11 February 2021

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra builds momentum through 1H21 financial results

In accordance with the Listing Rules, I attach a market release, for immediate release to the market.

This announcement has been released simultaneously to the New Zealand Stock Exchange.

Authorised for lodgement by:

Sue Laver
Company Secretary

MARKET RELEASE

Telstra builds momentum through 1H21 financial results

- **Reported Total Income[1] of $12B, EBITDA of $4.1B and NPAT of $1.1B**
- **First half Underlying EBITDA of $3.3 billion with second half guidance of $3.3 - 3.6 billion, with ambition[2] for mid-to-high single digit percentage growth in FY22**
- **Interim dividend of 8 cents per share and expected FY21 total dividend of 16 cents per share[3]**
- **Strong mobile performance, +80,000 retail postpaid handheld services, TMMC +$3**
- **T22 cost reduction target increased to $2.7 billion by FY22**
- **Revised FY21 guidance[4] for Total Income, Underlying EBITDA and Free Cashflow**

Thursday 11 February – Telstra today released its results for the first half of financial year 2021, showing the business building momentum towards growth in its underlying business.

The Board resolved to pay a fully-franked interim dividend of 8 cents per share, returning approximately $950 million to Telstra's shareholders. The Board also said it expected to pay a fully-franked final dividend of 8 cents per share, bringing the total dividend for FY21 to 16 cents per share[3]**.**

CEO Andrew Penn said the results showed Telstra's financial performance was at a turning point ahead of an anticipated return to growth in underlying EBITDA.

"After a decade of disruption following the creation of the nbn, and with its rollout now declared complete, we can clearly see the path to underlying growth ahead of us," Mr Penn said.

"We responded strongly to the financial headwinds created by the nbn through our T22 strategy. This strategy is transforming Telstra while balancing the needs of our customers, our employees and our shareholders. We are now less than 18 months from completing T22. We have achieved an extraordinary amount and Telstra today is a leaner, more responsive, and more agile company than it has ever been.

"Our investment in innovation and technology, digitisation and networks, improving our customer experience and being disciplined in our capital management, mean that at the start of this decade, as Australia digitises its economy, Telstra is in a strong position to grow.

"To ensure our future success, we must recognise this moment for what it is – the time to be bold and seize the opportunities we have been patiently building towards. There is a lot of work ahead of us, but I remain confident we can achieve our financial ambitions including for underlying EBITDA of between $7.5 and $8.5 billion and ROIC of around 8 per cent by FY23," he said.

On a reported basis Total Income for the half decreased 10.4 per cent versus the prior corresponding period to $12.0 billion, while NPAT decreased 2.2 per cent to $1.1 billion.

Reported EBITDA decreased 14.7 per cent to $4.1 billion. After adjusting for lease accounting on a like-for-like basis[5], EBITDA decreased 11.7 per cent to $4.0 billion.

Underlying EBITDA decreased 14.2 per cent to $3.3 billion. The largest two contributors to this decline were the estimated impact from the in-year nbn headwind[6] of $370 million and

estimated $170 million impact from COVID-19. Excluding both these, underlying EBITDA was broadly flat compared to the first half of FY20.

Mobile strategy continuing to deliver growth

Telstra's strategy continued to deliver increased customer numbers in mobile. During the half, Telstra added more than 80,000 postpaid handheld mobile services with healthy performance across all segments and brands. It also added more than 46,000 unique prepaid handheld users, and more than 163,000 Wholesale mobile services across prepaid, postpaid and IoT services.

Mobile revenue declined due to lower hardware sales and the impact on international roaming from COVID-19.

Postpaid handheld TMMC, a leading indicator of ARPU, increased by approximately $3 during the half, building momentum towards ARPU returning to growth in the second half of FY21 compared to the prior corresponding period.

Reported postpaid handheld ARPU declined 8.6 per cent for the half, or approximately 3 per cent if the impacts to international roaming are removed. This decline was all due to non-economic accounting impacts, out-of-bundle declines and Belong dilution, with impacts from recent pricing changes now positive. This gave Telstra strong confidence in the outlook for mobile ARPU, as it expected pricing impacts to continue to strengthen in 2H21.

"The financial performance of our mobile business has reached an exciting turning point with EBITDA growing sequentially in 1H21. Our investment in world-leading 5G means we are able to offer our customers a combination of speed, capacity and coverage that is far superior to our competitors. We remain confident that mobile EBITDA will continue growing sequentially in 2H21 and return to full-year growth this financial year," Mr Penn said.

Telstra continued to extend its 5G leadership, with its network expanding to cover more than 50 per cent of the Australian population and delivering coverage to more than 100 cities and towns across the country. One million 5G mobile devices are now connected to Telstra's network. The company also achieved a world-first with a download speed of greater than 5Gbps on a commercial network using mmWave spectrum.

In Fixed – Consumer & Small Business, Telstra focussed on improving long-term economics and customer experience. Bundles and data revenue declined 0.6 per cent with ARPU stabilising as customers were moved to in-market plans. Telstra said it would focus on increasing ARPU through differentiation, add-ons and improved plan mix including a higher proportion of customers on 100Mbps+ plans.

In Fixed – Enterprise, revenue declined 6.4 per cent as Telstra transitioned from providing virtual private corporate networks to integrating over-the-Internet technologies such as SDWAN with Telstra Fibre and NBN access. NAS income declined 6 per cent.

Fixed - Wholesale results also showed continued declines in legacy products including from nbn headwinds, and commercial works declines. The ongoing portfolio including passive infrastructure grew.

Following through on T22

Mr Penn said progress against the T22 strategy remained on track but Telstra remained focussed on the work still to be done.

“More than 80 per cent of milestones are now delivered or on track to be delivered. Our discipline in delivering T22 has brought enormous change for Telstra which is supporting the turnaround of the company. Having said that, the hardest part of any transformation is often seeing it through to the end and we have more to do in customer experience in particular,” Mr Penn said.

“I am confident the many initiatives we have taken under our T22 program, particularly in simplifying the business and the digitisation program, will further improve customer experience. But I know not all aspects of our customer experience are where we need them to be and we have more work to do. One of our focus areas for 2021 is the culmination of the digitisation program rolling out in mass market.

“To get the real benefits from all the effort we’ve already made, Telstra needs to be bold. I’ve set an aspiration[7] for mid to high single-digit growth in underlying EBITDA in FY22 and $7.5 to $8.5 billion of underlying EBITDA in FY23. I am confident we can deliver this if we remain focused.”

During the half, Consumer & Small Business digital sales increased to account for 40 per cent of Telstra’s transactions, while more than 70 per cent of service interactions were also handled digitally. Telstra Enterprise reduced the number of active products by 45 per cent compared to FY18 and launched Adaptive Mobility to give customers more flexibility.

Telstra continued to make progress on its productivity target, reducing underlying fixed costs by a further $201 million, or 7 per cent, during the half and increased its productivity targets to $450 million in FY21 and from $2.5 billion to $2.7 billion by the end of FY22. Around $2.0 billion has already been delivered under the program.

Telstra exceeded its target of monetising up to $2 billion worth of assets to strengthen its balance sheet, with transactions including the sale of Velocity and South Brisbane Exchange FTTP networks, and the sale-and-lease back of the Pitt Street Exchange property.

Telstra also amended one of the principles within its capital management framework, with the principle regarding targeted capex to sales ratios updated from “Target capex/sales ratio of ~14% excluding spectrum from FY20” to “Target capex/sales ratio of ~12% excluding spectrum from FY23.”

Progress on legal restructure

Telstra today also provided an update on the establishment and proposed monetisation of InfraCo Towers, as well as the broader legal restructuring of the organisation announced in November 2020.

Mr Penn said Telstra had significantly progressed the establishment of InfraCo Towers as a separate operating business, with significant work due to be completed by the end of FY21 as previously indicated.

“We plan to commence the process for external strategic investment into InfraCo Towers early in the first quarter of FY22, with binding offers to be submitted by the second quarter of FY22.

"We are undertaking significant verification and due diligence on our towers and property, appointed key members of the management team and advisors, and preparation work is well advanced to meet our timetable.

"Significant progress has also been made towards finalising the inter-company agreements between ServeCo and InfraCo Towers, the redesign of processes, and implementation of new tower asset management systems," Mr Penn said.

Mr Penn said the proposed legal restructure of the Telstra group of companies into three separate entities – InfraCo Fixed, InfraCo Towers and ServeCo – to drive greater transparency, increase focus across our operating businesses, create a platform for growth and innovation, and enable long-term valuation realisation from our infrastructure businesses, was well underway.

"Since we updated the market in November 2020, we have appointed external advisors and progressed consultations with stakeholders to obtain approvals and support for the restructure.

"This includes discussions with the ACCC, the ACMA and relevant Government Departments to ensure that Telstra's regulatory obligations will continue to apply as intended. We have also had constructive engagement with NBN Co on the restructure.

"We will continue to work very closely with our partners, our people and stakeholders throughout this process as we navigate the range of existing commercial, regulatory, and operational requirements," Mr Penn said.

The Group restructure is expected to be completed by the end of calendar year 2021, subject to any requisite approvals, and a further progress update will be provided in March 2021.

Updating Telstra's retail approach

Telstra today also announced its intention to transition to full ownership for all of its branded retail stores across Australia. The move will enable Telstra to keep pace with the growing digital economy and to provide greater flexibility to respond consistently to customer needs.

Currently, Telstra has more than 60 Telstra-owned and operated stores, with another 166 branded stores run by individual licensees and a further 104 stores operated by Vita Group Limited.

Vita Group and individual licensees are being notified of the plan with discussions and transition arrangements expected to progress over the coming months.

The year ahead

Telstra has also today issued revised financial guidance for several aspects of FY21 that were first announced at Telstra's FY20 results briefing on 13 August 2020.

The range for Total Income was adjusted from $23.2 billion - $25.1 billion to $22.6 billion - $23.2 billion, a $1.2 billion reduction at the mid-point from prior guidance. The large majority of the change was due to low-margin hardware and other equipment sales.

Telstra also provided guidance for second half Underlying EBITDA in the range of $3.3 billion - $3.6 billion, compared to $3.3 billion in the first half. Flowing this to the full year means the range

for Underlying EBITDA was narrowed from $6.5 billion to $7 billion to be $6.6 billion to $6.9 billion.

The Underlying EBITDA guidance assumes an in-year nbn headwind of approximately $700 million.

The estimated COVID-19 impact in FY21 was unchanged at approximately $400 million.

The guidance range for Free cashflow after operating lease payments[8] was increased from $2.8 billion - $3.3 billion to $3.3 billion - $3.7 billion, up $450 million at the mid-point, due to working capital management and the impact of lower hardware revenue.

Telstra expects to be at the low-end of the net nbn one-offs range due to factors including NBN Co's decision to pause HFC-based connections of new customers.

Guidance for Capex remains unchanged from the disclosures made at Telstra's FY20 results briefing on 13 August 2020.

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Details of the HY21 Financial Results - including copies of the presentations given by the CEO and CFO - as well as details about Telstra's updated approach to retail, are available on the Telstra Investor website www.telstra.com.au/aboutus/investors

Details of Telstra's updated FY21 Guidance and Capital Management Framework are attached as appendix to the end of the market release.

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[1] Total income excluding finance income
[2] While we do not provide financial guidance beyond the current financial year, our Board and management team understands the importance of achieving EBITDA in this range and the actions required to deliver it. Telstra's ambition for its Underlying EBITDA in FY22 and FY23 is not guidance and there are greater risks and uncertainties in connection with this ambition.
[3] Any return is subject to no unexpected material events, Board discretion having regard to financial and market conditions and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
[4] This guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum, and excludes the impacts of Pitt St exchange sale and leaseback. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance. Refer to Half-year results and operations review – guidance vs reported results reconciliation (set out in our ASX announcement titled "Financial results for the half year ended 31 December 2020" lodged with the ASX on 11 February 2021).

[5] Reported lease adjusted EBITDA includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.
[6] In-year nbn headwind defined as the net negative recurring EBITDA impact on Telstra's business.
[7] While we do not provide financial guidance beyond the current financial year, our Board and management team understands the importance of achieving EBITDA in this range and the actions required to deliver it. Telstra's ambition for its Underlying EBITDA in FY22 and FY23 is not guidance and there are greater risks and uncertainties in connection with this ambition.
[8] Free cashflow defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities', and excludes spectrum and guidance adjustments.

FY21 guidance (Updated)

	FY20	1H21	FY21 guidance Updated[1]
Total income	$26.1b	$11.8b	$22.6b to $23.2b
Underlying EBITDA[2,3] - Included in-year nbn headwind[4]	**$7.4b**	**$3.3b**	**$6.6b to $6.9b** ~$0.7b
Net one-off nbn DA receipts less nbn net C2C	$1.5b	$0.5b	$0.7b to $1.0b
Capex[5]	**$3.2b**	**$1.4b**	**$2.8b to $3.2b**
Free cashflow after operating lease payments[6]	**$3.4b**	**$1.9b**	**$3.3b to $3.7b**

1. This guidance assumes no impairments in and to investments or non-current tangible and intangible assets, and excludes any proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum, and excludes the impacts of Pitt St exchange sale and leaseback. The guidance is based on management best estimates of nbn impacts including input from the nbn Corporate Plan currently published at time of issue of this guidance.
2. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets.
3. Guidance for FY21 underlying EBITDA assumes an estimated negative impact from the COVID-19 pandemic in FY21 of approximately $400 million. This estimate is approximately $200 million greater than the estimated negative impact from the COVID-19 pandemic for FY20 underlying EBITDA.
4. In-year nbn headwind defined as the net negative recurring EBITDA impact on our business.
5. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.
6. Free cashflow defined as ‘operating cash flows’ less ‘investing cash flows’ less ‘payments for operating lease liabilities’, and excludes spectrum and guidance adjustments.

Capital management framework – as at 1H21

Fiscal discipline			
Objectives	Maximise returns for shareholders	Maintain financial strength	Retain financial flexibility
Principles	1. Committed to balance sheet settings consistent with an A band credit rating 2. Pay fully-franked ordinary dividend of 70-90% of underlying earnings[1,3] 3. Target capex/sales ratio of ~12% excluding spectrum from FY23[4] 4. Maintain flexibility for portfolio management and strategic investments		

Return in the order of 75% of net one-off nbn receipts to shareholders over time via fully-franked special dividends[2,3]

1. Underlying earnings is defined as NPAT from continuing operations excluding net one-off nbn receipts (as defined in footnote 2), one-off restructuring costs and guidance adjustments. Guidance adjustments include impairments in and to investments or non-current tangible and intangible assets, proceeds on the sale of businesses, mergers and acquisitions and purchase of spectrum.
2. "net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.
3. The dividend is subject to no unexpected material events, and is subject to Board discretion having regard to financial and market conditions, business needs and maintenance of financial strength and flexibility consistent with Telstra's capital management framework.
4. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.

