maturity and debt mix.

<sup>(2)</sup> Equals the difference between the total monthly VaR and the sum of the monthly VaRs for the two risk categories. This effect arises because there is a degree of correlation between the two market risk categories.

Additional information regarding our market risks is provided in note 29 to our financial statements.

## Corporate Governance and Board Practices

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The Telstra board aims for best practice in the area of corporate governance. This section describes the main corporate governance practices in place during fiscal 2003. Further information regarding our corporate governance and board practices can be found on our website, [www.telstra.com.au/investor](http://www.telstra.com.au/investor).

### The board

Telstra directors are accountable to shareholders for the proper management of Telstra's business and affairs and delegate responsibility for day-to-day management to the CEO. The board's key responsibilities are to:

- establish, monitor and modify Telstra's corporate strategies;
- ensure best practice corporate governance;
- appoint the CEO and approve succession plans;
- monitor the performance of Telstra management;
- ensure that appropriate risk management systems, internal control and reporting systems and compliance frameworks are in place and are operating effectively;
- monitor financial results;
- approve decisions concerning Telstra's capital, including capital restructures and dividend policy; and
- comply with the reporting and other requirements of the Telstra Act.

The board has adopted a formal charter and separate operating principles that detail the role and responsibilities of the board and its members.

### Structure of the board

The maximum number of directors provided for by our constitution is 13 and we currently have 12 directors on the board. A casual vacancy to the board may be filled or an additional director appointed, up to the maximum number of directors, either:

- by the directors after consulting with the Communications Minister; or
- by an ordinary resolution of shareholders.

The CEO is an executive director. The chairman, the deputy chairman and other members of the board are all non-executive directors and are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.

The tenure of the CEO is linked to his executive office, while one third of all other directors are subject to retirement by rotation each year. Directors who retire by rotation may be re-elected. A director appointed by the directors is subject to re-election at the next AGM. The board's general policy on board membership for non-executive directors is:

- the maximum retirement age is 72 years; and
- the maximum tenure is 12 years (ie. usually four terms of three years).

Directors and board committees are able to obtain professional advice independent of management or Telstra's advisers, at Telstra's cost.

A brief biography for each director, together with details of the year of initial appointment and re-election (where applicable) of each Telstra director, is outlined in the "Directors, Management and Employees" section of this annual report.

## Corporate Governance and Board Practices

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### Meetings of the board

The board meets for both scheduled meetings and on other occasions to deal with specific matters that require attention between scheduled meetings.

The regular business of the board includes business investments and strategic matters, governance and compliance, CEO's report, financial reports and, on a rotational basis, business unit reviews. The board also liaises with senior management as required and may consult with other Telstra employees and advisers and seek additional information.

### Committees of the board

The board also operates through committees that hold responsibility for particular areas. The two main committees are the Audit Committee and the Appointments and Compensations Committee. Each committee operates in accordance with a written charter, operating principles and Telstra's constitution.

#### Audit Committee

The Audit Committee is a committee of the board of directors whose primary functions are to:

- assist the board in its oversight of the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- provide advice to the board on financial statements, due diligence, financial systems integrity and business risks to enable the board to fulfil its fiduciary and stewardship obligations; and
- assist the board in establishing and maintaining processes to ensure that there is:
  - compliance with all applicable laws, regulations and company policies; and
  - an adequate system of internal control, management of business risks and safeguard of assets.

Subject to the role of the Auditor-General (as explained below), the Audit Committee (not management) is also responsible for approving all audit engagement fees and programs, as well as all non-audit engagements by Telstra's external auditors.

#### Membership of the Audit Committee

The Audit Committee is comprised of at least three members who must be non-executive directors who are independent of Telstra management and free from any relationship that, in the business judgment of the board, would interfere with the exercise of their independent judgment as a member of the committee. Each member must also have a working familiarity with basic finance and accounting practices.

In addition, the chairman of the Audit Committee must not be the chairman of the board of directors and no director may serve as a member of the committee if such director serves on the audit committees of more than two other public companies.

The members of the Audit Committee during fiscal 2003 were:

- John Stocker (Chairman);
- John Ralph;
- Charles Macek;
- Anthony Clark;
- Belinda Hutchinson; and
- Catherine Livingstone.

## Corporate Governance and Board Practices

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In February 2003, Belinda Hutchinson resigned as a member of the Audit Committee. Catherine Livingstone was appointed a member of the Audit Committee in June 2003. Details of the qualifications of each member of the Audit Committee are outlined in the “Directors, Management and Employees” section of this annual report.

### Meetings of the Audit Committee

The Audit Committee meets at least four times per year or more frequently as circumstances require. Board members are entitled to attend Audit Committee meetings and the committee may ask management, the external auditors and/or others to attend meetings and provide such input and advice as required. The committee may also meet separately with the CEO, management, the internal auditor and the external auditors in relation to matters that it wishes to discuss privately.

Details of the number of meetings held by the Audit Committee during fiscal 2003 and attendance by the committee members are set out in the Directors’ report.

### Relationship with the external auditor

In accordance with section 36 of the Telstra Act, it is a legislative requirement that the Auditor-General of Australia is the auditor of Telstra Corporation Limited for Australian Corporations Act purposes. The Auditor-General has appointed an agent, Ernst & Young, to assist in performing independent external audit duties at Telstra (Ernst & Young has performed this function since fiscal 2000).

The Audit Committee has the authority and responsibility to select, evaluate and, where appropriate, replace the external auditor for filings outside of Australia. Telstra, through the Audit Committee, has appointed Ernst & Young as its external auditor for filings outside of Australia and in this respect and for the purposes of these audits, Ernst & Young is responsible for financial reporting purposes rather than the Auditor-General.

The Auditor-General, as auditor of Telstra, owes duties to Telstra and its shareholders as a whole. The Auditor-General also owes statutory duties as an independent officer of the Commonwealth. Ernst & Young, as the external auditor appointed by Telstra for filings outside Australia, is accountable to the board of directors, Audit Committee and shareholders.

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.

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 or 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 functions or human resources;
- broker or dealer, investment adviser, or investment banking services; and
- legal services or expert services unrelated to the audit.

## Corporate Governance and Board Practices

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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 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 must 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 or any of its controlled entities. The statement includes a report of all audit and non-audit fees billed by the Auditor-General and Ernst & Young during 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.

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 those 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.

Subject to the role of the Auditor-General, the Audit Committee will discuss with management the timing and process for implementing a five yearly rotation of the lead audit partner and review partner of Ernst & Young and will consider whether there should be a rotation of the audit firm itself.

### Recurring processes

The Audit Committee, on an annual basis:

- reviews its charter and operating principles to determine their adequacy for current circumstances and recommends to the board the formal adoption of the revised charter and operating principles for future operations of the Audit Committee;
- meets separately with the internal auditor, the Auditor-General and Ernst & Young, with and without management, to discuss the results of their audits;
- considers any report or other disclosures to be included in the Company's annual report or other communications to shareholders on the relationships between the Auditor-General, Ernst & Young and the Company; and
- reviews with management, the Auditor-General and Ernst & Young, the financial report to be included in the annual report, including the Auditor-General's and Ernst & Young's responsibilities under generally accepted auditing standards, significant accounting policies, management judgments and accounting estimates and adjustments arising from the audit, and discusses the Auditor General's and Ernst & Young's judgments about the quality, not just the acceptability, of accounting principles as applied in the financial report.



## Corporate Governance and Board Practices

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### Appointments and Compensation Committee

The Appointments and Compensation Committee (A&CC) is a committee of the board of directors whose primary functions include advising the board on matters regarding the composition and remuneration of the board, remuneration and appointment of the CEO and senior management, Telstra remuneration strategies and practices generally and the performance of the CEO. The A&CC performs the functions of, and is equivalent to, a nomination committee and a remuneration committee.

### Membership of the A&CC

The A&CC is comprised of at least three members and all members must be independent non-executive directors, as determined by the board. The members of the Appointments and Compensation Committee during fiscal 2003 were:

- Robert Mansfield;
- John Ralph; and
- Donald McGauchie.

### Meetings of the A&CC

The A&CC meets at least two times a year or more frequently as required. The A&CC may request any Telstra employee to attend any meeting as it considers appropriate. However, if an employee has a material personal interest in a matter that is being considered at a meeting, he/she must not be present for consideration of that matter.

Details of the number of meetings held by the A&CC during fiscal 2003 and attendance by the committee members are set out in the Directors' report.

### Performance Evaluation and Remuneration

The board regularly reviews its performance and the performance of its committees. In fiscal 2003, the board engaged an external consultant to conduct interviews with each of the directors and selected senior executives to assist in evaluating the performance of the board and its committees. The external consultant's report was provided to each director and the participating senior executives. The external consultant also met with non-executive directors in the absence of management to discuss the outcomes of the review.

Information regarding performance evaluation of senior executives and emoluments for board members and senior executives (including information in relation to remuneration strategy and its relationship to Company performance) can be found in the "Directors, Management and Employees" section of this annual report.

### Business values, code of conduct and other company policies

Telstra has a number of internal operating policies and principles which promote ethical and responsible decision making and timely and balanced disclosure. The board is ultimately responsible for ensuring compliance by Telstra officers and employees with these policies and principles.

## Corporate Governance and Board Practices

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### **Telstra Values and Code of Conduct**

We provide guidance to our directors, senior management and employees on the standards of personal and corporate behaviour required of all Telstra officers and employees and how to deal with business issues through our company values and code of conduct policies. Through these policies we reinforce the standards of ethical behaviour we expect from all employees, which are aimed at understanding and complying with the spirit and letter of legal and regulatory standards. We have a mandatory ethics training program for all employees to reinforce these standards. We also provide assistance to employees on the application and interpretation of the Telstra Values and code of conduct policies through employee help lines.

### **Whistleblowers**

In June 2003, we introduced the Telstra Whistleblowing Service in accordance with a new whistleblowing policy. This policy deals with illegal, unethical or improper business behaviour within Telstra and provides protection for people who make disclosures, as well as the rights of anyone who may be named or affected by a report. The new service and the policy are designed to complement existing policies and procedures such as the Telstra code of conduct policy and the fair treatment and equal employment opportunity procedures.

### **Share Trading Policy**

We have in place a share trading policy that prohibits directors, senior management and certain other employees (and their associates) from engaging in short-term trading of our securities (including the acquisition of derivatives and financial and other products issued or created over Telstra's shares by Telstra or any third party). This policy also restricts the buying or selling of our securities to three "window" periods (between 24 hours and 1 month following the release of our annual results, the release of our half-yearly results and the close of our AGM) and at such other times as the board permits. In addition, directors, senior management and relevant employees must notify the Company Secretary before they or their close relatives buy or sell our securities. Changes to the interests of directors in our securities are, as required by law, notified to the ASX.

Furthermore, as required by law, buying or selling of our securities is not permitted at any time by any person who possesses price-sensitive information which is not generally available in relation to those securities.

### **Conflicts of Interest**

The Corporations Act and our constitution require directors to disclose any conflicts of interest and to generally abstain from participating in any discussion or voting on matters in which they have a material personal interest. In addition, the board has developed procedures to be followed by a director who believes he or she may have a conflict of interest or material personal interest in a matter.

### **Continuous disclosure**

We have in place a comprehensive continuous disclosure procedure which is reviewed and updated on a regular basis. The aim of the procedure is to ensure that we release price-sensitive information in a timely fashion to the various stock exchanges on which our shares and debt securities are listed. Our procedure runs as follows:

- ultimate management responsibility for continuous disclosure rests with the CEO and the Chief Financial Officer (CFO);

## Corporate Governance and Board Practices

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- our Continuous Disclosure Committee (Committee), chaired by the Group General Counsel, advises the CFO and the CEO on disclosure matters. The Committee is responsible for an internal disclosure system which ensures that information that might be disclosable is identified and reviewed quickly. The Committee's membership includes the Group General Counsel, the Managing Director - Corporate Relations, the General Counsel - Finance & Administration, the Director of Finance, the Director of Legal, the General Manager - Investor Relations Unit and the Company Secretary;
- senior management (including the CEO, the CFO, all other Group Managing Directors and their direct reports, all group financial controllers and all legal and regulatory counsel) must immediately inform the Committee of any potentially price-sensitive information or proposal as soon as they become aware of it;
- a collective recommendation regarding disclosure is then made to the CFO and the CEO. If the matter is disclosable, an announcement is prepared and immediately sent via the Company Secretary's office electronically to all relevant stock exchanges.

We implement several practices internally to reinforce the importance of Telstra's continuous disclosure obligations and the need to keep the Committee informed about potentially disclosable matters. These practices are reviewed regularly and include the following:

- every director is made aware of our continuous disclosure obligations upon taking office and each member of senior management undertakes training with Telstra's General Counsel - Finance and Administration, in relation to Telstra's continuous disclosure obligations;
- a weekly e-mail is sent to all senior management reminding them to notify the Committee immediately if they become aware of any potentially price-sensitive information or proposals;
- the Committee maintains a list of issues which, although not yet disclosable, are monitored in case they become disclosable;
- all proposed media releases and external speeches and presentations to be made by senior management are reviewed by internal legal counsel to determine whether they should be disclosed;
- an internal policy is in place governing communications with and provision of information to shareholders, brokers, analysts and financial media;
- the Legal and Regulatory Compliance and Risk Report prepared for the Audit Committee every quarter includes reporting on continuous disclosure; and
- the Office of the Company Secretary maintains a record of all market announcements made. The announcements are also posted on our web site after market release is confirmed.

### Legal and Regulatory Compliance

We are committed to conducting our business in compliance with all of our legal and regulatory obligations. Compliance with these obligations is not just a legal requirement but is integral to our commitment to our customers, employees, shareholders and the community.

Whilst we have always had in place systems to ensure compliance with our legal and regulatory obligations, we have a more formal compliance program in place. Under this compliance program, each business unit has a plan setting out how they intend to achieve legal and regulatory compliance in their operations through initiatives such as training, dissemination of information and monitoring of compliance outcomes. A Legal and Regulatory Compliance and Risk Report is also prepared for the Audit Committee every quarter. This report provides the Audit Committee with an oversight of the initiatives being taken to achieve legal and regulatory compliance and information on the significant legal cases in which Telstra is currently involved.

## Corporate Governance and Board Practices

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### Business risk management

Through our policies on risk oversight and management, we are committed to the management of risks throughout our operations to protect our employees, the environment, assets, markets, earnings, reputation and shareholder value. The Audit Committee provides advice to the board on the status of business risks to Telstra through an integrated risk management and assurance function.

The risk management and assurance function has promoted a common language and approach used by business units in identifying, measuring and prioritising business risks. The Audit Committee receives reports independently prepared by the Risk Management and Assurance Group, on significant business risks and the strategies to manage these risks.

In addition, we use risk financing techniques including insurance to reduce the financial impact of uncontrollable and catastrophic risks. A central treasury function manages the financial exposures to reduce the volatility of cash flows and asset values arising from interest rate and exchange rate movements in accordance with board approved limits.

### Evaluation of Disclosure Controls and Procedures

Our management, including our CEO and CFO, have reviewed and evaluated the effectiveness of our disclosure controls and procedures as of the end of fiscal 2003. Based on that review and evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective in providing them with all material information required to be disclosed in this annual report on a timely basis.

In designing and evaluating our disclosure controls and procedures, our management, including our CEO and CFO, recognised that even well designed, implemented and monitored disclosure controls and procedures can provide only a level of assurance of achieving the desired control objectives. As all control systems have inherent limitations, no evaluation of our controls and procedures can provide absolute assurance that all control issues and instances of fraud, if any, within our organisation have been detected.

### Shareholder Communications Strategy

We have implemented a number of initiatives to promote effective communication with our shareholders. These include the following:

- maintaining an investor relations website;
- placing all relevant announcements made to the market and related information on our website;
- webcasting certain events such as briefings and our AGM; and
- using electronic communications to advise investors of significant matters that may be of interest to them.

### Other Considerations

While the Commonwealth owns more than 50% of the shares in Telstra, we will remain subject to various ministerial and other controls to which other publicly listed companies are not subject. This includes a ministerial power to give us written directions that the Communications Minister believes are in the public interest (section 9 of the Telstra Act). Within these constraints, the board continues to strive to achieve best corporate governance practice.

## Corporate Governance and Board Practices

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### **Review of Corporate Governance and Board Practices**

Telstra is committed to continually reviewing and updating its practices. Whenever any new corporate governance requirements and guidance notes are issued by the NYSE, the SEC or the ASX, the board evaluates and, where appropriate, implements the relevant proposals to ensure that we continue to aim to achieve best practice in corporate governance.

### **Adoption of International Accounting Standards**

The Financial Reporting Council (FRC) announced in July 2002 that Australia would adopt International Financial Reporting Standards (IFRS), formerly known as International Accounting Standards, for financial years beginning on or after 1 January 2005. The adoption of IFRS will first be reflected in Telstra's financial reporting for the half year ending 31 December 2005 and full year ending 30 June 2006.

The transition to IFRS could have material impact on Telstra's financial position and reported results, however it is not possible to quantify the impact at this time. The company has established a project team to manage the convergence to IFRS.