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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from analyst teleconference on the National Broadband Network

I attach a copy of the transcript from Thursday 26 November 2008 teleconference on the National Broadband Network.

Yours sincerely

Carmel Mulhern
Company Secretary

NATIONAL BROADBAND NETWORK – TELSTRA PROPOSAL
26 NOVEMBER 2008

MR SPINCER: Good afternoon, everyone. I hope you can here me, this is Ben Spincer from Investor Relations. Welcome to this call this afternoon. I'm joined today by Don McGauchie, Chairman of Telstra, and John Stanhope, the CFO. Donald will make some preliminary comments to you all, and at that point we are more than happy to make any questions that you may have. I think we have around about 45 minutes in total for this call, so I will hand over now to Donald.

MR McGAUCHIE: Thanks, Ben, and, look, thank you all for joining us. What I wanted to report to you was that on behalf of the Telstra board today I have written to the minister with a proposal to build a world class open-access national broadband network. The proposal outlines what would be achieved by the fully detailed bid Telstra has prepared, but which we could not submit due to a number of unresolved issues in the government's request for proposals.

While it is not a fully detailed bid under the terms of the RFP, we are certainly of the view that it will allow the government to consider our proposal should they wish to do so under the RFP. A decision not to lodge a fully detailed bid reflects our view that the terms and conditions outlined in the RFP, especially given current global conditions, would have represented an unconscionable risk for our shareholders. Now is not the time to take risk with shareholders funds. I think we can all see that the market presents much evidence of the trouble that some companies have got into that, in hindsight, had taken risks on decisions that they should not have taken - or decisions on risks they should not have taken.

Telstra certainly remains willing and ready to engage with the government to ensure that Australia harnesses the benefit of a high-speed, high-definition world.

Now, just to give you some details as we put them in: under the proposal, Telstra would invest up to $5 billion of its own capital. It would see the government provide the $4.7 billion in the form of a concessional loan, which we believe is a superior configuration to taxpayers from a risk perspective. The NBN would be open access with wholesale customers big wholesale access services on an equivalent basis to Telstra's retail units. We see that up to 90 per cent of the population would be covered by that proposal. The network will be capable of delivering downlink speeds of at least 25 megabits, and up to 50 megabits in 65 per cent to 75 per cent of the footprint, with downlink speeds of between 12 megabits and 20 megabits in the remainder of the footprint.

The network would be architected to be upgradable. We are not seeking any sort of a ban on infrastructure competition. Our competitors can do what they like with their own equipment and invest in that in any way they see fit in a competitive way.

A wide-range of services, including IP telephony, high-speed internet, IPTV, videoconferencing and telemedicine would be supported over this platform.

A $29.95 per month entry level, one megabit retail broadband pricing plan - which, let me tell you, is four times faster than the existing plan at the same price - would be available to customers with a Telstra fixed line telephone service. The rollout would commence as soon as possible across multiple locations in metropolitan and regional Australia, and we believe could be completed faster than any other alternative that might be considered.

What Telstra is proposing is subject to a number of enablers being in place, including no further separation and regulatory certainty over the life of the investment.

As I mentioned, we must manage risk on behalf of our shareholders. Unfortunately, the lack of resolution on a number of fundamental issues has meant that Telstra has been unable to submit a fully detailed bid under the RFP. Let me reiterate to you what those issues were: the lack of clarity around further separation and that negotiations must remain open for 12 months under the RFP; confidentiality concerns; and the commonwealth's proposed commercial terms.

I will take the point of separation: separation would be extremely damaging for Telstra shareholders, customers and the Australian telecommunications industry as a whole. With separation, the NBN simply cannot and will not be built. There is no business case, there are no economics that work. A separated network would be impossible to build or to maintain. Telstra's board cannot put shareholders in a position where there is a prospect for such value-destroying policies to be put in place, such as separation. These concerns have been further exacerbated by the global financial market, which has, as I think you would all know deteriorated markedly since the RFP was issued. Capital is more expensive and difficult to access; customer demand is less certain; and the Australian dollar has fallen by over 30 per cent, which has increased costs by in excess of $1 billion.

The NBN is essentially an upgrade of Telstra's fixed network. It is one of Australia's largest infrastructure projects, and the world's biggest fibre to the node network in terms of geographic coverage. We see it employing somewhere in excess of 4000 staff throughout the life of the project.

Telstra strongly believes it is the only company that can build a world class NBN. We don't believe that any other company can match Telstra's investment in Australia. We are owned by 1.4 million shareholders, and we have invested over $20 billion of capital investment over the past five years. We have the financial capacity and capital commitment to be able to do this project; we have a recent track record in network development and project management; we have the skilled workforce; we have the detailed understanding of the national security and network security issues that are crucial to Australia's national and commercial interests; and we have the ability to build the NBN as a single, integrated end-to-end network.

I no doubt that others claim or will claim that they can build the NBN. But, let me say, it is neither the time nor the project to take such a blind leap of faith. I think we should all be asking the other bidders: have they ever built a national network the size of the NBN; what is their track record; do they have the engineering skills, technician and equipment; and, perhaps most importantly in this particular period in our history, how much of their own money are they committing to the project?

Let me finish off by saying that Telstra would welcome the opportunity to engage constructively with the government on this NBN proposal. I think it is fair to say that Telstra, and only Telstra, has the expertise, the resources and the commitment to build a world class NBN for Australia.

Ben, I think we could take questions from there.

MR SPINCER: I'll hand back to the operator to take questions, now, please.

OPERATOR: Thank you, the first question is from Ian Martin, from ABN AMRO.

MR MARTIN: Thank you. Well done on lodging a proposal. I'm glad to see it's gone in. Indeed, I think the range of conditions and caveats you put there are sensible as well. The preference for infrastructure competition, I think the most material constraint to that is that Telstra runs the largest alternative network to HFC cable network. Did the board consider it, or are there circumstances that the board would consider disposing of the HFC cable asset in return for lighter access regulations?

MR McGAUCHIE: What's interesting about that question is that there is an identical network to ours that covers a similar footprint. We would actually welcome the people who own that investing some of their own money in it to make it work as a competing platform. The irony of all this is is that the ACCC, who seem to have adopted this extraordinary approach that we used to all in agriculture "single desk" to their infrastructure. All of their decisions seem to be driving people not towards competing infrastructure but away from it. In fact, what we're seeing is we're being asked to charge - we're being made to charge figures which are below our competitors' cash costs of operating their systems. So we've got SingTel and we've got Trans ACT in neighbourhood cable. They have all effectively stopped selling their own infrastructure-based platforms and are buying DSL from us. So, there is absolutely no argument at all for us being asked to divest our cable network when the alternative one is sitting there waiting to be used.

MR MARTIN: Wouldn't it undermine the ACCC's argument if you did offer that proposal in return for lighter regulation? You'd have a more competitive structure there?

MR McGAUCHIE: But the competitive structure exists now. That other cable is there; it is waiting for someone to use it. You see, they don't want competing networks. They don't want competing platforms. They have deliberately adopted a policy that actually drives people away from competing networks. So there is absolutely nothing that would suggest that that would make a scrap of difference. That other network is there. If they promise to make it a telephony network, that first faked call that they did across it is about the only time it has been used for telephony.

MR MARTIN: Okay, so that option didn't get considered by the board?

MR McGAUCHIE: We would resist vigorously any proposal to divest Foxtel. The reasons are the ones I've just described. There is absolutely no justification for it. The competing platform is there. It's just not being used.

OPERATOR: Thank you. The next question is from Christian Guerra from Goldman

Sachs JB Were.

MR GUERRA: Good afternoon, and thanks for your time. I've got two questions, one for Mr McGauchie and one for John. Mr McGauchie, just in terms of your bidding strategy, I'd just like to - you've obviously given us a great run down of the board's thoughts, but I'm just wondering if you could talk a little bit more about the separation issue, given that in the government's RFP, they actually asked for bidders to come across and talk about the sort of regulatory landscape they were looking for going forward, and they didn't actually specify anything. So I'm just wondering why the board has been focusing on this issue over the last couple of months when the reality is that it wasn't part of the RFP.

Secondly, just a question for John. John, I know that you're obviously in a very difficult position, but are you able to talk about any sort of financial impact of the bid, were it to be accepted, in terms of, you know, do we start focusing on the fiscal 10 financials or is it sort of fiscal 11 in terms of things like CAPEX and interest expense and accelerated depreciation and margins and that sort of thing? Thank you.

MR McGAUCHIE: Let me take the first point about separation. I think you'll find that at least one of our competitors will put in a proposal that we be separated. We've always expected that would be the case. We know there are people in Canberra who hold a very strong philosophical view about separation. I think in observing what's gone on in other places around the world, we know that separation has two dramatic impacts: it has a dramatic impact on the value of the company that's been forced to separate, particularly if they don't have an alternative strategy in place to deal with it; but, more importantly, at least for the broader community - for you guys it's important, obviously, the value - it also kills dead, stops in its tracks, any idea that people will make investments in a network. Nowhere where there has been a network, a full network built, has there been separation required on the main player. This is a theory that has been run around by people who have no practical experience. Anywhere you go and talk to people about the likely impact of separation, they are horrified by the prospect not just from the point of view of the main company, but, more importantly, from what happens. So, in the UK, there is just no fibre being built in the UK. New Zealand, now, two to three years since government decisions, they are still arguing over what's going to happen, how it's going to be, no money invested, and, indeed, if you look at the share value of both those companies now - that is, BT and Telecom New Zealand - those companies have been pretty much brought to their knees. Their capacity to make a big investment is pretty much - even if they could get the rules in place and, interestingly, BT are asking for even more stringent regulatory changes than we require. It just makes no sense if it's not fully vertically integrated. The cash costs to build it, the cash costs to operate it, the cost of capital, the access to capital, all of those things go out the window in a separated structure. So, yes, we are concerned about it. Let me tell you, unless we can have that clarified, from our perspective, this is not going to happen, and it can't happen. John, do you want to go from there?

MR STANHOPE: Christian, it is a difficult question to answer, because, you know, we're totally dependant on the timing of decisions here. I guess we start from today a new process, which is the government considering what we've put in and what we've had to say, et cetera. It will take a little while to gear up and so on. Our cash flows will depend on discussions with the government about when they provide their share of cash flows and so on. So, I really can't answer your question about timing.

Here we are, we're halfway through the 2008-09 fiscal year. I can't see the decision happening - well, it might happen before the end of the fiscal year, and then a spend will occur in 2009-10, but not the majority of it, I would suggest to you.

MR GUERRA: That's great, thanks very much.

OPERATOR: Thank you. The next question is from Sachin Gupta from Nomura. Please go ahead.

MR GUPTA: Thank you very much. I have three questions. Firstly, as you said, this is not the final bid, and it looks like the process could be delayed further in terms of reviewing the proposals. I was wondering, is that a risk from a regulatory standpoint, the longer this thing gets delayed, the regulator or the government could intervene in the process?

Secondly, one of the conditions you have is no sub-loop unbundling. If that's the case, then the competitors can't even move the equipment from the exchanges to the nodes. I'm just wondering what's the rationale for that, given ULL is their declared service in Australia?

I guess the last question is, one of the debates has been on the returns of 18 per cent, 19 per cent, whatever the figure is. Can you confirm the proposal is still based on the same return figures, because a lot of the prices are still not disclosed, especially the prices greater than one megabyte speeds?

MR McGAUCHIE: Let me take the first two of those and hand over to John on the third one. This process is the government's process, so they can determine how it proceeds, whether it proceeds, whether it doesn't proceed and whatever regulatory changes that they may want to make. The only thing I'd say is that if they make more adverse regulatory changes, or even unless they fix up the ones that are there, this is not a project that would attract capital. So, I think the biggest risk from delay is not so much that particular risk - that risk is there and will remain there - the biggest risk from delay, is, in fact, the growth in competing technologies and platforms. As you probably know, we will have 21 megabits available on our radio network to 99 per cent of the population running out through next year. The long-term evolution of that technology is likely to take us to perhaps 100 megabits on that system before this project is fully completed in any kind of reasonable time frame. I think the delay issue is one that actually goes to the very heart of the viability of the whole project.

In terms of ULL and sub-loop unbundling, ULL is something that's gone on here and other parts of the world. The issue there is pricing. But once you start to talk about sub-loop unbundling, this is a step change in the engineering. Nowhere in the world has anyone tried to do sub-loop unbundling. It is a totally unproven technology. Once you start to fracture the integrity of the system in the way that sub-loop unbundling would do, the likelihood is that it would be impossible to guarantee the sort of service levels that people expect. There is an enormous difference between ULL and sub-loop unbundling.

John, perhaps you'd like to talk to the returns issue.

MR STANHOPE: Yes, Sachin, I'll repeat what I've actually said before: we've said that we require a competitive return, and the reason we talk about a competitive return is that we don't believe this project should be dilutive for shareholders. That translates into around an 18 per cent project internal rate of return. That gets us to a return on investment in accounting terms in a reasonable period of time back to where we were pre-transformation. That's what we call and describe as non-dilutive to shareholders.

Yes, you're right, we've only indicated the entry price, but we believe we can get those sort of returns that I've just mentioned with the right commercial terms. That's why we need to sit down and talk about those terms with the government. So, yes, those returns still apply, that we've mentioned before. The commercial terms we're seeking to have will result in those sort of returns, Sachin.

OPERATOR: Thank you. The next question is from Daniel Blair from Southern Cross Equities.

MR BLAIR: Thank you. A couple of questions. The first one just related to probably Sachin's question around returns. You set out the basic pricing returns in the letter, and they are for the life of the NBN agreement. Can you just provide some clarity around what that life of the agreement would be, and could we read into that that's a honeymoon period and then post that life you'd be free to adjust that pricing?

The second question: if the government wasn't to put forward the $4.7 billion, what coverage do you get out to solely with your $5 billion investment?

MR McGAUCHIE: John, I think I'll let you take those.

MR STANHOPE: Okay. The life of the project, or the calculation period for the internal rate of return, is over a 12-year period, so we would be looking for pricing certainty over that sort of period of time. That, of course, again depends on the commercial terms and the contract conditions we get. So our project life is dependant on those things. Well, that really - $5 billion, as we've said before, would only really get us to around the capital cities. The capital cities are about 55 per cent of Australia's population. So, that's a fair way short of the government's requirement, and we've said quite clearly in our document that we think we can get upwards of close to 90 per cent with our $5 billion and their $4.7 billion. Just at $5 billion, we're back to around capital cities only.

OPERATOR: Thank you. The next question is from Steven Myers from Merrill Lynch.

MR MYERS: Thank you. A couple of questions. Firstly, does this proposal still require that you're completely seeing the ULL and LSS regulation or access regime removed? Secondly, just in terms of what the proposed timetable for the metro rollout would be. Thirdly, doesn't this proposal require the government to reject any alternative bid using sub-loop as part of their requirements before you'll actually open negotiation and, therefore, any negotiation with Telstra is something that's probably four to six months away?

MR McGAUCHIE: In terms of ULL and LSS, they would cease. They would no longer exist. You can't run the two systems together. So as we move parts of the system across, we'd have to shut down the old remaining network structures and everyone would have to the move over on to the same system.

In terms of sub-loop unbundling, you're quite right, it's just unacceptable. It's totally unproven technology, and, therefore, it's not something that we would be entering into in any way whatsoever.

John, do you want to talk about timing?

MR STANHOPE: Yes. We've said before that to build the whole lot, so out to 90 per cent in five years, is certainly very challenging. We have said before that we think it's possible to do the capital cities or the metro only, as you describe it, in that sort of time frame. We would probably build concurrently, so you would build some of the outside metro areas at the same time as you would build the metro areas, but the focus and concentration would be on the metros largely first.

OPERATOR: Thank you. The next question is from Laurent Horrut from JP Morgan.

MR HORRUT: Thank you very much. I had a couple of questions: the first one is you've previously asked the government to rule out the separation. I was interested to have some insight into the board's thinking on what would have changed and what might change and why you expect the government to change their stance on this. That's question no. 1.

Question no. 2 is, has the board considered legal options should the government decide to proceed with the further separation of Telstra?

MR McGAUCHIE: In terms of what has changed, we believe that the government is now more free to talk to us than they have been. As this process moves along, their capacity to talk to us improves over the next few weeks. So, if the government choose to continue to discuss this with us, then we will look to do that. But, clearly, before we can go to the stage of putting a full bid in place, we need to have those issues that we have set out resolved.

In terms of legal options, I don't want to start talking about things like that. It's such a hypothetical issue, I don't think it's instructive.

OPERATOR: Thank you. The next question is from Sameer Chopra from Deutsche Bank.

MR CHOPRA: Good afternoon. I have two questions. Firstly, the nature of the regional build, can you discuss whether the regional build is a fibre-to-the node build, or whether you're using wireless networks in the regions.

The second one is your capital spend plan during this period. What I'm trying to understand, is the $5 billion that you're proposing to spend from your own funds, is this front rated, equally rated or back rated?

MR McGAUCHIE: I might take the first one and let John take the second one of those questions. Yes, in terms of what we have proposed today, that would all be FTTN. John, would you like to take up the capital spend issue?

MR STANHOPE: Yes. Sameer, I think I've mentioned before that we believe, provided that our underlying business continues to perform well and there's no enormous impact on us from the economic downturn, that we would be able to self-fund the $5 billion for the capital spend. So it would be self-funded.

OPERATOR: Thank you. The next question is from Mark McDonnell from DBY.

MR McDONNELL: Good afternoon, gentlemen. Thank you for the detailed disclosure. Three questions, if I may: Donald McGauchie, at the opening you said that you believed that this proposal, although not complete, represented a basis sufficient for negotiation with the government. If, in fact, the government takes the view that because this document is not complete and that you are only proposing to build to something less than 98 per cent, which was one of the key terms, and, as a result, your proposal today is rejected as non-compliant, would you challenge that decision in the courts?

MR McGAUCHIE: Let's wait and see what transpires. We've put forward a proposal. We look forward to an opportunity to speak further with the government about that. What I think I'd say to you is that we look on the positive side of this. We think we can do it. We think it's a project that takes Australia a long way down the path to a digital future. I really just want to leave it at that. Getting into the hypotheticals of what might happen if something else happens, this is a very complex process. It's a very complex project. We'll see what happens.

Just one point I would make to you, though, is if you read the RFP carefully, it says "up to" 98 per cent. That was the target, an ambitious target. That's fine, I think it's good to have ambitious targets, but, remember how much the world has changed in the 12 months since this was put together. The one point I did make earlier is that the movement in the Australian dollar has added $1 billion to the cost of the equipment alone to build this, and it may have other cost impacts as well. So, it is a moving feast.

MR McDONNELL: Assuming the government is prepared to negotiate, you also make the point in your letter under "Next steps", item 4, that you want the discussions to be, in your words, at senior levels. It rather seems from that that you're suggesting that detailed negotiations with government officials might be regarded by Telstra as a waste of time or unproductive. I'm just wondering if you can clarify whether you're actually saying that you regard certain people as persona non grata from a negotiation standpoint?

MR McGAUCHIE: No, but we really like to deal with the decision makers.

MR McDONNELL: Okay. By that, I take it you mean the politicians?

MR McGAUCHIE: Well, somebody's got to sign the cheques.

MR McDONNELL: So are you saying you're ruling out discussions with bureaucrats?

MR McGAUCHIE: No, we're not ruling out discussions with anyone. In fact, this is such a massive project, it's going to take a very considerable amount of discussion at all sorts of levels. But you need to deal with the big issues, and then you deal with all sorts of detailed issues as you go down the path. I think there's some high-level issues that need to be sorted out at a position where those can be made and agreed.

OPERATOR: Thank you. Next question is from Richard Eary from UBS.

MR EARY: Thanks. Just two questions; first of all to Donald, in terms of the actual letter that has been published today to the minister, is that the only thing that's been submitted to the minister or has there been anything else submitted? Clearly, in the detail it says you haven't been able to submit a detailed bid, but is there anything more than this that's been submitted to government outside of the letter that's been presented to us? That's the first question.

Just on the second question, in terms of going back to the returns point of view, there is a statement about a concessional interest rate as a loan. I don't know whether you can just elaborate in terms of what you mean as "concessional"?

MR McGAUCHIE: The answer to your first question is, no, there's nothing additional that has been submitted. We've disclosed everything that we have put forward.

In terms of a concessional interest rate, that would be a matter for discussion with the government. The reality of that is the rate of that interest rate determines very clearly the extent to which you can build. So, the extent to which the government are prepared to take the build out further and even take the build out further than the 90 per cent will depend on their approach to dealing with that input of money. So there's a lot of flexibility around that. It would certainly have an impact on the scale of the build both under and even over 90 per cent, depending on how they're prepared to treat that $4.7 billion.

MR STANHOPE: Richard, a lot depends on how quickly that money comes, what the repayment schedule might be and, of course, the interest rate. All those things, we need to sit down and talk about them.

OPERATOR: Thank you. The next question is from Phil Campbell from Citigroup.

MR CAMPBELL: Good afternoon, gentlemen. I just wanted to get a little more detail around the proposal, if we can. Can you give us any estimates of going from 90 per cent up to 98 per cent, what would be the additional cost of that, assuming a fibre-to-the-node build. Alternatively, if it's possible to do that last 8 per cent with wireless, what are the additional costs with that?

The second question, following on from Mark's question, I just wanted to try and understand the process a little bit more. The way it seems to be working out to me is that this proposal is possibly or could be evaluated by the government in parallel to the actual tender process itself. Again, I think in terms of dealing with the decision makers, again, I read into that that possibly, to some extent, you are circumventing the expert panel and the ACCC. I just wanted to understand that. If the government does entertain the proposal, would that be almost run in a parallel process to the other three bidders or other four bidders?

MR McGAUCHIE: Can I pick up that point first? I would expect that the government will refer this if indeed, they do, to their expert panel for consideration. At the same time, we'd obviously want to have discussions with the government on some of those high-level issues that we think are important.

In terms of whether or not we could extend the system out beyond 90 per cent to 98 per cent with wireless, just let me remind you that we have wireless service available today to 99 per cent of the Australian population running at 14.4 megabits. That will go to 21 megabits early next year. What the long-term evolution of that is and the timing of that is is up to the equipment manufactures, but we could see that going to potentially 100 megabits within the life of this project. Without any investment further by government or us, 99 per cent of the Australian population will have high-speed radio broadband.

I think it's worth just bearing in mind that this is a long-term project. We're talking about it well beyond a decade. If you consider that a decade ago there were about 3.5 million voice services available on radio and 10 million fixed lines and now we've got 20 million voice services and 10 million fixed lines, if you consider the likely impact of the evolution and development of radio technology over the life of this project, one would expect that, in fact, we will see 100 megabits available during that period of time, which is quite an important consideration, both for the bidders and for the government.

MR STANHOPE: We haven't disclosed the additional costs to get to 98 per cent. All I would say is beyond 90 per cent the costs rise exponentially.

OPERATOR: Thank you. The next question is from Christian Guerra from Goldman Sachs JB Were.

MR GUERRA: I have two further questions: firstly, on the financials, I know you obviously can't give us any guidance in terms of timing, et cetera, but are you able, Mr McGauchie, to give shareholders a guarantee that dividends will not suffer as a result of NBN.

Secondly, just on open access, I'm just wondering if you could give us a couple of points on what you actually mean by "open access" and how you actually guarantee that to the industry? Thank you.

MR McGAUCHIE: I'm certainly going to avoid the challenge of giving guarantees on dividends. Dividend decisions are made by the board on an ongoing basis. What we've always said is that we understand the importance of dividends to our shareholders. We really appreciate the fact that we have a shareholder base who have stuck with us through a very large investment program and that they expect to enjoy the benefits of that in the not-too-distant future. We are very cognisant of that in being cautious about any projects that we get involved in, bearing that fully in mind.

In terms of open access, what we have said - I think I'll try and get this as clear as we can - that Telstra wholesale would sell to anyone who wanted to buy access on the same terms and conditions to all buyers. That includes Telstra retail, as it would include any competitor that there is out there. So pricing and access conditions would be the same for everyone.

OPERATOR: Thank you. The next question is from Ian Martin from ABN AMRO.

MR MARTIN: Two questions: at the full-year result, both John and Sol made the point that dividends are now being paid out of free cash flow. Just going forward with the $5 billion, could you say that that also would come out of free cash flow, that it wouldn't increase the net debt from where it is at the moment? Obviously it would increase it to where it would be otherwise. Are you modelling sufficient enough to say that?

Secondly, you've talked about a service up to 50 megabits per second in the bulk of the network. Has your modelling encompassed a 50 megabit retail service? If you go to annexure B where you've got the transmission rates, there doesn't seem to be a 50 megabit wholesale service.

MR McGAUCHIE: John, do you want to pick up those questions?

MR STANHOPE: Well, I'll pick up the dividend question. Ian, it obviously depends on a couple of things, which is the spend profile for the project and, of course, the size of the dividend. But if you make the assumption it's a five-year project and $5 billion spend and make the assumption dividend doesn't change, we would not have to borrow to pay the dividend. So dividend would be provided out of free cash flow.

Sorry, your second question, Ian was what?

MR McGAUCHIE: John, the second question was around the 50 megabits, and in the annexure to the proposal, we don't talk about a wholesale pricing of 50 megabits.

MR STANHOPE: Yes. We're not really disclosing at this point in time the higher speed prices. We wanted to make sure, and we understood that there is public concern, government concern about entry price levels, so that's why we just at this point disclosed entry price levels. We're not prepared to go any further than that today because it's part of the future discussions.

MR McGAUCHIE: I think it's worth adding to it that we'd be comfortable about wholesaling a 25 megabit service that we could be confident of delivering while 50 megabits, and perhaps in some cases perhaps even better, might be available to parts of it, that's not something at this stage we would be prepared to guarantee and, therefore, sell.

OPERATOR: Thank you. The next question is from Sachin Gupta from Nomura.

MR GUPTA: Thanks so much. I have just two more questions: firstly, John, the first time Telstra talked about FTTN back in '05 pre-transformation, that's on Telstra targeting margins of 50 per cent to 52 per cent post-transformation and under the FTTN scenario. Obviously, subsequently, I think that was reduced to 46 per cent to 48 per cent. Can we still rely on those assumption or is it outdated. That's my first question.

Secondly, for Mr McGauchie, looking at the conditions once again, you're asking for no separation, no sub-loop unbundling, no unbundled local loop. If this gets accepted, aren't we going back in time that Telstra becomes the sole provider of fixed line services? Is the network really worth it if there's no competition in the market?

MR McGAUCHIE: This concept that Telstra is a monopoly is a very blinkered approach and concept. The reality is, as I described in the radio network, we already have more services out there for voice in our competitors' hands in our radio network than we have an our fixed line. There is a cable network out there that is capable of delivering these services which our competitors for some own or other don't use. But the other point is that we are offering open access, so we would be providing people with access to this service on the same terms and conditions.

As far as sub-loop unbundling is concerned, it is a preposterous proposition. It has not been shown to work anywhere in the world. If anyone wants to throw the Australian telecommunications network to the wolves and deal with the disasters that that would cause, I don't think anyone would even contemplate it.

In terms of separation, no separated company has built or will build a fibre network. So, if separation or the threat of separation remains, it won't happen. It hasn't happened anywhere else, and it won't happen here.

MR STANHOPE: Sachin, on the other question, yes, we have a guidance in the market of 46 per cent to 48 per cent EBITDA margin in the 2009-10 year. We've said often that that does not include fibre to the node. Should we be successful here and build fibre to the node and it impacts the 2009-10 guidance, then we are obligated and we will let you know and the whole market know any alteration to that guidance.

OPERATOR: Thank you. The next question is from Sameer Chopra from Deutsche Bank.

MR CHOPRA: Thanks. Just two quick questions: firstly, the $4.7 billion payment from the government, do you see this as a refundable loan from the government rather than a one-off government subsidy, in which case, are you going to treat this as debt?

The second question is you've probably worked with Alcatel through the detailed bid phase. Are they exclusive to Telstra on the Australian entity and build? Thank you.

MR McGAUCHIE: John, will you take those?

MR STANHOPE: Yes. We've already said that we expect it to be in the form of a loan with a concessional coupon or repayment rate. This still is obviously the subject of a discussion with the government, but it's a loan that we would expect to be repayable. When it's repayable would, again, be part of discussion with the government, as to would be the rate of interest. There are various things that can be discussed about whether the interest is capitalised or whether it's payable per annum and so on. These are all things that need to be discussed. What we're really pointing out is that our position is that we would like to see it as a loan. It would be counted at debt. We're not interested in a PPP or an equity arrangement.

OPERATOR: Thank you. The next question is from Mark McDonnell from DBY.

MR McDONNELL: John, also on the concessional loan aspect, given that the network is going to be built progressively and the government has always hedged its quantum of contribution around the phrase "up to $4.7 billion", I'm just wondering what your expectations are about the likely draw down on any such funds and the way that that would impact on your ramp up in interest costs?

MR STANHOPE: I think it's getting into too much detail, Mark. As I said to Samir just now, all this is part of a discussion we've got to have with the government. Obviously, you'd like all the money all at once upfront. That would be terrific. That's from a Telstra perspective. We've got to have the conversation and the discussion to see where it is. I think we're trying to get into a little more detail than we even know.

OPERATOR: Thank you. The next question is from Richard Eary from UBS.

MR EARY: John, could I just follow up on the return model that you put out there in terms of competitive returns. You talk about the 18 per cent return, and I think, Donald, also, in your letter today you talked about the additional impacts of foreign exchange movements not only in terms of the CAPEX costs but I would have thought also in terms of the cost of capital. In order to actually make the 18 per cent return, and if CAPEX is going up and the cost of that is going up, are we assuming that the prices have changed since the original thought process, or are we assuming that maybe cost now is higher than what you would have thought? Clearly, I would have thought demand is not going to be greater for the products? So I don't know whether you can give us any sort of feel in terms of how you expect to generate the same return when CAPEX and capital costs have gone up?

MR STANHOPE: Well, there's ways to go about the build, and we keep examining the best designs, the best network designs. Let me be clear: you can make certain assumptions about exchange rates, for example. There are risks in these projects. We've made it pretty clear in the letter that Donald has sent to the Minister that there are still those sort of economic risks around this project, such as the market risks of an economic downturn, the foreign currency risks. They still exist. We have to do our financial modelling and understand those risks, and we do understand those risks. That's why we point out in our letter that those risks exist. Our aim is still the return that I've said, but like any good analysis of a project, we understand, and the board also understands, the financial risks around it, which we've pointed out in the letter.

OPERATOR: Thank you. The next question is from Phil Campbell from Citigroup.

MR CAMPBELL: Just a couple of quick follow-up questions for John. I'm just wondering if you guys have done any consumer surveys looking at the demand side of the equation in terms of what consumers or even businesses are prepared to pay for a high-speed service of this kind on a bundle basis at this point?

The second question was just, again, references in the document to rising costs of capital and the potential for weakening economic demand and rising CAPEX and so forth. I'm just wondering if that's actually having any impact on your existing business at the moment?

MR STANHOPE: Let me just take the survey question. We've done some market research, but it's pretty hard to do research in these areas where customers are really not understanding what additional services and new products we're talking about that can be provided over a high-speed access. When we model the potential revenues - the wholesale revenues we understand and we know and we make estimates about take-up and so on. But other services, it's little more difficult. All we've got is our own empirical evidence on how people take them up today. It's our best estimate.

With respect to the business as usual, or today's business, in terms of what's happening with currency rates and so on, I think we said on our investor day that there's little impact on the business right now because it's got contracts in place, we've got hedges in place. So FX is not having a large impact on the 2008-09 fiscal year, because we've got contracts in place. We also said that the current performance of the business is reasonably resilient at this point in time. If anything occurs to the contrary, we'll let the market know.

MR SPINCER: Thank you. I think that's all that we have time for now. I'd just like to thank Donald and John for their time this afternoon and thank all of you on the calls for your time and the questions you've asked. Obviously my team and I will be available all afternoon. If any of you have any further questions, please get in touch with us. Thank you very much.

[TELECONFERENCE CONCLUDED]