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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra CEO letter to staff

For your information, attached is a copy of an e-letter from Telstra's Chief Executive Officer to Telstra staff

Yours sincerely

Douglas Gration
Company Secretary

CEO letter to staff

Sol Trujillo - letter to employees: Telstra's Broadband Plan for Australia

Dear Colleagues

There has been a lot of speculation in the media about our discussions with the Government regarding **Telstra's broadband Plan for Australia** - and especially our plan to build out fibre-to-the-node (FTTN) in five cities.

I am writing now to give you my views on where things are and what we might expect in the coming weeks.

First, it is true that **we have been engaged in talks with the Government** - specifically with the Federal Communications Minister and her staff at DCITA. We began these discussions in March this year when she indicated to me that the Government would like to take another look at the Telstra FTTN plan.

The Telstra FTTN plan we put to the Government is much the same plan that we developed in discussions with the ACCC last year - including recognition of actual costs incurred - costs that were rejected by the ACCC. You'll recall that **the ACCC's unwillingness to accept our costs and provide appropriate investment safeguards caused us to terminate our negotiations with the regulator in August 2006.**

There is a truism in business as well as economics: If you can't agree on costs, you can't agree on prices, and the ACCC would not accept our costs even though we had invoices, cost studies and other evidence to support our cost claims. When **the regulator wanted us to agree to prices that would not cover our costs plus a commercial return**, we had two choices: Agree to prices that would dilute our shareholder interests or terminate the talks.

As you know, **I always operate on the principle that we will not allow our shareholders to be negatively affected by below-cost agreements.** When you undermine shareholders, you also undermine the consumer. We won't do either. That's why we terminated the talks.

Second, I've noted speculation that **the Government may appoint an "expert panel" to consider the Telstra FTTN plan**, the G9 scheme, and perhaps some other FTTN proposals.

On balance, I think **this is a good sign** because the Government apparently sees the need to **break a regulatory log-jam** that is now stopping the deployment of fibre-to-the-node.

The solution to breaking the log-jam is simple: Backward-looking regulations need to be changed if we are to enjoy continued progress in telecommunications.

This is a policy issue - and **policy issues are managed by elected leaders in Governments, not by appointed regulators**, so that is why this initiative by the Government is both an essential and a constructive step...if it is done right.

Third, having **a process to decide a major national policy issue - who should build out fibre-to-the-node - is just the beginning**. For example, there are issues of composition and approach:

- **Composition of the panel**. There is a lot of speculation about who should sit on the "expert panel". Our view is this: The composition of the "expert panel" is the business of the Government. It is not our business. Though we assume they will **include people with experience and competence**, people who are fair and balanced in their approach - and **exclude people who have already embraced one approach or another in the on-going broadband debate**. Still, it is their decision.

- **Approach**. There is also a lot of speculation about how the Government will conduct the evaluation process - what some have called a "beauty contest". It is my view that this is also the business of the Government. Still, we assume the ground rules and criteria will include standard and very tough questions about financing, engineering capabilities, experience and track record that would be asked in any other tender of this size. Don't forget, **what we are proposing - a $4.1 billion investment of shareholders' money to build a high-speed access network, available to all our competitors on the same terms and conditions used by Telstra business units - is a huge project**, on the order of the Snowy Mountains Hydro Scheme in the last century.

What counts is the outcome of the process, not the process itself. If the Government review process comes about, we will be focused on two things:

- the **substance** of the final decision that is made, and
- the **timeliness** of that decision.

When this process comes about, **we will be engaged with our plan for FTTN - not a proposal or a concept**. We have already completed a management plan, financial operating plan, engineering plan, deployment plan, and a technology evolution plan. **Telstra has the whole package, and this package has been approved by the Telstra Board. We are ready to go** ...within 24 hours if the Government decides to accept our plan.

I should add, that **we are not engaging in this process to "develop" or "refine" or "negotiate" a plan**. We view the Government review as a true "beauty contest" in the sense that "what you see is what you get".

Speaking directly, **we have a plan in place that reflects negotiations and discussions with the Government that are now complete**. Indeed, we have spelled out our financial, engineering, and other capabilities. We have stated clearly the financial, legislative and regulatory **reform requirements that are needed to safeguard the investment of $4.1 billion of our shareholders' capital**. We have also identified our deployment plan, transition plan, access plans and other terms that are key to our making this investment and committing to this build for ourselves, the industry, and the nation over the next 48 months.

In passing, **I should note that the G9 concept is not of comparable substance to the Telstra plan**. The G9 does not even reach the status of a "plan". Reason: there are **too many deficits** around issues of financing, engineering, technology, deployment, scheduling, governance, and legal status - many of which have been exposed over the last few weeks.

As for timeliness, our Plan for Australia included the **Next G™ deployment** - the largest and fastest wireless high-speed broadband network that is now complete. It included the **Telstra Next IP™ deployment**, launched just a few weeks ago - to bring greater speed, reliability and security to Telstra's business customers.

If all goes well with the FTTN review process, **the FTTN build will be next**. However, if the process that is put in place strings out a decision over months rather than weeks, it will not meet the "timeliness" test that our leadership team has to meet in order to make this year's capital allocations deadlines. **We do have other plans in the ready, and if the FTTN decision does not break our way - or does not happen in a timely way or does not happen at all - we will be presenting these alternatives to the Telstra Board** for review and approval in the coming weeks as part of our annual budget process that continues until July. While the alternatives are less desirable than FTTN, the alternatives are still good for shareholders, for consumers, and for Australia - so we will have a lot of work to do and interesting challenges to stimulate our day-to-day activities, no matter which way we go.

I will end with this - wanting only to make sure that, in the swirl of news and information, you have a firm idea from me, personally, as to how we are approaching these issues. As always, **we are taking a principled approach that puts the consumer and the shareholder in the centre of our decision-making. Our approach will also bring new opportunities to our employees as well**. We will not violate our principles - and this serves all of us as employees because consumers and shareholders pay our bills.

We expect this review and evaluation process will come about, that it is a good way to go, and that Telstra will prevail. If we do, we will begin unfolding the new build the next day. If not, we will continue with other plans that we have in the pipeline. Please let me know if you have any comments or questions

Sincerely

Sol Trujillo