18 December 2009

Office of the Company Secretary

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra formalises Terms of Engagement with NBN Co

In accordance with the listing rules, I attach an announcement for release to the market.

Also attached are copies of announcements made today by NBN Co and the Minister for Broadband, Communications and the Digital Economy, Senator Stephen Conroy.

Yours sincerely

Carmel Mulhern
Company Secretary

Telstra formalises Terms of Engagement with NBN Co

Telstra today announced it had formalised Terms of Engagement with NBN Co to facilitate negotiation of Telstra's potential participation in the roll out of the National Broadband Network (NBN).

The Terms of Engagement include a preferred model for any agreement between the parties that would see a progressive transition from Telstra's copper access network to a fibre to the premises NBN. This preferred model is being compared to alternatives available to Telstra in the context of the Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Bill 2009 to determine what is in the best interest of Telstra shareholders.

Within these Terms of Engagement, the parties are also discussing commercial wholesale arrangements for NBN Co use of Telstra's passive infrastructure (including ducts and exchange space) and backhaul.

The parties have separately agreed that Telstra will provide NBN Co's network engineering team with information from a field trial to examine the practical issues associated with brown-fields fibre to the premises deployments. This field trial, which will see Telstra upgrade its network to fibre to the premises in a selected location, will begin immediately in the suburb of Point Cook in Melbourne's West.

Given the importance and complexity of the issues being discussed, it is too early to determine whether any final agreement between the parties will be reached or approved by all relevant stakeholders and regulators. However, the negotiation continues to be constructive and the parties are actively working to see whether a mutually acceptable outcome is achievable.

The parties are exploring the terms of a possible agreement on the pre-condition that any agreement reached between the parties will be lawful when entered into (including, if necessary, as a result of ACCC approval, Commonwealth legislation or both).

Telstra re-iterates the Board's intention to seek shareholder approval, subject to the required regulatory approvals, should it decide to recommend a significant change to the nature or scale of Telstra's activities.

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Broadbanding Australia

NBNCo Limited

Negotiations between NBN Co and Telstra

NBN Co continues to focus on building a nationwide high-speed broadband wholesale network that will provide a platform for Australian service providers to develop productivity enhancing applications and services.

The work that we have undertaken in designing a predominantly fibre-to-the-premise network has reinforced our view that the path we are following will provide significant benefits for end users of broadband enabled services.

As part of progressing its network design, NBN Co continues collaborative commercial negotiations with Telstra. Given NBN Co's commitment to building the network, NBN Co believes that the most sensible solution for the industry is to share passive infrastructure wherever possible (exchanges, inter-exchange backhaul and ducts) to reduce duplication of infrastructure, provided the terms on which those assets are shared are fair and reasonable to both parties.

NBN Co has formalised Terms of Engagement with Telstra to facilitate Telstra's potential participation in the rollout of the National Broadband Network (NBN). The Terms of Engagement include a preferred model for any agreement that would see a progressive transition from Telstra's legacy network to a fibre to the premise NBN.

NBN Co believes that continuing to invest in maintaining older infrastructure when a new fibre network is available would not produce the best outcome for telecommunications retailers and consumers.

These are complex discussions and many issues remain to be addressed. In particular, no commercial terms have yet been agreed. NBN Co remains committed to ensuring Australia is broadband-enabled for the future and we will continue to assess any proposed agreement with Telstra against available alternatives.

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SENATOR THE HON STEPHEN CONROY
MINISTER FOR BROADBAND, COMMUNICATIONS AND THE DIGITAL ECONOMY
DEPUTY LEADER OF THE GOVERNMENT IN THE SENATE

MEDIA RELEASE

Terms of Engagement agreed between Telstra and NBN Co

The Government today welcomed the update on progress in negotiations between Telstra and NBN Co regarding Telstra's participation in the rollout of the National Broadband Network (NBN).

"The update on progress made today by Telstra and NBN Co demonstrates that both parties continue to work constructively," the Minister for Broadband, Communications and the Digital Economy, Senator Stephen Conroy said.

The Terms of Engagement formalised by the parties today include a preferred model for any agreement which would see a progressive transition from Telstra's copper access network to a fibre to premise National Broadband Network.

"While there are many complex issues still to be resolved before any final agreement is reached, I remain optimistic that both parties can find a mutually acceptable outcome. I thank the parties for their hard work and determination in moving these negotiations forward."

A model that involves the progressive transition from Telstra's copper access network to a Fibre-to-the-Premise NBN and an acceptable solution to the use of ducts and backhaul infrastructure will deliver structural separation. However, the Government considers it will also be important under this type of model to deliver improved competitive outcomes during the transition period. The Government will be closely consulting with the ACCC on this issue.

The Government remains committed to ensuring that any agreement reached by the parties is subject to necessary oversight, including approval by the ACCC as envisaged under the *Telecommunications Legislation Amendment (Competition and Consumer Safeguards) Bill 2009.*

While the legislation remains an important reform in its own right, the Government has always said that it also provides a framework within which any agreement with Telstra can be independently evaluated by the ACCC. The Government remains determined to debate and pass this Bill as a matter of priority early in the new year.

"Given the commercially sensitive nature of the discussion between NBN Co and Telstra, at this stage the Government will not be commenting further on the negotiations."

Date: **18 December 2009**
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