

# FINANCIAL HIGHLIGHTS

## Half-Year ended 31 December 2010



### OPERATING MOMENTUM CONTINUES. GUIDANCE, DIVIDEND MAINTAINED

#### REPORTED RESULTS

- 919 thousand mobile customers added
- 139 thousand retail broadband customers added
- Revenue growth from all three major retail segments
- Sales revenue declined 0.5% or \$60m to \$12,263m
- EBITDA declined 13.9% or \$737m to \$4,580m
- EBITDA margins declined by 5.8 percentage points to 37.3%
- EBIT declined by 24.1% or \$756m to \$2,376m

- Earnings per share of 9.6 cents was down 35.6%
- Free cashflow declined 22.9% or \$599m to \$2,020m
- Interim dividend of 14 cents per share, fully franked

#### RESULTS ON GUIDANCE BASIS

(Assumes wholesale product price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of businesses or any impact of network restoration work following natural disasters)

- Sales revenue declined 0.5% or \$60m to \$12,263m
- EBITDA declined by 12.5% or \$663m to \$4,654m
- Free cashflow declined 35% or \$919m to \$1,700m

#### SUMMARY FINANCIAL RESULTS (\$m)

	Half-year Ended 31 Dec 10 \$m	Half-year Ended 31 Dec 09 \$m	YoY change %
Sales revenue	12,263	12,323	-0.5
Total revenue	12,283	12,342	-0.5
Operating expenses	7,829	7,072	10.7
EBITDA (reported)	4,580	5,317	-13.9
EBITDA (guidance)*	4,654	5,317	-12.5
Depreciation and Amortisation	2,204	2,185	0.9
EBIT	2,376	3,132	-24.1
Net finance costs	571	520	9.8
Tax	598	726	-17.6
Attributable NPAT	1,194	1,853	-35.6
Accrued capital expenditure	1,451	1,601	-9.4
Free cash flow	2,020	2,619	-22.9

\*on guidance basis, excluding gain/loss on sale of businesses and Octave impairment

#### Strategy Update

In August 2010, Telstra announced a medium-term strategy to build on four key initiatives – to improve customer service, to retain and grow customers, to simplify the business and to invest in new growth businesses.

We recorded a 1.3% improvement in our customer satisfaction rating in the half and implemented a range of customer-centric measures such as 24/7 call centres. While this is good early momentum, it is a multi-year programme and remains a highest priority for the entire company.

We have a strategy to retain and grow customers and the early success of this strategy has been clear in the customer market share growth and lower churn that we have seen across major products. Of particular note are the 919 thousand new mobile

customers and 139 thousand new retail broadband customers we gained in the half. We will continue to bring new products and pricing to the market in the second half.

#### 1 million NEW MOBILE AND BROADBAND CUSTOMERS

We recognise the need to translate this customer momentum into revenue and profitability but with customer base a leading indicator of financial performance we believe that our strategy remains on track. Another positive trend is the revenue growth reported by all three retail segments in the half.

Our initiatives under Project New to simplify the business continue to be implemented, and we have made early progress with our new central consumer call centre in Melbourne and greatly simplified broadband plans.

The company has also highlighted that it sees growth opportunities in media, network applications and services and Asia, and we will continue to pursue these. Our focus remains on organic growth, although we would consider small acquisitions if they create clear value for our shareholders. The uptake of the T-Hub and T-Box, restructuring of our Reach assets in Asia and significantly improved performance at CSL New World are indicators of the progress we are making in these areas.

#### Reported Results

Telstra Corporation Limited has met its guidance for the first half of fiscal 2011 and maintained its dividend. The company has also re-affirmed guidance for the full-year and is seeing the strong customer growth through the half beginning to have a positive impact on revenue trends.

In the first half of fiscal 2011, sales revenue declined 0.5% to \$12,263 million and total revenue declined by 0.5% to \$12,283 million. This compares to a 2.5% decline in sales revenue in the first half of fiscal 2010.

Operating Expenses (before D&A) in the half increased by 10.7% to \$7,829 million as the company invested in customer acquisition. This is consistent with our intention to invest in the business in 2011. Including depreciation and amortisation, expenses rose by 8.4%. This expense total includes an impairment in the carrying value of Octave of \$133 million.

Labour expenses increased by 1.1% to \$1,988 million. Salary costs declined by 3.5% in the half reflecting lower headcount, but were offset by higher redundancy charges. Directly Variable Costs (DVCs) or Goods and Services Purchased increased by

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20.4% to \$3,148 million. The increase in DVCs was concentrated in our mobile business where mobile hardware cost of goods sold increased by 44.3% or \$189 million to \$616 million. Partially offsetting this cost was a \$153 million increase in mobile hardware revenues to \$566 million. Mobile subsidies increased by \$140 million or 44% to \$457 million with around a third of the increase incurred at CSL New World. Network payments increased 5.3% which was largely due to increased outpayments as a result of mobile traffic growth. Other expenses increased by 8.2% or \$203 million to \$2,693 million. The largest cost increase in this line was the investment in the early phases of Project New plus the impairment in Octave.

Earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 13.9% to \$4,580 million, with EBITDA margins declining by 5.8 percentage points to 37.3%. Earnings before interest and tax (EBIT) decreased by 24.1% to \$2,376 million on a reported basis. On our guidance basis, adjusting for gain/loss on sale of assets and Octave impairment, EBITDA declined 12.5% in the half.

Reported attributable profit after tax declined 35.6% to \$1,194 million and basic earnings per share (EPS) decreased by 35.6% from 15.0 cents to 9.6 cents.

Free cash flow of \$2,020 million was generated in the half, in line with our expectations. This figure includes a net \$288 million from the sale of Soufun. Accrued capital expenditure was \$1,451 million in the half, or 11.8% of sales.

On 10 February 2011, the Directors of Telstra resolved to pay a fully franked interim dividend of 14 cents per share. The record date of the dividend will be 25 February 2011 with payment on 25 March 2011. Shares will trade excluding entitlement to the dividend on 21 February 2011.

### Adjusted Results

#### ADJUSTED FINANCIAL RESULTS\*

	H1 2011 YoY change	H2 2010 YoY change	H1 2010 YoY change
Sales revenue	0.7%	0.3%	-0.7%
Total revenue	0.2%	0.4%	-1.1%
Operating expenses	9.8%	-1.1%	-2.1%
EBITDA	-11.1%	2.4%	0.2%
EBIT	-19.6%	2.7%	2.0%
Net finance costs	-5.7%	-9.6%	-24.7%
Attributable NPAT	-24.9%	3.3%	13.0%

\*Adjusted for gain on sale of businesses, Octave impairment, currency movements, Sydney Yellow Pages and fair value adjustments

There are a number of one-off factors that have impacted our results in the first half. In the above table we have adjusted the results for five factors – the gain/loss on the sale of businesses, the impairment of Octave, currency movements, the change in timing of Sydney Yellow Pages revenue recognition and the fair

value adjustments to finance costs - to present a more accurate view of the real performance of the business. Given its minimal impact, we have not adjusted for the sales revenues and costs incurred at SouFun in the first three months of the year.

Adjusting for the recognition of the Sydney Yellow Pages revenues in the second half (\$83 million) and currency movements (\$69 million), sales revenues in the half grew by 0.7% and total revenue by 0.2%.

On an adjusted basis, EBITDA declined 11.1% in the half and attributable NPAT declined 24.9%

### Segment performance

#### KEY SEGMENT INCOME

	H1 2011 \$m	H1 2010 \$m	YoY change
Telstra Consumer and Country Wide	4,833	4,740	2.0%
Telstra Business	2,429	2,379	2.1%
Telstra Enterprise and Government	2,060	2,035	1.2%
Total Retail*	9,322	9,154	1.8%
Telstra International	687	701	-2.0%
Telstra Wholesale	1,126	1,149	-2.0%
Sensis**	779	845	-7.9%

\*Calculated as sum of Consumer, Business and Enterprise and Government revenues  
\*\* Adjusted for Sydney Yellow Pages

After a challenging 2010, all three of our major retail segments have returned to growth in the first half of 2011. Total retail revenue growth was \$169 million or 1.8% in the half which more than offset a \$23 million or 2% decline in our wholesale business.

Revenues at Sensis declined 17.8% in the half, or 7.9% adjusting for the revenue recognition of the Sydney Yellow Pages.

### Product performance

#### KEY DOMESTIC PRODUCT REVENUE

	H1 2011 \$m	H1 2010 \$m	YoY change
Mobile services	3,421	3,211	6.5%
Total Mobile	3,987	3,624	10.0%
PSTN	2,743	2,996	-8.4%
Fixed retail broadband (including hardware)	794	791	0.4%
IP and data access	891	894	-0.4%
Ad. and Directories*	876	975	-10.2%

\*Adjusted for the Sydney Yellow Pages

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At a product level, we have seen a significant improvement in performance in the half across most major products, with only Sensis recording a significant deterioration in trends. Much of the improvement has come as a result of improved customer growth trends, and we believe that this is a leading indicator of future financial performance. Total mobile revenue growth was 10.0% in the half as customers continue to recognise the benefits of our network. Mobile services revenue growth in the half was steady at 6.5%. Growth has also continued in IP access which grew 20.1%. PSTN revenues declined by 8.4% million while retail fixed broadband revenues increased by 0.4%. Adjusting for the Sydney Yellow Pages revenue recognition, Advertising and Directories revenues declined 10.2% in the half. The major driver was an 18% decline in Yellow Print as the shift to on-line continues.

### Fixed

Total PSTN revenue declined by 8.4% during the half to \$2,743 million. While this is a slight improvement on the 9% decline in the second half of fiscal 2010, it still shows the structural shift away from PSTN driven by both lower usage and line loss. Usage continues to decline across all calling categories, with local calls falling 14% in the half and national long distance minutes declining 9.3% in the half. Line loss in the half was 3.3% at a retail level, equivalent to 109 thousand lines in the period, versus a 3.6% decline in the first half of fiscal 2010 and 4.2% in the second half. Growth in ULL uptake by competitors continues to be strong, although LSS growth has slowed with many competitors focussing on ULL. Line cancellations were also 44 thousand in the half.

**+139k** BROADBAND CUSTOMERS

Our new market offers have led to a significant improvement in fixed broadband customer momentum in the half with 139 thousand retail customers added, including 80 thousand in the second quarter. Lower churn has been an important driver of the improvement, with the annualised fixed broadband disconnect rate falling from 25.1% to 16.4% over the prior corresponding period.

Despite intense price competition, fixed broadband ARPUs continue to hold up well and were \$56.36 in the half, down 1.7%. Fixed retail broadband revenue (including hardware) grew by 0.4% to \$794 million.

New products and offers continue to stimulate demand in the fixed broadband market. As at 31 December we had sold close to 128 thousand T-Hubs and 107 thousand T-Boxes plus we had 804 thousand customers on our bundled plans.

PSTN EBITDA margins in the half were 59%, flat year on year, while fixed broadband EBITDA margins fell 7pp to 33% through higher customer acquisition costs.

### Mobile

Mobile revenue growth remains strong, a testament to our network quality and attractive offers and was driven by strong customer growth and resilient ARPU. Mobile services revenue grew by 6.5% to \$3,421 million in the half with growth in the second quarter accelerating as the benefits of customer growth emerged. In the half, postpaid handheld revenue grew by 2.8% to \$2,214 million, prepaid handheld revenue by 9.3% to \$351

million and mobile broadband revenue grew by 24.5% to \$477 million.

**+919k** MOBILE CUSTOMERS

At the end of December, total mobile customers were 11.5 million, up 919 thousand in the half and 555 thousand in the second quarter. Postpaid handheld customers at the end of December were 6.1 million, up 297 thousand in the half and 181 thousand in the second quarter with ARPU in the half of \$61.93, down 0.9% year on year. Mobile broadband customers (postpaid and prepaid) at the end of December were 2.2 million, up 505 thousand in the half and 254 thousand in the second quarter with ARPU of \$41.53 declining 22.9% year-on-year. The major driver of the ARPU decline has been the growth of prepaid mobile broadband, with customers more than doubling in the last year. Monthly prepaid unique users averaged 1.9 million in the December quarter, an increase of 54 thousand on the June quarter and generated revenue of \$351 million, up 9.0% on the prior corresponding period.

Mobile hardware revenues grew 37.0% in the half to \$566 million. This is due to high volumes of smartphones being sold to postpaid customers and we believe is a leading indicator for future revenue growth given the resilience of mobile ARPU. Over the half, seven of the ten most popular postpaid handhelds sold were smartphones. While this should give long-term ARPU benefits, it has led to a short-term increase in average subscriber acquisition and retention costs. Postpaid handheld disconnect rates declined from 15.8% to 9.7% in the half on an annualised basis.

Mobile EBITDA margins in the half were 29%, down 5pp year on year reflecting the increased investment in customer growth but with our control over mobile costs we expect margins to improve again in the second half.

### IP and Data

Our IP and data access business continues to focus on the migration to IP technologies with revenues declining 0.3% to \$891 million. Within this category, IP Access revenue grew 20.1% in the half to \$472 million. Our IP and cloud computing services continue to produce significant contract wins in the half, plus successful deployments at a large number of existing customers. We continue to see significant growth opportunities across IP Access and Network Applications and Services.

IP and data EBITDA margins in the half were 61%, flat year on year.

### Sensis

Reported Sensis sales revenue decreased by 17.8% during the half. However, adjusting for the changed revenue recognition for the Sydney Yellow Pages to the second half in 2011, revenues in the half declined 7.9%. This decline was driven by a fall of 18% in Yellow Print revenues, which we believe is a result of a structural shift from advertisers away from print directories.

This is a trend seen in other markets, and Sensis has developed a digital strategy to address the decline in print revenues. While revenue recognition also impacted digital performance in the half, the Sensis digital sales order value increased by more than 20% in the half, which is an indicator for expected future revenue trends.

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### Asia

In the last six months, CSL New World has seen a significant improvement in operating momentum following the launch of iPhones and its LTE network. In local currency, revenues grew 24.3% in the half, including service revenue growth of 6.7%. We have also invested in new devices and services, resulting in an EBITDA decline of 26.0% in the half in local currency but we expect to return to EBITDA growth in the second half as the benefits of our investment in customers is realised.

Our strategic review of our other Asian assets has also resulted in the restructuring of Reach, the sale of SouFun and recognition of an impairment in Octave.

### Expense performance

On an adjusted basis (normalising for currency movement and the recognition of the Sydney Yellow Pages), operating expenses in the half rose by 9.8%.

Adjusted labour expenses rose by 1.6% driven by a \$58 million or 56.3% increase in redundancy costs in the half. Salary and associated costs fell by \$65 million in the half, reflecting a reduction of over a thousand domestic full time staff in the half.

Adjusted goods and services purchased increased by 22.2% with cost of goods sold increasing by 42.5%. This was foreshadowed last year as we announced a significant investment in customers and this is reflected in our variable costs.

Other expenses increased by 3.3% on an adjusted basis. The major driver was the investment in Project New. Our general and administration costs continue to decline and fell 5.5%.

### Financial position

#### (a) Capital Expenditure and Cashflow

Accrued operating capital expenditure of \$1,451 million was down \$150 million or 9.4% on the prior corresponding period, and is consistent with our guidance for capex/sales of around 14% in the year.

Free Cashflow decreased by \$599 million to \$2,020 million in the half driven largely by higher operating expenses and working capital as we invested in customer growth.

#### (b) Debt position

The effective net debt position at 31 December 2010 was \$14,395 million which represents an increase over the six months of \$469 million. Our effective interest rate (or average borrowing cost) on average net debt increased from 6.05% in the first half of fiscal 2010 to 6.94% in the first half of fiscal 2011.

### National Broadband Network (NBN)

On 10 February, Telstra announced it had finalised key commercial terms with NBN Co, passing an important milestone in the proposed agreement that is expected to deliver approximately \$9 billion in post-tax net present value to Telstra.

In addition Telstra has reached in-principle agreement with the Federal Government over the specific measures that are expected to deliver a further approximately \$2 billion in post-tax net present value.

The total post-tax net present value of the transaction is approximately \$11 billion.

This important milestone represents substantial progress. During the last eight months we have negotiated constructively over a range of extremely complex matters

We are working to complete the necessary documentation. As soon as this is finalised by both NBN Co and Telstra, Telstra will be able to provide detailed information on the substance of the proposal. While there is still work to be done, we are on track to put the proposal to shareholders with a target date of 1 July 2011.

Telstra has provisionally agreed commercial terms relating to copper network decommissioning, dark fibre and duct usage, exchange usage, certain roll-out arrangements and other matters with NBN Co. The parties are working to complete the associated operational details and ensure all contingencies are addressed as part of the documentation process which is expected to be completed in the near future.

Telstra will then commission an independent expert report for shareholders so that the proposal and that report can be put to shareholders at an Extraordinary General Meeting provisionally scheduled for 1 July 2011.

Finalisation of the agreements and the target date of the EGM will continue to be subject to prior regulatory approval, price stability, confirmation of tax arrangements, and appropriate legislation setting out regulation and ownership rules for NBN Co and reform of the Universal Service Obligation.

### Outlook

For 2011, we confirm the guidance issued in August 2010 and expect flattish sales revenue, a high single digit percentage decline in EBITDA, capex/sales of around 14% and \$4.5 to \$5.0 billion of Free Cashflow. In the first half of the year, operating expenses increased by \$750 million but with a number of initiatives weighted to the first half of the year, we continue to expect the full year increase to be in line with guidance. In particular we expect our initiatives in mobile to show benefits, with continued growth and improving margins in the second half. For fiscal 2011, goods and services purchased will be a little higher than anticipated as we respond to demand in the market, but this will be offset by savings in other costs.

As announced in November, it is also the Board's intention to maintain a 28c fully-franked dividend for 2011 and 2012, subject to the Board's normal process for dividend declaration and no unexpected material events.

### GUIDANCE SUMMARY\*

Measure	FY11 guidance
Sales revenue	Flattish
EBITDA	High single digit percentage decline
Capex/sales	14%
Free Cashflow	\$4.5-5.0 billion
Dividend	28c fully-franked

\* Guidance assumes wholesale product price stability, no fiscal 2011 impairments to investments and excludes any proceeds on the sale of businesses or any impact of network restoration work following natural disasters