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The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Speech by John Stanhope, Chief Financial Officer, Telstra Corporation Limited – Credit Suisse Asian Investment Conference in Hong Kong

Attached for release to the market is a copy of a speech to be delivered today by John Stanhope, Telstra's Chief Financial Officer, at the Credit Suisse Asian Investment Conference in Hong Kong.

Regards

Carmel Mulhern
Company Secretary

Fundamentals versus speculation

John Stanhope, CFO

Credit Suisse Asian Investment Conference
25-26 March 2009
Hong Kong

Disclaimer

- These presentations include certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Telstra, which may cause actual results to differ materially from those expressed in the statements contained in these presentations. For example, the factors that are likely to affect the results of Telstra include general economic conditions in Australia; exchange rates; competition in the markets in which Telstra will operate; the inherent regulatory risks in the businesses of Telstra; the substantial technological changes taking place in the telecommunications industry; and the continuing growth in the data, internet, mobile and other telecommunications markets where Telstra will operate. A number of these factors are described in Telstra's 2008 Annual Debt Issuance Prospectus lodged with the ASX.
- All forward-looking figures in this presentation are unaudited and based on A-IFRS. Certain figures may be subject to rounding differences. All market share information in this presentation is based on management estimates based on internally available information unless otherwise indicated.
- All amounts are in Australian Dollars unless otherwise stated.

Financial Results

$ billions (except margins & DPS)	1H08	1H09	%
Sales Revenue	12.3	**12.6**	▲ +3.2
Total Revenue	12.4	**12.7**	▲ +2.7
Operating Expenses	7.3	**7.4**	▲ +1.7
EBITDA - reported	5.2	**5.3**	▲ +3.1
EBITDA Margin (%)	42.2	**42.2**	-
EBIT - reported	3.1	**3.1**	▼ -1.3
PAT (post minorities)	1.9	**1.9**	▼ -0.5
Accrued Capex	2.3	**2.1**	▼ -10.6
Free Cash Flow	1.3	**1.9**	▲ +44.3
Interim DPS (cents)	14.0	**14.0**	-

Sales Revenue

+3.2%

Underlying EBIT and EBITDA

+4.8%

Telstra

Guidance*

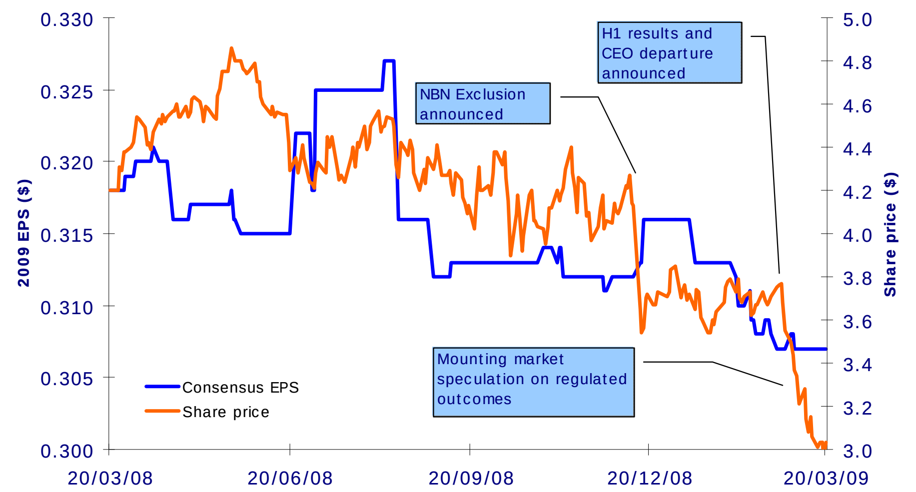
Measure	2010 Long-term Management Objectives
Revenue Growth	3-4% CAGR from FY05
EBITDA Margin	46-48%
Capex/Sales	Around 14%
Free Cash Flow	$6-$7bn

Measure	2009 Guidance
Total Revenue Growth	3-4%
EBITDA Growth	5-6%
EBIT Growth	3-5%
Accrued Capex	$4.3-$4.6bn

* Off reported numbers, excludes any potential NBN investments, includes pension top-ups and Melbourne HFC upgrade

Telstra

What is $3 pricing in?



Source: Bloomberg

Speculated Armageddon scenarios

Analyst published forecasts

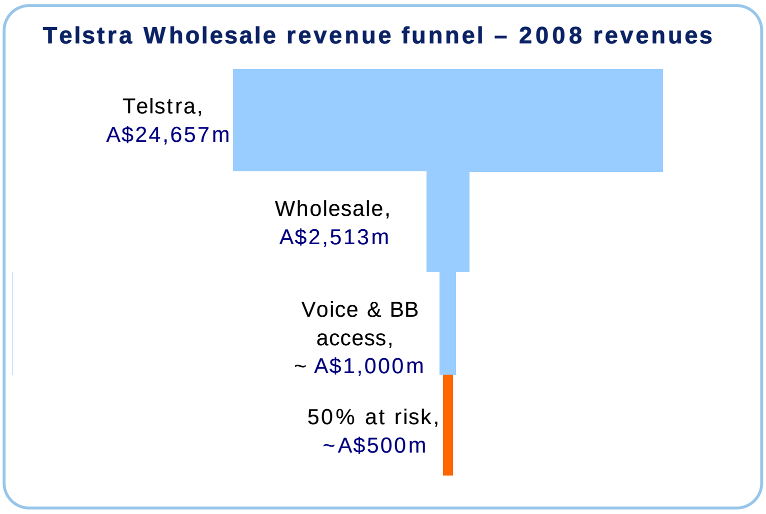
Analyst	NBN Impact: Operational Separation	NBN Impact: 3rd Party Build	NBN Impact: Cumulative	Base Case DCF Valuation (excl. NBN Impacts)
1			-$0.60	$4.39
2		-$1.10	-$1.10	$4.35
3		-$0.30	-$0.30	$3.90
4	-$0.04			$5.00
5		-$1.42	-$1.42	$4.92
6	-$0.93	-$0.82	-$1.75	$4.60
7		-$0.71	-$0.71	$4.91
8	-$0.30			$4.68
9	-$0.73			$4.21
10		-$0.70	-$0.70	$5.25
11		-$0.40	-$0.40	$4.80
Range	-$0.04 to -$0.93	-$0.30 to -$1.42	-$0.30 to -$1.75	

Telstra forecasts*

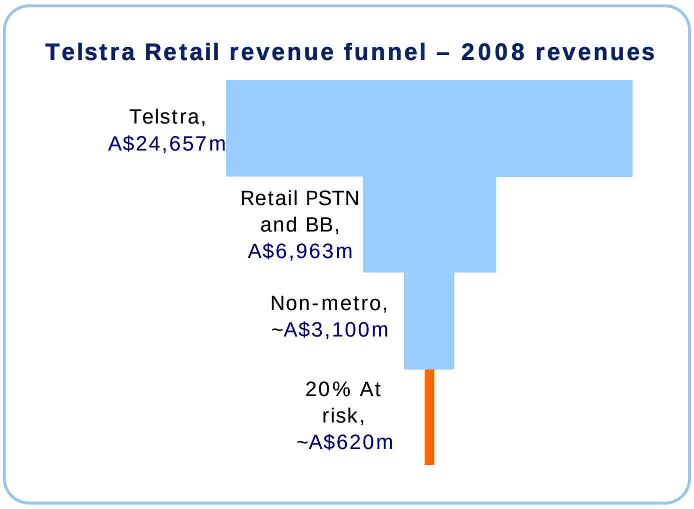
Telstra forecast impact from base case valuation	per share impact (NPV to perpetuity)
Functional separation	-$0.04
Low cost access sub-loop ($8 per month)	-$0.42
A statutory monopoly with a prohibition on competing infrastructure	-$0.69
Forced migration of Retail traffic	-$0.13

*impacts are not cumulative, some at risk revenues are duplicated across the scenarios

Quantifying the risk: Wholesale

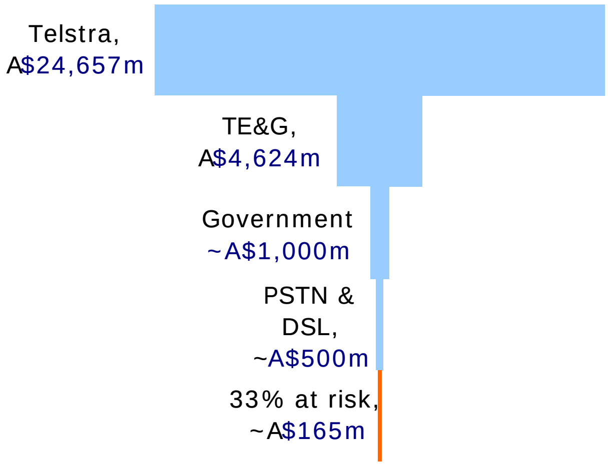


Quantifying the risk: Retail



Quantifying the risk: Enterprise & Government

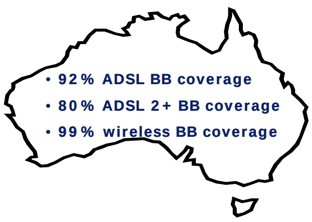
Telstra Enterprise and Government revenue funnel – 2008 revenues



Telstra

Turbo-charging Australian broadband

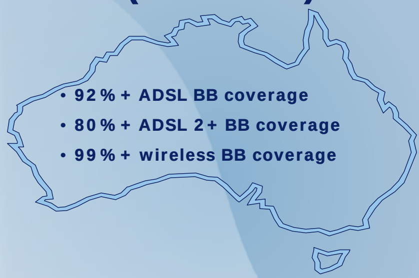
Telstra - TODAY



- HFC cable – up to 30Mbps
- Wireless BB – 21Mbps*
- ADSL2+ BB – up to 20Mbps

Continued Investment

Telstra – 2010+ (ex FTTN)



- HFC cable – 100Mbps+
- Wireless BB – 42Mbps*/LTE
- ADSL2+ BB – up to 20Mbps

* Peak network downlink speed

Telstra

Focused on shareholder returns

Investing in growth & innovation

$6bn-$7bn FCF in FY10

Telstra

SLIDE 1: WELCOME

Good afternoon, and it is good to be in Hong Kong again to talk to you about Telstra. I will touch on our half year results, and then add some context to the issue of a future broadband network in Australia that seems to be vexing so many people.

In spite of the headwinds, we remain on track to achieve our 2010 objectives and have not been distracted by debate around fibre, or NBN as it is known. The transformation remains our priority and we continue to be focused on that as the main event.

But fundamentals seem to matter little at present. Added to that, disclosure obligations in Australia seem a little lopsided at the moment, so we are constantly trying to determine what is genuinely leaked Government information, and what is just analyst and media scaremongering.

Having spent several weeks meeting with shareholders large and small, I am aware of the impact that all these rumours have on sentiment and perceived risk.

Today I want to confront some of this speculation head-on. For the sake of argument, let us assume that last week's press reports are correct and the Australian government is negotiating with a group called Acacia to build a national fibre network in Australia. What kind of a threat does an FTTN build from Acacia really pose to Telstra?

I will look at some of the speculated regulatory impositions and the threat that even the most extreme poses. Then I will revisit some analysis that the CEO presented to the market in January on the $1-2b of revenue that we consider to be at risk from a perfectly executed third party NBN build.

SLIDE 2: DISCLAIMER

Before moving on, I want you to read and understand this disclaimer.

SLIDE:3 FINANCIAL RESULTS

First, I think it is important to touch on some financial headlines.

Once again Telstra delivered a strong first half performance across the business, despite Australia facing the most volatile and challenging economic conditions for decades.

We grew sales revenue 3.2% to $12.6 billion. This is an improvement on the 3% growth reported in the second half of fiscal 2008. Strong Retail sales were again the driver of growth as we used Market Based Management and differentiated with quality products and services to win in the market.

Reported EBIT declined 1.3% in the first half. Adjusting for one-off factors, the underlying EBIT and EBITDA growth was 4.8%. In the face of the current macro climate, few major companies from our domestic and international peer group have been able to report such sustained momentum in the half.

And critically for shareholders in these difficult times, we maintained our interim dividend payment at 14 cents per share as our Free Cash Flow continues to grow into 2010.

Our focus on customers, networks and services give us a tangible competitive advantage. And the results are clear.

- In our mobile services business, growth continues to exceed 12% with margins now 12 percentage points above the number two player;

- In broadband, we grew Fixed Retail Broadband revenue by 20% with SIO growth 3 times our largest competitor;

- In IP and data, we grew IP Access data revenue by 28%;

- In Sensis, our Directories business, we grew sales revenue by 8%, compared to negative growth from some competitors.

Telstra continues to hold or gain revenue market share, this is an impressive performance consistent with our transformation objectives.

SLIDE 4:GUIDANCE

Now let me move briefly to guidance.

Against the rapidly deteriorating economic climate, we have re-iterated all of our guidance for Fiscal 2010, with continued growth in the business, expanding margins and most importantly FCF in the range of $6-7 billion. The transformation remains very much on track.

For fiscal 2009 we continue to expect revenue growth in the range of 3-4%, we expect EBITDA growth in the range 5-6% and EBIT growth in the range 3-5%. Let me highlight this represents strong, accelerating bottom line growth in H2.

SLIDE 5: WHAT IS $3 PRICING IN?

Notwithstanding the current and improving strength of the business, and the real threat posed by regulation, Telstra shares are still trading at close to $3, or at around a 33% discount to the consensus stand-alone valuation, which is about $4.50 per share.

Before I look at the revenue that is really at risk in key products, what is the market currently pricing in?

In the near-term, consensus now has us trading at around a 30% P/E discount to our peers with similar consensus EPS growth. Do the maths, and that is pricing in about a $5bn hole in consensus 2011 revenues, or a 4% revenue decline for this year and the next two years.

What about the longer-term? Analysts with DCF valuations of around $4.50 have terminal growth of 1-2% in their models. Assuming the WACC estimates are correct, you can get to around $3 with a -5% terminal growth rate.

Rest assured, I am not standing here today to talk about an investment in a company that will see FCF halve in 9 years!

SLIDE 6: SPECULATED ARMAGEDDON SCENARIOS

So let's look at some of the impacts that we see as a result of possible regulatory outcomes. Regulatory Armageddon is one of the bear stories of course, with up to a $1.75 per share impact speculated as an outcome of NBN. However, we must remember what problem is being solved. If it is competition, let me remind you that Australia has among the most ISPs per head of any OECD country, around 170 licensed carriers and some of the lowest wholesale prices anywhere. If it is underinvestment, you need look no further than the UK to see the disconnect between overbearing regulatory remedies and reduced capital investment.

I am sure you will read a couple of analyst reports tomorrow accusing us of underestimating the risk. But let me make a couple of points:

1. We do know our business and its drivers better than any external party, and we don't have a "wait-and-see" approach to management.
2. I have a fiduciary responsibility not to mislead knowingly. I can only hope that all protagonists share our integrity.

A speculated outcome is Operational Separation:

Away from Australia, most of you will understand the limitations of separating a telco - the implications for investment, competition and the fallacy of shoe-horning utility-like regulation into a non-utility industry. Given the unique and complex issues, there is no analyst consensus on the impact, with estimates ranging from 4c to 93c per share. A $10b valuation difference!

What about the impact of a 3rd party NBN build?

With all the complexity and scenarios people are jumping at shadows trying to value the impact on Telstra of a 3rd party NBN build, so investor concern is understandable. The reality is that no one knows the Government's outcome, the technical capabilities of a third party, the willingness of possible customers to invest in services at the retail level, and the financial capacity of a builder – I could go on.

This is reflected in the analyst views of the impact which range from just 30c per share to more than a dollar. What the market should know is we have made the investments already to offer our customers high-speed services over copper, cable and wireless infrastructure.

While analysts tend to look at just a small number of scenarios, we consider literally hundreds of potential scenarios from operational separation to forced structural separation to a range of competitive prohibitions and wholesale price points. In every case our worst case scenarios do not get close to the downside claimed by some and probably the most important reason is that we can and will continue to compete hard in the retail market. Whatever happens in the wholesale market, remember that competitors will have to invest to take share at the retail level. We have seen little evidence of that over the last few years.

We don’t mind and in fact encourage pressures from fair competition on a level playing field. What we do not like is unfair, regulated impacts on our business and customers. That is true monopolistic and anti-competitive behaviour, and should be recognised as such.

I have also included above some of the outputs from our modelling of speculated regulatory impositions. These are per share impacts, but I must re-iterate that they are not cumulative, but stand-alone scenarios. It is wrong to add the impacts up and multiple-count the same revenue loss. I should also highlight that the 2012 impact on revenues and FCF that we forecast is relatively low. The point again is that any material impact from a third party NBN build is likely to be many years, although we do not consider that any imposed, anti-competitive regulation of our business can be justified.

SLIDE 7: QUANTIFYING THE RISK: WHOLESALE

These are very much Armageddon scenarios. We think a more instructive approach may be to look at the individual products and revenues actually at risk here, again in the long-term and incorporating mitigation strategies.

In January we first discussed the revenues that we consider to be exposed to an adverse NBN outcome, and then quantified the revenue at risk at between one and two billion dollars, with EBITDA margin below our group average.

However, some observers continue to forecast an imminent risk to much of Telstra’s current business so I want to address this question in some more detail.

Let me again ask you to suspend belief and assume, we face a fully funded, perfectly executed, legislatively supported alternative build. What might be at risk?

The first area of the business to face a challenge will undoubtedly be wholesale. This is a $2.5b, declining business for us, but with over a billion dollars of wholesale voice and broadband access revenue that might come under threat. 4% of our revenues. Lets us look at the worst case – we keep our network, but wholesale access to the subloop is half the current price. So at worst with regulated prices we are looking at $500m at risk.

SLIDE 8: QUANTIFYING THE RISK: RETAIL

And what about our much larger retail business?

In respect of retail customers, we have potential ability to migrate our metro PSTN and fixed broadband traffic onto our HFC cable network, so maybe we need to look at non-metro services.

While non-metro retail PSTN and fixed broadband revenue may be perceived to be more "at risk", only **$3.1bn or 13% of our FY08 sales revenue** of $24.7bn was in this category. And much of this non-metro revenue could be migrated to our other networks such as wireless broadband and ADSL2+ in the years before NBN services are rolled out.

And what if FTTN was built. Like any other carrier, we could buy access to this network, preserving even these non-metro revenues.

Yes, we might see some slight market share erosion at the margins if our competitors are willing to invest. But we have shown time and time again that we can win in the retail market – even when those competitors have access to our network at subsidised prices.

A 20% loss of revenue from these loyal, long-term customers looks to us a reasonable worst-case scenario

It is about the customer and offering customers value. Customers make the choices.

SLIDE 9: QUANTIFYING THE RISK: ENTERPRISE & GOVERNMENT

Finally, the 3rd area described as 'at risk' is within our Enterprise & Government group. Some suggest government will not contract with us as fibre rolls out. Well contracts have time to run and you cannot forget about what security and existing infrastructure we offer.

While Enterprise and Government contributed nearly 19% of Telstra revenue in FY08, much of this came from our Enterprise customers. In fact only around $1bn or 4% came from Federal and State Government customers.

Of that, much related to areas unlikely to be directly impacted by NBN including IP Access, Mobiles and Business Services & Applications.

In fact, less than $0.5bn, or around 2% of Telstra's sales revenue, was derived from PSTN and DSL services sold to Government customers.

Yes, there is a risk, but much of this revenue is in metro areas, and part of wider contracts. On the basis that any preferred procurement policies from the Government would be seen as anti-competitive, I think that our at risk view is again a reasonable worst-case scenario.

SLIDE 10: TURBO-CHARGING AUSTRALIAN BROADBAND

And of course, all of that assumes a degree of management incompetence – an inability to compete and a willingness to spend capex for zero return. So let me spend some time talking about our future strategies and how we continue to move the business forward.

First, high speed broadband:

We recently announced our plans to invest A$300m to upgrade our cable broadband network in Melbourne. The DOCSIS 3.0 upgrade will triple the current peak speed by Christmas this year, providing customers with a scalable, next generation internet experience, enabling new work-from-home, learning, security, entertainment, health care and energy-saving choices at home.

Our world-class fixed line infrastructure also compliments our world-leading Next G mobile broadband network. Next G already delivers peak network download speeds of 21 Mbps and a migration path that will deliver peak network download speeds of 100Mbps.

And one of our most important investments has been in backhaul and core infrastructure. World class access technologies are nothing without the end-to-end network intelligence, management and capacity that only Telstra can provide.

SLIDE 11: CONCLUSION

I have probably run over time, so to conclude, let me re-iterate a few points.

We have a strong business with robust growth expected for the full year. We have maintained a strong balance sheet through these difficult times and are paying a healthy dividend of 14 cents per share this half.

We continue to maintain our 2010 long term management objectives, importantly our FCF target of $6-7 billion in 2010. This includes the impact of the HFC roll out and pension top-ups.

Thank you, I'll now take questions.