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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from Analyst Briefing - Telstra's Participation in the NBN – Release of the Explanatory Memorandum

In accordance with the listing rules, I attach a copy of the transcript from yesterday's Release of the Explanatory Memorandum – Analyst Briefing, for release to the market.

Yours faithfully

Carmel Mulhern
Company Secretary

Telstra Conference Call: Release of Explanatory Memorandum
1 September 2011

Andrew KEYS: Good morning everybody. This is Andrew Keys from Telstra Investor Relations. Welcome to this morning's conference call to provide you with an update on Telstra's participation in the NBN, specifically the release of the explanatory memorandum and the independent expert's report today. In a moment I'll hand over to David Thodey who will take you through the slides that we have lodged with the ASX. When David has concluded we will open the call up for some analyst questions and I expect that may be for 15 or 20 minutes which will be followed by a media session as well. Thank you, over to you David.

David THODEY: Great, thanks Andrew. And good morning everybody. It's good to be here to share some of the key messages from the NBN explanatory memorandum we've published this morning. And I just do want to stress Directors have unanimously recommended to shareholders to vote in favour of Telstra's participation of the rollout of the National Broadband Network.

Now this recommendation is based on quite a rigorous analysis, I won't say quite, a very rigorous analysis which determined that the deal we've negotiated will deliver an overall result that is materially superior to any other option that realistically was available to us. So when we compared it to other alternatives, we've really determined it should provide Telstra with the following. Number one, a better financial outcome because it will contribute to our sustainable free cash flow generation across the medium term. Secondly, a more stable regulatory environment in which to operate, which will allow Telstra to focus on our customers which is so important for us. And then thirdly, greater strategic flexibility that's going to enable Telstra to maintain the strong focus on identifying key areas of growth in the future.

So this is supported by the conclusion of the independent expert, Grant Samuel, whose report is also included in the EM. The independent expert's analysis shows that Telstra shareholders will be substantially better off in net present value terms if Telstra does cooperate rather than compete with NBN. So to summarise both Telstra and the independent expert believe proceeding with the deal is the best option for shareholders given current government policy.

I'll talk more about how we arrive at this outcome as I take you through the first presentation slide. But before I do so, I just want to cover off the ACCC consultation of

our structural separation undertaking and migration plan which commenced earlier this week.

So it's very important to note that the consultation paper sets out the ACCC's preliminary assessment of these documents. The ACCC has raised a number of concerns but they do not really come as a surprise to us at all. Telstra has been in positive discussions with the ACCC for a number of months now and we were aware of the issues that the Commission has raised. I'd also like to note Rod Sims has commented that he thinks the issues are not insurmountable. We too believe the issues can be resolved in a way consistent with our principle of protecting shareholder value, and the company will continue to work closely with the ACCC to address its concerns with a view to obtaining acceptance to the structural separation undertaking and draft migration plan before the AGM on 18 October 2011.

Now if this doesn't occur Telstra may nonetheless seek Telstra's shareholder approval at the AGM. However commencement of the definitive agreements with NBN Co and the Commonwealth would still be subject to acceptance by the ACCC of the structural separation undertaking and approval of the draft migration plan, and of course the satisfaction or waiver of any outstanding conditions precedent that we've outlined to you right throughout this process. And of course Telstra would continue to update shareholders on any material developments relating to the status of the outstanding conditions precedent through the announcements to the ASX.

So if you turn to chart three, I'd like to just take you through the Directors' recommendation. And I want to spend a moment just reflecting on the decision that Telstra had to make with respect to the NBN policy and accompanying legislative framework.

Since the government announced its intention to roll out the NBN now it was back in 2009 it's really taken two major steps. Firstly it established NBN Co to build the national broadband network. And then secondly it introduced legislation in the form of the *Consumer and Competition Safeguards Act*. Now, that's called the CCS. So the CCS legislation effectively gave Telstra a choice. Either, we could undertake voluntary separation and that was a structural separation that we had to look at. Or secondly we could mandatory functionally separate its wholesale and retail operations. So really we were given a choice. Further if we did not elect to undergo voluntary structural separation it is likely that we would be prohibited from bidding for the next major

release of wireless spectrum which is necessary for us to best continue the growth of our mobiles business.

Now the *CCS Act* was not prescriptive on the form of structural separation. We looked at a whole range of options such as changing our corporate structure, including through the sale or demerger of networks and of course participating in the rollout of the NBN. Now having gone through all the options and really considering what the realistic available options were, the Directors determined that participating in the NBN rollout would be the best course of action for Telstra. Importantly, as a result, we have retained ownership of our point to point fibre and IP core networks and of course the ability to compete effectively with our world class mobile network. So that really lays out what the, the choices we had.

If we turn to chart four I just want to take you through the, you've seen this chart maybe in the EM, just what the areas of value are in the deal. And you've probably become quite familiar with these. So remember there's three of them, there's Telstra's commitment to disconnect progressively the copper services and HFC broadband services as the NBN is rolled out. Secondly there's the Telstra provision to NBN Co of long term access to large volumes of infrastructure. And of course there'll be a range of government measures. We said in June 2010 when we announced the financial heads of agreement that the approximately 11 billion NPV consideration across these areas was critical to ensuring that the board could support a deal. And when we signed the definitive agreements in June this year that remained the case.

It's also important to note that this was not the only value consideration to Telstra. The value assessment also included the value of broader benefits which Telstra may gain from the definitive agreements and which are very hard to quantify such as greater regulatory certainty. Whilst we considered the total value of the proposed transaction, we did so in the context of a broader assessment of the total value impact on the company relative to our realistically available alternatives. Whilst we used some different assumptions our approach was similar to that taken by the independent expert Grant Samuel. And whilst you will all have the opportunity to read their report, I thought it would be probably opportune to just briefly touch on what their key findings are.

So if you turn to chart five, the independent expert has concluded that the proposed transaction is in the best interests of Telstra and Telstra shareholders. On their

assessment the value of Telstra if the proposed transaction proceeds is approximately 4.7 billion NPV greater than under the best available alternative and takes into account its assessment of the 11 billion post-tax NPV delivered to Telstra by the proposed transaction and associated government policy commitments as well as the consequential impacts on Telstra business operations.

Further and very importantly the value differential remains substantial even under a wide range of alternative assumptions. As I mentioned the independent expert has used some assumptions that differ from those used by Telstra in our analysis which is detailed in the explanatory memorandum and you should look at that.

Right, so let's go to chart number six. So this is around shareholder protections. Let's just briefly touch on that because if there was a change in government policy we needed to make sure there was a degree of protection for shareholders. So let me just run through these quickly. Firstly NBN Co will still be required to pay Telstra access payments under the long term contract for certain infrastructure in use or subject to a confirmed order at the time the rollout ceases, except in certain circumstances which are detailed. So that's very important. So whatever's being rolled out will be paid for.

Secondly, NBN Co has agreed subject to limited exceptions to compensate Telstra up to $500 million if having reached a minimum 20% of NBN Co's fibre coverage target the rollout ceases. The amount payable scales down as NBN Co rolls out the NBN fibre network beyond 20% of the coverage target.

Thirdly the TUSMA, T U S M A, we call it TUSMA, agreement as a whole cannot be automatically terminated if the rollout of the NBN fibre network has passed 20% of NBN Co's 93% target. Instead it requires the parties to renegotiate the TUSMA agreement based on certain principles.

And then lastly, as we've talked about before, Telstra will be able to continue to generate earnings and cash flow from the ongoing operation of the copper network and the HFC cable network in areas where the rollout of the NBN fibre network has not occurred. We call this the natural hedge and of course you know I've talked about it in the past. So that's just the protection.

If you turn to chart seven, this is really a breakdown of the three key areas of value impact on Telstra from the government's initiatives. And I did touch on these just as I introduced the session. But it's really based on the Directors' deep assessment of the

process to ensure that the best outcome for Telstra and Telstra's shareholders in these circumstances would be achieved. And of course this has culminated in our recommendation to participate in the rollout of the NBN. As I said earlier, compared to other realistically available options, participating in the NBN should provide Telstra with a better overall financial outcome, a more stable regulatory environment in which to operate and greater strategic flexibility. So what I want to do now is just to touch on each one of these just briefly and give you some sense of why we came to those conclusions.

Firstly let's have a look at our free cash flow generation in the medium term. While the proposed transaction is not expected to have a material impact on Telstra's financial results and financial year ending 30 June 2012, it is expected to contribute to sustainable free cash flow generation in the medium term providing Telstra with greater financial flexibility and a stronger balance sheet than under the best available alternative given current government policy.

We also needed to recognise the industry trends where revenue from Telstra's fixed line voice products has been declining for many years, and the introduction of the NBN is expected to accelerate this decline. While Telstra may lose much of its fixed line voice and broadband wholesale business as many of its wholesale customers move their business directly onto the NBN, we expect to save on future operating costs in relation to our copper network and HFC cable network as we reduce use of these networks over time.

Set against this Telstra will need to make access payments to NBN Co to provide most fixed line services to its customers using the NBN. And we therefore expect that margins and cash flow on existing fixed line revenue streams will be reduced overall.

Now we have sought to mitigate this with the disconnection payments we receive. Incremental revenues we receive as a result of infrastructure access payments from NBN Co combined with the benefit of payments received and costs avoided through the various Commonwealth agreements and government policy commitments will contribute to cash flow in the medium term. And that graph there just gives you a pictorial representation which is straight out of the explanatory memorandum.

So if I turn to chart number nine. In terms of a more stable regulatory environment, if shareholders approve the proposed transaction and the issues raised in the consultation process are resolved so that the ACCC approve our structural separation

undertaking and draft migration plan, we expect it to result in a more stable regulatory environment for a number of years. And there's sort of three key areas I wanted to draw your attention to.

Firstly we will avoid the anticipated costs and complexity associated with mandatory functional separation. And that's a significant consideration. Secondly Telstra's structural separation should address competition concerns over the company's vertical integration identified as a major justification for the current level of access regulation of Telstra. Telstra should face a lower risk of access regulation than under the best available alternative where Telstra remains vertically integrated.

And lastly the proposed transaction should also provide greater regulatory certainty as the NBN is being rolled out since the SSU sets out the interim equivalence and transparency measures that will apply to Telstra during this period.

So I want to just now touch on, and remind you, strategically about what we're doing in preparation to operate in an NBN environment since the NBN policy was announced in April 2009. And we've been doing a lot of work and we believe that we are well positioned.

Firstly Telstra's already implemented significant initiatives to become a more sales, marketing and service led company centred around our four strategic priorities. Improving customer satisfaction; retaining and growing our customer base; simplifying processes right throughout the business; and then lastly building new growth businesses through our network applications and services, international and media assets.

Secondly the NBN will accelerate existing trends with which Telstra is familiar that we are well positioned for and to which we are already responding such as product bundling; content and application development; device differentiation; and of course the rapid growth of data usage.

If you turn to chart 11, again I've shown this chart before, but the rollout of the NBN will also create new opportunities for Telstra. The use of the NBN will give Telstra the opportunity to provide new applications and services over the NBN across its customer base. So if I look at the four business segments, or segments that we focus, but firstly for Telstra Consumer and CountryWide. The NBN provides us with the opportunity for further product and application innovation and the bundling of FOXTEL and other

services which will be a key focus of ours. In Telstra Business, or the small to medium business market, we have an NBN- ready suite of products already. And we will continue to introduce new products and capabilities that provide our customers more than just fast broadband.

In the Enterprise and Government market, most of our major customers are already served by fibre so the NBN will have less impact in that market.

And then lastly, Telstra Wholesale where the NBN will clearly have a significant impact as a number of our core wholesale services operate across a copper access network that will be disconnected over the rollout. However, there are also new opportunities that may emerge in wholesale, such as the provision of layer three wholesale services over the NBN plus our infrastructure agreement with NBN Co. So that will probably just be some degree of offset against the copper wholesale revenues that we enjoy today.

So in conclusion let me just say and remind you of the three key reasons the Directors are unanimously recommending shareholders vote in favour of Telstra's participation in the rollout of the NBN. Compared to other realistically available options, participating in the NBN should provide Telstra with a better overall financial outcome; secondly, a more stable regulatory environment in which to operate; and then thirdly, greater strategic flexibility. In addition, we have secured key protections for Telstra in the event of a change in government policy. This has been recognised by the independent expert who concluded the value differential remains substantial even under a wide range of alternative assumptions.

I think that's it from me. Thanks very much, and I'm going to pass back to Andrew now who is going to manage the Q&A. John is with me and we can answer any questions between us. Andrew.

Andrew KEYS: Operator, could you please put through Laurent Horrut who I think is our first in line.

Laurent HORRUT: Thank you. Two questions from me. Just in terms of the assumptions you detail in the appendix of the independent expert's report, I should say the assumptions outlined by the independent expert's report itself. You were mentioning broadband market share in the long term of 45%, which is in fact up from where it is currently. So I'd just be interested to get a bit of colour on what's your thinking, in terms of how this market is going to evolve over time, and why you are so

confident you can retain your market share at the current level. And I'd particularly be interested to see if you assume the entry of non-telco players into the broadband, the broadband and telephony market at that point?

Second question just on, to clarify, what sort of long term margin do you assume for this particular segment of the business for the fixed broadband and telephony part. And lastly, just on your decision tree, very interesting to see the sort of, the range of options there. And it looks like the way you look at things is, I'm just looking for confirmation here, is your own decision whether to accept or reject the proposal actually increases the odds of the NBN completing or not. And in that sense I was just wondering why, why you are actually recommending to participate?

David THODEY: Look, on the first one, on the market assumption, remember we've got a 70% or thereabouts market share in the fixed market today. You're referring just to the fixed broadband, so we're assuming that we put those two together in terms of having 70% down to 45%, and we think with fixed broadband, yes, we're probably 42 – 43%. And that, you know, we think composite together 45% is about the right place to go.

John STANHOPE: But let me just quickly add here the market share assumption is in the independent expert's report, not ours.

David THODEY: That's a good point, yes. So they've done that. But the other thing is that with this, you know, we are obviously looking at a lot of strategies to compete as we go forward, Laurent, and so we'll be working on that as we go forward. And I think it's, well, it's the independent expert's number but we think that's probably not unrealistic.

The second point is, so if you just take me through that question again?

Laurent HORRUT: Oh okay. Just fixed margins basically long term in the business given the input costs.

David THODEY: I don't think we've disclosed the margins that we assume in the...

John STANHOPE: No, no, we haven't, but we, there will be, there is a disruptive event that's occurring. There will be market share loss in fixed in total, so PSTN and fixed broadband. And there will be margin reduction as the input costs as well as the moving to things like VOIP for example that will cause margin erosion. So in our modelling

we've assumed a margin erosion and the independent expert has confirmed yes, there will be one. Now we may differ on the absolute numbers but it's somewhat irrelevant, any difference, because the independent expert's report is making the comparison between cooperating and the best available alternative.

David THODEY: So Laurent I think we'll sort of, you know, I think that's probably what we can give you today.

Laurent HORRUT: Okay, no, thanks for that. And the last question just on the decision tree analysis that you are detailing on page 48.

David THODEY: Right, yep. And the specific question on that Laurent is, what is it, what about the decision tree? Laurent? Have we lost Laurent?

Andrew KEYS: Yes, we might go to the next question. I think Brad Clibborn is next in line.

Brad CLIBBORN: Good morning guys, thanks for your time. Two questions from me, firstly on capex around the fixed business or I guess overall. You've got previously that you'll keep the 14% capex to sales over the near term. In your slide eight with the free cash flow profile, can you confirm that that 14% capex to sales is assumed out to FY 15? And also on capex the independent expert is assuming that spectrum payments can be funded within that profile. Would that be the same assumption that you would make over the next couple of years? And secondly, in terms of your assessing the range of outcomes you said that the NBN proposal delivers the best value for shareholders. Can you confirm that the value protection mechanism under a change of policy delivers an equivalent value to shareholders with the three mechanisms you've negotiated? Thanks.

David THODEY: So let me ask John to handle the first couple then I'll come in on the last one. John may want to make a comment on the third one, and then I'll give you a little bit of a follow up. John do you want to take those?

John STANHOPE: Yes, sure. 14% capex to sales is assumed.

Brad CLIBBORN: To FY 15?

John STANHOPE: Yes. Now, we've said we will have at least three years 14% capex to sales and after that the possibility of reduction. But in there the assumption is 14%.

And you had a question about spectrum, spectrum is not assumed in that 14%. Spectrum is assumed to be borrowed for, which I've said a number of times, in fiscal year '13. And I'll leave the mechanism thing to David, you can, and I can add to what you have to say.

David THODEY: Yes, look, I think that in terms of going to a vote for shareholders, it very clearly values the cost or the benefit we need to receive for any form of separation. So it puts a stake in the ground which is very important. Should any policy change, be it from the current government or a future government, should decide to make. So that's the first point.

The second point is that as we went through, each of the protections sort of kick in at different times. So you can't be 100% sure of everything there, but it gives you, the most important thing is we're not putting our assets into NBN Co, we're holding our assets, and we hold the copper network. And we've got all those customers still on the copper network. That's got enormous value in itself. As you know, when the NBN build was announced there was a significant drop in our, you know, market cap valuation. And therefore if we, if it's not built, well, I suppose it goes the other way too. So that's we think overall we think we've got good protection. And that will be I think good for shareholders. And as was said we've got to respond to existing government policy, it is what it is. And we've negotiated to the best possible position with the right degree of flexibility.

David THODEY: Okay, so I think we'll take the next question after that. So who's the next question?

OPERATOR: Thank you, we have Mark Blackwell.

Mark BLACKWELL: Yes, hi guys. The illustrative charts on what the revenues are from the various payments. Is there any, are any of you able to give us any comments on what the sort of I guess the margins of those payments might be or what the costs associated with achieving those payments might be? I mean just to help with the modelling.

David THODEY: The CFO will give you a quick answer to that question, no. I mean, look, you've got the overall numbers and you can probably do what you...

Mark BLACKWELL: Yes, okay, well, I'll make my own assumptions then. The second

question just relates to the various components of the $4.7 billion and what makes up that calculation. I just noticed that if you don't believe that there are costs of the compete scenario and in particular the costs of being excluded for spectrum auctions, then the $4.7 billion comes down pretty sharply. I guess my question is do you, do you believe that the government would exclude you from spectrum auctions and allow the remaining two to dominate the spectrum and dominate the mobile space? I guess do you really believe that that is the alternative?

David THODEY: Well, yes I do.

John STANHOPE: I mean, we can only deal with what is said, and they've said that they may, or will, restrict us from bidding. At the end, one of the differences in assumptions between the independent expert and us is that they believe the impact of that is not as severe as we have assumed. But nevertheless still the cooperate versus the best alternative is better in what we have assumed and what they have assumed.

David THODEY: And yes, so I think even if you took the optimistic case it still makes it a better deal. So I don't, yes, I don't think it really makes, changes things much at all.

Andrew KEYS: Okay, next question please.

OPERATOR: Thank you, we have Daniel Blair.

Daniel BLAIR: Thanks guys, and congratulations on getting this far on the next step. Three questions from me. Firstly you're saying that if there's no ACCC approval by the 18th of October that you may still take a vote to shareholders. Can you help us just understand the process to decide whether you will or won't take that vote, assuming you don't have that approval? That's the first one.

Secondly, on the timing of getting to finalising a definitive agreement can you just give us sort of a best estimate around, around that? And then thirdly looking at the NBN rollout, can you give us any, any guidance around the timing of the rollout of the fibre ring? Is there any change to your views there? Thanks guys.

David THODEY: Okay, in terms of going to the vote on the 18th of October, we're working as hard as we can to make sure that we're in a position to do that. And the only reason we've said "may" is just in case something goes awry during the process. But even so, we're just trying to make sure that we, we have an option. But the intent is to either get it agreed with the ACCC or to get down as far as possible so we've got

confidence in taking it to shareholders, but you should take it that's what we're aiming for and we think we can probably get there, so we're just being a little bit cautious.

Now the timing to the definitive agreements. I mean, once we get the shareholder vote, and once we've got just the ACCC issue agreed, we're sort of done and dusted. So there are, as soon as possible is what you want, so John there's nothing much else there, is there?

John STANHOPE: Oh, no, as soon as all that's done they're operational so there is such a thing called the commencement date. The commencement date equals approval by shareholders and the other CPs are satisfied or waived and we're off and running. They're binding contracts then.

David THODEY: Yes. And on the rollout of the rings, you know, we're underway, we're planning at the moment, but we will only do that once we get firm orders from NBN Co. And so, and they have not yet released their next 12 month rollout, but we're working closely with NBN Co at the moment.

David THODEY: Okay, so who's next?

OPERATOR: Thank you, we have Ian Martin.

Ian MARTIN: Good morning. Look, I agree with the broad approach you're taking it just seems the most sensible by a long way. But there's still quite a few complications one of which is the, what happens if the Optus NBN agreement is disallowed? And the ACCC said don't take it for granted we will approve it, it follows quite a different process. In their discussion paper they refer to a letter to John Stanhope of the 23rd of June called 'condition precedent Optus'. But in your frequently asked questions you say that's not a condition precedent and I just wonder what the consequence is, particularly the valuation impact, if Optus does continue to operate the HFC network in competition to the NBN?

David THODEY: I know what I think is the situation on that one. John there's just a little slight twist in Ian's question that I just want to make sure I haven't misunderstood. Do you want to answer that?

John STANHOPE: Okay David. The condition precedent that we had around that was an agreement was entered into between NBN and Optus and it has occurred. You are right Ian it is subject to ACCC agreement that they, you know don't find it anti-

competitive or whatever, so that's still subject to approval. You know we're hopeful that that approval takes place. If it didn't take place it does, it would have an impact, fairly minor, on the value of the deal but not to the extent that it would render cooperation worse than competing I can tell you by a long shot. So, but nevertheless having said that if the ACCC did not approve that, you know, we would, you know the board of the company would have to consider that outcome.

David THODEY: So Ian it's, I think we will be watching this very closely as we go through because it would be a consideration we'd have to work through. Okay. Yeah next question.

OPERATOR: Thank you we have Tony Wilson. Go ahead please.

Tony WILSON: Good morning. Look I just want to be clear on the $4.7 billion Grant Samuel NPV benefit is that, that's directly comparable to the $11 billion that you guys come up with is that right?

David THODEY: No.

John STANHOPE: No.

Tony WILSON: Different assumption? So we're talking two different numbers. So what's the $6.3 billion difference?

John STANHOPE: Okay so the $11 billion is the absolute value of the whole deal so $4 billion decommissioning, $5 billion infrastructure and $2 billion from the government agreements, so that's the absolute value of the deal. The $4.7 billion is the independent expert's assessment of the difference between the value of cooperating versus the value of the best alternative. So it's the value difference between those two, and ours is the eleven is the absolute value of the deal.

David THODEY: Alright. Make sense Tony?

Tony WILSON: I'll take a few issues offline there. Second question just on the cash flow chart the, I mean there's no scale on that but am I right in saying that the fixed line component decline from fiscal year 11 to 15 is of the order of eight or nine hundred million dollars or are we talking something more substantial than that?

John STANHOPE: Well think of it this way. The PSTN is in decline around 8% last year. That would continue with some acceleration due to the NBN impact.

OPERATOR: Thank you. Next question is from Sameer Chopra.

Sameer CHOPRA: Hi there. I had two questions. The first one is you know the NBN's being rolled out right now and I was wondering if you can provide an indication of the sort of pricing you intend to put out there. We've been through the market share discussion, just wanted to get a sense for when, when do we expect Telstra will engage from a retail, as a retailer on the NBN. Second question is David you mentioned that you know to mitigate the impact of the NBN there'll be a simplifying of the future mode of operation. And I was wondering when over the next sort of four years do you expect to see a big leg down in costs?

David THODEY: Let me answer the first question. Look over the next couple of months we'll probably give some indication of pricing but we're not ready to do that yet so there's no, nothing today on that. Secondly in terms of the simplified mode of operation, as you'd imagine today we do not buy any wholesale services so we've got to build a capability to interface in the NBN Co and we think that's going to give us an opportunity to just progressively build a separate provisioning capability that we will, we are looking at I should say, how we can use that maybe a bit more expansively as we go forward but we're not, not factored in any significant cost reduction on that at the moment. We do think there is some opportunity there Sameer but we've not factored that in and but again it's always the part of trying to get this business simpler and less complex and that's so, that's got a lot of work going on at the moment on that area. So sorry I don't have any, haven't given you any definitive numbers but that's where we're at, at the moment.

Andrew KEYS: Okay operator one last question from the analyst queue please if we can make that a short one.

OPERATOR: Certainly we have Christian Guerra. Go ahead please.

Christian GUERRA: Morning David, morning John. Thank you for your time this morning. I have two questions for you. Firstly and I'm not sure if I'm on the right track here but the expert's talked about the $4.7 billion value differential between the compete, sorry between the cooperate scenario and the best alternative. I was maybe expecting the directors of the company to put forward their own views on the differences between cooperating and the next alternative and I was a bit surprised that I didn't see that. Is there any reason for that? Is it a legal issue or something along those lines? And then secondly on the timetable from here which you've talked about

earlier John can you maybe just explain to us where the, where NBN Co's special access undertaking fits in in terms of ACCC approval and yeah are we done and dusted in terms of the process even with, without approval of that access undertaking? Thanks.

David THODEY: Okay do you want to answer the second one and then I'll come back and answer the last one if you want to offer any comment John.

John STANHOPE: Very clearly Christian the acceptance of the structural separation undertaking is a condition precedent and so you know this won't proceed unless there is that undertaking is accepted. Now you know what has been occurring and what will continue to occur is some productive dialogue about what that undertaking needs to contain to be accepted and, you know, some of the issues, if not all the issues, that the ACCC raised today, or yesterday, you know will be worked through and we're confident a resolution at low or no cost can be reached. Of course NBN Co also needs to get a structural access undertaking accepted by the ACCC as well for them to actually operate so whilst that's, you know whilst that's, you know not for us to seek approval for, unless they can operate then this doesn't happen either so, you know, that's a necessary condition as well. So certainly the SSU acceptance is a condition precedent that must be met. So David do you want to take the other one or?

David THODEY: Yeah look on the comment about Directors, firstly Christian I think you know from the directors' point of view we are, we obviously wanted an independent view so you get it through the independent view and if I think I suppose we had any issues with the independent view we would probably raise them but we're not and we have been very clear about the $11 billion NPV post-tax. So I don't quite know how as to answer that question really. I mean, we've tried to be as open and transparent as possible, and the independent expert's report is, sort of gives you, you know, something that is helpful and I don't think that's uncommon practice but maybe you can, if you want to pick it up offline, I think it's purely just trying to be as transparent as possible.

John STANHOPE: Yeah and I'd just add the comment David that the Directors in the EM still conclude that cooperating or participating in the NBN transaction is better than, for shareholders, better than the best alternative as well. All that is not specified is the value and we left that, the value differential, and we left that to the independent expert report.

David THODEY: So I think it's really as simple as that. But look if you want to pick it up separately we'll be happy to talk to you about it. It's nothing onerous or unintended there. Okay so Andrew do you want to go to media questions now?

Andrew KEYS: Yeah if we've got some media in the queue we can take those questions now.

OPERATOR: Thank you. We do have Dominic White online. Go ahead Dominic.

Dominic WHITE: Hi. Yeah I guess just following on from that last question actually you're I guess another potential reason for not putting out there why, what the value differential is would be that I imagine your rivals, Optus in particular, are going to leap on this $4.7 billion figure and say it's an outrage, Telstra's getting a huge bone from the government and this shows why they should be regulated more heavily. I mean you're damned if you do and damned if you don't I suppose but I just wondered what you'd say in anticipation of such a perhaps inevitable comment?

David THODEY: Look Dominic, I would say that you've got to look at the total story here of what shareholders have had to go through to look at any valuation story or conversation and the very fact that, you know T1, T2, T3 and what value is being realised by the government and then also what happened to our shareholder's holding when the NBN was actually you know announced. So I don't think it's any of the words you used at all. I think it's a fair consideration.

OPERATOR: Thank you. We have Jennifer Hewitt. Go ahead please Jennifer.

Jennifer HEWITT: Okay, alright. Look I just want to get some understanding from you, I know you said it's too early to talk about prices. But what seems to happen, or the NBN seems to be, NBN Co seems to be counting on really steadily increasing prices over future years. How does that fit with your understanding of what's happening in pricing generally in telcos where it's been shown to be coming down sort of substantially?

David THODEY: Well look you'd really have to ask the NBN Co about their pricing strategy. I've read some comments that have not been, shared them with us. We also have within our agreement some adjustment to CPI in terms of what we're offering to NBN Co. But that's really a question for them and it's very hard for me to comment. There are some areas in telco where prices are coming down but we've put access

prices up. So it just depends on the nature of the offer and that's probably true around the world. It just depends on which service you're really referring to. So sorry I can't be much more specific than that.

OPERATOR: Thank you. We have another question from Dominic White.

Dominic WHITE: Sorry I'm not meaning to monopolise here but as I'm on just on that actually two things on the SAU I just wanted to be clear whether if, you know, does this deal not actually start for shareholders until the NBN Co's SAU is approved and what's your feeling on the timeline? And also do you have any, I mean I imagine you must have some concerns about them putting prices up under their SAU or, you know?

David THODEY: Well let me answer the second part. We deal with suppliers every, you know every day, every week, who put prices up at any time so it depends on, you know, the type of supplier and there's cost of living allowance adjustments, there's various things that we always work with and that's just part and parcel of doing business. So, you know, that's life in business. In terms of the SAU John do you want to comment on anything on the SAU and the interdependencies between the SSU and the SAU?

John STANHOPE: Yeah look I'd just make the comment that the separation, sorry the access undertaking that is not our condition precedent to the deal however it is a necessary element for NBN to operate. You know where that's up to you need to talk to NBN about because that's, that is the discussion that occurs between NBN Co and the regulator but, you know, we don't have any indication that there is any issues but, you know, that question needs to really be directed. It's not a condition precedent for us but it's fundamental for them to operate.

David THODEY: Thanks John and Dom I hope that gives you some sense for where it is. I mean there are some interdependencies here but we've got to do what we've got to do.

Andrew KEYS: Yeah next question.

OPERATOR: Thank you. Elizabeth Knight.

Elizabeth KNIGHT: Oh yeah hi guys. Look sorry to harp on about this sort of $4.7 billion value differential. This is what the independent expert has found and you've agreed that it's the best course in terms of value but you haven't necessarily agreed

with their $4.7 billion, that's their figure.

David THODEY: Correct.

Elizabeth KNIGHT: Right. So how are we to sort of have confidence that your figure wouldn't necessarily just be a $1 billion, yeah differential, or indeed a $10 million differential?

David THODEY: Well I think that if we had a significantly different view we would obviously have to say something about that but so while we've got some differences in assumptions we would be, you know, think it's in the right sort of ballpark. John, do you want to comment on that at all?

John STANHOPE: Look, suffice to say that the independent expert's approach has been very similar to ours and its conclusion is within the range of outcomes that we have modelled so we don't feel like we need to say any more than that. And that's fundamentally established market practice so we don't intend to add anything.

David THODEY: Yeah so really the intent here is really where we're trying to give an independent view rather than our view so that it can carry more credibility but maybe you trust us more, I don't know, but I'm sure that as John said I mean it's, we're satisfied with the report and so I think it gives you a fair indication of where we're at. Okay we've got one more question from Mal Maiden if that's okay operator.

OPERATOR: Thank you.

Mal MAIDEN: Yeah hi. Just well a double question again on the $4.7. So am I right in thinking, maybe this is for John, that your number versus the $4.7 that is published is not material in a disclosure sense? You have your number, they have theirs?

John STANHOPE: You mean any difference?

Mal MAIDEN: Yeah that it's not material in a disclosure sense?

John STANHOPE: That's right and I'll repeat what I said. The independent expert did adopt a similar approach. There are a few assumption variations that are spelled out in the EM but it's in, but it still remains in the range of outcomes modelled by Telstra.

David THODEY: Yep. You've got one more Mal or is that it?

Mal MAIDEN: So am I right in understanding the SAU is not a condition precedent for Telstra, it obviously is something that has to happen for the NBN.

David THODEY: Yes.

Mal MAIDEN: So if, so if you get to the position where yes you've got your deal, the SAU is not, is not achieved by the NBN, your deal is up, the NBN is down, what then happens?

David THODEY: We keep selling lots of copper services and just going on as business as usual which we're pretty happy about because that's just, you know, life goes on and as I keep referring to if the SAU never got up you know we don't have an infrastructure competition. So remember this is all about being trying to, if it does happen, how we get value back to shareholders and so we just carry on. John, do you want to comment?

John STANHOPE: No I think that's exactly right David.

David THODEY: Yes, so I mean we just get on with life and we're always very happy just to be able to left to run our business.

Andrew KEYS: Okay there are no more questions registered. David I'll hand over to you for some closing remarks.

David THODEY: Thanks Andrew. Look firstly thanks for your time. I mean this is an important moment in the whole process we are to go through and I just do want to stress that our, you know Directors, have looked at this, you know, every way possible and they are of the unanimous, in unanimous agreement to recommend this to shareholders to vote in favour of Telstra's participation in the rollout of the national broadband network and we do think that this puts a very important milestone and a valuation on what is required to, you know, enable us to be able to enter into this sort of transaction. And as I said we think it is the better overall financial outcome, it does give us greater, a more stable regulatory environment and greater strategic flexibility going forward.

So look thanks very much for your time. I'm sure that there'll be a number of questions. If you've got any questions please make sure you come through to the people, the right people, and there's a number of people available to talk to and I wish you all the best, thank you very much.

END OF TRANSCRIPT