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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra to sell majority stake in Sensis - analyst briefing call transcript

In accordance with the Listing Rules, I attach a copy of the transcript of the analyst and media briefing call regarding Telstra's agreement to sell a majority stake in Sensis held on 13 January 2014, for release to the market.

Yours faithfully



Damien Coleman
Company Secretary

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TELSTRA CONFERENCE CALL 13 JANUARY 2014

MR KEYS: Good morning. Thank you. Welcome to the call regarding Telstra selling a majority stake in the Sensis business. In a moment you will hear from Telstra CEO David Thodey and our CFO, Andy Penn. After, Andy will then be taking questions from investors and analysts first, and then we will complete this morning's call by taking questions from media. Over to you, David. Good morning.

MR THODEY: Thanks, Andrew. Yes. Good morning, everyone. As you would have seen from our statement to the ASX, we've entered into an agreement with Platinum Equity to sell a majority stake in Sensis. Now, under the terms of the agreement, we will retain a 30 per cent stake in Sensis. We're very committed to this new partnership with Platinum, as we really believe that this is the right strategic fit for both parties, and we think this new partnership is going to maximise the value of Sensis for Telstra shareholders.

I mean, as many of you know, we've spent the last two years managing this transition of Sensis from a print to, really, a digital directory business. And Sensis, I'm pleased to say, is now – still the leading digital marketing services and directories business in Australia. But many of you will also be aware that directories businesses right around the world have been experiencing massive change, and that has meant that we've really had to readapt the business. And, in fact, Telstra is probably one of the last telcos to own a directories business. So we really need to continue to help this business transform. And we think that, to drive the further momentum to become a fully digital business, it's an appropriate time to introduce a partner like Platinum Equity. And this will be a strategic partnership going forward.

I mean, I think the very fact that we're retaining a 30 per cent stake in Sensis shows our belief it will continue to lead the market and it can deliver value to Telstra shareholders as it transforms. I mean, if you look back, Sensis has really been an important part of the Telstra business and has generated, you know, significant cash flows over the last, what, really, four, five years. And that has really enabled us to take that cash and to invest in the core business. And I think, therefore, as you look at the transition of Sensis, that now it really is the appropriate time to move forward to a new stage.

So let me also give you a brief overview of what we think the future structure of Sensis will be under this new partnership. So the way it will work is that Platinum Equity will operate Sensis as a standalone entity, which means that they will give it the focus it needs to, really, help in this transition to a digital company. And, of course, what's so important is to really maximise on the opportunities that Sensis, really, provides due to its market presence and its offerings. We really think that this partnership is going to be of benefit to Sensis, and a very important consideration for us is about continuity for our employees, customers and suppliers.

We've had the opportunity to really get to know Platinum Equity, and they've been working with the leadership team, and we think it's a very good alliance that we can form there. Now, you know, whenever you have these sorts of changes, there's many questions about what impact it will have. And at this stage we've got to continue the transformation we've embarked on. But it's really going to be business as usual as we start – over the next few months, as we start to work through consummating the transaction. So it's really premature to say too much about the long-term aspects of this transaction, really, until we've got the acquisition completed.

But I do want to assure everyone on the call that we are really involved with the Sensis management and with our staff to really work through this change. Now, remember, over the last couple of years we've bought a number of those services to help Sensis perform back into Telstra. There's going to be a transition as that, you know, moves out, in terms of the new structure over the next few months. So we will continue to work closely with them.

Now, of course, there's some regulatory considerations here as well. And it's very important Sensis is going to continue to produce and distribute the White Pages directories, as is required under the conditions of Telstra's carrier licence, but we need to work through that with the government.

But I do want to stress that there are, you know, some considerations here, as we've looked to the business. Not all of what we have traditionally reported as Sensis is going to go into the new entity.

So we will be retaining the directory assistance lines, 1223, and also the voice services, 1234, 12456 - part of our core telecom offerings. So there are some differences in the way we've traditionally reported Sensis that Andy will take you through. But there are very, very important, you know, considerations – we will continue to do everything required under the licence conditions. And, of course, there is the Foreign Investment Review Board approval required, but Andy will say more about that. So let me throw you across to Andy now, and he will take you through more of the details of the transaction.

MR PENN: Thanks, David. So I will just pick up where David left off there, just to explain how the Sensis business that we are selling, in a sense, differs from how we've reported Sensis within books of Telstra in the past. And there's really, essentially, three differences. The first is that, as David mentioned, we will be retaining the voice services business, which in FY[14] is expected to generate approximately \$70 million of EBITDA. Secondly, there are a number of arrangements between Sensis and Telstra, at the moment, that we need to put on a commercial arm's length basis, such as provision of telco services by Telstra to Sensis, which we will put on an arm's length basis, which will derive further benefit to Telstra EBITDA moving forward.

And, finally, there are a range of costs, including shared services costs, superannuation and other costs which, currently, Telstra incurs on behalf of Sensis, which will now be formally charged through to Sensis and/or will be adopted by the new Sensis organisation. And when one takes into account all of those aspects of the transaction and the nature of the business, and also when one takes into account the fact that EBITDA has been declining a little over 20 per cent per annum – and that's what we would have anticipated in FY '14 as well – the resultant multiple for the transaction is 2.4 times our estimated Sensis 2014 EBITDA earnings.

And that compares with transactions in directories businesses, globally, at around the average or slightly above the average of transactions that have occurred. So that's basically how the economics of the deal play themselves out. Financially, we will be receiving, in addition to those economic benefits which I've outlined, \$454 million in cash, which will provide Platinum with a 70 per cent stake in the business. And we will be booking a loss on the sale, which will be subject to the precise timing of completion and any other completion adjustments, that we estimate to be approximately \$150 million, of which we will book \$100 million in conjunction with our half-year result, which we will be announcing in about four weeks time.

So they're the key economic aspects of the transaction. As David mentioned, it is subject to a number of usual approvals, including regulatory approvals – the Foreign Investment Review Board approval. But our expectation is that should all be reasonably straightforward and we anticipate completion occurring before the end of the first quarter of calendar 2014 - so by the end of March, if not a little bit before the end of March. As with the CSL transaction and as I responded to when we announced that transaction before Christmas, we will communicate in relation to capital management, etcetera, once the proceeds – once these transactions consummate, once the proceeds have been received by the company.

But, until then, there's a little bit of work to do in relation to this transaction, also the CSL transaction, just working through the regulatory and other approvals before they finally consummate, which, as I said, we expect to be some time towards the end of the first quarter of calendar 2014. And I think that's probably as much as I would like to cover at this point, Andrew, so I might hand over to Andrew Keys, who will chair the session for Q and A with investors and analysts.

MR KEYS: Okay. Thanks, operator. Could we please take the first call from an investor or analyst.

FACILITATOR: Thank you. Your first question comes from Fraser McLeish from Credit Suisse.

MR McLEISH: Hi. Thanks very much. Just a quick one from me, just – Andy, can I just check the maths on the EBITDA that is not going as part of this transaction. So I think Sensis did 570 in FY '13. You're talking about a 20 per cent underlying decline – gets you to, sort of, 450. And you're talking about 270 million on the multiples you've outlined here. So that leaves about 180 million of, sort of, EBITDA, if you like, left with Telstra from the things you were talking about, the voice and shared services, etcetera. Does that sound about right?

MR PENN: That's exactly the maths, Fraser, so – of which about \$70 million relates to the voice services business, and the balance is services which we will now put on a commercial arm's length basis, and shared services costs and other costs that Telstra incur on behalf of Sensis that, currently, we effectively don't, sort of, go through – intercompany charges.

MR McLEISH: Okay. And would we expect that to be a reasonably, sort of, stable number going forward?

MR PENN: Well, I think the voice services business, as an example, is also declining in the same way that the directories business is, for the same sorts of reasons, customers and people choosing to use other ways to advertise and also to, sort of, do directory searches. So, no, we would expect those costs to – some of those costs and benefits to decline over time, but only in line with what we would have expected to be the underlying movement in the Sensis business itself.

MR McLEISH: Great; thanks so much.

MR THODEY: Andy, it would be true to say the costs are probably – ours are pretty consistent, but the revenues from voice directory services would, you know, continue to decline unless we do something else.

MR PENN: That's right, although the – you know, as – it's subject to how the Sensis business performs. They will seek to continue to, obviously – but we should remove those costs from our P and L account - - -

MR THODEY: Yes, that's right.

MR PENN: - - - as we're incurring them today.

MR THODEY: Correct, yes. Okay.

MR McLEISH: Thanks.

MR KEYS: Okay. Operator, next investor or analyst call.

FACILITATOR: Thank you. Your next question comes from Raymond Tong from Goldman Sachs. Go ahead, please.

MR TONG: Morning, David, and morning, Andy. Just a couple of questions – just firstly, David, I think you, sort of, talked about – a little bit about the rationale behind keeping the 30 per cent stake. Can you, maybe, talk about the – what are the pros of keeping the 30 per cent, from a Telstra perspective?

MR THODEY: Yes.

MR TONG: And then, secondly, on the voice business, Andy, how much, I suppose, D and A is associated with that business? I think Sensis as a whole had around 160 million of D and A in FY '13.

MR THODEY: Great; let me go first, Raymond. Look, the key pros on this is around our offerings to small and medium businesses and how we see the digitisation of a range of offerings to small and medium business. We think that there's some synergies there that we can drive between, you know, the new Sensis and ourselves. The other thing we just wanted to keep our exposure to the digital advertising world. You know, so we think we can help Platinum be successful in that area, and there's some benefits that would flow our way, as we just look at our own digital content strategy.

So they were the two key reasons. You know, there's – you know, obviously, from the down side – you still continue to be exposed to any down side. But we think that the Platinum business, or the new Sensis business with the majority ownership by Platinum, will benefit from that Telstra 30 per cent stake, and therefore our shareholders will benefit going forward. Andy, let me throw to you if you want to add anything else to it, you know, as we work through this.

MR PENN: Yes. No, just to answer the second part of Raymond's question, which was, "How much of the D and A is associated with the voice services business?" it's pretty minimal, Raymond. It's a bottom line end, and in any event we were previously accounting for it within the consolidated D and A for Telstra, so it was in the group accounts - obviously in the EBITDA sense.

MR THODEY: And Raymond, the other thing, we've spoken quite a bit to AT&T and Deutsche who have done similar sorts of transactions, and they from the early days are seeing, you know, some real momentum, and they've sort of been pretty pleased with the structure they've got. So we're keeping very close to them, because this is a global phenomena as we're going through this transition.

MR TONG: Great, thanks very much.

MR KEYS: Okay. Operator, next call, please.

FACILITATOR: Thank you. The next question comes from Sameer Chopra from Bank of America, Merrill Lynch. Go ahead, please.

MR CHOPRA: Morning. I had two questions. Firstly, could you let us know if this includes your mapping business? And the second one was: you're typically of this 20/80 sort of split between first half/second half EBITDA contribution from Sensis. Is that still pretty much the case as you see it?

MR THODEY: Andy, I will let you - well, I can answer the first one and Andy will give you a better answer on the second one. Yes, it includes the mapping business, Sameer. So as you know, we've had that business for a while now, but we think it's time to let that go. And on the 20/80 split, Andy?

MR PENN: Yes. No, that's broadly what we would expect to continue to be the case, and is the case in 2013 - sorry, 2014, sorry.

MR CHOPRA: Great, thank you.

MR KEYS: Okay, next call from investor or analyst, please, operator.

FACILITATOR: Thank you. Our next question comes from Laurent Horrut from CLSA. Go ahead, please.

MR HORRUT: Yes, good morning. Good morning, David. Good morning, Andy. A couple of questions from me. Just first of all, what has triggered the sort of change in view on the asset? I guess it was part of the assets that Telstra was happy to hang onto for the last few years, so just interested in if there's been any specific development explaining why you're selling the asset now?

MR THODEY: Yes. Do you want to do the second question too, while we're

MR HORRUT: Yes, sure, sure. Absolutely. So just in terms of use of proceeds, I guess, will you be looking to sort of - I guess, is your absolute level of EPS an important consideration for you in terms of how you redeploy the cash and potential capital management program?

MR THODEY: Right, okay. I will let Andy take the second one, and EPS is always important to us. Look, the reason that we thought it was the right time, we've obviously been doing a lot of work with Sensis over, gee, 18 months, two years now. And we've looked at a number of different options for the business. We've looked at from organic growth to some acquisition bolt-ons for the company, and we've looked at the risk profile. We've looked at, you know, the success of what now used to be PagesJaunes and now are called True Local, or Local in France. We've looked at the Canadians, we've looked at AT&T and their directories business and really tried to get underneath the key financial drivers and where these companies are.

And when you look at it, Laurent, you know, there's still a significant amount of change to take place, which we think is definitely doable, but when you look at the amount of effort required versus bringing in a partner at this time, we've concluded that this is the time to bring in a partner, because it will allow us to really focus on what we think is a more strategic part of the business and then let them to really, you know, run the business. So that has been what the thought process has been. It has been a,

you know, very well-considered strategic decision with the board and across management, and we think this will in the end deliver the best outcome for our shareholders. So let me throw to you, Andy, and you might want to add a little few more comments, because you've been an integral part of – as we've looked around the world and the trends in directories businesses as well.

MR PENN: Yes, look, I think that's right, David. We've been through quite a long process, and we've looked extensively globally and we've had discussions with many, many different parties, including the ones that David has mentioned. And I think, you know, our conclusion has been that at this stage of the transition, the businesses that have, if you like, performed the best have been those that have been enabled to be put into a relatively agile position fairly standalone - to be able to make the necessary changes that they've needed to make to, sort of, complete that transition from the existing model.

And we've seen PagesJaunes in France that David has mentioned, and in Canada, in AT&T's business in the US have all actually benefitted from that type of model, and that's what I think has very much influenced us in that regard. As David mentioned, we remain a serious and significant investor, because we believe that there is further benefit to be derived from this transaction and managing the business in that particular way. As regards to the second part of the question, EPS is obviously very important because EPS is an important driver of our ability to continue to support the dividend for Telstra and over the longer term, as we've said before, our aspiration is obviously to grow Telstra's dividend, and growing EPS will be an important factor to be able to do that on a fully franked basis.

And notwithstanding the comments we've made, I mean, the reality is, is that Sensis is still going through that transition and its EBITDA is declining and has been declining around 20 per cent per annum, and so this will deconsolidate that impact from Telstra's earnings. And as I mentioned before – I think I mentioned before, if I didn't I will confirm now – the way in which we will be accounting for this going forward is that we will consolidate 30 per cent of Sensis NPAT into our EBITDA from the date of completion. So – but EPS remains a very important measure for us.

MR HERRUT: Okay. Can I just follow up with one little question? Are you taking any contingent liability at the start of this transaction? And will you be liable for any restructuring costs going forward under the new ownership? And lastly if there's any put option on the remaining 30 per cent. Thank you.

MR PENN: Well, there's, you know, the usual sort of customary warranties and reps and transactional structuring sort of arrangements, but I wouldn't say there's anything particularly unusual in any of those.

MR KEYS: Okay. Operator, next analyst, next question, please.

FACILITATOR: Thank you. Your next question comes from Richard Eary, UBS. Go ahead, please.

MR EARY: Good morning, guys. A number of questions have already been answered – asked, but just for clarity, Andy, when you said it's obvious there's going to be an accounting loss of \$150 million this year, can you just walk us through how we go from the EBITDA to the accounting loss, and therefore what moving parts we can see below the EBITDA line to understand, you know, the NPAT of this business as we look into '14 and '15?

MR PENN: Well, I mentioned that the – we expect the accounting loss to be approximately \$150 million, of which we will book \$100 million at the half year, and that's obviously a reflection of the value of the transaction relative to the current carrying value of the business. And then of course pre – between now and completion we will continue to consolidate the earnings of Sensis, but because it's a fixed transactional price, then the extent to which we generate earnings, then that will increase to the accounting loss. So that's why it increases by \$50 million between now and when we estimate completion to occur, some time in March. And if it were to take longer than that – which we don't anticipate, but if it were – that would be the same dynamic.

So in terms of how the sort of – that's how the sort of EBITDA is interplaying with the accounting loss. And then I think the other part of the answer to the question is really the points I made in my

introductory comments, which is that – and I think Fraser did a fairly good reconciliation, that the earnings in our last reported results, 2013, were \$570 million, declining at around 20 per cent per annum. So if you apply that to 2014, which is roughly around what we would have anticipated, that would have reduced the Sensis earnings to around \$450 [million] EBITDA.

But then you need to back out of that the voice services business that we will continue to retain, and account for some additional benefits that I've mentioned both in relation to telco services that we will provide Sensis on a commercial, arms-length basis going forward, and then also shared services costs, which essentially the new Sensis will inherit and take on. That's what brings you back to an EBITDA on a like for like basis, if you like, with the \$649 million valuation we put in.

MR EARY: No, sorry, Andy, what I was trying to get at is that obviously the 150 million includes a book loss on the sale. So stripping out that I was trying to get an understanding in terms of what the underlying NPAT number of the new business would be, and therefore what sort of NPAT multiple this is being sold on, rather than the EBITDA multiple.

MR PENN: Yes, okay. Well, look, I haven't disclosed an NPAT multiple, but I think you could largely work it out from – you could make some fairly straightforward assumptions if you went from a \$270 million EBITDA multiple and then deducted an appropriate level of depreciation, amortisation, which somebody has already commented on, and also - - -

MR EARY: So where you go, the 270 less the 160 of depreciation, 110 and then just tax it at 30 per cent, gives you something like \$75 million for NPAT. Is that how we should think about it?

MR PENN: That would be a reasonable way of looking at it, and that would be on a debt-free basis.

MR EARY: Yes.

MR PENN: So you would have to make some assumptions about financials as well.

MR EARY: Okay, thanks.

MR KEYS: Okay. Operator, next call, please.

FACILITATOR: Thank you. Your next question comes from Ian Martin, from CIMB. Go ahead, please.

MR MARTIN: Thank you. Can I just explore some of the implications around the mobile side of the business?

MR THODEY: Yes.

MR MARTIN: First, what part of voice comes from mobile voice rather than fixed voice, the 70 million EBITDA? And secondly, in previous presentations you've highlighted that, you know, that's quite a strong growth area, is the use of mobile phones for advertising and looking up sites and so on. Is that part of the business – is that part of the – the mobile advertising business, does that go with Sensis, or is some of that kept as part of the voice business. So if you can just – and you know, what are your expectations now with the 30 per cent stake that you have in Sensis in how that future prospect will be divided by Telstra – that future prospect for mobile advertising will be divided between Telstra and Sensis? And secondly, just in relation to the accounting loss, 150 million, is there also a tax loss associated with that and any implications for franking around that?

MR THODEY: Okay, Ian, let me just see if I can take the first part of that. So look, we're only selling the directories business and the mapping business; that's all we're selling. So all the voice services and related, you know, advertising-generated business stays in the Telstra media group. So it's only directories is where – is going, so all the rest stays. And yes, we continue to do a lot – as you see we've announced a new Telstra media webpage. We're doing a lot of restructuring in that media content side.

You know, I haven't given you any sort of indication of just the sites at the moment, it's still sort of – you know, it's still early days on it, but we will move that and make it sort of a rich content experience on the mobile; we already have and we will be doing more, and more music, just to augment our services. And of course you know the relationship with Foxtel in terms of just – you know, video content is still very, very important. We've got a lot of plans in that area. So that all stays with us, and that will be good going forward. So Andy, can I throw to you on the other parts of Ian's question.

MR PENN: Yes. So Ian, sorry, I think the other main part of your question is really whether or not the transaction from a tax loss point of view would have an impact on our dividend franking capacity. There will have to be some tax implications. They will be on the capital account, so they won't affect our income tax payable in 2013 – 2014, rather, sorry. So no, we don't expect it to have a material impact on the franking situation.

MR MARTIN: And are you able to split that \$70 million voice EBITDA between fixed and mobile?

MR THODEY: Don't have it with me, Ian. I – unless someone else has got it?

MR PENN: No, I don't have it in front of me

MR THODEY: Yes, well, look, it – so – I don't think, I can't remember if we actually - but there's no reason why we couldn't. So in – we can get that to you independently.

MR PENN: Well, what we will do is, we will add it to the transcript that we file post this conversation.¹

MR MARTIN: Great. Great, thanks.

MR KEYS: Okay, could we take the next investor or analyst call, thanks?

FACILITATOR: Thank you, your next question comes from Justin Diddams from Citi, go ahead, please.

MR DIDDAMS: Morning, guys. Just a couple from me. Firstly, is the Trading Post asset included with the disposal? And then the second question is, you know, what do you think is a reasonable time horizon for Telstra to be able to give the market some clarity on what it intends to do with all this cash that it has received from, you know, the recent disposals and some of the, you know, the cash on the balance sheet now? When should we expect you to have a, you know, a clear idea of what you're going to do with that cash? Thanks.

MR THODEY: Andy, do you want to go first on - - -

MR PENN: Yes, sure. Well, in relation to – I mean, I think we are clear in terms of our capital management strategy. We've got a very clear framework which we've laid out for the market, and I've always maintained a position that we will communicate decisions regard, sort of dealing with excess free cash as and when we actually receive it. So as I mentioned before, we would anticipate that these – this transaction and also the CSL transaction should consummate towards the end of the first quarter, and therefore, you know, it will be following that that if we've got something to announce in relation to deployment of capital, that's when we will say something.

But I'm not going to be drawn into sort of speculating – not to be difficult, but just because the world is such that, you know, regulatory approvals and other approvals, you know, they can be unpredictable in terms of how long they take, notwithstanding the fact that we anticipate completion, you know, before the end of March. So – and then we can, you know, to the extent we've made decisions about deployment of capital, we would make it after that time. And then the question was in relation to the Trading Post, that which was, yes, are included in the transaction. **[Editorial note: Please note that this response was retracted below. Trading Post was not included within the sale.]**

MR DIDDAMS: Maybe just a quick follow up. Does – does the government's broadband policy dictate your capital management plans? Does that enter into the – the equation?

¹ Voice revenue is split 70:30 mobiles / fixed. We do not disclose EBITDA at this level.

MR PENN: I think David might want to – to add a comment. I wouldn't so much sort of express it as the policy. We, obviously making any decisions regarding the balance sheet and capital, we look forward into the future to look at what the company cash flows are expected to be. And one of the things that influences those is some of the payments that arise as a consequence of the rollout of the NBN, and indeed, you know, we've previously sort of communicated that our excess free cash flow forecasts which we provided a couple of years ago now was predicated on a particular rollout of the NBN. So the rate and pace for the rollout of the NBN does influence our free cash flow, which does influence our decisions in relation to capital management. So to that extent, yes, but I wouldn't – I wouldn't link them as strongly as maybe the question suggested. But David, I don't know if there's anything you wanted to add?

MR THODEY: I think you – you answered it very well, Andy. It always figures in our thinking, but there's nothing specifically in this transaction that would push us one way or the other. It has really been a decision around our, you know, our strategic opportunities in the Sensis business, and what's best for shareholders.

MR DIDDAMS: Thanks, guys.

MR KEYS: Okay, thank you. We will now take questions from journalists, so I will hand over to Nicole McKechnie, our director of external communications, to facilitate.

MS McKECHNIE: Thanks, Andrew. Okay, Operator, I think we've got David Ramli from the AFR as our first call. Over to you, thank you.

FACILITATOR: We do, thanks, Nicole. David, go ahead, please.

MR RAMLI: Hi, thanks, guys, and congratulations on the sale. Three quick questions, if I could. The first being, I know Justin just touched on this a little bit, but I mean, would the funds potentially speed up any return of money to the shareholders via an increased dividend or a share buyback scheme? Or is that entirely linked still to the NBN payment?

MR THODEY: Why don't you do all three, David, and then we will try and – I will split them up between the three of us, is that okay?

MR RAMLI: Second question is, just in terms of the jobs at Sensis, I mean, are we expecting a bit of a restructure, and you know, have some unfortunate job losses going forward if the business changes under, you know, new control and management? And just in terms of the third question, I'm keen to find out, I think it might have been touched on earlier, but just in case. You have 30 per cent of the company still under your control. So if any increased funds need to be put into the business, are you also liable for, you know, 30 per cent of the payments, that sort of thing? And if, you know, restructuring payments need to come through, do you have to pay 30 per cent of that as well?

MR THODEY: Great, so David, let me give you a bit of colour on maybe the first one – well, actually, the middle one, and the first one I will get Andy to comment as well. Look, firstly, the return of funds or what we do with the cash is absolutely linked to our capital management strategy, which we have been very clear and consistent about now for nearly 18 months, two years. We must, you know, continue to look at where we invest to drive returns to shareholders, but we're also very conscious that our shareholders at various times would appreciate a return in terms of dividends. But it will be against our capital management framework, and the Board will, as it always has done, will look at that and make the appropriate decision. But you should go back to our capital management framework, and I will get Andy to say some more things on that.

In terms of any restructuring at Sensis, there is no change in what we're doing at all. I mean, we have already been through restructuring, just like any media advertising, digital transformation business. There will be continual looking at the – what new capabilities we need, how we can do things more efficiently, but it does not signal any significant change in that strategy, and we will continue to try and build that digital services side of the business while undoubtedly the print side will continue to decline. I will get Andy to respond to what our responsibilities are going forward, but as a 30 per cent shareholder, we will be contributing to the growth of that business in any way we can. Andy, your comments?

MR PENN: We're a 30 per cent economic investor and shareholder in Sensis, so therefore we will carry the economic risks and rewards of that 30 per cent economic interest. So were it to be that the business required more capital, we would – we would have 30 per cent responsibility to support that, whether that's debt financing or equity financing. But similarly, we are 30 per cent sort of linked to the economic benefits and returns of Sensis going forward, as well, and we believe that this is absolutely the right model and best structure to put Sensis in the best possible position to provide a positive return in the future. So we're optimistic about the future in that regard.

And then really, just to reinforce David's point vis-à-vis distribution, I think again, if you refer back to our capital management framework, the first principle is that we understand the importance of the dividend to our shareholders, and a dividend on a fully-franked basis. And we're committed over the long term to see how we can look for ways to increase the dividend over the longer term. That's our aspiration, but to do so, we've got to increase underlying earnings and EPS, and that's clearly what management is focused on. We also report on a regular basis the cumulative excess free cash flow that we have, taking into account our balance sheet settings.

And obviously, that excess free cash flow is available for reinvestment in the business, either inorganically, such as acquisitions, or organically, such as we have done in relation to the building out of our LTE network, which is now at 85 per cent coverage in Australia. And obviously if there's excess free cash flow above that, that's also available for return to shareholders. But we will obviously communicate to the market those decisions as and when we make them, but it certainly won't be before we actually see the transactions consummated and the funds received.

MR RAMLI: Yes. And sorry, one quick follow up, and also, nice plug of the 4G network, there, but in terms of when – you've put the sale through now. Do you regret not making the sale earlier? I mean, this was worth up to \$12 billion in 2005.

MR THODEY: Well, look, I think that, let me answer that. After the GFC, life changed. And we can't go back, you know, before that period, and if you look at any directories business sold, you know, since then, this is the valuation of the change. So it is what it is.

MS McKECHNIE: Thanks, David, and thank you, Mr Ramli. I will go to the next call, please.

FACILITATOR: Thank you, your next question comes from Max Mason, Sydney Morning Herald. Go ahead, please.

MR MASON: Sorry, guys, everything that I wanted to ask has been touched on already.

MR THODEY: Okay.

MS McKECHNIE: Thanks, Max.

MR THODEY: Thanks.

MR MASON: Thank you.

MS McKECHNIE: No problem. Operator, next call, please?

FACILITATOR: Thank you. Next question comes from Adam Bender from Computerworld. Go ahead, please.

MR BENDER: Good morning. You talked about how the deal is critical to bringing the directories business into a fully digital business. I was just curious if you had any numbers on how many people are actually accessing these directories services by print versus digital?

MR THODEY: Not right now, but obviously, the growth in digital is far outstripping what's being – the access from print. I mean, it's a very hard number to get, because you, unless they do something once they've read the Yellow Pages, but just take it that digital growth is extraordinary. Andy, do you want to comment?

MR PENN: Yes, the only thing I would sort of maybe add, David, is that the digital revenue, I think, in 2013 was about, just over 30 per cent of the total revenue of Sensis. And that was increasing at 11 per cent per annum compared to the White Pages, Yellow Pages, or the print, rather, directories revenue, which was declining at around about 20 of course. So but that's the sort of order of magnitude. So it's not quite fifty-fifty, but you would expect it to be fifty-fifty in the coming period.

MR BENDER: And just to clarify, is the idea to eventually drop print altogether?

MR THODEY: Could you say that question again, Adam? So you think - - -

MR BENDER: Well, sorry, is – just to clarify, when you say you're going all digital, right. So does that mean that, you know, you will be dropping the print version altogether in the near future?

MR THODEY: No, that doesn't mean that.

MR BENDER: Okay.

MR THODEY: Our – we still think that there's a place for print version.

MR BENDER: Yes.

MR THODEY: You know, especially in regional areas, where it's still an enormous use there. But there will be a tendency to use less and less print. But knowing the way these changes take place, the tail is probably a lot longer than all of us think at the moment.

MR BENDER: Okay. Thanks.

MS McKECHNIE: Thanks, Adam. Operator, next call, please?

FACILITATOR: Thank you. Your next question comes from John Durie, The Australian. Go ahead, please.

MR DURIE: Hi there, David. A couple of questions. Firstly, where are you right now?

MR THODEY: I'm in Sydney at the moment.

MR DURIE: Okay, great. Because you're heading off to LA?

MR THODEY: Yes. I'm participating in G'Day USA, you know, Silicon Valley stuff, yes.

MR DURIE: Right. Great. Thank you. Now, do you – could you tell us – it's the NBN discussions. Have we entered into – are we starting detailed discussions with NBN and the government on that as of yet?

MR THODEY: John, we haven't said anything, but yes, we are keen to get going as the – you know, in response now to the government's multi-technology mode architecture, and we will hopefully start conversations as soon as everyone is back on deck after the break.

MR DURIE: Okay, so what is that, next week, or?

MR THODEY: Look, I honestly don't know directly, John, but before the end of this month we will definitely get going.

MR DURIE: Okay. Yes. I mean, what are you looking for

MR THODEY: Look, we have always been very clear about renegotiation. We have a contract that has a certain value for our shareholders and we're willing to be flexible, as long as the value is maintained for our shareholders. And anything is possible underneath that.

MR DURIE: Okay. Now, finally – okay. So with this deal and the CSL deal, you've done a lot of the cleanup and your cultural change at Telstra. I'm just wondering – and, you know – and there has been a lot of discussion today about dividends and so forth. But you've talked, in the past, about putting more focus on application services – things like that. I mean, just where do you see the real growth coming from in Telstra, and where – and I'm – so, like, it has been, to my way of thinking, very incremental whether, you know, you're getting to the stage – or if you could just take us through, you know, whether you are going to be placing large bets in that area.

MR THODEY: John, I think that the best way to answer that question now – if you look at what we said in October, we have a very clearly view of where the company will be out to 2020. And there are significant areas of potential growth that will be different to where we are today, and we are continuing to look at all those possibilities and determine how best to proceed. I think that's really all I can say.

MR DURIE: You couldn't be more specific about that, the potential opportunities?

MR THODEY: We've been very clear about the growth and global enterprise services throughout Asia, and you've seen a complete restructuring of the business to run that business as a vertical line across Asia, led by Brendon Riley. You've seen us put in place a new health division. You've seen us put in place a new application services group - - -

MR DURIE: Right.

MR THODEY: - - - and the continuing evolution of our integration of our Asian business. So I think the writing is very clear, from my perspective, about what we're doing going forward.

MR DURIE: Okay. Thank you.

MS McKECHNIE: Thanks, John. Operator, next caller, please.

FACILITATOR: Thank you. Your next question comes from Brett Cole, Business Spectator. Go ahead, please.

MR COLE: Good morning. Why Platinum?

MR THODEY: We think that they bring a set of operational skills and discipline, and their growing understanding of the digital industry, and the type of company that they are, in terms of looking at long-term returns, that we think make them an ideal partner. Andy, do you want to - - -

MR PENN: Yes. I think, as I mentioned earlier on the call, I mean, we did a lot of research, globally, on this. And I think the other aspect is Platinum have got a lot of experience working with very large corporates and focusing on assets that will benefit from the sort of structure that we're talking about, in the context of very large corporates. And, I think, in the release there was a reference to two or three of those. And so they are very operationally focused, from an institutional investor point of view. And, you know, we spent a lot of time with them. They've had their team comprehensively on the ground here, and we think that they will be a very good partner that we can work together with in the future.

MR COLE: How many people came out?

MR PENN: Well I'm not sure That's probably a question that you want to ask them. But I would say that, you know, they have shown a very, very significant – made a very significant investment in this partnership.

MR COLE: Right. And how many other offers did you have for the business?

MR THODEY: We've run a rigorous process with external advisors, now, over nearly a seven, eight month period. I don't think it's appropriate to say how many other bidders there were, but there was, you know, a good number that – we felt that we had a set of options before us to make the right decision. So we've been rigorous in our consideration of what was the best outcome for our shareholders.

MR COLE: Thank you.

MS McKECHNIE: Thanks, Brett. Okay, operator, next caller please.

FACILITATOR: Thank you. Your next question comes from Lucy Battersby, Fairfax Media. Go ahead, please.

MS BATTERSBY: Hi. I just wanted to ask why you decided to keep 30 per cent and if that had anything to do with fulfilling your carrier licence obligations?

MR THODEY: Nothing to do with our carrier licence obligations, Lucy, and, as I said before, we believe that by retaining 30 per cent we can help in this transition by leveraging in partnership our small and medium business presence across Australia, which is so important, as well as in terms of the digital enablement. So they were the two key considerations. But it has got nothing to do with the carrier licence at all.

MS BATTERSBY: So have you spoken to the Communications Minister about the carrier licence conditions, and have you had any indication from him whether they're going to change, for example, the public number database and the White Pages and everything?

MR THODEY: We have obviously reviewed what all the licence conditions are and how we would – they would be fulfilled going forward. We have given a heads up about some of our thinking, without disclosing any information that was inappropriate. And now we need to go through the details with the department and the respective regulatory bodies, and make sure that we fulfil all those obligations through this new structure.

MS BATTERSBY: Do you think it would be fair for them to remove the obligation on you to produce a printed telephone directory?

MR THODEY: I think that we are all looking at what this digital enablement world means to many, many print services. We need to be, I think, considerate to those that are not feeling as well educated in digital – access to this technology, while seeing the enormous change we're seeing across the majority of the population. So we've got to be cognisant, though, of those who don't feel – yet feel comfortable. So it's a balancing act, Lucy, and I think we will need to work through that with the respective, you know, people, both the department and with the regulatory bodies.

MS BATTERSBY: And if I could just sneak in one more question. How do you account for the difference between the way – the \$851 million valuation of Sensis, in the last annual report, and the price that you revealed today?

MR THODEY: I will let Andy take you through that. But the valuation of Sensis in our books is not the entity that we've sold, because we've retained a large amount of the business in the voice services, etcetera, as well as – there's some shared services costs that are not in there. But, Andy, do you want to comment some more?

MR PENN: I think that that's the answer, David. I mean, it's – fundamentally, the transaction reflects the fact that we are retaining about \$70 million worth of EBITDA in the voice services business. And there's some other commercial arrangements that are being put in place, and some costs which Sensis, as a standalone, separate entity with us as a 30 per cent shareholder, will basically take on directly, which are currently being borne by Telstra. And all of that derives additional economic benefit in addition to the cash proceeds that we will receive.

MS BATTERSBY: Okay. Thank you.

MS McKECHNIE: Thanks, Lucy. Operator, thank you. Next caller, please.

FACILITATOR: Thank you. Your next question comes from Dominic White, Australian Financial Review. Go ahead, please.

MR WHITE: Hi, David.

MR THODEY: Hi, Dom.

MR WHITE: Hi. You will have to forgive me. I missed the start of the call. But is there a standstill agreement on the 30 per cent and, if so, how long does that last for?

MR THODEY: Andy, do you want to comment on that one

MR PENN: Yes. I wouldn't – look, I'm not inclined to comment on, you know, some of the very specific details of the terms of the agreement. But what I would say is that the reason we're holding 30 per cent is because we believe positively in the future of this business, and we're committed to supporting the business in the partnership that we've spoken about. The - - -

MR WHITE: There's a point at which you can put your shares to them, after five years or something like that, I would imagine, though; is there?

MR PENN: Well, we're comfortable that there are ample opportunities for us to realise the benefit of our investment over time. That's all I would say.

MR WHITE: Right. Okay. And what – and, David, I was wondering, you know, this is – obviously, it's a massively reduced price from what Telstra was worth – sorry, what Sensis was worth pre-GFC. But back then private equity firms were buying these businesses because they had very reliable cash flows. But cash flows are falling every year. So I was just wondering, what do – what is it that Platinum Equity, do you think, sees in Sensis that Telstra doesn't, and what can they do that Telstra can't?

MR THODEY: I think, Dom, firstly as – as I mentioned at the beginning of the call, the valuation on the business is consistent with what the valuations of any directories business are around the world.

MR WHITE: Sure.

MR THODEY: So it is what it is.

MR WHITE: Yes. Yes.

MR THODEY: But the reality is that the amount of focus and effort now to really transform the business, we think that bringing in a partner like Platinum Equity gives us the opportunity to really realise, you know, some operational efficiencies, and I guess the freedom to get on and do what it wants to do rather than being a smallish part of a very, very large company. So it's about focus, it's about bringing operational skills to maximise value for our shareholders. That's what we're trying to do, and we think that this is the right time to bring in a partner. Now, remember, there has been significant cash generated from Sensis that Telstra transitioned some other moves in the – in our industry that has been very useful, but now it's time to really let Sensis and our new partner Platinum move it forward with our help.

MR WHITE: And they will have a, will they have a, the ability to introduce a new private equity style incentive scheme for the – the management of Sensis, or?

MR THODEY: Correct. They will have more flexibility in putting in different structures that we think is appropriate for Sensis moving forward.

MR WHITE: Okay. And could I just ask you one last thing, does – have you got any reflections on Sol Trujillo's dismissal of Google? "Google Schmoogle", I think he said, when he was talking about the threat that Google posed to Sensis. That was clearly – clearly wrong. I was just wondering if you have any thoughts on what – why that – on that strategy and what went wrong there.

MR THODEY: I – I think that it's not really appropriate to comment at the moment, Dom. The industry has changed enormously.

MR WHITE: Yes.

MR THODEY: We enjoy a strong relationship with Google on many, many different fronts.

MR WHITE: Yes.

MR THODEY: And the industry has gone through significant change right around the world. And now it's about how we move forward.

MR WHITE: Okay. Thanks a lot.

MS McKECHNIE: Thanks, Dom. And operator, I think we've got one last call this morning.

FACILITATOR: Thank you, your last question comes from Josh Taylor, ZDNet, go ahead, please.

MR TAYLOR: Okay, lucky last. I just had a question about the future of the Yellow Pages. Now, forgive me if I've – this has been answered before, but what does this mean for the print future for the Yellow Pages? Because I know White Pages is guaranteed. And a second question also, regarding the obligation to provide the White Pages. The government is currently looking at repealing something like 8000 pieces of legislation. Is that obligation something you would like to see them repeal, or is there anything else that you would like to see them repeal that does affect the way Telstra does business?

MR THODEY: Let me answer the last part of the question, Josh. Yes, we think there's a significant amount of unnecessary red tape that doesn't really serve any great value either to regulators, the government or to ourselves. So we have made a submission to the Minister on that, and we think there is some good savings that they can realise and we can realise. In terms of the White Pages, I think that needs to be thought through carefully, because we need to make sure that where – the service is provided to all parts of the community, and therefore how we do that. And the first part of your question, Josh, was just repeat again?

MR TAYLOR: Just the future of the Yellow Pages, the print version of that.

MR THODEY: Yes. Look, I – I think that the short answer to that one is that, you know, the new Sensis entity will continue to print the Yellow Pages where we think it is necessary, and that will be a progressive consideration. And it's very, very localised in a geographic sense. We find that the value of the Yellow Pages in some very dense metro areas is far less than in the rural, regional areas. So it will be a transition over a period of time.

MR TAYLOR: Just on the red tape discussion, is there anything – specific areas that you can give us an idea of what Telstra wants removed?

MR THODEY: I think that we are – we haven't made that public, but it's primarily in the area of reporting. But remember, we were under an accounting separation, now we're moving towards structural separation. So there has been a bit of a double up in the reporting we're doing, and we think that there's some areas of opportunity for rationalisation there. And every time we make a report, there's someone who has to read it, and therefore we think that's the sort of areas we can tidy up on. Unnecessary reporting.

MR TAYLOR: Great, thanks.

MR THODEY: Okay?

MS McKECHNIE: Thanks, Josh. And thanks to everyone. I'm sorry if we didn't get to your calls. We will – please touch base with me afterwards. Andy?

MR PENN: And Nic, sorry, can I just say, somebody pointed out to me that – we were asked about the Trading Post, and I said that it was included - - -

MR THODEY: yes.

MR PENN: - - - included in the transaction. Sorry, I – it's not included in the transaction. It remains with Telstra, sorry. I realised I said that. So just to be clear, Trading Post, that it remains within Telstra.

MR THODEY: Okay. Thanks very much for everyone's time, and Nic, as you say, you're available for questions, or Andrew on the investor side.

MS McKECHNIE: Thanks, everyone. Thank you.

MR PENN: Thank you.

MR THODEY: Thank you. Thank you. Bye bye.

TELECONFERENCE CONCLUDED [12.02 pm]

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