Media Release

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Second half earnings up 42% as Telstra beats annual guidance and accelerates in key markets

Telstra today announced **earnings before interest and tax** (EBIT) rose 42% in the second half of the financial year ended 30 June 2007, surpassing guidance of a 37 to 40% increase. **Sales revenue** for the full year grew 4.2% or $961 million to $23.7 billion, ahead of guidance of a 2.5 to 3% increase, and accelerated over the year with strong second half growth of 6.7%. **Profit after tax** was $3.3 billion, up $92 million or 2.9% on the previous year.

Underlying EBIT also beat guidance for the year, growing 7.1% to $5.8 billion compared with an expected 3 to 5% increase. The full year **reported EBIT** increase of 5.1% includes a $110 million write-down of the Trading Post mastheads.

Telstra Chief Executive Officer, Mr Trujillo, said: "We continue to deliver on our promises, transforming Telstra into a world-class media communications company of which Australians can be proud. The **favourable trends** emerging in the first half strengthened in the second. We have **hit the accelerator** and continued winning in **competitive markets,** delivering sales revenue and earnings growth ahead of guidance and market consensus. Specifically:

- We have quickly honoured our promise to become Australia's **undisputed 3G market leader**. We now have more than two million 3G subscribers, with Next G™ customer numbers already topping one million and outnumbering CDMA subscribers at the end of July.
- Our retail **broadband** business achieved a unique double in the second half, winning further market share from our competitors – up 2 percentage points to 47% - while also growing average revenue per user (ARPU) 7.7% year on year.
- The benefits of **market based management** are flowing through to our financials as we provide our customers with compelling value-based offers which better meet their needs.
- We have continued improving our **fixed line** performance, further slowing the revenue decline and adding 54,000 residential PSTN lines for the year - truly a world-leading performance.
- We are executing our **media-comms strategy** with Sensis, Foxtel and BigPond showing world-class performance and continuing to innovate.
- We are delivering **record service levels** across more key metrics than ever before: we are meeting more customer appointments, we have far fewer ADSL held-orders, and we have reduced our overall fault rate.

"We have restored positive earnings growth, as our strategy of simplification, integration and differentiation begins to translate into value for our customers and shareholders. With the transformation remaining on or ahead of plan on virtually all fronts, and the peak transformation spend year now behind us, we expect to continue improving financial and operational performance in fiscal 2008 and beyond."

Total revenue grew by 3.9% or $898 million to $24 billion mainly due to increases in mobiles, broadband and Sensis. This was partly offset by declines in fixed telephony, narrowband internet and TelstraClear.

Total expenses increased by 3.5% or $616 million to $18.2 billion, due to growth in goods and services purchased, particularly subscriber acquisition and recontracting costs supporting revenue growth. Other drivers included transformation activity and the write-down of the Trading Post mastheads reflecting competitive pressures in the print classifieds market. Network termination payments declined by $203 million. Labour expenses also declined by $347 million, with total **workforce** down 1,887 for the year and 5,746 since the start of fiscal 2006 (excluding acquisition and divestment activity).

Mr Trujillo said: "We built top line momentum with a strong second half underlying sales performance. As we foreshadowed, transformation spend peaked this year as we invested in future revenue growth, simpler systems and world class networks to provide customers with compelling content, applications and integrated services. The benefits are already starting to emerge as customers vote with their wallets and we win where it matters – in the market."

Total **mobile revenue** grew 13.9% or $695 million to $5.7 billion, reflecting continued customer growth and higher ARPU. Mobile services revenues grew at 9.8%. Total mobile SIOs stand at 9.2 million, up 320,000 in the second half and 683,000 for the year. Non-SMS data revenue rose 92.4%. Mobile data now accounts for 25% of mobile service retail revenue, up 6 percentage points, with more than 300,000 laptop datacard users generating monthly ARPU exceeding $100.

Mr Trujillo said the Next G™ network, along with wireless applications and content and service integration, is delivering a powerful competitive advantage to Telstra and changing the game in customer behaviour.

"Telstra is now winning about 60% of industry 3G net adds, up from around 30% before the Next G™ network was launched. 3G customers have surged from 4% to 22% of our mobile customer base, representing world-class uptake," Mr Trujillo said.

"This dynamic is significant because, across all services, 3G customers use their phones differently and more than 2G customers. Customers are embracing the fast, user-friendly, real-time services the Next G™ network offers. With more voice usage, more SMS and more data sessions, the *same customer* is typically providing a sustained 5 to 10% **ARPU uplift** after moving from 2G to 3G. The ARPU premium of postpaid 3G customers over their 2G counterparts remained above $20."

Retail broadband revenue grew a market-leading 66.2% or $483 million to $1.2 billion, exceeding $1 billion for the first time. The number of retail **broadband customers** grew to 2.4 million, with 516,000 added in the second half and 900,000 for the full year.

"For the fourth successive half we have increased our retail broadband market share and absolute broadband revenue growth outweighed the fixed line decline for the first time. Innovations such as our Web 2.0 I-Pond user interface, BigPond TV and a Second Life presence not only enhance BigPond's formidable customer value proposition but also represent further steps in our integration strategy and our evolution into a media-comms company," Mr Trujillo said.

Sensis grew **total revenue** by 8.0% or $147 million to $2 billion, up from 7.0% growth in the previous year. This was driven by increases in online usage (up 15%), directories revenue (up 4.1%, with Yellow™ online revenue up 29%) and the inclusion of SouFun (revenue up 97%, EBIT up 151%). Emerging Business revenue grew 33.7%, with Whereis, MediaSmart and Adstream performing strongly.

Mr Trujillo said Trading Post print classifieds disappointed due to the rapid changes in the market, while online classifieds continued to grow.

"Sensis has delivered world-class revenue growth and margins and it continues to have an outstanding portfolio of assets that is one of the cornerstones in our integrated media-comms strategy," Mr Trujillo said.

PSTN products revenue fell $309 million to $7.2 billion, a decline of 4.1% compared with a 6.8% drop in fiscal 2006. The revenue decline was just 2.5% in the second half. Across the year residential PSTN lines grew by 54,000 while wholesale SIOs decreased 180,000, for a total SIO decline of just 1.8% to 9.76 million.

"Adding residential lines is a unique achievement, sought but not reached by our peers across the globe. Market based management is helping us develop tailored offers that customers really value," Mr Trujillo said.

Total **offshore controlled entities revenue** increased by 10.1% or $176 million to $1.9 billion for the year. In local currency, CSL New World income increased 27.3% due mainly to the merger between Hong Kong CSL and New World PCS in March 2006 and in New Zealand TelstraClear disappointed with a revenue decline of 5.2%. Revenue from other offshore controlled entities grew by 18.0%.

Other **key financial outcomes** included:

- **EBIT margin** increased 0.2 percentage points to 24.4% while **EBITDA margin** decreased 0.5 percentage points to 41.7% despite 2007 being the peak transformation spend year.
- **Basic earnings per share** increased 2.3%, from 25.7 to 26.3 cents per share.
- Operating **cash capital expenditure** increased 32.8% to $5.7 billion as planned, driven primarily by the IP enablement of our network, IT transformation and rollout of the Next G™ and Next IP™ networks.
- **Free cash flow** decreased 36.7% or $1.7 billion to $2.9 billion, due to increased cash invested in the transformation.

Mr Trujillo said key **transformation achievements** for the year included:

- Launching the Next G™ network, the world's fastest nationwide wireless broadband network.
- Launching the Next IP™ network which, together with the Next G™ network, is the world's largest fully integrated wireline and wireless national Internet Protocol (IP) network.
- Telstra's IT transformation is on track, with important capabilities already delivered and the first major release expected late in calendar 2007.
- Market based management strategies have seen the outbound sales strike rate double, securing 400,000 new services and delivering $200 million incremental revenue.
- 25% sales increase across owned and leased Telstra shops.
- Improved fieldforce service, with technician productivity up 17% and revisits down 36%.
- Telstra remains on track to meet target workforce reductions by fiscal 2008 and fiscal 2010.
- Exiting or capping 124 network platforms and 132 IT systems.
- Training 12,000 people at the Telstra Learning Academy in its first 11 months.
- Improved workforce culture, with record numbers of employees responding to the 2007 Employee Engagement Survey and employees rating Telstra more favourably than last year.

Mr Trujillo said the company was still only 19 months into a five year transformation and continued to face significant challenges, but will meet them head-on.

Mr Trujillo said that despite the strong 06/07 performance by the Telstra team, we are prudent in our guidance owing to continued uncertainty around regulatory and government communication policy. Accordingly, the following guidance is given*:

- Revenue growth of 2 to 3%;
- EBITDA growth of 2 to 3%;
- EBIT growth of 3 to 5%;
- Depreciation and amortisation around $4 billion; and
- Accrued operating capex spend in the range of $4.6 to $4.9 billion.

Mr Trujillo said that growth in fiscal 2008 would be back-end weighted due to the transformation spend profile and a number of small one-off factors, with **first half EBITDA growth** likely to be slightly negative. Mr Trujillo said there was no change to Telstra's **long-term management objectives** for fiscal 2010.

Telstra's directors declared a fully franked **final ordinary dividend** of 14 cents per share, representing a total payment of $1.74 billion. This brings the total ordinary dividend declared for the year to 28 cents per share or $3.5 billion. The record date for the dividend will be 24 August 2007 with payment to be made on 21 September 2007. Telstra shares will commence trading excluding entitlement to the dividend on 20 August 2007. The level of **future dividends** remains subject to Board consideration at the appropriate time.

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** Guidance for organic growth based on reported numbers and our current investment plan (excludes any potential FTTN investment and additional provisions).*