IT'S HOW WE CONNECT

23 December 2013

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Agreement to sell CSL - 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 CSL held on Friday 20 December 2013, for release to the market.

Yours faithfully

Damien Coleman
Company Secretary

TELSTRA CONFERENCE CALL 20 DECEMBER 2013

MR A. KEYS: Good Morning, this is Andrew Keys, head of investor relations at Telstra. Welcome to the conference call regarding our sale of the CSL mobile business in Hong Kong. After comments from CEO, David Thodey, and our CFO, Andy Penn. David and Andy will be taking questions from analysts first of all and then questions from media. Good morning, David. Over to you.

MR D. THODEY: Yes. Thanks, Andrew, and morning, everybody. Well, as you would have seen, we've signed an agreement to sell the Hong Kong mobile business, CSL to Hong Kong Tel for US$2.425 billion and, look, as I just want to – I want to really stress that this is still subject to regulatory approval in Hong Kong and also Hong Kong Tel and PCCW security holders so it is subject to that. If it is approved, the sale will equate to proceeds of just on A$2 billion for Telstra's 76.4 per cent interest in the company and Hong Kong Tel will also acquire the remaining 23.6 per cent shareholding held by New World. Look, just some background to, you know, why we've done this. As you know, we've had really a great run in the last three years in Hong Kong and CSL has been really the strongest performing business in Hong Kong in the mobiles area and we're really proud of all the achievements that we've made there and it really establishes itself as a premium brand and a really strong player in the market.

However, you know, look, there's a lot of dynamics in the Hong Kong mobiles market that many of you have asked me about over the years and as we've looked to the future and in light of what we think is a very full offer, we've really concluded that this is a great opportunity to maximise return to our shareholders. Look, as you know, the mobiles market is one of – in Hong Kong, is one of the most mature markets in the world, very high penetration and it's a very small market and yet it has got five operators and more operators coming into the market at this time. So when you look at it, it's ripe for consolidation and there's some other considerations as you look at where the whole of the greater China market is going. So we've been looking at a large number of options, really, for about 18 months now, determining what is the right way forward and we really think that this is the right decision for our shareholders.

Now, at a headline rate after we've been very strong about Asian expansion plans, you say, "Hey, what's going on?" But you've got to look at each market individually. We are very committed to driving value from our expansion in Asia and that's what it's about. We're not emotionally driven just to do deals. We're always very, very disciplined around our capital management framework and so if we can realise more value by making a sale, that's what we will do versus, you know, just continuing on in the market for the sake of it. And so, as we look across what's a very heterogeneous market across Asia, we will continue to look at what's in the best interests of shareholders because that's what we're paid to do. And that must be around leveraging capability because you don't just turn up to markets and say, "Hey, here I am and we're here to be successful."

You've got to really look at where your competitive advantage is and the dynamics of that particular market. So that's why we've decided to take this deal. It's a, you know, very full deal as I said and Andy will say a few more words about that in a moment. And I think it still allows us to do what we need to do in the future. Now, I'm sure you will have lots of questions about, you know, "What does that mean?" we can go – we'll take those in a moment, but I do want to stress that it's in the best interests of shareholders and that's what we're going to be doing. So, Andy, do you want to say some words and then we can throw it over to the questions.

MR A. PENN: Yes, look, thanks very much, David. Just again, to highlight because David has already mentioned, so the headline price is US$2.425 billion which is about A$2.75 billion on current exchange rates so the net proceeds for our share is A$2 billion. We expect the sale to generate a profit on sale of approximately $600 million subject to where the currency's exchange rates end up at completion and also any, sort of, final working capital adjustments which are usual in these types of transactions. The process is that the sale is

subject to both regulatory and shareholder approval on the HKT side. The regulatory approval process has started.
The regulator in Hong Kong has approximately 90 days of – a guideline of 90 days through which to manage a process like this so it has already started. So we would anticipate everything proceeding according to expectations that completion would occur sometime towards the end of the first quarter of the calendar 2014. As David has mentioned, it's a very attractive price from our perspective. It represents about nine and a half times FY13 EBITDA of CSL. As you know, the guidance that we provide to market excludes significant transactions of this nature. So in that sense, it doesn't have a bearing on guidance and, of course, the free cashflow or rather the proceeds will be supplementary to the free cashflow of $4.6 to $5.1 billion guidance to be given for FY14.

As regards to the – how we will deal with the proceeds given that the transaction is still subject to a couple of approval processes and given that it won't consummate until – into, as I mentioned, probably towards the end of the first quarter of 2014. We will be basically communicating how we deal with that, obviously, at some – at a subsequent time but, basically, we will be dealing with it consistent with our stated capital management framework. So with that, David, I think we can open up for questions.

MR KEYS: Okay, we will be taking questions from analysts first and questions in relation to today's announcement only. Operator, can you please put the first analyst through

OPERATOR: Thank you, Andrew, our first question comes from Sameer Chopra (Bank of America Merrill Lynch). Thank you, Sameer. Go ahead, please.

MR S. CHOPRA: Good morning, Gentlemen, and congratulations on the transaction. I have two questions. One is perhaps if you could explain the franking situation resulting from this transaction. I just want to understand where franking can get to and whether this impacts franking. And the second one is, you know, the other transaction that happened recently was Autohome and I was interested in why you retained that, sort of, circa 66 per cent share in Autohome. Why didn't you exit just like you have with CSL?

MR THODEY: Great. Sameer, I'm going to let Andy take the lead on both and then I will come back and add a little bit more on Autohome. I mean, the franking situation is pretty clear actually but, anyway, I will let Andy do that and he can comment on Autohome then I will add some more comments. Thank you, Andy.

MR PENN: Okay, thanks, David. So in relation to franking, we do not expect the tax liability on the transaction given the – effectively, the value in historical costs, etcetera. We're not expecting a tax liability so it won't affect franking from that point of view, and given that we don't pay tax on our overseas generated earnings in any event, again, the EBITDA won't be in the P and L account going forward and didn't attract tax in any event, so therefore overall, the transaction is sort of neutral on the franking position of Telstra. As regards to Autohome, the Autohome business has obviously been performing very, very well and we think it's on a good trajectory. It's the leading online marketplace for cars in China and the listing of Autohome was basically part of our long term strategy for that business which is really to, you know, consolidate the position and being listed on the New York stock exchange.

It's helpful in the context of that and the number 1 competitor is similar to this in China, it's quite an important aspect in the overall strategy of the business and to the profile of the business, so we're very happy with how Autohome is performing and we think it can continue to consolidate and do well in – consolidate its position in that market and do well in that market where we see continued growth. So we're very pleased with the listing. I think it has been very successful but we're happy with our shareholding. Yes.

MR THODEY: Yes. I will just endorse what Andy said. You know, we see the – very attractive market dynamics and the online car sales business in China and therefore we see good market structure and dynamics with really only two major players there, so that's why we felt it was time, it was good to, you know, get the IPO away, get the valuation right and then we can come back and look at it maybe in the future.

MR CHOPRA: David, can I just ask a question on, you know, whether the – is anything significant in terms of acquisitions that you're looking at? So could a large part of these proceeds be sort of reinvested in growing your Asia business, assuming you have laid out a strategy around data centres and points of presence.

MR THODEY: Yes. Look, firstly, I want to stress that anything we do will be through that capital management framework, because that's the guiding principles for everything we do, but, yes, we continue to look at many different options in terms of how we can drive value into the future. You're right, we have done quite a bit actually in Asia this year. We have built our – a number of data centres, put in Cloud infrastructure; we have made more cable investments. You know, these are 20, 30, 40 million dollar investments. And also, you know, we're just building our capability across the region and we have had, you know, larger number of – more people join us. So that's what we're doing and we will continue to look at them, but they have got to go through that filter that we're very disciplined about, which is the capital management framework. But, yes, more opportunities always we're interested in.

MR CHOPRA: Thank you.

MR KEYS: Okay. Operator, could we please take the next question from an analyst or investor, please.

OPERATOR: Our next question comes from Raymond Tong (Goldman Sachs). Thank you, Raymond. Go ahead.

MR R. TONG: Morning, David, morning, Andy. Just a question in terms of your free cash flow guidance now. I think, including CSL, you're going to probably generate around about four to five billion in excess free cash flow, I think, by 2015. Now, that seems to me to give you a fair bit of flexibility in terms of both acquisitions and shareholder returns. Now, just going through your capital management framework, does that give you, I suppose, optionality to return to shareholders above raising the ordinary dividends, those things like return of capital, special dividends? And so what are the pros and cons about those?

MR THODEY: Great. I will let Andy handle that one. But, yes, it does definitely give us optionality, Raymond, and I think that's good. Anyway, Andy, to you.

MR PENN: Yes. Sure. Thanks, David. So as regard our previous guidance, which was that we would generate excess free cash flow – cumulative excess free cash flow of two to three billion over a three year period, that was provided in August – sorry, in April 2012, and it was subject to the roll out of NBN, but, you're right, these proceeds would be incremental to that guidance, albeit I should say that the NBN roll out is not proceeding as was contemplated at that time, so I'm not commenting on that piece of the guidance at the moment, just to be crystal clear, but, nonetheless, this is supplementary to it.

And to David's point, yes, it absolutely provides us with optionality. As I say though, I'm not going to comment today on what those options are and how we think about those, because the transaction is not yet completed, albeit I have no reason to believe that it won't go forward to completion, but I don't think it's appropriate for us to comment and also to sort of indicate to market what our intentions would be in terms of how we deal with those proceeds until we're in a position to deal with them and, you know, we will obviously take into account the opportunities that are in front of us at the time and the market conditions at the time as well.

MR KEYS: Okay. Operator, could we please take the next analyst or investor call.

OPERATOR: Our next question comes from Richard Eary (UBS). Thank you, Richard. Go ahead.

MR R. EARY: Thanks. Morning. Just two questions. This first one just on housekeeping only. Just to confirm that this transaction has been done on a cash and debt free basis; is that correct? So the 2.425 is not – there's no debt, or there's no cash within that?

MR PENN: It's a cash – it's an all cash payment to us. Does that answer your question? Is that your question? It's an all cash payment. There's no other form of instrument. It's an all cash payment. How it has been financed on the HKT side is an HKT issue, but it's an all cash payment to us.

MR THODEY: Okay, Richard, or have we lost you?

MR EARY: Sorry. It's just I know that people have raised the issue about capital management, but just to be clear from my side, as we stand today, given a lack of franking on the balance sheet, is it fair to say that special dividends wouldn't be considered in light of obviously no franking, and on a buy back given the strength of the share price, which means that a buy back wouldn't be substantially accretive at current levels, and if that was sustained, would it therefore – should we assume or contemplate more of the proceeds being redirected to driving the Asian expansion story?

MR PENN: David, if you're happy, I will maybe respond - - -

MR THODEY: Yes. You may .....

MR PENN: ..... but – well, I think I probably would just be repeating, Richard. I don't want to get drawn into a sort of a conversation about pros and cons of various capital management initiatives, but you're absolutely right in terms of identifying those – those are the sorts of factors that one would need to take into account. We would need to take into account the market dynamics, the franking situation and the various different options that are available to us, including organic investments, as well as inorganic investments, but I'm not going to comment further on those at the moment. I think the appropriate time to do that is when the transaction concludes, and consummates and when we have the proceeds.

MR THODEY: Yes. I mean, Richard, from my perspective, I think the way you're approaching the options once, you know, we have got the cash is exactly the dynamics that we go through to try to maximise our position. So – and also what's on – what opportunities are there. But we really can't, you know, talk specifics today, because it's just not appropriate, as Andy said, but that's the sort of logic we would apply. Did you have a second question, Richard?

MR EARY: So as the proceeds come through from a treasury management point of view, would the cash be sitting on the cash balance, or would you actually look to actually repay debt in the short term with a viewpoint, if anything was to become available later, that you could obviously regear.

MR PENN: Well, I think the debt – our debt position is just another one of our overall capital management – overall pieces in the capital management framework. So, I mean, initially, obviously it's going to come in as cash, so – but then how we deploy that will be something that, as I say, we will no doubt discuss at the time the transaction consummates.

MR KEYS: Okay. I don't believe there are anymore questions from analysts or investors at this time, so I will hand over to Nicole McKechnie who is our director of external communications to facilitate media Q and A.

MS N. McKECHNIE: Thanks, Andrew, and thanks to all. Okay. Operator, we will take the first call that you have got, please.

OPERATOR: Next question comes from Nigel Freitas. Thank you, Nigel, go ahead, please.

MR N. FREITAS: Good morning everyone. David, just a couple of questions. Firstly, you talked up the CSL business just a few months ago at the AGM saying you had added 400,000 customers. I'm just wondering why the rush to sell right now, number 1. Number 2, you have talked about this being a mature market with high penetration and it's very competitive. That has always been the case and it was the case when Telstra bought this some years ago. Was the original purchase in this light [inaudible] and then, lastly, where else in Asia are you now going to focus?

MR THODEY: Okay. Well, let me be clear. I'm in no rush to do anything ever, really. Just want to do sensible things for our shareholders. And this opportunity has come along to realise value for shareholders, and that's what my job is, and that's what we have done and I think it has been a good outcome. We continue to look throughout the Asian region. We have got points of presence now across nearly 18 areas. We have, you know, nearly 1500 people working there already today. We generate, you know, over a billion dollars in revenues and if you add Autohome even more. So we have, you know, enormous scale and scope right across Asia and we continue to do both organic expansion, as well as looking at what are the right bolt-ons to help us be successful, so we will continue to do that. And I think this business has been very successful, and it's always good to have a business going really well that you maximise the value for your shareholders on, so it's really as simple as that, Nigel.

MS McKECHNIE: Thanks, Nigel. Okay. Operator, next call, please.

OPERATOR: Our next call comes from Mal Maiden. Thank you. Go ahead.

MR M. MAIDEN: Hi. How are you? I guess this is one primarily for the vendor, but it affects both sides. The regulatory clearances; are there competition clearances required and, if so, what's the dynamic there?

MR THODEY: I will let Andy answer that one, Mal, but it's through the normal regulatory approval. So, Andy, do you want to talk to that one?

MR PENN: So hi, Malcolm. So, yes, there are regulatory approvals that are required. They're in the nature of the usual sort of competition regulatory approvals, but I think probably the dynamic to sort of really refer to – CSL is close to the largest – probably the largest, just depending on how you measure it – whether you measure it by subscribers or by revenue – player in the Hong Kong market. Hong Kong Telecom is a very small mobile operator, and there are five operators overall in the Hong Kong market. So we believe that their regulatory hurdles should not be significant, given, you know, five existing operators coming down into four in what is actually a relatively small market.

MS McKECHNIE: Okay. Thanks, Mal. Next caller, please, operator.

OPERATOR: Our next call comes from James Hutchinson. Thank you, James, Go ahead, please.

MR J. HUTCHINSON: Hi, guys. David, just quickly. At the AGM you told analysts that CSL was at a critical point in terms of the geography of greater China, and that's why we continue to look at our options there. I'm just wondering what the sale of CSL means in terms of your prospects for moving into greater China.

MR THODEY: Well, could you just go through the question – where you're trying to get to on that one, James. I'm just - - -

MR HUTCHINSON: Well, it's just that you said to the analysts at the time that having CSL in Hong Kong was at a critical point in terms of the geography of greater China.

MR THODEY: Yes.

MR HUTCHINSON: I guess in terms of having a sort of a stepping stone into - - -

MR THODEY: Okay. Got you, got you.

MR HUTCHINSON: ..... what that means in terms of the .....

MR THODEY: Yes, yes. That has definitely been a consideration for us as the – as you know, you can become – there's MVNOs in China, but they are limited to Chinese companies, and foreign companies can only hold 10 per cent, and that will be in place for three to four years before they will review whether they will allow foreign MVNOs in China. And the question is whether that will happen or not happen, and which you have to make a judgment about, and we've made a judgment at the moment that it is not critical to have a property in Hong Kong to participate in being a potentially foreign MVNO in China, should we decide to do that. So a very conscious decision. Does that answer your question?

MR HUTCHINSON: But now that you've pulled out of CSL, do you actually have any traditional telco assets outside of Australia, in terms of mobile or fixed networks?

MR THODEY: We have no mobile assets outside of Australia, but we have significant infrastructure assets right throughout Asia. You know, billions of dollars, but no mobile operations outside Australia.

MS McKECHNIE: Thanks, James. Thanks, David. Okay, next call, please, operator.

OPERATOR: Our next call comes from Michael Sainsbury. Thank you, Michael. Go ahead.

MR M. SAINSBURY: Hi, David. Hi, Andy. How are you?

MR THODEY: Yes, good. Thanks.

MR SAINSBURY: I just want to get some clarity on the revenue numbers from Asia. I think when we spoke, we talked about 1.7 billion, and I think CSL was 1.2, so that only brings me back to half a billion, but David, you just mentioned a billion dollars there. Could you just clarify what revenues you're making out of Asia?

MR PENN: I think David's reference on numbers was to the amount of money that we have invested in our infrastructure assets across the region, which is a series of submarine cables, points of presence etcetera. In terms of – CSLs revenue last year was AUD$1 billion, so adding to 1.7 billion in the region.

MS McKECHNIE: Thanks, Michael. That answers your question?

MR SAINSBURY: Yes. Just to double check that – so you've got a billion dollars' worth of assets now, and 0.7 billion in revenues?

MR PENN: No, no. Sorry. David's reference was to the fact that we have billions – in the plural – of dollars invested, that we have invested over time through our infrastructure networks across the region. We don't disclose the breakdown of our written down value, because those assets are investments in fixed assets which over time become amortised and depreciated, etcetera. But David's point is that we have invested over time, and continue to do so, billions of dollars in infrastructure across the region, which is very important in terms of how it supports our global enterprise services business, which are seeking to expand throughout Asia.

MS McKECHNIE: Thanks, Michael. Okay, operator. Next caller, please.

OPERATOR: Our next question comes from Ross Kelly. Thank you. Go ahead.

MR R. KELLY: Hi, guys. Just two questions from me. Can I just maybe get an idea of how much the re-auctioning of the 3G spectrum in Hong Kong factored into this? I think you already alluded to it earlier, David, and also just to clarify one final time on capital management, is there – it's my understanding that you will consider capital management for the proceeds – you know, among various options. Is that correct?

MR THODEY: Yes. The answer to the second question is yes, we will look at many options under the capital management framework we have, and yes, the availability of spectrum and how spectrum is managed is a consideration as we look into the future.

MS McKECHNIE: Thanks, Ross. Okay, operator. Next caller.

OPERATOR: Our next call comes from Mitchell Bingemann. Thank you, Mitchell. Go ahead.

MR M. BINGEMANN: Thanks, guys. I was just hoping you could give me a bit of an indication on how the other businesses in Telstra International are going. Obviously, CSL contributes more than half the revenue for the group, so I'm just interested in how the other parts of the business are growing.

MR PENN: I think given that we're just coming up towards the end of the year, and we will be giving our results announcement in early February, I think it's – even though we are in a public forum here, I think that it's not appropriate for us to comment on results at the moment.

MS McKECHNIE: Thanks, Mitchell.

MR THODEY: But we would be happy to let Mitchell – I mean, we can give you the historical performance of that business, which has been very strong. Would that be helpful, Mitchell? We can get you that data.

MR BINGEMANN: That would be good, thanks.

MR THODEY: Great. Okay, let's do that.[1]

MS McKECHNIE: Okay. Thanks, David. Thanks, Mitchell. Okay, I don't think we've got any other calls, so on that note we will close. Thank you very much for attending, and wishing everyone a very happy Christmas. Andy?

MR PENN: And what we will be doing is we will be filing the transcripts of this call, and what we will do, Mitchell – we will include some information in relation to our historical performance as David indicated in that transcript, so you will be able to read it when we file it online.

MR THODEY: Great. Thanks, guys. Merry Christmas.

MS McKECHNIE: Thanks.

MR PENN: Merry Christmas, everyone.

CONFERENCE CONCLUDED

Further note: Telstra has successfully executed hedges in relation to a portion of these proceeds

1 The following link was sent to Mr Bingemann after the call. Refer to pages 8 and 64. http://www.telstra.com.au/abouttelstra/download/document/tls874-fy13-results-presentations.pdf