



# Financial Highlights

## Half Year ended 31 December 2009

### Costs controlled; dividend maintained; \$6b FCF target re-affirmed

#### Reported Results

- Sales revenue declined 2.5% or \$321 million to \$12,323 million
- Operating expenses fell 4.8% or \$357m to \$7,072 million
- EBITDA declined by 0.3% or \$17 million to \$5,317 million
- EBITDA margins increased 0.9 percentage points to 43.1%
- EBIT grew by 1.7% or \$53 million to \$3,132 million
- Reported earnings per share of 15.0 cents were down 3.5%

- Free cashflow grew 37.0% or \$708 million to \$2,619 million
- Interim dividend of 14 cents per share, fully franked

#### Adjusted Results

(Adjusting for currency movements, the sale of KAZ, and fair value adjustments included in finance costs)

- Sales revenue declined 0.7%
- EBITDA increased 0.2%
- Adjusted earnings per share increased 12.9%

#### Reported results

Telstra Corporation Limited and its controlled entities (Telstra) are pleased to report strong growth in free cash flow and the maintenance of our dividend despite the challenging economic, regulatory and competitive conditions the company is facing.

#### Summary Financial Results (\$ millions)

	Half-year ended 31 Dec 2009	Half-year ended 31 Dec 2008	YoY change %
Sales revenue	12,323	12,644	-2.5%
Total revenue	12,342	12,710	-2.9%
Operating expenses	7,072	7,428	-4.8%
EBITDA	5,317	5,334	-0.3%
Depreciation and Amortisation	2,185	2,255	-3.1%
EBIT	3,132	3,079	1.7%
Net finance costs	520	403	29.0%
Tax	726	755	-3.8%
PAT (post minorities)	1,853	1,916	-3.3%
EBITDA margin	43.1%	42.2%	0.9pp
Capital expenditure (accrued)	1,607	2,074	-22.5%
Free cash flow	2,619	1,911	37.0%

In the first half of fiscal 2010, sales revenue declined 2.5% to \$12,323 million and total revenue declined by 2.9% to \$12,342 million.

Operating Expenses (before D&A) in the half declined by 4.8% to \$7,072 million as a result of the company's continued focus on cost control and productivity.

Labour expenses declined by 8.6% to \$1,967 million while Goods and Services purchased declined by 0.6% to \$2,615 million. This included a decrease in network payments of 8.0%

to \$898 million partly due to foreign exchange impacts. Other expenses decreased by 5.8% to \$2,490 million. Service contracts and other agreements declined 3.8% to \$1,125 million as Telstra moves out of the transformation programme.

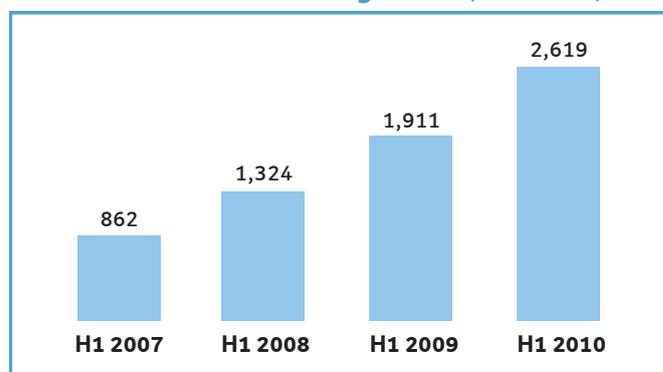
Earnings before interest, tax, depreciation and amortisation (EBITDA) declined by 0.3% to \$5,317 million, with EBITDA margins increasing by 0.9 of a percentage point to 43.1%. Earnings before interest and tax (EBIT) increased by 1.7% to \$3,132 million.

Profit after tax and minority interest (PATMI) declined 3.3% to \$1,853 million and basic earnings per share (EPS) decreased by 3.5% from 15.5 cents to 15.0 cents.

**+37.0%** Free Cashflow growth

Free cash flow of \$2,619 million was generated, a significant increase of more than \$700 million or 37.0% from the first half of fiscal 2009. Importantly, we continue to invest in the business with capex of \$1,607 million in the half, or 13% of sales.

#### First Half Free Cash Flow Progression (\$ millions)



On 11 February 2010, the Directors of Telstra resolved to pay a fully franked interim ordinary dividend of 14 cents per share. The record date of the dividend will be 26 February 2010 with payment on 26 March 2010. Shares will trade excluding entitlement to the dividend on 22 February 2010.



# Financial Highlights

## Half Year ended 31 December 2009

### Adjusted Results

Adjusted for KAZ sale, currency movements and fair value adjustments to finance costs	YoY change, %
Domestic sales revenues	-1.0%
Offshore sales revenues	1.6%
Sales revenue	-0.7%
Total revenue	-1.1%
Operating expenses	-2.1%
EBITDA	0.2%
EBIT	2.0%
Net finance costs	-24.7%
PAT (post minorities)	13.0%

There are a number of one-off factors that have impacted our results in the first half of the year. In the preceding table we have normalised the results for three factors – the sale of the KAZ IT services business, the significant strengthening of the Australian Dollar and the fair value adjustments to finance costs - to present a more accurate view of the real performance of the business.

**-0.7%** Adjusted sales revenue decline

Adjusting for the revenues generated by the KAZ Group in the first half of fiscal 2009 (\$132 million) and for the revaluation of the Australian Dollar in the period (\$98 million), sales revenues in the first half of the year declined by 0.7% and total revenue by 1.1%.

The adjustments also have an impact on operating costs. On an adjusted basis operating expenses declined 2.1%, adjusted EBITDA increased 0.2% and EBIT increased 2.0% year-on-year. Finally, we have again adjusted for fair value adjustments at the finance cost line (\$31 million loss in H1 2010 versus \$248 million gain in H1 2009). On this adjusted basis, PATMI increased 13.0% in the half and basic EPS increased by 12.9%.

**+13.0%** Increase in adjusted PAT (post minorities)

### Review of Adjusted Performance

All of our retail business segments have faced challenges in the first six months of the year. Total retail income, adjusted for the sale of KAZ fell by 0.5% in the half. Revenue in our wholesale business also declined by 3.3%. Our major retail segments reported negative growth in the first half, a significant slowdown on the first half of fiscal 2009 as competition has intensified.

### Key Segment Income

	Half-year ended Dec 2009, \$m	YoY change %
Telstra Consumer	5,193	-0.2%
Telstra Business	1,925	-0.4%
Telstra Enterprise and Government	2,230	-1.5%
Telstra Retail <sup>1</sup>	9,348	-0.5%
Telstra Wholesale	1,170	-3.3%
Sensis <sup>2</sup>	959	-7.3%

At a product level, performance in the first six months of the year has been mixed but overall our market shares have come under pressure. Mobile services revenue growth of 4.7% remains well above our global peer group, although we believe that our focus on profitable growth has come at a slight cost to revenue market share. Growth has also continued in fixed retail broadband and IP access, but offsetting this we have seen a significant slowdown in PSTN. We see strong demand growth in both mobile and IP, but significant pressure on price.

### Key Product Revenue

	Half-year ended Dec 2009, \$m	YoY change %
Mobile services	3,211	4.7%
PSTN	2,997	-6.9%
Fixed retail broadband	777	1.4%
IP and data access	891	2.3%
Advertising and directories	975	-5.2%

Total fixed revenue declined by 4.8% to \$5,145 million as the rate of PSTN revenue decline accelerated and the fixed broadband market continues to mature. The consumer popularity of wireless broadband has also led to an increasing trend to mobile-only households, which we estimate is now close to 10% of total households.

Total PSTN revenue declined by 6.9% during the half to \$2,997 million. This is an acceleration on the 4.8% decline in PSTN revenues we recorded in the second half of fiscal 2009. There are several drivers of this decline including lower usage across all calling categories, most notably in local calls and national long distance. Retail PSTN SIOs declined as LSS and ULL uptake by competitors continued. The decline in total fixed telephony lines also accelerated as a result of an increase in mobile-only households and the trend to IP telephony in the Enterprise market.

1. Total retail revenue is calculated as the sum of Telstra Consumer, Telstra Business and Telstra Enterprise and Government.

2. Adjusting for the sale of Universal Publishers, transfer of the Trading Post<sup>®</sup> business to Telstra Media and currency, Sensis revenue fell 0.1% in the half

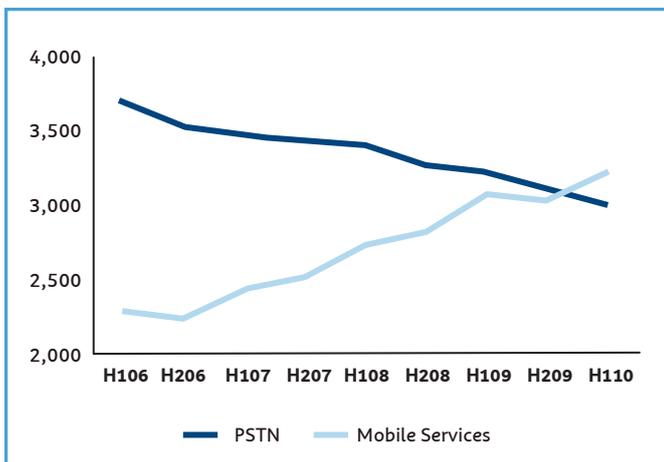


## Financial Highlights Half Year ended 31 December 2009

In the first half of fiscal 2010, PSTN accounted for only 24% of total sales revenue compared to 30% three years ago. Whilst we expect new products such as Telstra T-Hub™ and Telstra T-Box™ to help mitigate the decline in fixed telephony in the coming years, they will not arrest it totally given the capabilities of mobile and IP-based services.

Fixed retail broadband revenue increased by 1.4% to \$777 million. As the broadband market matures coupled with intense price competition, we have seen a decline of 30 thousand fixed broadband customers in the half year. We believe that new offers and products in the market should improve momentum in this business in the second half but overall the fixed broadband market is seeing a significant slowdown in growth as it matures and faces competition from wireless broadband. Pleasingly, fixed retail broadband average revenue per user (ARPU) continues to grow and is now at \$57.33 per month, an increase of 2.2% on the prior year.

### Inflection of mobile and PSTN revenue (\$ millions)



Mobile revenue continues to grow well, a testament to our investment in the world leading Next G™ network. Mobile services revenue grew by 4.7% to \$3,211 million for the half, however, blended mobile ARPU decreased in the half by 3.0%. The main drivers were declining voice ARPUs with mobile voice revenues down 4.1% and a mix shift in the wireless broadband base following the launch of prepaid wireless broadband in late 2008. Total mobile data revenue growth of 20.9% remains very strong and we now have more than 7.2 million 3GSM services which makes up 70% of our mobile customer base.

## 20.9% Mobile data revenue growth

With the popularity of our wireless broadband products continuing, wireless broadband (data card) revenue grew by 31.9% to \$368 million. We now have more than 1.3 million wireless broadband SIOs, up from 1 million in June 2009.

IP and data access revenues continue to perform well as we manage our customers' migration from legacy products to IP and increased 2.3% to \$891 million. Underpinning this growth was a 21.3% increase in IP access revenue to \$393 million. Significant contract wins in the half include VISY, the NSW Department of Education and the Bank of Queensland.

As expected, the decline in legacy data products has accelerated in the half but we believe that IP access and managed network services opportunities can compensate.

## -0.1% Adjusted revenue decline at Sensis

Reported Sensis sales revenue declined by 7.3% during the half in tough market conditions for advertisers. However, adjusting for the transfer of the Trading Post® business to Telstra Media, the sale of Universal Publishers and currency movements, adjusted sales revenues at Sensis were down 0.1% in the half. Sensis' online and Chinese businesses continue to grow strongly in a uniquely challenging market for advertisers.

The performance of CSL New World in Hong Kong continues to be a challenge in the highly competitive Hong Kong mobile market. However, during 2009, CSL launched its Next G™ high speed network and we expect its performance to improve.

### Adjusted expense performance

## -2.1% Adjusted expenses declined as costs were controlled

On an adjusted basis (normalising for the sale of KAZ and currency movement), operating expenses in the half declined by 2.1%.

Adjusted labour expenses declined by 4.0% driven by continued control of headcount and salary levels.

Adjusted goods and services purchased increased by 2.2% with cost of goods sold increasing by 12.1%. The major driver was the continued take-up of smartphones which have higher subscriber acquisition and retention costs (SARCs).

Other expenses decreased by 4.8% on an adjusted basis. Service contracts and other agreements declined 3.7% as the major transformation expenses are now behind us. Promotion and advertising expenses declined by 15.0% as we controlled marketing costs ahead of new tariff and product launches at the end of the period whilst General and Administration costs declined by 7.1% due to tight control over discretionary spending. Impairment costs rose 29.4% driven by an increase in bad and doubtful debts as consumer debt delinquency and business insolvency increased.



# Financial Highlights

## Half Year ended 31 December 2009

### Financial position

#### (a) Capital Expenditure and cash flow

Accrued operating capital expenditure of \$1,607 million was down \$467 million or 22.5% on the first half of 2009, and is consistent with our guidance for capex less than \$3.8 billion for the year. We expect a capex/sales ratio of around 14% to be sustainable going forward.

Free cash flow increased by \$708 million to \$2,619 million in the half driven largely by the lower capital expenditure and leaves us well positioned to meet our target of \$6 billion of free cash flow in fiscal 2010.

#### (b) Debt position

We continue to look at executing long term borrowings across a diverse range of debt markets. Given the strength of Telstra's balance sheet and our debt maturity profile we are also able to borrow from the market on competitive terms. We have long-term debt maturities to finance in March 2010, when we will have \$500m due for refinancing. This will be refinanced in the ordinary course of business.

The effective net debt position at 31 December 2009 was \$15,240 million which represents a decrease over the six months of \$415 million. Our effective interest rate (or average borrowing cost) on average net debt reduced from 7.5% in the first half of fiscal 2009 to 6.5% in the first half of fiscal 2010.

### National Broadband Network (NBN)

The NBN remains an important issue for the company and we remain engaged in constructive talks with the Government and NBN Co. We remain committed to try to find a mutually acceptable outcome, but the path ahead remains immensely complex.

Throughout the talks, the best interests of our investors, our employees and our customers have remained paramount and we will continue to keep the market informed when significant developments occur.

### Outlook for fiscal year 2010

Clearly our business is facing challenges on a number of fronts including:

- Strong domestic competition driving Unconditioned Local Loop growth and very competitive fixed and mobile broadband offers;
- An accelerated move to wireless-only homes which is impacting revenue in PSTN and fixed broadband products;
- Tough operating conditions in Hong Kong and
- The strength of the Australian dollar.

In the second half of the fiscal year we believe that we will see an improvement in a number of these dynamics with

improving trends at CSL New World and an improving economic backdrop in the domestic market. Strategically we remain committed to investing in new and cutting edge products and services. We also need to continue efforts to improve the customer experience to achieve sustained and profitable growth in the business and regain market share. However, continued domestic price competition and currency strength continue to present challenges for us.

**\$6 billion** Free cashflow in 2010

These market trends are reflected in our current expectations for a low single digit decline in reported sales revenue in the business for full fiscal 2010 versus flattish previously. However, we remain firmly focused on cost control and productivity to ensure that we continue to deliver on outcomes for our shareholders. We continue towards the target of \$6 billion of free cash flow in fiscal 2010, which will still include around \$500 million in cash contributions to the Telstra Superannuation Scheme. Achievement of this target provides us with significant strong free cash flow, and all the flexibility that this brings.

For fiscal 2010 we are maintaining our profitability targets of EBITDA and EBIT percentage growth of low single-digits, with EBITDA margins maintained and accrued capital expenditure of around 14% of sales revenue, equivalent to less than \$3.8b. Our guidance is on a reported basis so is not adjusted for the sale of KAZ or currency movements.

### Guidance Summary

Measure	2010 guidance on 2009 Levels
Sales revenue	Low single digit decline
EBITDA	Low single digit growth
EBITDA margin	Maintained
EBIT	Low single digit growth
Accrued capex to sales revenue	Around 14%
Free cash flow	\$6 billion

#### Indicative Financial Calendar\*

Ex-dividend share trading commences	22nd February 2010
Interim dividend paid	26th March 2010
Annual results announcement	12th August 2010
Ex-dividend share trading commences	23rd August 2010
Final dividend paid	24th September 2010
Annual General Meeting	19th November 2010

\*Timing of events maybe subject to change. Any change will be notified to the ASX