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Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Transcript from the Media/Analyst Briefing on Telstra's exclusion from the National Broadband Network RFP Process

Attached is a copy of the transcript from today's Media/Analyst Briefing given by Telstra CEO Sol Trujillo.

Yours sincerely

A handwritten signature in black ink, appearing to be "C. Mulhern", followed by a period.

Carmel Mulhern
Company Secretary

Start of Transcript

Ben Spincer: Good morning everyone. I'd like to welcome you to this conference call with Telstra's management. My name is Ben Spincer from Investor Relations. We have on the phone Sol Trujillo the CEO and John Stanhope the CFO. I think Sol will make some brief introductory comments and then we will be able to take some questions. Just so the financial community is aware, there are some media present on this call in a listen only capacity. I will now hand over to Sol.

Sol Trujillo: Good morning everybody. We're trying to make sure that we have a chance here to discuss the announcement, or the filing that we made this morning, regarding the decision that the Commonwealth has taken that Telstra has been excluded from the NBN RFP process.

The Government in our opinion has done so on the basis of a triviality that we did not include a small medium enterprise or SME participation plan as part of our proposal on 26 November. We did submit a SME plan in early December based on the way they drafted the RFP, and we think that they're wrong in the way that they've reached their conclusion. In any event, had the minister wanted us to be included he had ample ability under the RFP to have us there.

The important point at this stage, I think, for everybody to understand is that our proposal is still the only one that is funded, is the only one that has true technical capability and workforce and trucks and all the things that many of you have heard us talk about, to actually deliver and to actually be able to integrate into our existing network.

So the punch line here for us is that it appears as though there's an exclusion here on a technicality, the only material filing has been from Telstra so it is an interesting situation. But there's a few points maybe more important that I do want to be clear on, and that is that this decision at this stage does not affect our

business today. We will continue to focus on providing services to our customers, including our high speed wireless broadband, our fixed broadband via ADSL or HFC cable networks. We do have lots of options for future high speed broadband delivery and think many of you that have been involved in our investor days or one on one sessions and all the public presentations that we've made, clearly we have the wireless platforms and fixed platforms. Again, whether it be on a Telco fixed platform or an HFC platform for further services development, as well as expansion.

The department has a long history of failing to deliver new infrastructure. Three and a half years and counting on NBN, including an RFP process running six months behind schedule and still counting, the minister's original pre-election plan and then there's OPEL and all the other piecemeal initiatives over the years. So it is important to just put all this in context. The RFP process leads only to the minister getting a recommendation. It is open to the Government to re-engage with Telstra if and when it wishes. The minister can talk to whoever he wants to talk to after the panel reports to the minister. He can decide to take to cabinet whatever proposal he chooses. Cabinet will then make a decision which is based on what has been made public [unclear], is likely to require legislation to implement.

Even after decisions in legislation there's a lot of time left to run before anyone else starts building, in which any real impact on Telstra, even assuming we don't respond, and of course we will respond competitively, is years away. We reserve our rights regarding future action. It is too early to rule anything in or out. And we remain hopeful that sense will prevail outside the RFP process at a later date. But if not, let me be clear, we have plenty of options and will continue to act in the interests of our shareholders, customers and employees. So with that, I will stop and take questions. John and I are available. Operator, are there any questions on the line at present?

Question: (Sameer Chopra, Deutsche Bank). Hello. I was wondering if you can provide colour on two things. You said, firstly, that the minister can choose to re-engage with Telstra. Are you able to indicate whether you've spoken with the minister over the last, say, 48 hours or so?

Sol Trujillo: The answer is no. Obviously we've been under the gag process until we were notified last night. So theoretically, we can't have that conversation. And I'm sure we will have some follow-up, just to understand their thinking on the process. But we have not had any conversation.

Question: (Ian Martin, ABN AMRO). Hi. You say the minister's made his decision on what you think is a triviality. And I guess I'm [unclear] that as a suggestion that it might be something more substantial behind what he's done, rather than see the issue over the SME plan. I mean, are you able to give any indication about what his real reason might be firstly? And secondly, I understand there are some – there have been some presentations made by various bidders who – the experts group. Did Telstra actually get in front of that expert group and give a presentation at all?

Sol Trujillo: Ian, let me answer the second part first. In terms of making a presentation, the answer is no. So I think that was part of the process. So we just received notification last night sometime. So the answer is a simple no. In terms of their logic and their reasoning, clearly we are a bit surprised at taking this action on a triviality, which we are very clear in our minds that we were fully compliant in the language in the RFP, in terms of how we handled this matter. So I don't want to speculate beyond that, because I've not had any conversation with the minister or the appropriate people involved yet.

Question: (Steven Myers, Merrill Lynch). I guess two questions. Firstly, has the board actually discussed the next step with management around this exclusion yet? And did the experts panel, before the exclusion took place, actually ask for further details on the SME business plan?

Sol Trujillo:

I will ask Will Irving, our General Counsel, who is sitting in on the call, to comment on the second part of your question. But I'll answer the first part. In terms of has the board reviewed options? Clearly it as due – in a manner of due course, in a business, we always prepare options in terms of whatever we do. And I think all of you that have followed Telstra, that you understand that we have already upgraded our Sydney and Melbourne HFC infrastructure to be able to provide our high speed 30 megabits services, called Cable Extreme. Obviously there's plenty of technology options that we have looked at, that are already being deployed around the world on cable infrastructure. And many of you have heard us talk about that before.

I think all of you have seen the evolution of our wireless infrastructure where we have said that by the end of this year we will have turned up our network. We've already tested and run calls in Brisbane.

An announcement we made where we're running our network at peak throughput speeds of 21 megabits per second and obviously there's a migration path there that we can always run and will run in terms of what we do with our choices of services that we will deliver to our customers.

Again, I would say to everyone that the one thing that we should always remember - and I hope it has become evident in the last three and a half years - is that customers make the choice of who they do business with; regulators and governments and others do not.

So the good news is that we have lots of options. We are exploring those options or implementing some of those options literally as we speak.

Will Irving:

In relation to the second part of the question, we provided this new plan to the Government on the 4th of December before they had raised with us the issue of whether they wished to have it at

that time or not. So they had it before they wrote to us about this issue and their decision to exclude.

Sol Trujillo: Any other questions?

Question: (Christian Guerra, Goldman Sachs) Good morning and thanks for your time this morning. Just a couple of questions for you.

Firstly, [unclear] it sounds like you got the news quite late last night and as you said Sol, you haven't yet engaged with the Government. Are you aware of whether or not you can rejoin the process from here? So for example, can you make certain modifications to the proposal you've put in and rejoin the bidding process or is this basically curtains for your involvement?

Secondly, I think there will be some investors out there who will think that you have played a high stakes game with the Government and the strategy has come a little bit unstuck to say the least. Do you think you got the strategy wrong from a bidding perspective?

Sol Trujillo: Christian, the answer is no to the last part of your question. You know we have to make decisions on what is in the best interests of our shareholders and we will not do things that are highly dilutive to our shareholders and so the approach that we have taken is very protective of our shareholder interests.

But to participate in a process thus far that does not rule out separation and puts that on the table as perhaps a requirement or a consideration, I think all of you have heard me say more times than once that the single most value destroying event that could occur is you know separation.

We have plenty of data. There's only empirical data about what doesn't work and that is one thing that doesn't work is a policy both for a company like Telstra as well as for a government and that is out of the UK with BT and what you can now witness lies in terms of what's happening in New Zealand.

The second thing is that you know the economics are very fragile in a bill like this which is why you saw in the proposal that we laid out that reaching 80-90% of the population with up to \$5 billion from our shareholders as well as a \$4.7 billion contribution by the Government still does not cover 98% of the population.

It is a very complex build. It is very costly and so to do things that would just simply dilute returns and create obligations into the future that may be dramatically unacceptable to shareholders is not something that we have determined and the board has determined are in the best interests of shareholders. So I think the approach obviously that we've taken thus far is what we think protects these interests.

To your question about is it over, I think in our comments and our view obviously this is part of the process if the Minister chooses to only take the recommendations of the Department if you will and the panel.

That is a choice he has or he may choose to determine at some point that it may not be adequate, it may not be practical, it may not be doable, it may not be whatever and they may choose to re-engage with Telstra at that point. We don't know. We're not speculating as such but in the meantime we will get on with what we need to do to compete.

The last comment that I will make in response to your question is that just remember this is a very long process, it's a very long build and there are many steps in between here and there that are going to be required for anybody to even turn up a service if they choose to.

The degree of complexity, the skill at which they can do it and whether they can do it, if it were not Telstra, is still in doubt. And in the meantime we know what we can do. We know what we can deliver and we know where technology's going on the platforms that we have. So the assuring thing, I think for all our shareholders and our customers is that we do not stop, we do not

hesitate and we will continue to compete aggressively in the marketplace.

Question: (Sameer Chopra, Deutsche Bank) I just had one question. Sol, if you assume that one of the things that the Government is looking to achieve with NBN is to roll out infrastructure in the regional areas, I'm wondering if you could talk to Telstra's own broadband capability in the regions?

Sol Trujillo: Well Sameer, I don't have the numbers right on the top of my head and perhaps John does and he can fill in the blanks if I don't have it right. And that is, clearly we already have deployed early in the year ADSL 2+ to a very significant portion of Australia, so there is already a broadband option available to a very large percentage of Australians. So a build in the regions would have to offer something more and better to a relatively small percentage of the remaining phase. And so the strategy there of building from the regions in – obviously our view has been that it's a competitor tactic of trying to predict their ADSL, their DSLAM investments in the city. And using Government money to basically supplement the money that they would not risk further capital, they would not risk from their own shareholders.

So we understand it. We think it's a very difficult strategy to execute. We question whether there's going to be enough economics for somebody to do that, but again if somebody chooses to make a decision like that our view is let them, we will have plenty to compete with. And just never forget our wireless infrastructure reaches 99% of the population, covers more than 2 million square kilometres today. We have many options, many choices as technology continues to evolve and as we evolve our plans.

John Stanhope: And Sol, Sameer just to finish that off, we have over 90% DSL 2+ coverage, so we do have significant regional coverage of broadband through DSL 2+.

- Question: (Paul Barnes, QIC) Morning, a question for John, you spent over two years of time and effort on putting this bid forward. Can you give us an idea of how much money you've spent on it, and how you've accounted for it as you've gone forward?
- John Stanhope: Look, I haven't really added it up to be honest with you. It's been a fairly small team, and obviously engineers, a lot of technical work because we do have a high technical capability here, a lot of – so yeah, we've done a fair bit of work. But look, to be honest with you, I've not added it up, it's part of the normal activities of our engineering group as we look forward for technology in any event.
- So extra costs are very low. It's part of the – the technology officer, the chief operations officer and the engineering skills to put a good plan together. And we believe it's a very good plan. We know how to do it. That work's not wasted hopefully, because we think we're the only ones who can build it, but look, it's not a material cost at all.
- Question: (Laurent Horrut, JP Morgan) I just was wondering if we could have a view from [unclear] or maybe from the legal counsel as to whether under the tender process laws in the country, whether the Government is actually even in a position to reincorporate Telstra in the process? That was part one. And whether this exclusion is definitive as part of this particular tender process?
- Sol Trujillo: Will, do you want to go ahead and respond to that?
- Will Irving: Yeah. This is a request for proposal process rather than a tender as such. As a result it gives – the panel of experts will give a recommendation to a minister, which could say a whole range of different things from recommending one particular bid, to saying that there are no bids or whatever else. The Government has the power under the existing process if it wanted to have Telstra in the process, to keep Telstra in the process, even if you take their view of the way they say the RFP has been worded, they could still have chosen to have us there if they'd wanted to. For that reason, we

assume that they do not wish to have us there. And therefore, the expert panel, which has now a period until late January to give its report to the minister will continue without Telstra's involvement. But what happens before that is, again, a matter for the Government.

Question: (Chris [unclear], Citigroup) Hi. You previously said that you would not rule anything in or out. I'm just wondering if you would still rule out any possibility of any sort of joint venture between yourselves and any other party.

Sol Trujillo: The answer to that is a simple no. Doesn't make sense. Wouldn't make sense. There's no successful venture, example, you know, out there. So the punch line is no. We think that the options that we have to pursue, if the Government chose to go on this track, are much better for our shareholders.

Question: (Laurent Horrut, JP Morgan). Yes, thank you. Sorry, I had a second question. Precisely, so what are these next options if the Government wants to legislate the sector in a way that makes a roll-out by someone else possible? And so we're looking at access to the [unclear], et cetera. What are your next options?

Sol Trujillo: Well we always have wireless as an option. Obviously we are leading the world in terms of our infrastructure build and the way that the technology's unfolding. I think you've seen how rapidly we have moved from a relatively lower speed wireless infrastructure to, again, a very high speed. And it's going to get higher. And again, let me say this one more time, it reaches 99 per cent of the population today. So we should just understand how the HUPA infrastructure involves.

Number two implied in your question or stated in your question is that, you know, if there was legislation perhaps that restricted build-outs or granted a monopoly as our competitors have requested. If that were done, that would put Australia probably in a unique category with maybe North Korea and Cuba, as the only places in the world that restrict competitive builds, that restrict or

disincent investment, etcetera. So that would be a highly unique move and, secondly, it would be in violation of WFTO requirements. But if that were done, obviously wireless would be a primary play.

But if the Government complies with WFTO and chooses not to be unique in its commonality with places like North Korea or Cuba or some – perhaps some other extreme locations, we think that our HFC infrastructure, which covers the five major metros, is very extendable. We've already proven that we can do that. The technology exists. If anybody has any doubts, just look around the world and see what's happening with Docsis 3.0 on a HFC platform.

We have choices. And we think that they are very viable choices. And we think that we can build faster. We think that we can execute better. And we think – we know what our services road map is, which is what customers want. And I always come back to rule number one. Customers decide who they do business with.

Ben Spincer:

Well we have time for just one more question.

Question:

(Andrew Levy, Macquarie). Thank you. I don't know whether or not you'd modelled where you weren't [unclear] in the bid. But could you just speak to any projects that are underway now that might have been contingent or tied to the [unclear] being built, even on a very long term view, and whether you'd reassess those. And I suppose from a competitor response perspective, whether you've looked at any impact it might have on your FY10 outcomes and whether you think that, you know, the timeframe would envisage a response in that period.

Sol Trujillo:

Andrew, I really can't give you any more specific than what we've talked about before. You know, we have deferred and we announced early in the '08 calendar year some of the deferrals, like soft switching and other things that we have chosen not to implement, given the NBN process that had been initiated. So we

do have several investments that we have deferred, depending upon if we go right or if we go left we will handle differently.

I won't get into those details because that's part of a competitive scenario and a competitive response that we won't pre-signal until we know what the outcome is here.

So let me just restate and recap because we do need to close here. The outcome here is not over, at least as we think about it, in terms of the options and the choices that the Minister and ultimately the Prime Minister/Cabinet have in terms of how they choose to go forward.

I'm sure that the Panel and the staff have decided they want to explore in more detail whatever options that they think are alternatives to Telstra and they can do that.

We just all need to be mindful of the fact that most of these options are entities that don't have major staffs, don't have engineering capabilities that are of this order of magnitude, don't have the trucks, don't have the people, don't have the training, don't have many of the resources required just to get started.

Then it's another thing to get started and to build and obviously, even if Telstra were to do it, it's a minimum five year process and even then once it's built then you're out five years after the year or two of staging and getting started and hiring people and doing all these things.

Then you actually have to be able to operate it and what are the processes in order to do that? Now obviously if somebody were to do it outside of Telstra, there's a whole lot of interconnection processes and decisions that have to be made that don't exist anywhere in the world under the assumption that we have read or heard about from the alternative routes.

So this is highly complex, will be highly contested and will involve a very long period of time and I guess for those of you that might be sceptical you might look at the OPEL process which is a fairly simple one.

After a year and after a billion dollar free kick, as I recall, they executed nothing. They didn't even have an organisation put together so I don't think we should be overly concerned about what might be and what could be because we're talking very long timeframes away from today.

And that's part of the decision process that ultimately those who make commitments to the public, those who will ultimately make the choice, will have to keep in mind.

In parallel, we the management of Telstra, the Board of Directors of Telstra, have also made sure that we have our options laid out. We are ready to go right or left whichever way we need to and we know that we can move faster, we can move bigger, we can move with more executional capabilities and we know we have exciting services and options that are available.

But beyond that, I won't comment because we have to let this process play out. But I can assure you in the meantime, we're rolling out 21 megabits. In the meantime, we're continuing to strengthen our capabilities in the infrastructure that we know will be ours going forward and nothing stops Telstra. Okay?

Right thank you all for taking the time this morning.

Ben Spincer:

Thanks Sol and John and Will for your contributions. Obviously the Investor Relations team and the Media Team will be available to take questions for the rest of the day.

End of Transcript