23 June 2011

The Manager

Company Announcements Office
Australian Securities Exchange
4th Floor, 20 Bridge Street
SYDNEY NSW 2000

Office of the Company Secretary

Level 41
242 Exhibition Street
MELBOURNE VIC 3000
AUSTRALIA

General Enquiries 08 8308 1721
Facsimile 03 9632 3215

ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra signs NBN Definitive Agreements

In accordance with the Listing Rules, I enclose, for release to the market, a Media Release including a financial summary of the proposed arrangements, a high level summary of the Definitive Agreements, and a set of Frequently Asked Questions.

Regards

Carmel Mulhern
Company Secretary

MEDIA RELEASE

Telstra signs NBN Definitive Agreements

23 June 2011 – Telstra has today signed Definitive Agreements with NBN Co and the Commonwealth for its participation in the rollout of the National Broadband Network (NBN).

The agreements remain subject to the satisfaction of a number of conditions, including the critical step of ACCC acceptance of Telstra's structural separation undertaking and approval of its migration plan.

Telstra Chairman Catherine Livingstone said the Definitive Agreements needed the approval of a majority of Telstra shareholders with the vote currently scheduled for the company's Annual General Meeting (AGM) to be held in Sydney on 18 October 2011.

"The signing of these agreements is another important step following two years of complex negotiations between Telstra, NBN Co and the Government," Ms Livingstone said today.

"The Government's commitment to the NBN and other related policy changes meant that the Telstra Board had to decide whether the company should participate in the NBN rollout or pursue other options. The decision to participate was made on the basis that the proposed transaction is expected to provide us with the ability to recover more value for the business than the available alternatives, given the loss of value after the NBN policy announcements.

"After rigorously assessing the options before it, including the regulatory and commercial implications of each, the Telstra Board expects to recommend that shareholders approve a proposal to participate in the NBN rollout, subject to the conditions precedent being satisfied."

Telstra is preparing an Explanatory Memorandum (EM) which will outline the basis for the Board's recommendation to shareholders.

The EM will include an independent expert's assessment of the proposed transaction in the context of alternative options, and will be provided to shareholders approximately one month before the shareholder vote.

The agreements provide Telstra with replacement revenue, through disconnection payments as the rollout of the NBN occurs, and new revenues, through access payments for the use of Telstra's infrastructure over an assumed average 30 year period. Consistent with the Financial Heads of Agreement signed in June 2010, the arrangements under the Definitive Agreements and associated Government policy commitments are expected to deliver approximately $11 billion in post-tax net present value over their long-term life. This value will not be in the form of an upfront payment, but is the present value of payments to be received over many years. This value is also subject to a range of dependencies and assumptions over the life of the agreements.

Telstra expects that the consideration for the disconnection of its relevant copper and HFC cable broadband services, as well as appropriate commercial terms for scale access to its infrastructure, together with benefits from associated Government policy commitments, will produce a net result that is superior to other options realistically available to the company.

Key components of the Definitive Agreements are as follows:

- Telstra has agreed to disconnect, progressively, copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint, and will migrate its services onto NBN-based services, over the expected 10 year build period of the NBN;

- Telstra will provide NBN Co with large scale access to certain infrastructure – dark fibre, exchange space, lead-in-conduits and ducts - at prices based on committed large volume levels of usage and availability. The term of the infrastructure agreement will be between 35 and 40 years (the precise term depends on a number of factors including NBN Co's rollout schedule) from commencement, plus two 10 year options to extend exercisable by NBN Co. The infrastructure will be taken over the course of the NBN rollout and payments made for an assumed average period of 30 years. In order to maximise the availability of this infrastructure, Telstra will undertake necessary work on the infrastructure. Telstra retains ownership of all infrastructure assets, except for those lead-in-conduits used by NBN Co which will become NBN Co property once used;
- The Government has agreed to a package which includes increased funding for the delivery of the Universal Service Obligation (USO), clarification of Telstra's USO responsibilities for the supply of infrastructure in new developments in the NBN environment, and the avoidance of certain costs to Telstra through various funding measures such as funding of a public information campaign, and for employee retraining; and
- Telstra and NBN Co have also agreed to key product feature and price commitments relating to NBN Co's basic voice and data offering. These will be addressed in NBN Co's full product terms, which remain subject to further development and industry consultation.

Telstra expects to incur the following cash expenditure to support these arrangements over their life:

- approximately $0.9 billion (post-tax NPV) for necessary work on infrastructure and customer migration costs. These will be offset through savings in legacy network, product and IT investment, therefore enabling them to be covered within Telstra's existing 14% capex to sales target;
- approximately $0.6 billion (post-tax NPV) for necessary work on infrastructure and maintenance activities, which are covered within existing operational expenses, as Telstra routinely projects such costs on an ongoing basis;
- approximately $0.5 billion (post-tax NPV) incremental operational expenses, spread over 10 years, for those customer migration costs and the necessary work on infrastructure which have been brought forward as a consequence of the NBN rollout. These costs will be absorbed within existing expenditure profiles.

Given the projected phasing of the NBN rollout plan, the impact of the agreements on Telstra's financial profile in FY12 is not expected to be material.

"These agreements represent an important milestone in addressing much of the uncertainty for Telstra associated with the NBN and Government regulation and allow us to focus intently on our customer service and simplification strategy," Telstra Chief Executive Officer David Thodey said.

"The Government will achieve its desired industry structure and the arrangements for the USO and associated social obligations will be reformed to ensure that funding for these public interest services is secured. Within this new environment, we look forward to continuing to focus on customer service, content and innovation.

"The Definitive Agreements are subject to a number of conditions being satisfied, including ACCC acceptance of Telstra's structural separation undertaking and approval of its migration plan, sufficient regulatory certainty on related matters, confirmation of tax determinations, and arrangements being in place for the appropriate reform of the USO.

"Finally, it is important to note that the arrangements under the Definitive Agreements are unique for Telstra in terms of their nature, timeframe and scale."

A financial summary of the proposed arrangements, a high level summary of the Definitive Agreements (including the steps that remain to be finalised prior to a shareholder vote), and a set of Frequently Asked Questions are attached.

Media contact: Andrew Maiden – (02) 6129 4002
www.telstra.com.au/abouttelstra/media-centre/
Reference: 171/2011

Additional information

This attachment contains further detail regarding the Definitive Agreements that Telstra has entered into with NBN Co and the Commonwealth. It has three elements:

1. A summary of the key financial components of the proposed arrangements under the Definitive Agreements and the value Telstra currently attributes to them.
2. Summaries of the individual agreements and deeds which collectively comprise the Definitive Agreements.
3. Shareholder Frequently Asked Questions.

The information comprised in this document is, by its forward looking nature, subject to risks and uncertainties, assumptions and other important factors that could cause the actual results or performance to be materially different.

Financial summary of the proposed arrangements

This section summarises the key financial components of the proposed arrangements under the Definitive Agreements and associated Government policy commitments, and the value that Telstra currently attributes to them. The potential regulatory and commercial impacts of the NBN on our business will be addressed in greater detail in the Explanatory Memorandum.

As outlined in the table below, Telstra anticipates that the post-tax net present value (**NPV**) of the arrangements under the Definitive Agreements and associated Government policy commitments remains approximately $11 billion, consistent with the Financial Heads of Agreement (**FHoA**) announced in June 2010. Value estimates are discounted to the time of signing of the FHoA in June 2010 to facilitate direct comparison with terms agreed at that time. The table below summarises the value of the arrangements under the Definitive Agreements and associated Government policy commitments only and does not include broader impacts to Telstra from the agreements.

Component	Approx. post-tax NPV* ($'bn)	Discount rate applied	Cash flow modelling period
Disconnection Payments and sale of lead-in-conduits**	4.0	10%	10 years
Infrastructure Payments	5.0	10%	Average of 30 years
Government			
TUSMA Services***	0.7	8%	Up to 20 years
Housing Estate Fibre Provision Responsibilities	0.3	10%	Ongoing
Other Government Commitments	1.0	10%	Various over scheduled 10 year rollout
Approximate post-tax NPV of agreements	**11.0**		

* It is important to remember that the values in the above table are approximate values based on Telstra's best estimate of the likely NPV of long-term agreements and are subject to a range of dependencies and assumptions.
** The sale of lead-in-conduits is covered in the Infrastructure Services Agreement, but it is included in the Disconnection Payments component of the table since it relates to assets or services that Telstra will not control once NBN is built. This approach is consistent with prior disclosure of the value of the proposed arrangements.
*** The Telecommunications Universal Service Management Agency (**TUSMA**), a Government entity through which the Government intends to implement Universal Service Obligation (**USO**) reform.

Telstra will receive payments for disconnecting, progressively, copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint (**Disconnection Payments**). Telstra expects that the annual total of Disconnection Payments will increase up to 2014 as the NBN rollout gains momentum, then be relatively constant throughout the remainder of NBN's scheduled 10 year rollout.

The payments that Telstra will receive for providing access to certain infrastructure, including dark fibre, exchange space and ducts (**Infrastructure Payments**), represent incremental revenue to Telstra. Annual Infrastructure Payments are likely to increase over the scheduled 10 year rollout, commensurate with increasing use by NBN Co of Telstra's infrastructure, then increase with CPI for the remainder of the infrastructure access period (resulting in an assumed period of on average 30 years).

The value attributed by Telstra to the various agreements with the Commonwealth and associated Government policy commitments represents a combination of:

- the incremental net present value of payments to Telstra for delivery of certain public interest services such as the Universal Service Obligation and the Emergency Call Service (**TUSMA Services**);
- cost savings as a result of the clarification of Telstra's USO responsibilities for the supply of infrastructure in new developments (**Housing Estate Fibre Provision Responsibilities**); and
- various other payments to, or costs avoided by, Telstra under the Government agreements and associated Government policy commitments, such as for retraining and public information campaigns (**Other Government Commitments**).

In providing an assessment of the values above, a discount rate of 10%, being Telstra's internal weighted average cost of capital, has been applied to the Disconnection Payments and Infrastructure Payments. However, an 8% discount rate has been applied to the TUSMA Services, reflecting their lower risk profile.

Telstra expects to incur the following cash expenditure to support these arrangements over their life:

- approximately $0.9 billion (post-tax NPV) for necessary work on infrastructure and customer migration costs. These will be offset through savings in legacy network, product and IT investment, therefore enabling them to be covered within Telstra's existing 14% capex to sales target;
- approximately $0.6 billion (post-tax NPV) for necessary work on infrastructure and maintenance activities, which are covered within existing operational expenses, as Telstra routinely projects such costs on an ongoing basis;
- approximately $0.5 billion (post-tax NPV) incremental operational expenses, spread over 10 years, for those customer migration costs and the necessary work on infrastructure which have been brought forward as a consequence of the NBN rollout. These costs will be absorbed within existing expenditure profiles.

The analysis summarised above is an estimate only and is necessarily based on a range of assumptions. The value of payments ultimately received and costs incurred by Telstra may vary from the amounts set out above and the variations could be material. Telstra's assessment of the approximate NPV of payments to be received under the Definitive Agreements depends on a number of factors, including:

- NBN Co proceeding with its rollout in accordance with its published Corporate Plan dated 17 December 2010; and
- Telstra being able to provide the extent of infrastructure to NBN Co specified under the Definitive Agreements in accordance with agreed fitness standards and estimated delivery time frames.

Summaries of the Definitive Agreements

There are eight separate but interdependent documents signed by at least two of Telstra, NBN Co and the Commonwealth (known as the Definitive Agreements) that together with Telstra's Structural Separation Undertaking (**SSU**) and Final Migration Plan, create a framework for Telstra's participation in the rollout of the NBN.

The documents are:

Telstra and NBN Co:

Implementation and Interpretation Deed (IID): This documents the Conditions Precedent (i.e. actions that must be completed and conditions that must be satisfied or waived before the transaction is required to be fully implemented) and various interim arrangements and is effective immediately. It also contains common provisions which are incorporated into the SA, ISA and AD.

Subscriber Agreement (SA): This deals with the disconnection by Telstra of copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint as the NBN is rolled out.

Infrastructure Services Agreement (ISA): This documents the detailed terms for the long-term provision of access to three types of infrastructure and related services by Telstra to NBN Co: Dark Fibre, Exchange Access and Ducts and for the sale of the Lead-in-Conduits by Telstra to NBN Co.

Access Deed (AD): This documents the high-level commitments made by NBN Co to Telstra in respect of the proposed supply of NBN Co's Basic Service Offering (BSO) and the charging for certain wholesale supply services.

Telstra and the Commonwealth:

TUSMA Agreement: The Telecommunications Universal Service Management Agency (TUSMA) Agreement contains a series of modules, each comprising the terms on which Telstra will perform, and be paid for performing certain public interest services.

Retraining Funding Deed: This sets out arrangements under which the Commonwealth will provide funding to Telstra to enable it to retrain certain employees.

Information Campaign and Migration Deed: This documents the key residual commitments to be met directly by the Commonwealth (i.e. not through TUSMA).

Commonwealth Guarantee: This is a guarantee by the Commonwealth in favour of Telstra in relation to NBN Co's payment and performance obligations under the IID, the SA, the ISA and the AD.

Set out below are more detailed summaries of each of these agreements. In relation to some agreements, additional detail will be made available in Government policy announcements and material to be released in relation to Telstra's Structural Separation Undertaking and Migration Plan.

Implementation and Interpretation Deed (IID)

Topic	Summary
Purpose	Unlike the other agreements, the IID operates immediately on signing as it contains the mechanics needed to bring the transaction to life and specifies the conditions precedent (**CPs**) (such as shareholder and regulatory approvals) that must be satisfied or waived before the proposed transaction can be fully implemented. It also contains various interim arrangements to enable NBN Co to obtain immediate access to Telstra's facilities and infrastructure for its early phase rollout. Further, it links the SA, ISA and AD together by providing common clauses and definitions for each of those agreements, and by establishing a framework for various IT interaction systems to be developed.
Conditions Precedent	CPs that need to be satisfied or waived for the SA, ISA and AD to become effective include: • approval by each of Telstra's and NBN Co's shareholders of the proposed transaction; • ACCC acceptance of a SSU and approval of a Final Migration Plan in a form approved by Telstra and NBN Co and those documents come into force in accordance with the Telecommunications Act; • the TUSMA Agreement and the Information Campaign and Migration Deed being entered into by Telstra and the Commonwealth in a form acceptable to NBN Co; • the Commonwealth amending legislation or establishing other arrangements to implement its greenfields policy in a form acceptable to Telstra and NBN Co; • the Commonwealth introducing legislation considered necessary or desirable by the Commonwealth and NBN Co to facilitate NBN Co's rollout, in a form acceptable to Telstra and NBN Co; • separate ATO private tax rulings relevant to each party that confirm the tax treatment of elements of the transaction being acceptable to Telstra and NBN Co respectively; • if NBN Co notifies Telstra of a change to its stated intention, as at the execution date, to roll out fibre to 93% of premises in Australia at the execution date, Telstra being satisfied that the change does not adversely affect Telstra; • the parties agreeing to an initial plan establishing a program for the handover of specified infrastructure under the ISA over the course of NBN Co's Rollout ; and

	• any other matters that the parties agree to be a condition precedent. Telstra has requested that NBN Co confirm that NBN Co has arrangements in place to ensure the cessation of supply by Telstra of certain products occurs in a non-discriminatory way.
Termination	If the CPs are not satisfied or waived by 5 pm on 20 December 2011, then the IID, unless varied by prior agreement, will automatically terminate (and the SA, ISA and AD will not come into force and effect). In this circumstance, the interim access provisions will continue in force for a period of 10 years to support Telstra infrastructure in use or ordered by NBN Co at that time. Those interim access provisions include a process the parties will follow to deal with any continuing need NBN Co has for access to Telstra infrastructure on expiry or early termination of the provisions.
Telstra representations and warranties	In addition to general corporate warranties, Telstra has given NBN Co a number of warranties relating to NBN Co's due diligence into the transaction, including Telstra's best estimate of a baseline number of relevant service addresses.
NBN Co representation and warranties	In addition to general corporate warranties, NBN Co confirms to Telstra that it intends to roll out fibre to 93% of premises in Australia. NBN Co is required to notify Telstra if its intention changes before the date on which all the conditions precedent have been satisfied or waived (**Commencement Date**).
Interim access arrangements (i.e. pre Commencement Date)	Telstra will provide information and infrastructure services for NBN Co to continue its rollout prior to all CPs being satisfied or waived (that is, on an interim basis). If the ISA does not commence, NBN Co will continue to obtain certain operations and maintenance services from Telstra in relation to the infrastructure that has been provided to NBN Co and that Telstra is otherwise committed to provide to NBN Co up to that time. In these circumstances, the provisions that apply will be a subset of those under the ISA, but for a shorter term. In addition, the price of supply will be adjusted to reflect that shorter term and the lower volume of infrastructure provided.
Liability caps	The IID sets out the liability caps which apply to the various agreements. In broad terms Telstra and NBN Co's liability to each other under the IID, the SA, the ISA and the AD are all capped at particular amounts which have been commercially agreed by the parties. There are certain exceptions to this liability regime which are consistent with market standards for these types of agreements.
Financial security	Each of Telstra and NBN Co can require the other to provide a financial security of an amount determined under the IID, to support its performance of obligations under the ISA (or the interim access arrangements described above) and the SA, if the other fails to maintain a credit rating that reflects an acceptable investment grade credit risk as specified in the IID. Reflecting the fact that, from execution of the agreements, Telstra will be the beneficiary of the Commonwealth Guarantee, Telstra is also only permitted to call for a financial security from NBN Co after that guarantee (and any

	replacement of it) has terminated.
Dispute resolution	The dispute resolution process which applies to each of the IID, SA, ISA and the AD comprises: • escalation within Telstra and NBN Co (ultimately to each Chief Executive Officer); • provision for disputes to be resolved by technical or financial experts (on an expedited basis in certain circumstances); and • ultimately, litigation.
Change of control of NBN Co	Commonwealth legislation allows NBN Co to be privatised at a future date, subject to compliance with a number of conditions including a declaration from the Communications Minister that the NBN should be treated as built and fully operational. Telstra may terminate the SA, the ISA and the AD if there is a change of control of NBN Co which results in a provider of retail telecommunications services in Australia controlling 15% or more of NBN Co, except where that provider has only a small market share in Australia based on a revenue threshold.
Permanent cessation of rollout or rollout is very slow	A permanent cessation of rollout occurs if there is a binding decision by NBN Co or the Commonwealth to cease rollout of the NBN. Consequences of a permanent cessation of rollout occurring are set out in the SA and ISA. A very slow rollout occurs if, after NBN Co has passed 20% of its expected fibre footprint, the pace of rollout is such that it falls below certain thresholds (measured over either a 12 month period or a 36 month period). The SA and ISA also set out consequences for a very slow rollout.
Illegality and change of law	If performance of any terms of the SA, the ISA or the AD becomes illegal, the IID contains a process under which these documents can be varied to make performance legal. This is a binding process involving resolution by agreement of the parties or by a determination made by a panel of experts appointed by the parties. In addition, the parties have agreed to a separate process to enable them to renegotiate one or more of the SA, the ISA and the AD in the event of certain changes in law which materially impact at least one of the parties and which relate to: • the NBN or Telstra infrastructure made available under the ISA; • disconnection from Telstra's copper and HFC networks or migration to the NBN; or • land access or occupational health and safety. If the parties are unable to agree on changes to those documents, then ultimately, they will have the right to terminate one or all of them.

Subscriber Agreement (SA)

Topic	Summary
Purpose	The SA deals with the disconnection by Telstra of copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint as the NBN is rolled out, and the maintenance of the parties' structural and network alignment during that process.
Disconnect standard copper-based Customer Access Network services and HFC cable broadband services on HFC cable network (but not Pay TV services)	As NBN Co rolls out the NBN to each rollout region (approximately 3,000 premises per region), Telstra will disconnect standard copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint in that rollout region. In broad terms, the disconnection must be completed within 18 months of NBN Co declaring that rollout region to be ready for service (which cannot happen until at least 90% of the premises in that rollout region are passed by NBN Co fibre). A separate regime (with a different time frame for disconnection) applies to disconnection of special services provided over the copper Customer Access Network. Disconnection protocols have been agreed to govern this.
Not reconnect	Telstra must not use those disconnected networks again to provide services (nor allow anyone to do so) except in very limited circumstances (set out below). To support this obligation, there are restrictions on Telstra's ability to dispose of the networks.
Limited temporary reconnection	Telstra may temporarily reconnect services in the event of a "material NBN unavailability" where the NBN is unable to be used to provide any services in the entirety of a region for a specific period.
Limited permanent reconnection	Telstra may permanently reconnect copper-based Customer Access Network services and broadband services on its HFC cable network provided to premises that have previously been disconnected if NBN Co is insolvent or the NBN permanently ceases ongoing operation.
Fixed line network preference for 20 years	For 20 years from the Commencement Date, Telstra must exclusively use the NBN as the fixed line connection to premises in the NBN fibre footprint. There are a number of exceptions to the network preference, including: • where Telstra provides point to point fibre services using Telstra fibre in operation, or fibre installed by Telstra in accordance with a right of first refusal process with NBN Co; • where Telstra provides interim fibre services including in respect of areas covered by the Commonwealth's greenfields policy. Generally speaking, these "interim fibre services" are subject to the same disconnection obligations as Telstra's copper-based Customer Access Network services and broadband services on its HFC cable network; and • fixed line connections between Telstra network elements.

	However, Telstra has agreed that certain types of wireless "femtocells" supplied for use primarily in residential premises or buildings will not be considered Telstra network elements. This means that, subject to any other applicable exceptions, the network preference for the NBN will apply to fixed line connections to those "femtocells" in the NBN fibre footprint. After the 20 year period Telstra is no longer required to preference the NBN Co fibre network as the connection to premises in the NBN fibre footprint.
Wireless as a substitute for fibre services	Telstra may not promote wireless services as a substitute for fibre based services for 20 years from the Commencement Date, but otherwise remains free to compete in the market for the supply of wireless services.
Not build any Passive Optical Network	Other than in limited, interim circumstances, Telstra must not build or operate Passive Optical Network infrastructure as the fixed line connection to premises for 20 years from the Commencement Date.
Payments Telstra will receive	Telstra is entitled to payment for disconnecting premises in the NBN fibre footprint in rollout regions as the NBN rolls out to those regions. This is based on various criteria, including the number of lines to the premises disconnected, whether or not commercial services were provided on those lines (and if so, the types of service provided on those lines), the time at which the disconnection occurs, and in some cases, whether or not the premises have connected to the NBN.
NBN rollout forecasts	NBN Co has absolute discretion as to when and where it will roll out the NBN. However, it will provide Telstra with a non-binding 12 month and 3 month forecasts before it declares a rollout region as ready for service (and Telstra understands that NBN Co intends to provide these to industry in parallel to the time it is provided to Telstra).
Compensation to Telstra if rollout permanently ceases or is very slow	If a permanent cessation of rollout or very slow rollout occurs (as described in the IID summary) NBN Co will, subject to limited exceptions, compensate Telstra for Telstra being left with a geographically dispersed network. This compensation is on a sliding scale from a maximum of $500 million (if the event occurs when NBN Co's fibre rollout has reached 20% of NBN Co's current coverage target of 93% of premises in Australia) reducing to zero (if the event occurs when NBN Co's rollout has reached that current coverage target). Compensation is not payable if the event occurs before the rollout has reached that 20% threshold. Telstra believes that, in addition to any compensation which might be paid to it as described above, in the event of permanent cessation or a very slow rollout, its commercial interests will be further protected. This will be through the cash flows Telstra expects to receive from the ongoing operation of its copper Customer Access Network and HFC cable broadband networks in those areas where the NBN rollout has not occurred, and any ongoing payments it will receive from NBN Co under the terms of

	the ISA (see the ISA summary for further detail). On a permanent cessation of rollout, Telstra's network preference and disconnection obligations shrink to the NBN fibre footprint that exists at the time of the cessation. For a very slow rollout event, while compensation may be payable to Telstra (as described above), the parties' rights and obligations under the SA will otherwise generally be unchanged.
Non-alignment dispute mechanism	Telstra or NBN Co may invoke a process which will result in an amendment to the SA if the other party engages in activities which have the effect of substantially affecting the business of the affected party in particular markets. For Telstra, the markets are for mobiles or for the supply of retail services to consumers, businesses or governments in Australia. For NBN Co, the market is for provision of carriage services to premises. There are provisions which allow the parties to engage in certain activities in particular markets or by exercising particular rights, without triggering the amendment process.
Pay TV service	The disconnection obligations in relation to the Telstra HFC cable broadband network do not require Telstra to stop the use of the Telstra HFC cable for the supply of Pay TV services (such as by Foxtel).
Termination	Termination rights arise under the SA if: • a party demonstrates an intention not to be bound by the SA or to fulfil its obligations only in a manner substantially inconsistent with its obligations under the SA; • a party breaches the SA such that the other party is deprived of the substantial benefit of that agreement; • an insolvency event occurs in relation to the party; or • a party breaches its obligation not to assign or novate rights or obligations under the SA without the other party's consent. NBN Co and Telstra view the SA and the ISA as a package. Accordingly, if a party terminates the SA on one of the grounds described above (which apply equally in the ISA – see the summary below), that party may also terminate the ISA. If NBN Co terminates the SA or it is terminated through the change of law process under the IID, Telstra must not reconnect copper-based Customer Access Network services or broadband services on its HFC cable network provided to premises which it has been paid to disconnect, and will remain bound by its network non-disposal obligations in respect of those premises. However, Telstra will cease to be bound by the network preference and wireless promotion restrictions.

Infrastructure Services Agreement (ISA)

Topic	Summary
Purpose	The ISA contains the detailed terms for the long-term provision of access to three types of infrastructure and related services by Telstra to NBN Co: dark fibre links, rack spaces in exchanges, ducts and associated duct infrastructure (pits and manholes). Telstra retains property in all the infrastructure except for those Lead in Conduits ("LICs") used by NBN Co, which become NBN Co's property once used.
Term	The ISA has an initial term of a minimum of 35 years, with two options, each exercisable at NBN Co's option, of 10 more years each. The minimum 35 year initial term might extend to 40 years, depending on a number of factors including NBN Co's rollout schedule. Access to particular infrastructure units and payments for such use will commence progressively reflecting the progressive rollout of the NBN. This is expected to result in access payments for use of infrastructure over an average 30 year period, subject to a range of dependencies and assumptions over the life of the Agreement.
Infrastructure Included	Provisional specified lists of infrastructure and indicative rollout schedules for the initial build phases have been included in the ISA in relation to exchange rack spaces and dark fibre links. Finalising these lists into an initial rollout plan is a condition precedent to commencement (as described in the IID summary) of the DAs. Variations for those infrastructure types are permitted based on a range of factors and the party seeking the variation typically is responsible for the associated costs. Specified lists of ducts and LICs required by NBN Co are not included in the ISA, but are utilised on a rollout region basis and NBN Co will update Telstra periodically of its future infrastructure requirements for rollout. A brief description of each type of infrastructure is set out below.
Dark Fibre Access Services	Telstra agrees to provide NBN Co with the right to access and use dark fibre links. Telstra is responsible for the provision and remediation of existing dark fibre links to be used by NBN Co up to agreed fitness standards. Telstra must also provide ongoing maintenance and repair of those links used by NBN Co in accordance with agreed service levels.
Exchange Access Services	Telstra agrees to provide NBN Co with the right to access, occupy and use rack spaces in Telstra exchange buildings. NBN Co has the right to sub-licence these exchange spaces to access seekers to enable them to interconnect with the NBN. Telstra is responsible for the provision and remediation of a specified list of exchange spaces and associated exchange buildings to be used by NBN Co up to agreed fitness standards. Telstra must also provide ongoing maintenance and repair of those buildings.

Duct Access Services	Telstra agrees to provide NBN Co with the right to access, occupy and use duct sections and associated duct infrastructure (e.g. pits and manholes). Telstra is responsible for the remediation of that infrastructure up to agreed fitness standards and within agreed timeframes in each area as the NBN is rolled out. Telstra must also provide ongoing maintenance and repair of the ducts and associated duct infrastructure in accordance with agreed service levels.
Lead-in conduits (LICs)	Telstra agrees to initially provide NBN Co with the right to access, occupy and use LICs. Upon installation of a lead-in fibre in the LIC, NBN Co takes ownership of that LIC. Telstra has no remediation or service level obligations for LICs. Various mechanisms have been agreed to enable NBN Co to maximise use of Telstra LICs, including, in appropriate circumstances, the existing copper wire in the LIC being able to be connected to the new lead-in fibre and then used to "pull through" the new lead-in fibre. Once a LIC is transferred to NBN Co, NBN Co agrees to provide Telstra with the right to access, occupy and use the LIC at no cost to Telstra (e.g. for HFC cable used to provide Pay TV services).
Transit Network	Around 60% of the exchange spaces and all of the dark fibre links (which are required by NBN Co for its transit network) will be made available progressively over the first 3.5 years from execution of the DAs. This infrastructure will be delivered in a series of releases which will enable NBN Co to establish a series of interconnected fibre transmission rings.
Infrastructure Quantities	NBN Co has committed to pay for, and Telstra has committed to make available, certain minimum quantities of infrastructure which meets the agreed fitness standards. These minimum quantities reflect large volume levels of usage and availability and large scale access to each infrastructure type. The quantities can be reduced under specified circumstances. The payment and availability commitments are based on mechanisms known as "Provide or Pay" (or "PoP") and "Take or Pay" (or "ToP"). The PoP is an incentive mechanism to encourage Telstra to maximise the amount of infrastructure it makes available to NBN Co up to the agreed minimum quantities. Telstra will undertake remediation of infrastructure in order to maximise availability. The ToP is a mechanism to encourage NBN Co to maximise the use of the infrastructure that Telstra makes available. ToP/PoP may result in a price adjustment during several key points during rollout. In the case of transit network infrastructure, there is no ToP because there is a committed order for that infrastructure. The PoP mechanism (and payments based on that mechanism) for transit network infrastructure is assessed at the end of December 2014. For the other infrastructure types, the ToP/PoP (and payments based on that mechanism) is assessed when NBN Co reaches rollout completion (i.e. 93% of premises have been passed by NBN or are otherwise adequately served), and is assessed and pro-rated

	if the rollout to premises ceases early based on the level of NBN Co rollout at the relevant time (see below on early cessation of rollout).
Timing of Delivery of Infrastructure	NBN Co retains full discretion over its rollout in terms of when premises are passed and when certain infrastructure is ordered and required to be delivered. However, on signing of the Definitive Agreements, NBN Co will have provisionally ordered its core transit network. Those orders are confirmed before Commencement (as part of the initial rollout plan which is a condition precedent) with each dark fibre link and transit related exchange space (i.e. that supports transit rings connecting a series of Rollout Regions) being finished no later than the end of December 2014. Telstra is obliged to complete each dark fibre ring and associated exchange rack spaces in accordance with the agreed transit rollout plan and in any event by the end of December 2014. This transit milestone date is subject to extensions of time for events such as force majeure. For non-transit related exchange rack spaces and ducts, delivery is scheduled, LICs may be used, and payment by NBN Co commences, to match the pace of NBN Co's geographic rollout.
Early cessation of rollout	Different infrastructure types are treated differently in the event of early cessation of rollout by NBN Co, and the cause of early cessation also gives rise to different outcomes. There are also consequences under the ISA if there is a very slow rollout by NBN Co (as further described in the IID summary). 1. Permanent cessation of rollout (other than for a Government change of policy) If a permanent cessation of rollout occurs other than as a result of a Government change of policy: • NBN Co remains contractually committed to pay for all transit related infrastructure (dark fibre links and certain exchange spaces), and is entitled to use that infrastructure if it chooses to do so, for the full 35-40 year initial term; • NBN Co remains contractually committed to all non-transit related infrastructure (certain exchange spaces, ducts and LICs) that are used or for which a firm order has been placed, but Telstra is generally not required to accept and NBN Co is not incented to place any new orders; and • If more than 20% of the expected number of premises are passed at the time of permanent cessation of rollout, ToP/PoP for non-transit related infrastructure is brought forward to the permanent cessation date and the minimum quantities for the non-transit related infrastructure (and therefore the assessment for the ToP/PoP) are pro-rated based on NBN Co's level of rollout to premises at that relevant time. This will reduce the volumes of infrastructure services for which Telstra will earn revenue (compared with what would have occurred had the rollout reached 93% of the premises), but Telstra retains the benefit of operating its copper network in areas outside NBN Co's fibre footprint at it exists at the permanent cessation date (see Subscriber Agreement summary).

	2. Permanent cessation of rollout – Government change of policy If there is a change of Government policy in relation to the NBN that results in a permanent cessation of rollout, then the same consequences apply as set out in 1 above, except that NBN Co may cancel dark fibre links and transit related exchange rack spaces that form part of a transit ring that has not yet been completed without penalty. There are some restrictions on this cancellation right – for example, NBN Co may not cancel dark fibre links and associated exchange spaces they have already started carrying live traffic. 3. Very slow rollout If there is a very slow rollout by NBN Co (as further described in the IID summary): • there is no early ToP/PoP assessment so NBN Co remains incented to place new orders, and Telstra remains generally obliged to accept them; • Telstra's timing obligations to remediate infrastructure, to bring it up to the agreed fitness standards, are lessened; and • if NBN Co subsequently plans to accelerate its rollout back up to an agreed rate, Telstra's original timing obligations for remediation are gradually re-introduced over time.
Consequences of non-performance	There are service levels specified for dark fibre links, exchange spaces and ducts in respect of faults and repair times. The service levels depend on the nature of the infrastructure type and the nature of the fault, as do the consequences that flow from the relevant service level not being met. There are also consequences if there is any delay in making infrastructure available, primarily monetary compensation (including damages), and cancellation rights which impact what infrastructure is counted as having been made available by Telstra for the ToP/PoP assessment. NBN Co can also cancel infrastructure units for certain Telstra breaches other than delay, and in the event of certain "shared risk" events such as prolonged force majeure.
Changes to underlying infrastructure	There are mechanisms agreed, depending on the circumstances, for Telstra to decommission, relocate, or dispose of the underlying infrastructure. In general terms, NBN Co has a range of protective rights to ensure that this does not occur without its knowledge and consent, including a rationalisation regime and potential participation in any asset disposal process of underlying infrastructure, depending on the circumstances and the extent to which its interests are affected.
Termination and expiry of the ISA	Termination provisions, which are replicated in the other agreements, arise if: • a party demonstrates an intention not to be bound by the ISA, or to fulfil its obligations only in a manner substantially inconsistent with its obligations under the ISA; • a party breaches the ISA such that the other party is

	deprived of the substantial benefit of that agreement; • an insolvency event occurs in relation to the party; or • a party has breached its obligations not to assign or novate rights or obligations under the ISA without the other party's consent. NBN Co and Telstra view the ISA and the SA as a package. Accordingly, if a party terminates the SA on one of the grounds described above (which apply equally in the ISA), that party may also terminate the ISA (and vice versa). Telstra may also terminate the ISA where NBN Co seeks a regulated outcome on any of the infrastructure during the term of the agreement, subject to some limited exceptions. Because NBN Co's infrastructure cannot easily be removed from Telstra's infrastructure, and ongoing operation of the NBN Co may be necessary post-termination, the consequence of termination is not the removal of NBN Co's plant and equipment, but the entry into a further access agreement. The terms of that agreement will be either the terms of the ISA (as appropriately modified to reflect it only applies to existing infrastructure accessed at the time of termination) or on market based terms (at the discretion of the innocent party). Where Telstra terminates due to NBN Co seeking regulated access, the terms will be based on a combination of regulated terms and market based terms. Similarly, on expiry of the ISA or the further access agreement, provision is made for NBN Co to continue to use the Telstra infrastructure which is at that time being accessed by it. NBN Co can choose to seek regulated access or to use that Telstra infrastructure on market terms. There may also be ToP/PoP consequences upon termination.

Access Deed (AD)

Topic	Summary
Purpose	The AD documents the high-level commitments made by NBN Co to Telstra in respect of the terms of supply for NBN Co's Basic Service Offering (**BSO**) and the charging for certain wholesale supply services. As NBN Co's product and service offering remains under development, and will be subject to industry consultation, the complete terms of supply are not yet able to be agreed and documented. Nothing in the AD prevents NBN Co from complying with its legislative obligations not to discriminate between access seekers.
Commitment term	The commitments given by NBN Co under the AD will commence on the Commencement Date (being the date on which all CPs are satisfied or waived under the IID), and will continue for 5 years.
NBN Co to offer to supply BSO to Telstra	Once NBN Co commences the supply of wholesale products to Telstra, it must offer to supply the BSO to Telstra in respect of premises in the fibre footprint which are serviceable by NBN Co.
BSO components	The BSO will comprise specific product components and product features (various technical details are set out in the AD), including speeds of 12 Mbps downlink and 1 Mbps uplink at peak information rates (that is, best efforts internet with no quality of service commitments).
BSO price	NBN Co must not, in respect of the BSO: (a) charge Telstra more than $24 plus applicable taxes per month per SIO; or (b) make any submission to the ACCC seeking, or include in a Special Access Undertaking (**SAU**), a price that is more than the BSO price referred to above. However, if certain regulatory related events occur (including if the regulated price is increased), then NBN Co may increase the price of the BSO in a manner consistent with those events. Under the IID, there is an obligation on NBN Co to seek a price for the BSO in its submissions to the ACCC that is no more than the BSO price referred to above. This applies at all times before the Commencement Date.
Commitments not to levy charges for standard installations	In connection with the BSO and certain other product offerings: (a) NBN Co has committed not to levy charges on Telstra for "standard installations"; and (b) if an installation is not standard, NBN Co may only charge the additional costs above those incurred for a standard installation (and only if NBN Co has obtained the consent of Telstra or the end user to those charges).
Non-discrimination in terms of supply	If NBN Co makes any wholesale product available on terms more favourable than these terms then, in complying with its non-discrimination obligations, NBN Co will offer to Telstra the opportunity to vary the terms of supply so as to be non-

	discriminatory.
Termination	The AD will automatically terminate upon the expiry of 5 years from the Commencement Date. Termination rights arise under the AD if: • a party demonstrates an intention not to be bound by the AD or to fulfil its obligations only in a manner substantially inconsistent with its obligations under the AD; • a party breaches the AD such that the other party is deprived of the substantial benefit of the AD; • an insolvency event occurs in relation to a party; or • a party breaches its obligation not to assign or novate rights or obligations under the AD without the other party's consent. NBN Co may also terminate the AD if: • NBN Co validly terminates the SA or ISA (other than through the change of law process under the IID); or • Telstra commits (and fails to cure) a material breach of NBN Co's terms of supply.

Telecommunications Universal Service Management Agency (TUSMA) Agreement

Topic	Summary
Purpose	The Telecommunications Universal Service Management Agency (**TUSMA**) Agreement aims to ensure: • continued delivery of the universal service obligations (**USO**) (currently set out in the *Telecommunications (Consumer Protection and Service Standards) Act 1999)* (**TCPSS Act**) to ensure that standard telephone services (**STS**) and payphones are reasonably accessible to all people in Australia on an equitable basis, regardless of where they reside or carry on business; • for premises not served by the NBN fibre network, continued reasonable access to the existing copper access network for STS; • the ongoing delivery of emergency call handling (Triple Zero '000' and '112'); • that appropriate safety net arrangements are in place that will assist the migration of voice-only customers to a NBN fibre service as Telstra's copper customer access network is decommissioned; and • if required, technological solutions will be developed for continuity of public interest services (i.e. public alarm systems and traffic lights). The TUSMA Agreement consists of a series of modules, with the main service terms (being the terms on which Telstra will perform, and be paid for, certain public interest services) contained within Modules B to F. Module A includes general contractual terms, as well as terms relating to a contractual review, cost saving proposals and an adjustment mechanism to apply to scope changes. The intention of the Government is to implement USO reform so that delivery of universal service outcomes and other public interest services will progressively transition from a regulatory model (with obligations imposed directly on Telstra and other service providers), to an open competitive contractual model. TUSMA, a Government statutory agency, will progressively assume responsibility for delivery of the USO and other public interest obligations and will fulfil its statutory functions by contracting with Telstra and third parties on behalf of the Government. The TUSMA Agreement will be executed by the Commonwealth. It will be administered by TUSMA (on behalf of the Commonwealth) once TUSMA is established. This agreement commences on 1 July 2012 and has a term of 20 years, though shorter terms apply to specified Modules.
Standard	From 1 July 2012, for a term of 20 years, Telstra will have a contractual

Telephone Service Universal Service Obligations	obligation to supply the STS nationwide, as necessary, to fulfil the STS USO such that: • in areas where the regulatory obligation has transferred to TUSMA, Telstra has a contractual obligation to fulfil the USO for TUSMA; and • in areas where Telstra is the primary universal service provider, Telstra has a contractual commitment to comply with its regulatory obligation. From 1 July 2012, TUSMA must pay Telstra $230 million pa (not indexed to CPI) for supply of the STS services, subject to payment adjustments to take account of increases or reductions in Telstra's costs if there is a change in the scope of the STS services Telstra is required to provide. Telstra is entitled to a payment adjustment whether Telstra is the primary universal service provider or responsibility has shifted to TUSMA. Within NBN Co's fibre footprint, Telstra will fulfil the role of retail provider of last resort (ROLAR) for customers who wish to take only a voice STS over the NBN (**ROLAR voice-only customers**). This commitment will apply as a contractual obligation even after the regulatory USO obligation shifts to TUSMA. Telstra will receive funding to operate and maintain its existing copper network, to provide STS, in areas outside NBN Co's fibre footprint (the "copper continuity obligation"). This obligation requires that Telstra not disconnect a service address that is connected to the copper network as at 1 July 2012: • in areas where the NBN will not be deployed, for the term of the TUSMA Agreement; and • in the NBN fibre footprint, until the copper line is disconnected in accordance with the Subscriber Agreement. This commitment is subject to a limited number of specified exceptions which allow Telstra to disconnect copper lines at a service address from the copper network, including (subject to an annual quota) where the copper line is damaged or has deteriorated or has been unused for a significant period.
Payphone USO	From 1 July 2012, for a term of 20 years, Telstra will have a contractual obligation to supply, install and maintain payphones, comprising the Telstra public payphones in place at the commencement date of the agreement and new payphones required over the term of the agreement to fulfil the USO, and supply payphone carriage services to fulfil the Payphone USO. From 1 July 2012, TUSMA must pay Telstra $40 million pa (not indexed to CPI) for supply of the payphone services subject to payment adjustments in qualifying circumstances. A payment adjustment will not be triggered if the number of listed Telstra public payphones increases or decreases within a specified range. When the NBN is deployed in a rollout region, TUSMA can decide whether to fund the migration of each listed Telstra public payphone in that rollout region to the NBN or to an alternative technology or fund an alternative payphone from a third party provider, in which case Telstra can close down the payphone. If a listed Telstra public payphone remains connected to the copper network 3 months before the

	disconnection date, TUSMA must fund its migration to the NBN. Telstra is required to comply with the payphone-related performance standards and other specific requirements set out in directions and determinations issued by the Minister or the ACMA under the relevant Act. These requirements will continue to apply as contractual obligations once Telstra ceases to be the primary universal service provider for payphones.
Technology review for STS USO and Payphone USO	There is a mandatory 10 year review to be undertaken by an independent expert of the technologies and systems used by Telstra to provide the USO STS and Payphones services, with a view to determining if the use of alternative technologies or systems (including by an alternative provider of the USO) would result in cost savings to Telstra (therefore reducing the amount that TUSMA pays to Telstra). The outcomes of this review process are binding. There are mechanisms to deal with any overlap between the geographic areas covered by the review and the NBN long-term fibre footprint. Separately, either party may, at any time, provide the other with a cost saving proposal. Such proposals cannot be unreasonably rejected.
Voice-only customer migration	This deals with the terms on which the Commonwealth will fund certain customer costs for migration of voice-only retail customers to the NBN who have not yet migrated six months before the disconnection date in each rollout region (**late voice migration customers**). It is anticipated that the Government will enter into similar arrangements with other retail services providers and Telstra is to be treated no less favourably than other providers. There are two components to the assistance that TUSMA will be required to provide: • customer management tasks – TUSMA must pay to Telstra customer management fees if Telstra performs customer management tasks to be specified by the Commonwealth after a public consultation process; • connection costs – TUSMA must fund the reasonable connection costs of (either Telstra or a third party contractor) installing in-house wiring that is required to connect late voice migration customers and ROLAR voice-only customers to the NBN, this work to be undertaken by Telstra or a third party contractor at TUSMA's election; and • the amount of these fees is to be determined by an independent expert if not agreed.
Emergency call service	From 1 July 2012, Telstra will have a contractual obligation to supply the emergency call service in accordance with applicable regulatory requirements. Telstra will be entitled to recover its costs, up to a cap of $20 million pa. TUSMA will also meet the reasonable costs of any major upgrade in the Telstra emergency services platform that is required to ensure the continued provision by Telstra of the emergency call service in accordance with applicable regulatory requirements. Telstra will be contracted for 20 years to deliver the emergency call service, subject to the outcome of a tender for the supply of the emergency call service which TUSMA is obliged to issue within the first 5

	years with a view to appointing a new emergency call person. There is provision for a transition phase funded by TUSMA. If TUSMA has not received any acceptable tender bids, Telstra will remain the emergency call person and this module will continue to apply.
Migration of public interest services	Telstra may notify TUSMA that a technological solution does not exist for the migration of public interest services (defined as traffic light and public alarm services) from copper to fibre. If TUSMA is reasonably satisfied that a solution does not exist, TUSMA will either request Telstra or a third party for proposals to develop the solution. Any solution that is funded by TUSMA will be owned by TUSMA (unless agreed otherwise) and made available to all service providers on an equivalent basis.
Payments to Telstra	Payments to Telstra under the TUSMA Agreement (and other liabilities of TUSMA) will be funded by a combination of levy contributions and direct funding from the Commonwealth of $50 million in FY12/13 and FY 13/14 and $100 million for each subsequent FY during the term of Module B (relating to the STS USO). Telstra will be required to contribute its share of any industry levy contributions that are implemented for this purpose. At this stage the Government has announced that contributions from industry members will be determined based on eligible revenue principles similar to those currently used for the USO and NRS levy schemes, and that these schemes will be replaced by a new scheme. During the first two years of the new scheme, the aggregate contribution of telecommunications firms other than Telstra will remain at the level contributed by these firms under the existing scheme for 2011/12.
Remedies and termination	If Telstra commits a material breach, TUSMA may require Telstra to prepare and implement a rectification plan. If Telstra fails to perform in accordance with the rectification plan, TUSMA may: • withhold payments to Telstra for the module relevant to the breach until that breach is rectified; and/or • for a breach of the STS or payphone module, engage a third person to supply the relevant services during the period of breach (in which case Telstra must pay the reasonable costs of the third party supplier subject to the liability cap). TUSMA may terminate a module in defined circumstances, including extended non performance. In addition, either party may terminate the agreement in the event that a permanent cessation of rollout occurs under the Subscriber Agreement before the rollout has reached 20% of premises. Telstra must develop and implement a transition plan for termination of the STS or payphone module. If a permanent cessation of rollout occurs after the rollout has reached 20% of premises, either party may elect to seek renegotiation of the agreement. If the parties cannot agree amendments (having regard to specified facts, objectives and principles), a panel of independent experts maybe appointed to resolve any dispute. Where Telstra remains the primary universal service provider or emergency call person, there are limitations on TUSMA terminating the relevant module of the agreement or, where Telstra is also subject to regulatory remedies, exercising contractual remedies in respect of the same events.

Retraining Funding Deed

Topic	Summary
Purpose	The Retraining Funding Deed sets out the terms on which the Commonwealth will provide funding for Telstra to retrain certain staff over an 8 year period.
Commonwealth funding	The Department of Broadband, Communications and the Digital Economy (**DBCDE**) will pay Telstra $100 million (plus GST) after: • it approves the initial training plan; and • Telstra provides to DBCDE an initial budget.
Funding objectives	Telstra must consult with stakeholders in respect of the development of training plans and use the funds to develop and deliver training courses that facilitate the following objectives: • to support the availability of an appropriately trained workforce for the NBN; and • to establish a retraining arrangement for Telstra staff who may otherwise have faced redundancy due to the rollout of the NBN.

Information Campaign and Migration Deed

Topic	Summary
Purpose	The Information Campaign and Migration Deed sets out residual commitments by the Commonwealth relating to the valuation of the proposal and the migration of customers to the NBN.
Public information campaigns	The Commonwealth agrees to arrange for a public education campaign to be run by NBN Co to inform end users that Telstra may disconnect services from the copper network as part of migration to the NBN and that the end user is responsible for customer migration costs, and conduct a public education campaign regarding NBN migration generally.
Payments	The Commonwealth will make residual payments to Telstra, including in the event Telstra is unable to recover costs of migration in certain circumstances.

Commonwealth Guarantee

Topic	Summary
Purpose	The Commonwealth Guarantee is a guarantee by the Commonwealth in favour of Telstra in relation to NBN Co's obligations under the IID, SA, ISA and AD (**Guaranteed Agreements**).
Commonwealth Guarantee to Telstra	The Commonwealth has guaranteed to Telstra the payments required to be paid by NBN Co to Telstra in connection with the Guaranteed Agreements. The amount that the Guarantee covers represents our estimate of NBN Co's potential aggregate liabilities to Telstra, at any given time while the Guarantee is on foot and in circumstances where NBN Co, for some reason, does not meet its commitments to Telstra.

Termination	The Commonwealth Guarantee is to remain in place until:
	• NBN Co has achieved a credit rating that reflects an acceptable investment grade credit risk as specified in the Commonwealth Guarantee; and
	• one of two milestones are met that also reflect that NBN Co is moving out of its initial phase where it requires Commonwealth support, being:
	  • the Commonwealth has fulfilled its obligations to fully capitalise NBN Co at $27.5 billion or as articulated in subsequent formal Commonwealth documents relating to NBN Co's business plan and that provide details of the capitalisation figure for NBN Co; or
	  • the Minister declares under the *National Broadband Network Companies Act 2011* that the NBN should be treated as built and fully operational.

NBN Definitive Agreements shareholder FAQ

What are the core components of the Definitive Agreements with NBN Co and the Commonwealth?

The key components of the Definitive Agreements are as follows:

- Telstra has agreed to disconnect, progressively, copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint, and will migrate its services onto NBN-based services, over the expected 10 year build period of the NBN;
- Telstra will provide NBN Co with large scale access to certain infrastructure – dark fibre, exchange space, lead-in conduits and ducts – at prices based on committed large volume levels of usage and availability. The term of the infrastructure agreement will be between 35 and 40 years (the precise term depends on the speed of NBN Co's rollout) from commencement, plus two 10 year options to extend exercisable by NBN Co. The infrastructure will be taken over the course of the NBN rollout and payments made for an assumed average period of 30 years. In order to maximise the availability of this infrastructure, Telstra will undertake necessary work on the infrastructure. Telstra retains ownership of all infrastructure assets, except for those lead-in-conduits used by NBN Co which will become NBN Co property once used;
- The Government has agreed to a package which includes increased funding for the delivery of the Universal Service Obligation (USO), clarification of Telstra's USO responsibilities for the supply of infrastructure in new developments in the NBN environment, and the avoidance of certain costs to Telstra through various funding measures such as funding of a public information campaign, and for employee retraining; and
- Telstra and NBN Co have also agreed to key product feature and price commitments relating to NBN Co's basic voice and data offering. These will be addressed in NBN Co's full product terms, which remain subject to further development and industry consultation.

Over what period of time will Telstra disconnect its standard copper-based Customer Access Network services and broadband services on its HFC cable network?

This depends on the timing of the NBN rollout. Telstra's network disconnection will be progressive and will follow NBN Co's rollout of fibre to its rollout regions.

In broad terms, the disconnection must be completed within 18 months of NBN Co declaring the rollout region is ready for service (which cannot happen until at least 90% of the premises in that rollout region are passed by NBN Co fibre). During this 18 month period Telstra will generally disconnect services when requested by wholesale and retail customers, following a customer's connection to an NBN service. A separate regime (with a different time frame for disconnection) applies to disconnection of special services (such as ISDN) provided over the copper Customer Access Network.

What infrastructure is covered by the Definitive Agreements?

Telstra will make the following available to NBN Co:

- access to its underground duct network;
- access to space in a large number of its exchanges;
- access to Telstra's dark fibre; and
- lead-in-conduits to customer premises.

Telstra will maintain ownership of its ducts, dark fibre and exchange network. Lead-in conduits which are used by NBN Co will become NBN Co property once used.

What is the duration of the Definitive Agreements relating to infrastructure?
The ISA has an initial term of a minimum of 35 years, with two options, each exercisable at NBN Co's option, of 10 more years each. The minimum 35 year initial term might extend to 40 years, depending on a number of factors including NBN Co's rollout schedule.

What are the principal components of the Definitive Agreements with the Commonwealth?
The Definitive Agreements with the Commonwealth provide for increased funding for Telstra's performance of the Universal Service Obligation (USO) and the emergency call service. They also provide for funding of a public information campaign certain migration costs (including the certain voice-only customers) and employee retraining.

The Government has also announced its intention to implement reforms to the USO including the establishment of "TUSMA" to assume responsibility for the USO as the NBN is rolled out and clarification of Telstra's USO responsibilities for the supply of infrastructure in new developments in the NBN environment.

Are the Definitive Agreements final?
The Definitive Agreements remain subject to completion of a number of conditions. These include Telstra shareholder approval; ACCC acceptance of Telstra's Structural Separation Undertaking and approval of its Migration Plan; sufficient regulatory certainty on related matters; confirmation of tax determinations; and arrangements being in place for the appropriate reform of the USO.

What does the approximately $11 billion represent and how has it been calculated?
This figure represents the expected total post-tax net present value (**NPV**) of the arrangements under the Definitive Agreements and associated Government policy commitments and includes:

- approximately $4.0 billion for disconnecting, progressively, copper-based Customer Access Network services and broadband services on its HFC cable network (but not Pay TV services on the HFC) that are provided to premises in the NBN fibre footprint, and sale of lead-in conduits (which it is assumed will be received across a 10 year period);
- approximately $5.0 billion for access to Telstra infrastructure (which is assumed will be received across an average period of 30 years); and
- approximately $2.0 billion of value Telstra has attributed to Commonwealth contributions and costs avoided through Government public policy commitments.

Telstra expects to incur the following cash expenditure to support these arrangements over their life:

- approximately $0.9 billion (post-tax NPV) for necessary work on infrastructure and customer migration costs. These will be offset through savings in legacy network, product and IT investment, therefore enabling them to be covered within Telstra's existing 14% capex to sales target;
- approximately $0.6 billion (post-tax NPV) for necessary work on infrastructure maintenance activities, which are covered within existing operational expenses, as Telstra routinely projects such costs on an ongoing basis;
- approximately $0.5 billion (post-tax NPV) incremental operational expenses, spread over 10 years, for those customer migration costs and the necessary work on infrastructure which have been brought forward as a consequence of the NBN rollout. These costs will be absorbed within existing expenditure profiles.

Given the projected phasing of the NBN rollout plan, the impact of the agreements on Telstra's financial profile in FY12 is not expected to be material.

These amounts are based on a range of assumptions. The value of payments ultimately received and costs incurred by Telstra may vary materially from the amounts set out above.

How did the Telstra Board reach its decision?
This decision was made on the basis that the proposed transaction is expected to provide us with the ability to recover more value for the business than the available alternatives, given the loss of value after the NBN policy announcements.

Telstra is preparing an Explanatory Memorandum (EM) which will outline the basis for the Board's recommendation to shareholders.

How does the course you expect to recommend, compare to the alternatives you say are reasonably available to Telstra?
Telstra expects that the consideration it will receive for the migration of its copper and HFC cable broadband business onto the NBN, as well as appropriate commercial terms for scale access to its infrastructure, will produce a net result that is superior to other options realistically available to the company.

What is the base date for the approximately $11 billion post-tax NPV?
The approximately $11 billion post-tax NPV is the value of the arrangements under the Definitive Agreements and associated Government policy commitments discounted to the date of signing of the Financial Heads of Agreement in June 2010.

What happens if the rollout is cancelled, stalled or incomplete?
A range of risks and contingencies have been contemplated and provided for in the agreements. For example, the Definitive Agreements provide for NBN Co to pay compensation to Telstra in certain circumstances should it permanently cease the rollout, leaving Telstra with a geographically dispersed copper network.

Why does compensation for incomplete or cancelled rollout only commence if NBN Co has reached 20% of its planned fibre coverage footprint?
Telstra believes that should NBN Co achieve less than 20% of its planned coverage, Telstra's commercial interests will be protected through the cash flows Telstra expects to receive from the ongoing operation of its copper Customer Access Network and HFC cable broadband networks in those areas where the NBN rollout has not occurred, and any ongoing payments it will receive from NBN Co under the terms of the Infrastructure Services Agreement.

What will happen if the migration to NBN takes longer than originally assumed?
The approximately $11 billion of post-tax NPV has been assessed on the basis of a 10 year rollout. If the NBN rollout is delayed, the present value of the disconnection, infrastructure access and other payments may reduce. However, it is expected that the value of these payments would be offset by the additional value from revenue received on Telstra's copper Customer Access Network.

Now the Definitive Agreements are signed do you have any more detail on likely retail prices over the NBN?
We will announce Telstra's retail pricing and other commercially sensitive details closer to the launch of commercial services.

When is the Explanatory Memorandum for Telstra shareholders going to be released?
Telstra will provide the Explanatory Memorandum to shareholders approximately one month before the shareholder vote.

Will an independent expert's report be provided?
Shareholders will receive an independent expert's report as part of the Explanatory Memorandum.

Who is the independent expert?
Telstra has commissioned Grant Samuel to review the proposed transaction and prepare an independent expert's report, and will provide this report to shareholders as part of the Explanatory Memorandum.

When will shareholders vote on the transaction?
We are targeting our 18 October 2011 Annual General Meeting in Sydney for the shareholder vote.

What will shareholders actually be asked to vote on?
We expect shareholders will be asked to approve a proposal to participate in the NBN rollout including entering into the Definitive Agreements with NBN Co and the Commonwealth, subject to the Conditions Precedent, as outlined in the Implementation and Interpretation Deed, being satisfied or waived.

Why is this a good outcome for Telstra's shareholders?
Subject to Conditions Precedent being satisfied, the Board expects to recommend that shareholders approve a proposal to participate in the NBN rollout on the basis that the proposed transaction is expected to provide us with the ability to recover more value than the available alternatives, given the loss of value after the NBN policy announcement

Is a final ACCC determination on fixed access pricing a condition precedent?
Certainty on copper prices and other regulatory matters will be taken into consideration when the Board makes a final decision on whether to recommend that shareholders approve a proposal to participate in the NBN rollout.

What happens if there is a change of Government at the next election?
We will work within the policy parameters of the Government of the day. A range of risks and contingencies have been contemplated and provided for in the Definitive Agreements.

What is the voting threshold required for this proposed shareholder resolution?
We will be putting an ordinary resolution to shareholders requiring a simple majority to pass.

When do the Definitive Agreements become legally binding – from announcement date or from the shareholder vote?
With the exception of the Implementation and Interpretation Deed (IID), the Definitive Agreements are not binding until the last of the Conditions Precedent are satisfied or waived. Telstra currently anticipates that its shareholder vote and the passing of the resolution will be the last of the Conditions Precedent to be satisfied or waived, in which case all of the remaining agreements would become effective at that time.

The IID sets out the Conditions Precedent and Telstra's agreement with NBN Co as to how the parties will work towards satisfaction of those conditions. It contains various interim arrangements to enable NBN Co to obtain immediate access to Telstra infrastructure before the other Definitive Agreements become binding. It also facilitates the parties' preparation for the full arrangements to come into effect.

What recourse will Telstra have if there is a change in Government policy between now and the shareholder vote?
Telstra will not put the proposed resolution to shareholders if it considers that the Government's policy or regulatory environment has changed in a way which means the proposed transaction is no longer in the best interests of the company.

Why haven't you disclosed all of the Definitive Agreements?
Parts of the Definitive Agreements are commercially sensitive as they relate to a commercial agreement between two parties operating in a competitive market.