



# 2010 Half Year Financial Results

David Thodey, CEO

11 February 2010

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- The Chinese online business results are from unaudited management accounts converted from local currency into Australian Dollars.
- 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.

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## Financial Results

\$ Billions	1H09	1H10	Reported %	Adjusted*
Sales Revenue	12.64	<b>12.32</b>	-2.5	-0.7
Total Revenue	12.71	<b>12.34</b>	-2.9	-1.1
Operating Expenses	7.43	<b>7.07</b>	-4.8	-2.1
EBITDA	5.33	<b>5.32</b>	-0.3	+0.2
EBITDA Margin (%)	42.2	<b>43.1</b>	+0.9pp	
EBIT	3.08	<b>3.13</b>	+1.7	+2.0
PAT (post minorities)	1.92	<b>1.85</b>	-3.3	+13.0
Accrued Capex	2.07	<b>1.61</b>	-22.5	
Free Cash Flow	1.91	<b>2.62</b>	+37.0	
Ordinary DPS (cents)	14.0	<b>14.0</b>		

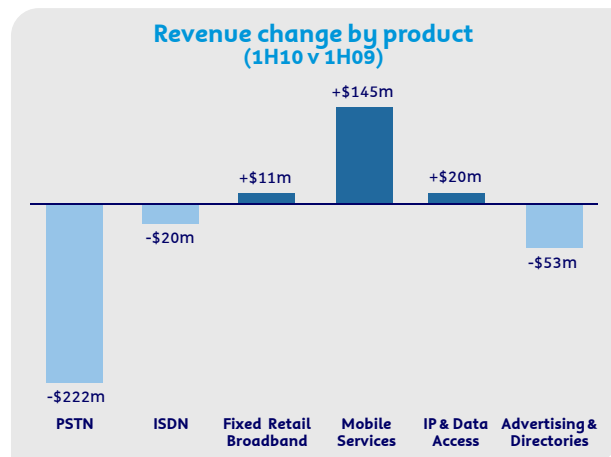
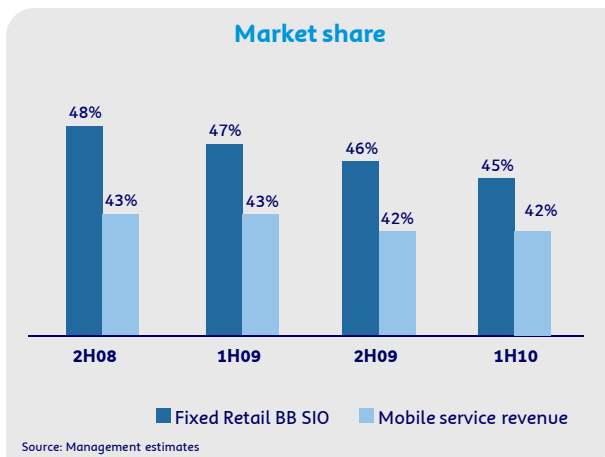


\* Adjusted for sale of KAZ, currency movements and fair value adjustments included in finance costs

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## Challenging market conditions



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## Key segment results – sales revenue

	2H09	1H10	2H10
<b>Consumer</b>	▲ +3.2%	▼ -0.2%	• Promotion of new bundles and pricing
<b>Business</b>	▲ +2.2%	▼ -0.4%	• Whole of Business propositions
<b>Enterprise &amp; Govt<sup>^</sup></b>	▲ +5.1%	▼ -1.6%	• Building on contract wins
<b>Wholesale</b>	▼ -6.1%	▼ -3.3%	• Continued growth in ULL, LSS and exchange access
<b>Sensis<sup>*</sup></b>	▲ +3.6%	▼ -7.3%	• Stabilising trends in print

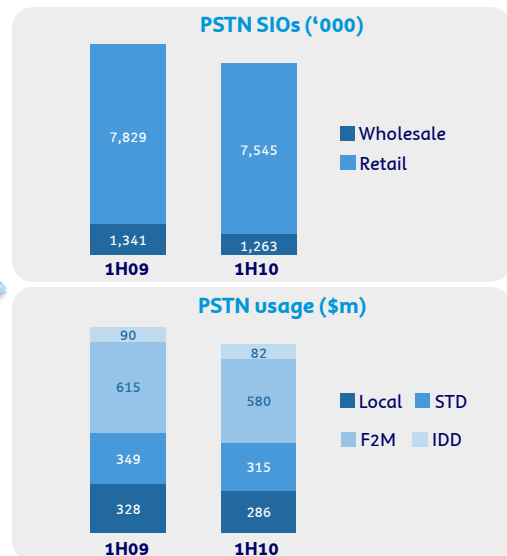
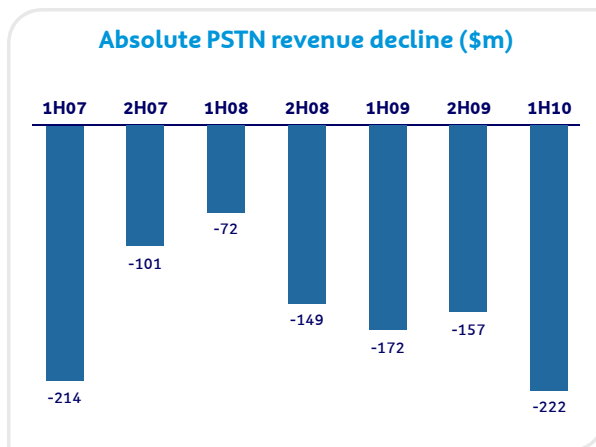
<sup>^</sup>Excluding KAZ

<sup>\*</sup>Adjusted for the sale of Universal Publishers, transfer of Trading Post<sup>®</sup> to Telstra Media and currency movements, sales revenue fell 0.1% in the half

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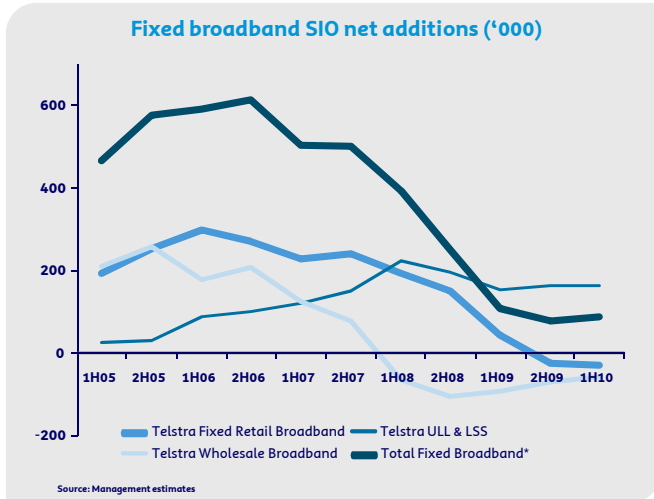
## PSTN headwinds have increased



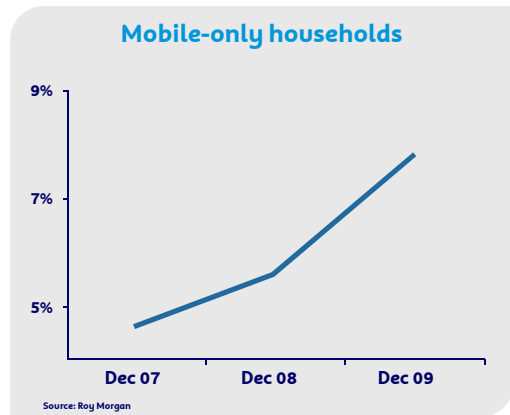
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## Fixed broadband market maturing



\*Total Fixed Broadband = Telstra Retail, Wholesale DSL, ULL, LSS, reported Optus HFC



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## The path back to growth

Differentiation to slow PSTN revenue decline

Telstra T-Hub™

Telstra T-Box™

New revenue streams

Wireless

IP

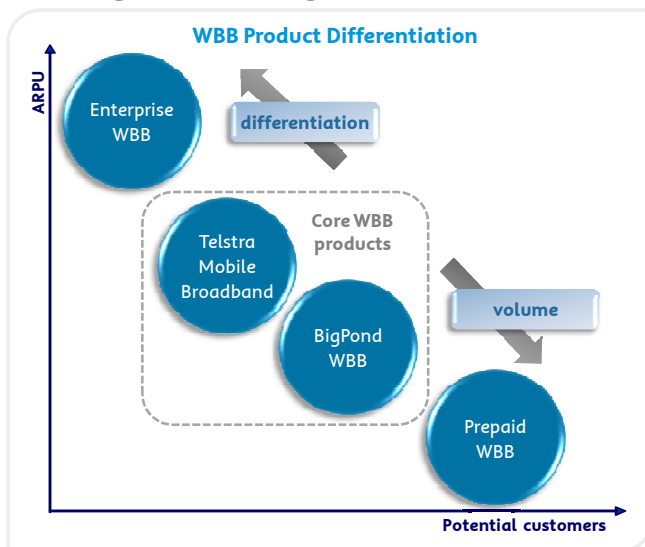
Media

Improving the customer experience

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## Driving mobile growth



### New Offerings



#### Smartphones

- ARPU premium
- Strong data growth



#### BigPond® Wireless Gateway

- Fixed BB substitute
- Leverages Next G™ capabilities



#### BigPond Liberty® Plans

- Unlimited usage
- Positive uptake

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## Guidance for Fiscal Year 2010

Measure	Guidance
Sales revenue	Low single digit decline
EBITDA growth	Low single digit growth
EBITDA Margin (on sales revenue)	Maintained
D&A	~\$4.5b
EBIT growth	Low single digit growth
Accrued Capex to sales revenue	Around 14%
FCF*	\$6 billion

\* includes pension funding of ~\$500m

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## National Broadband Network

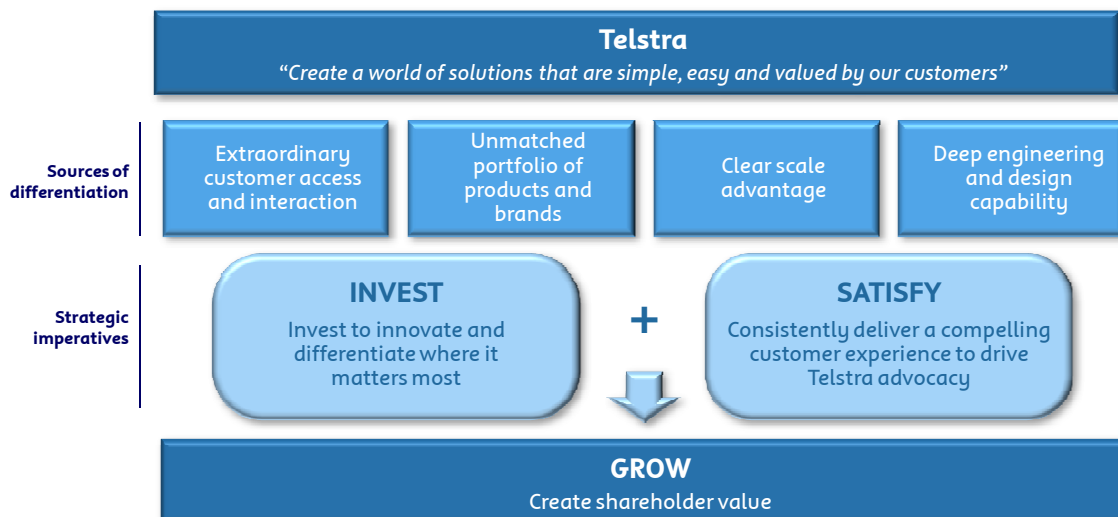
Terms of Engagement agreed

Negotiations continue

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## Telstra strategy – your connection to the future



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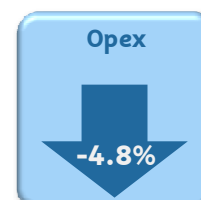


# 2010 Half Year Financial Results

John Stanhope, CFO  
11 February 2010

## Financial Results - Reported

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Sales Revenue	12.64	<b>12.32</b>	-2.5
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Ordinary DPS (cents)	14.0	<b>14.0</b>	-



## Financial Results - Adjusted

	YoY change
Sales Revenue	-0.7%
Total Revenue	-1.1%
Operating Expenses	-2.1%
EBITDA	+0.2%
EBIT	+2.0%
PAT (post minorities)	+ 13.0%

### Adjustments (H1 2010 impact compared to H1 2009)

#### Sale of KAZ

- Revenue -\$132m
- EBIT +\$3m

#### FX Changes

- Revenue -\$98m
- EBIT -\$13m

#### Fair Value adjustments

- 1H09 +\$248m
- 1H10 -\$31m

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## Key products to drive growth in H2

	2H09	1H10	2H10
<b>Mobile Services</b>	▲ +7.6%	▲ +4.7%	<ul style="list-style-type: none"> <li>• WBB pricing plans</li> <li>• Dual-carrier 3G upgrade</li> </ul>
Mobile Voice – Calling & Access	▼ -1.5%	▼ -4.5%	<ul style="list-style-type: none"> <li>• Continued network competitive advantage</li> </ul>
Mobile Data	▲ +26.6%	▲ +20.9%	
<b>Fixed Retail Broadband</b>	▲ +11.7%	▲ +1.4%	<ul style="list-style-type: none"> <li>• Fixed broadband pricing plans</li> <li>• Cable Ultimate (Australia's fastest cable broadband network) launched in Melbourne</li> </ul>
<b>IP Access</b>	▲ +22.0%	▲ +21.3%	<ul style="list-style-type: none"> <li>• Contract wins</li> <li>• Telstra Next Generation Services™</li> </ul>
<b>PSTN</b>	▼ -4.8%	▼ -6.9%	<ul style="list-style-type: none"> <li>• Telstra T-Hub™</li> <li>• Bundled packages</li> </ul>

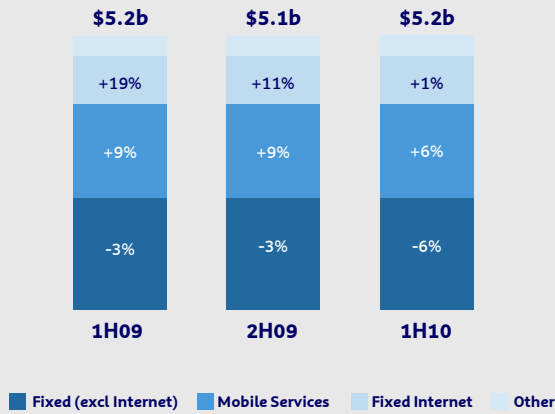
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# Telstra Consumer

## Sales Revenue (-0.2%)



### Refresh of GTM strategy

- Innovative communication & entertainment packages
- New FBB & WBB bundles driving sales
- Enhanced bundles to follow with Telstra T-Box™ and Telstra T-Hub™

### ARPU's growing

- Postpaid mobile (ex WBB) ARPU +1.9%
- Fixed BB ARPU +3.1%

### Focus on customer experience

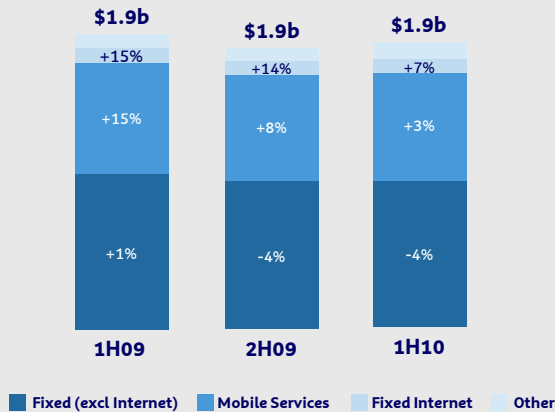
- Improving customer service
- 49 T[life]® stores opened in H1, 133 stores in total

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# Telstra Business

## Sales Revenue (-0.4%)



### Growth in key products

- Mobile SIO's +9%
- Wireless Broadband SIO's +39%
- Fixed BB Revenue +8%

### Innovation

- Integrated voice and data plans
- Whole of business offers launching this month
- Increased penetration of Broadband & Smart phones

### Focus on customer service

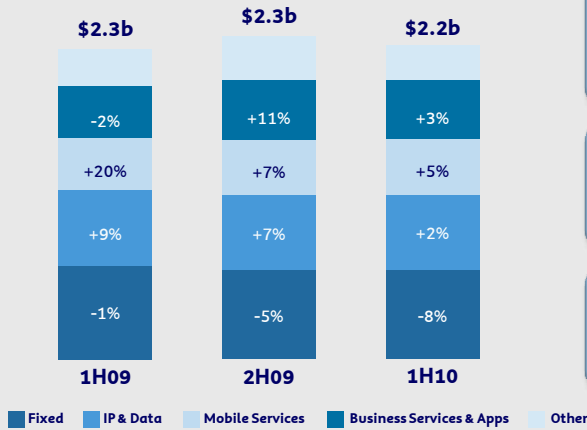
- Business centres: 30 now open with more to follow

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# Telstra Enterprise & Government

## Sales Revenue (-1.6%)\*



### Growth in key products

- Mobiles: Revenue +8.1% ,3G SIOs +43%,
- IP Access Revenue +21% to \$346m

### New strategic partnerships

- Catholic Education, NSW Education Department, Visy and Bank of Queensland

### Telstra Next Generation Services™ - Moving up the value stack

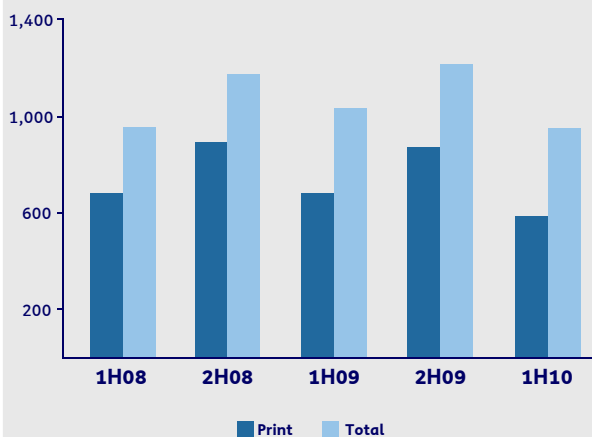
- Launch of Security Operations Centre

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# Sensis

## Sensis Revenue Profile - Reported (\$m)



### Business performing

- Adjusted\* Sales Revenue: -0.1%
- Adjusted\* EBITDA: +4.8%

### New channel opportunities

- White Pages and Yellow Pages iPhone Apps - Nearly 500k visits in December

### China growth

- Revenue growth in A\$ +13.9%
- Site usage: 4.3b average monthly page views

\*Adjustments: (1) Trading Post® transferred to Telstra Media on 1 April 09; (2) Universal Publishers sold in August 09; (3) FX impacts

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## CSL New World

1H10 % Change	HK\$	A\$
Sales Revenue	-15.5%	-24%
Operating Expenses (ex D&A)	-19.4%	-28%
EBITDA contribution	-4.8%	-12.5%
EBIT contribution	+285%	+196%
Capex	-23%	-39%

### Tough operating conditions

- Intense price competition
- Weak handset upgrade demand

### Tight expense control

- Strong cost management: HK\$ Opex -19%
- Productivity enhancements

### Strategy for growth

- Competitive advantage from Next G™ network
- Leverage growing customer base

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## Drivers of operating expenses decline

### Changes in Opex - Reported & Adjusted

	Reported Opex 1H10	Adjusted Opex 1H10 (ex KAZ, FX)
Labour	-8.6%	<b>-4.0%</b>
DVCs	-0.6%	<b>+2.2%</b>
Other Opex	-5.8%	<b>-4.8%</b>
Operating Expenses	-4.8%	<b>-2.1%</b>

### Drivers of Opex Changes - Adjusted

#### Labour

- Salary & assoc costs -1.1%
- Overtime, contractor, agency -19%
- Redundancy -18%

#### DVCs

- Cost of Goods Sold +12%
- Network payments -5.5%

#### Other Expenses

- SC&A -3.7%
- General & Admin -7.1%
- Other: P&A -15%, Impairments +29%

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# Operating expenses - selected adjusted KPIs

### Labour Productivity

Adjusted Labour costs

- Labour & SC&A fall simultaneously
- Reduction of 477 FTEs, ex M&A
- Field workforce productivity up

### SARC Control maintained

Blended average SARC rate

- Adjusted COGS +12% YoY
- Domestic blended SARC rate +12.6% YoY
- More subsidised Smartphones for higher ARPU customers

### Tight control of Expenses

Discretionary costs

- Double digit % declines in key Discretionary costs
- Travel expenses -34% by utilising technology for meetings
- Consultancy expenses -28%

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# Capital expenditure and D&A

### Accrued Capex

### Depreciation & Amortisation

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## Interest & Financial Parameters

### Interest

	1H09	1H10	Change (\$)	Change (%)
Borrowing Costs	\$664m	\$508m	-\$156m	-23.5%
Other (incl IFRS adj)	-\$261m	\$12m	\$273m	
Net Finance Costs	\$403m	\$520m	\$117m	29%
Avg. Borrowing Costs	7.5%	6.5%		-1.0pp
Net Debt (31 Dec)	\$16,522m	\$15,240m	-\$1,282m	-7.8%

### Financial Parameters

	Target	Actual (includes IFRS)	Actual (adjusted for IFRS & other)
Debt Servicing	1.7 – 2.1x	1.43x	1.49x
Gearing	55% to 75%	54.5%	56.6%
Interest Cover**	>7x	10.8x	10.8x

Actual (adjusted for IFRS) is adjusted to exclude financial instruments under AASB 139 (*Financial Instruments: Recognition & Measurement*)

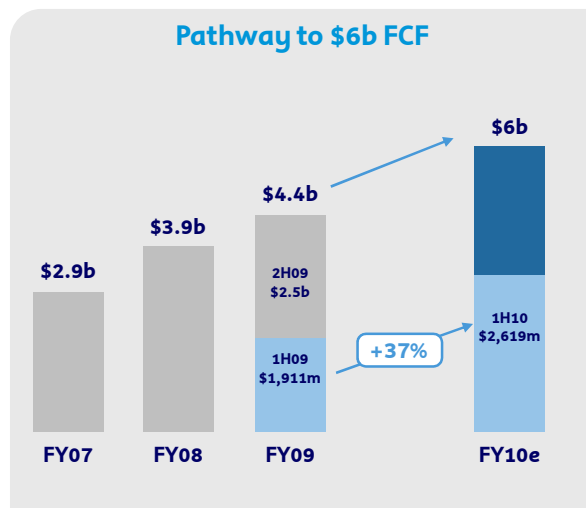
\*\* Interest Cover is based on net interest costs and therefore exclude the impact of IFRS adjustments.

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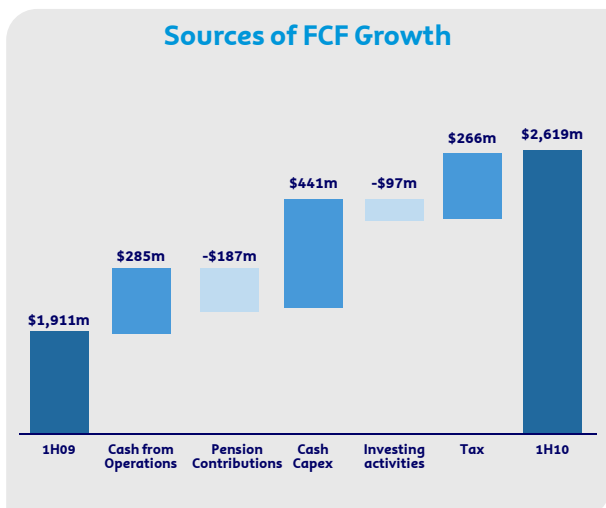


## Free cashflow - growth trajectory continues

### Pathway to \$6b FCF



### Sources of FCF Growth



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## Guidance for Fiscal Year 2010

Measure	Guidance
Sales revenue	Low single digit decline
EBITDA growth	Low single digit growth
EBITDA Margin (on sales revenue)	Maintained
D&A	~\$4.5b
EBIT growth	Low single digit growth
Accrued Capex to sales revenue	Around 14%
FCF*	\$6 billion

\* includes pension funding of ~\$500m

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## APPENDIX

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## Domestic retail performance

	1H09	2H09	1H10
<b>Sales Revenue Growth</b>	4.3%	3.4%	-0.6%
• Mobile services	11.3%	8.3%	4.8%
• Fixed (excluding Internet)	-1.4%	-3.5%	-5.8%
• Fixed Internet	16.8%	10.1%	0.7%
• Data & IP	11.1%	8.1%	3.1%
<b>Operating Contribution Growth</b>	5.4%	2.8%	-1.9%
<b>Operating Contribution Margin (%)*</b>	66.3%	65.9%	65.4%
• Change (yoy)	0.7pp	-0.4pp	-0.9pp

Domestic Retail comprises TC, TB and TEG (excluding KAZ), but excludes Telstra Media.  
\* Operating contribution margin based on sales revenue

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## Offshore performance

	1H10 – Reported	1H10 – Local Currency
<b>CSL New World</b>		
• Total income	-24.2%	-15.5%
• EBITDA contribution	-12.5%	-4.8%
<b>TelstraClear</b>		
• Total income	-2.2%	0.9%
• EBITDA contribution	-2.0%	0.0%
<b>Chinese online businesses</b>		
• Total income	13.9%	
<b>Other Offshore Controlled Entities</b>		
• Services Revenue	-22.1%	

\* Chinese online business results are from unaudited management accounts converted from local currency into A\$

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## Telstra Consumer

	1H09	2H09	1H10
<b>Sales Revenue Growth</b>	3.0%	3.2%	-0.2%
• Mobile services	8.5%	8.9%	5.5%
• Fixed (excluding Internet)	-2.6%	-3.0%	-6.2%
• Fixed Internet	18.8%	10.8%	0.6%
• Data & IP	22.3%	43.3%	-7.9%
<b>Operating Contribution Growth</b>	5.0%	1.8%	-2.4%
<b>Operating Contribution Margin (%)</b>	61.8%	61.1%	60.4%
• Change (yoy)	1.2pp	-0.8pp	-1.4pp
<b>SIO net adds ('000')</b>			
• PSTN	-24	-73	-151
• Post paid mobile	97	54	26

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## Telstra Business

	1H09	2H09	1H10
<b>Sales Revenue Growth</b>	7.2%	2.2%	-0.4%
• Mobile services	14.6%	7.7%	2.7%
• Fixed (excluding Internet)	0.6%	-3.7%	-4.2%
• Fixed Internet	15.0%	13.5%	7.2%
• Data & IP	27.1%	20.3%	10.0%
<b>Operating Contribution Growth</b>	7.4%	4.0%	-1.2%
<b>Operating Contribution Margin (%)</b>	72.0%	73.3%	71.4%
• Change (yoy)	0.1pp	1.3pp	-0.6pp
<b>SIO net adds ('000')</b>			
• PSTN	-3	-15	-26
• Post paid mobile	83	56	79

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## Telstra Enterprise & Government

	1H09*	2H09	1H10
<b>Sales Revenue Growth</b>	4.9%	5.1%	-1.6%
• Mobile services	19.9%	6.9%	5.0%
• Fixed (excluding Internet)	-0.7%	-4.5%	-6.9%
• Fixed Internet	1.5%	-5.9%	-14.8%
• Data & IP	9.5%	6.6%	+2.4%
<b>Operating Contribution Growth</b>	4.6%	3.8%	-1.5%
<b>Operating Contribution Margin (%)</b>	71.6%	70.5%	71.7%
• Change (yoy)	-0.2pp	-0.9pp	+0.1pp
<b>SIO net adds (000')</b>			
• PSTN	-9	-10	-8
• Post paid mobile	103	89	64

\* Excluding KAZ

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## Market share\*

Revenue	1H08	2H08	1H09	2H09	1H10
Mobile	43%	43%	43%	42%	42%
Fixed (excluding Internet)	73%	74%	74%**	74%**	73%
<b>SIO</b>					
Mobile	43%	41%	41%	41%	41%
Retail Broadband - Total	47%	48%	47%	45%	44%
Fixed	46%	48%	47%	46%	45%
Wireless	51%	47%	45%	42%	42%
Fixed	74%	75%	75%	75%	75%

\* Telstra Management estimates, subject to competitor reporting

\*\* Restated from 75% to 74% following additional competitor disclosure

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## Superannuation contributions

Statement of Financial Position	30 June 09	31 Dec 09
Defined Benefit Asset	\$8m	\$9m
Defined Benefit Liability	\$414m	\$259m
Movement		-\$156m

	2H09	1H10
Superannuation Contributions*	\$217m	\$230m

\* Excludes payroll tax

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## Current Credit Ratings\*

	Long Term	Short Term	Outlook
Standard & Poors	A	A1	Negative
Moodys	A2	P1	Under review for possible downgrade
Fitch	A	F1	Stable

\*Note: As at 10 February 2010. The licences provided to the above Credit Ratings Agencies authorise the disclosure of credit ratings to wholesale investors only in Australia. These credit ratings are provided for disclosure purposes only and must not be used, and are not intended by Telstra to be used, in the support of or in relation to the marketing of financial products to retail investors in Australia.

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