Media Release

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Telstra generates solid half year net profit

Telstra today announced a solid half-year result with 1.8 per cent domestic revenue growth, 5.7 per cent underlying net profit after tax growth and strong cash flows.

The reported net profit increased by $1.1 billion to $2.3 billion, up 93.7 per cent as compared with the same period last year in which the non cash writedown of the company's investment in Reach occurred.

CEO, Dr Ziggy Switkowski, said the reported net profit result, assisted by a strong focus on cost reduction, enabled earnings per share to grow by 94.6 per cent to 17.9 cents.

Dr Switkowski said the Telstra Board of Directors announced an increased interim ordinary dividend of 13 cents, an increase of one cent on the prior corresponding half, bringing the payment to shareholders for the half to $1.6 billion, an increase of 8 per cent on the previous interim ordinary dividend.

He said he was pleased with the progress and momentum of the cost reduction program which saw total underlying expenses decline in the period by 1.8 per cent to $7.1 billion. He emphasised that the program to take out up to $800 million of costs over two to three years was on target.

"Our core domestic CAPEX spend, which reduced to $1.3 billion for the half, and our cost reduction program have been carefully managed so as not to compromise service improvement nor investments in growth opportunities.

"As a result, free cash flow was up 18 per cent to $1.8 billion (after adjusting for large asset sales). The total net operating cash flow generated in the half was $2.9 billion reflecting the strength of Telstra's operations," he said.

Dr Switkowski said Telstra's mobile operations had an encouraging half year of performance achieving nearly 7 million services in operation and generating revenue growth of 6.4 per cent from $1,804 million to $1,919 million – an increase of $115 million.

Financial Highlights in summary were:

- Reported earnings before interest and tax (EBIT) increased by 38.1 per cent to $3.5 billion comprising a 4.8 per cent decline in reported revenues to $10.8 billion (due to the sale of seven commercial properties for $570 million recognised in the prior year) and a reported expense (before borrowing costs) decline of 17.2 per cent to $7.3 billion, also impacted by the sale of properties last year;

- Underlying sales revenue decreased by 0.1 per cent to $10.5 billion, with growth across mobiles, internet and IP solutions, PSTN products, and Sensis (advertising and directories), offset by a decline in revenues from controlled entities, particularly from the foreign currency impact on HKCSL's result, other sales and service and ISDN;

- Underlying domestic sales revenue increased by 0.9 per cent to $9.7 billion. Excluding revenue from NDC construction activity and cable recovery and recycling project, domestic revenue increased by 1.8 per cent to $9.7 billion. Underlying total revenue (excluding interest) was flat at $10.6 billion;

- Underlying operating expenses (before depreciation, amortisation and interest) declined by 4.1 per cent to $5.3 billion, driven by a decline in network payments and handset subsidies. Underlying total expenses (including depreciation and amortisation but before interest and tax) declined by 1.8 per cent to $7.1 billion with underlying depreciation and amortisation growth of 5.8 per cent;

- Underlying earnings before interest and tax increased by 3.0 per cent to $3.5 billion, from reduced expenses;

- Underlying profit after tax and outside equity interests increased by 5.7 per cent to $2.1 billion, with reported earnings per share increasing to 17.9 cents based on a weighted average number of ordinary shares outstanding for the 6 months ended 31 December 2003 of 12,817.4 million; and

- Underlying EBITDA margin expanded from 48.4 per cent to 50.4 per cent with the underlying EBIT margin growing from 32.1 per cent to 33.1 per cent.

Dr Switkowski said some of Telstra's other operational highlights for the period were:

- Customer service performance continued to lift with Six Sigma projects expected to drive further improvements to meet customers' expectations;

- Mobile voice telephone minutes increased by 16.1 per cent and total Mobile revenue was up by 6.4 per cent. This was due to an over-all increase of 14.5 per cent in services in operation; comprising a 13.2 per cent increase in GSM and 25 per cent increase in CDMA services in operation. Revenue from handset sales grew by 8.1 per cent;

- Mobile network coverage grew significantly with four mobile base stations built per day over the period taking the total number of base stations to 7,157 - a jump of almost 18 per cent;

- Online subscribers rose 25 per cent over-all due to a 108 per cent increase in Broadband subscribers and a 6.8 per cent increase in narrowband subscribers. As a result total Data and Internet revenue increased by 2.1 per cent comprising an 18.4 per cent increase in Internet and IP solutions. However, this was balanced by a 5 per cent fall in ISDN (Access and Calls) and a 3.2 per cent fall in Data revenue;

- Overall underlying revenue for PSTN re-balanced products was up by 1.5 per cent. Mobile voice minutes were up by 16.1 per cent and Fixed to mobile minutes were up 144 million, a 7.4 per cent increase. Basic Access revenue was up by 3.5 per cent balanced by a 2.3 per cent fall in local call revenue. However there was a 12.7 per cent drop in International direct minutes leading to 13.7 per cent fall in international direct revenue;

- Sensis (Advertising and Directories) revenue increased by 5.2 per cent due to the new colour print features and E-mail/URL products which combined with new customers lead to 16 per cent growth in White Pages® and 32 per cent growth in online and electronic products; and

- The company conducted a successful $1 billion share buy-back as part of a proactive capital management program.

Dr Switkowski provided the following comments in relation to the outlook for the company:

- There is no change to the previous full year guidance of positive revenue growth with any cost growth being less than revenue growth;

- Telstra core domestic capital investment is expected to be approximately $2.9 billion for the full year;

- The Company continues to generate strong free cash flows and is operating within its stated capital management limits; and

- The company expects to achieve a domestic growth rate in line with industry growth within two calendar years and to meet its $800m cost reduction targets on the same timetable.

The dividend will be fully franked at a tax rate of 30 per cent. The dividend will have a record date of 26 March, 2004 with payment to be made on 30 April, 2004.

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