



11 February 2021

The Manager

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ELECTRONIC LODGEMENT

Dear Sir or Madam

Telstra Corporation Limited - Financial results for the half-year ended 31 December 2020

In accordance with the Listing Rules, I enclose the following for immediate release to the market:

1. Appendix 4D – Half-Year Report;
2. Directors' Report;
3. Half-Year Results and Operations Review; and
4. Half-Year Financial Report,

for the half-year ended 31 December 2020.

The enclosed documents comprise the information required by Listing Rule 4.2A and should be read in conjunction with Telstra's Annual Financial Report for the financial year ended 30 June 2020 and any public disclosures made by Telstra in accordance with the continuous disclosure requirements of the Listing Rules and the Corporations Act 2001.

Telstra will conduct an analyst briefing on the half-year results from 9.15am AEDT and a media briefing from 11.00am AEDT. The briefings will be webcast live at <https://www.telstra.com.au/aboutus/investors/financial-information/financial-results>.

A transcript of the analyst briefing will be lodged with the ASX when available.

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

Authorised for lodgement by:

Sue Laver
Company Secretary

APPENDIX 4D (ASX LISTING RULE 4.2A.3)

HALF-YEAR REPORT

31 December 2020

Telstra Corporation Limited ABN 33 051 775 556

1. Results for announcement to the market

Telstra Group	Half-year ended 31 Dec			
	2020	2019	Movement	
	\$m	\$m	\$m	%
Revenue (excluding finance income) from ordinary activities	10,984	12,164	(1,180)	(9.7)
Other income	1,031	1,249	(218)	(17.5)
Total income	12,015	13,413	(1,398)	(10.4)
Finance income	29	108	(79)	(73.1)
Profit for the period	1,125	1,150	(25)	(2.2)
Profit for the period attributable to equity holders of Telstra Entity	1,098	1,139	(41)	(3.6)
Profit from ordinary activities after tax attributable to equity holders of Telstra Entity	1,098	1,139	(41)	(3.6)

2. Dividend information

Telstra Entity	Amount per share	Franked amount per share
	cents	cents
Interim ordinary dividend per share	5	5
Interim special dividend per share	3	3
Total interim dividend per share	8	8
Interim dividend dates		
Record date	25 February 2021	
Payment date	26 March 2021	

Refer to note 4.1 to the half-year financial statements and the half-year Directors' Report for other dividend-related disclosures.

3. Net tangible assets per security information

Telstra Group	As at 31 Dec	
	2020	2019
	cents	cents
Net tangible assets per security	62.1	63.2

Net tangible assets are defined as the net assets of the Telstra Group less intangible assets and non-controlling interests. The net assets include both right-of-use assets and corresponding lease liabilities.

The number of Telstra shares on issue as at 31 December 2020 was 11,893 million shares (2019: 11,893 million).

APPENDIX 4D (ASX LISTING RULE 4.2A.3)
HALF-YEAR REPORT
31 December 2020
Telstra Corporation Limited ABN 33 051 775 556

4. Details of entities where control has been gained or lost during the period

Telstra Group			% of equity held by ultimate parent	
			As at	
			31 Dec 2020	30 Jun 2020
Name of entity	Country of incorporation	Date of control obtained or lost	%	%
Control gained				
Telstra Energy (Holdings) Pty Ltd ¹	Australia	9 October 2020	100.0	-
Telstra Energy (Retail) Pty Ltd ¹	Australia	14 October 2020	100.0	-
Telstra Energy (Markets) Pty Ltd ¹	Australia	14 October 2020	100.0	-
Epicon IT Solutions Pty. Ltd. ²	Australia	30 November 2020	100.0	-
Service Potential Pty Ltd ²	Australia	30 November 2020	100.0	-
Epicon Software Pty Ltd ²	Australia	30 November 2020	100.0	-
Control lost				
Kloud Solutions (National) Pty Limited ³	Australia	26 August 2020	-	100.0
MSC Mobility Pty Ltd ³	Australia	26 August 2020	-	100.0
NSC Group Pty Limited ³	Australia	26 August 2020	-	100.0
NSC Enterprise Solutions Pty Limited ³	Australia	26 August 2020	-	100.0
Telstra iVision Pty Ltd ³	Australia	3 September 2020	-	100.0
Pacnet Cable Group Limited ⁴	Bermuda	1 November 2020	-	100.0
Pacnet Cable Group Networks Limited ⁴	Bermuda	1 November 2020	-	100.0

1 During the period, these entities were incorporated.

2 During the period, these entities were acquired.

3 During the period, these entities were deregistered.

4 During the period, these entities were amalgamated into Pacnet Cable Limited.

A complete list of our controlled entities as at 30 June 2020 is available online at www.telstra.com.au/aboutus/investors/financial-information/financial-results.

5. Details of investments in joint ventures

Telstra Group			Ownership interest	
			As at	
			31 Dec 2020	30 Jun 2020
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Joint ventures				
3GIS Pty Ltd	Management of former 3GIS Partnership (non-operating)	Australia	50.0	50.0
Telstra Ventures Fund II, L.P.	Venture capital	Guernsey	62.5	62.5
ProQuo Pty Ltd	Digital marketplace for small businesses	Australia	45.0	45.0
Reach Limited ¹	International connectivity services	Bermuda	50.0	50.0

1 Balance date is 31 December.

APPENDIX 4D (ASX LISTING RULE 4.2A.3)

HALF-YEAR REPORT

31 December 2020

Telstra Corporation Limited ABN 33 051 775 556

6. Details of investments in associated entities

Telstra Group			Ownership interest	
			As at	
			31 Dec 2020	30 Jun 2020
Name of entity	Principal activities	Principal place of business / country of incorporation	%	%
Associated entities				
Asia Netcom Philippines Corporation ¹	Ownership of physical property	Philippines	40.0	40.0
Australia-Japan Cable Holdings Limited ¹	Network cable provider	Bermuda	46.9	46.9
Dacom Crossing Corporation ¹	Network cable provider	Korea	49.0	49.0
Digitel Crossing Inc. ¹	Telecommunication services	Philippines	48.0	48.0
enepath (Group Holdings) Pte Ltd ²	Trading turret and calling software provider	Singapore	-	28.1
Pivotal Labs Sydney Pty Ltd ³	Software development	Australia	20.0	20.0
Project Sunshine I Pty Ltd	Holding entity of Sensis Pty Ltd (directory services)	Australia	30.0	30.0
NXE Australia Pty Limited	Pay television	Australia	35.0	35.0
Pacific Carriage Holdings Limited ¹	Network cable provider	Bermuda	25.0	25.0
Pacific Carriage Holdings Limited Inc. ¹	Network cable provider	United States	25.0	25.0
Southern Cross Cables Holdings Limited ¹	Network cable provider	Bermuda	25.0	25.0
Telstra Super Pty Ltd	Superannuation trustee	Australia	100.0	100.0

¹ Balance date is 31 December.

² During the period, this entity was disposed.

³ Balance date is 31 January.

7. Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) continues to operate for the interim dividend for the financial year 2021. The election date for participation in the DRP is 26 February 2021.

Additional Appendix 4D disclosure requirements can be found in the notes in our half-year financial report, the half-year Directors' Report and the Half-year results and operations review lodged with this document.

DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors (the Board), the Directors present their report on the consolidated entity (Telstra Group) consisting of Telstra Corporation Limited (Telstra Entity) and the entities it controlled at the end of or during the half-year ended 31 December 2020. Financial comparisons used in this report are of results for the half-year ended 31 December 2020 compared with the half-year ended 31 December 2019 for income statement analysis, and 31 December 2020 compared with 30 June 2020 for statement of financial position analysis.

Review and results of operations

Information on the operations and the results of those operations for the Telstra Group during the half-year is set out on pages 1 to 11 of the half-year results and operations review accompanying this Directors' Report.

Dividends

We have updated our Capital Management Framework consistent with the outlook for capex provided at the November 2020 Investor Day. Principle 3 now states: 'Target capex/sales ratio of around 12 per cent, excluding spectrum, from FY23'.

Since the end of the half-year, the Directors resolved to pay an interim dividend for the financial year 2021 of 8 cents per ordinary share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. The interim dividend will be fully franked at a tax rate of 30 per cent. The record date for the interim dividend will be 25 February 2021, with payment being made on 26 March 2021. From 24 February 2021, shares will trade excluding entitlement to the dividend.

Our final dividend for the financial year ended 30 June 2020 of 8 cents per ordinary share (\$951 million), comprising a final ordinary dividend of 5 cents and a final special dividend of 3 cents, was paid during the half-year ended 31 December 2020. This dividend was fully franked at a tax rate of 30 per cent. The final dividend had a record date of 27 August 2020 and payment was made on 24 September 2020.

The Dividend Reinvestment Plan (DRP) will continue to operate for the interim dividend in the financial year 2021. The election date for participation in the DRP is 26 February 2021.

Directors

Directors who held office during the half-year ended 31 December 2020 and until the date of this report were:

Director	Period of directorships
John P Mullen	Chairman since 2016, Director since 2008
Andrew R Penn	Chief Executive Officer and Managing Director since 2015
Eelco Block	Director since 2019
Roy H Chestnutt	Director since 2018
Craig W Dunn	Director since 2016
Peter R Hearl	Director since 2014
Bridget Loudon	Director since 14 August 2020
Elana Rubin	Director since 14 February 2020
Nora L Scheinkestel	Director since 2010
Margaret L Seale	Director since 2012
Niek Jan van Damme	Director since 2018

Auditors' Independence Declaration

A copy of the Auditor's Independence Declaration is on page 2 and forms part of this report.

Rounding of amounts

The Telstra Entity is a company of the kind referred to in the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016 and issued pursuant to section 341(1) of the *Corporations Act 2001*. As a result, amounts in this report and the accompanying financial report have been rounded to the nearest million dollars (\$m), except where otherwise indicated.

This report is made on 11 February 2021 in accordance with a resolution of the Directors.



John P Mullen
Chairman
11 February 2021



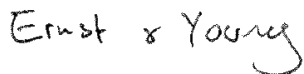
Andrew R Penn
Chief Executive Officer and Managing Director
11 February 2021

Auditor's Independence Declaration to the Directors of Telstra Corporation Limited

As lead auditor for the review of the half-year financial report of Telstra Corporation Limited for the half-year ended 31 December 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Telstra Corporation Limited and the entities it controlled during the financial period.



Ernst & Young



Andrew Price
Partner
11 February 2021

Half year results and operations review

Summary financial results	1H21	1H20	Change
	\$m	\$m	%
Revenue (excluding finance income)	10,984	12,164	(9.7)
Total income (excluding finance income)	12,015	13,413	(10.4)
Operating expenses	7,943	8,638	(8.0)
Share of net profit/(loss) from equity accounted entities	(2)	(2)	n/m
EBITDA	4,070	4,773	(14.7)
Depreciation and amortisation	2,429	2,722	(10.8)
EBIT	1,641	2,051	(20.0)
Net finance costs	307	375	(18.1)
Income tax expense	209	526	(60.3)
Profit for the period	1,125	1,150	(2.2)
Profit attributable to equity holders of Telstra	1,098	1,139	(3.6)
Capex ¹	1,421	1,366	4.0
Free cashflow	2,666	1,520	75.4
Earnings per share (cents)	9.2	9.6	(4.2)

1. Capex is defined as additions to property, plant and equipment and intangible assets including capital lease additions, excluding expenditure on spectrum, measured on an accrued basis. Capex excludes externally funded capex.

Reported results

Telstra delivered 1H21 results showing the business building momentum towards growth in its underlying business. On a reported basis, total income declined by 10.4 per cent, EBITDA declined by 14.7 per cent and NPAT declined by 2.2 per cent. Underlying EBITDA declined by 14.2 per cent on a guidance basis with the two largest contributors to the decline being the estimated impact from the in-year nbn headwind of \$370 million and estimated \$170 million impact from COVID-19. Excluding these impacts, underlying EBITDA was broadly flat compared with 1H20. Income tax expense declined 60.3 per cent on a low effective tax rate associated with M&A and asset sales transactions as existing capital losses were used to offset capital gains. Excluding these one-off impacts, our underlying effective tax rate was close to the statutory rate.

The execution of our T22 strategy continues with more than 80 per cent of the measures used to monitor progress against now delivered or on track for delivery. We reduced underlying fixed costs by \$201 million or 6.6 per cent bringing the total underlying fixed cost reductions to around \$2.0 billion since FY16 and have now increased our FY22 cost out target from \$2.5 billion to \$2.7 billion. We exceeded our \$2 billion asset monetisation target with proceeds going towards strengthening our balance sheet, and also announced a corporate restructure which will maximise optionality and provide greater flexibility to monetise our passive infrastructure assets, including our towers.

Our multi-brand strategy continued to deliver mobile SIO growth as we added 80,000 retail postpaid handheld mobile services including 22,000 from Belong, 46,000 retail prepaid handheld unique users, and 163,000 Wholesale services in the half. We continue to extend our 5G leadership with more than 50 per cent of the population now covered by our 5G footprint and we will reach more than 75 per cent of the population by the end of June 2021. Today we have around 1,000,000 5G devices on our network.

The Telstra Board resolved to pay a fully franked interim dividend of 8 cents per share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. The Board also expects to pay a fully franked final dividend of 8 cents per share, bringing the total dividend for FY21 to 16 cents per share¹. Guidance was revised for total income (\$23.2b-\$25.1b to \$22.6b-\$23.2b), underlying EBITDA (\$6.5b-\$7.0b to \$6.6b-\$6.9b) and free cashflow after operating lease payments (\$2.8b-\$3.3b to \$3.3b-\$3.7b).

Other information

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution which differs from our statutory EBITDA. Refer to Note 2.1.1 in the Financial Report for further detail.

First half performance against our FY21 Executive Variable Remuneration Plan (EVP) metrics is included on page 11. For additional detail on these EVP metrics and targets, refer to pages 73-75 of our 2020 Annual Report available at

<https://www.telstra.com.au/aboutus/investors/financial-information/reports>

Commentary reflects statutory and management accounts reporting.

¹ 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.

Results on a guidance basis ¹	1H21	FY21 Guidance
Total income	\$11.8b	\$22.6b to \$23.2b
Underlying EBITDA	\$3.3b	\$6.6b to \$6.9b
Net one-off nbn DA receipts less nbn net cost to connect	\$0.5b	\$0.7b to \$1.0b
Capex	\$1.4b	\$2.8b to \$3.2b
Free cashflow after operating lease payments	\$1.9b	\$3.3b to \$3.7b

Guidance versus reported results ¹	1H21	1H21	1H21	1H20
	Reported results \$m	Adjustments \$m	Guidance basis \$m	Guidance basis \$m
Total income	12,015	(207)	11,808	13,414
Underlying EBITDA	4,070	(746)	3,324	3,875
Free cashflow	2,666	(773)	1,893	1,005

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. Total income excludes finance income. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net cost to connect, one-off restructuring costs and guidance adjustments but includes depreciation of mobile lease right-of-use assets. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex and capitalised leases. Free cashflow defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities', and excludes spectrum and guidance adjustments. Refer to the *Guidance versus reported results* schedule. The adjustments within the tables in this schedule have been reviewed by our auditors.

We have updated our Capital Management Framework consistent with the outlook for capex provided at the November 2020 Investor Day. Principle 3 now states: 'Target capex/sales ratio of ~12 per cent, excluding spectrum, from FY23'.

On 11 February 2021, the Directors of Telstra Corporation Limited resolved to pay a fully franked interim dividend of 8 cents per share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. Shares will trade excluding entitlement to the interim dividend from 24 February 2021 with payment to be made on 26 March 2021.

The interim ordinary dividend represents a 125 per cent payout ratio on 1H21 underlying earnings¹ while the interim special dividend represents a 97 per cent payout ratio of 1H21 net one-off nbn receipts².

The Board is prepared to temporarily exceed our capital management framework principle of paying an ordinary dividend of 70 to 90 per cent of underlying earnings to maintain the dividend at its current level. The Board considers the following factors in determining whether to do so – (1) our ambition of underlying EBITDA of \$7.5 billion to \$8.5 billion from FY23 onwards is achievable; (2) full year free cash flow dividend payout ratio remains supportive and we retain a strong financial position; and (3) if there are other factors that would make the payment of the dividend at that level imprudent.

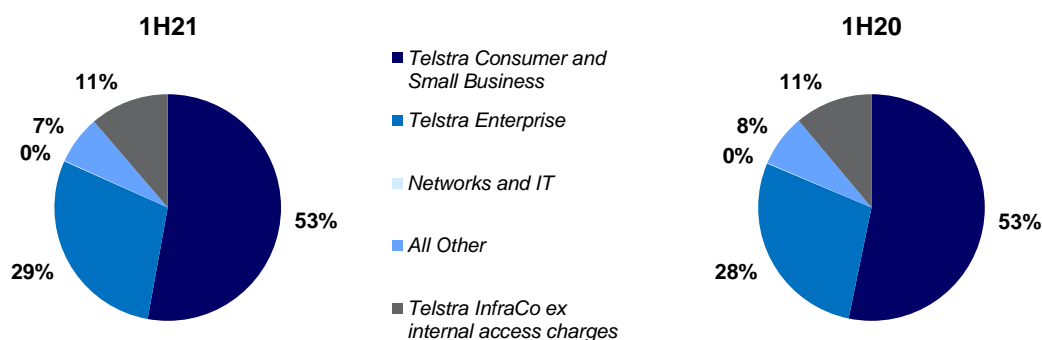
Our 1H21 underlying earnings were \$494 million while net one-off nbn receipts were \$364 million compared with underlying earnings of \$727 million and net one-off nbn receipts of \$552 million in 1H20.

1. "underlying earnings" is defined as net profit after tax from continuing operations excluding net one-off nbn receipts (as defined in footnote 2), one-off restructuring costs and guidance adjustments (as defined in footnote 3).
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. 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.

Segment performance

We report segment information on the same basis as our internal management reporting structure as at reporting date. Segment comparatives reflect organisational changes that have occurred since the prior reporting period to present a like-for-like view.

Segment total income



Total external income	1H21	1H20	Change
	\$m	\$m	%
Telstra Consumer and Small Business	6,353	7,141	(11.0)
Telstra Enterprise	3,468	3,773	(8.1)
Networks and IT	11	12	(8.3)
All Other	827	998	(17.1)
Telstra InfraCo including internal access charges	2,042	2,334	(12.5)
Internal access charges	(686)	(845)	18.8
Total	12,015	13,413	(10.4)

Telstra Consumer and Small Business

Telstra Consumer and Small Business provides telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia.

Income for Telstra Consumer and Small Business decreased by 11.0 per cent to \$6,352 million impacted by a 7.5 per cent decline across fixed products including a 44.8 per cent decline in on-net revenue due to nbn migration and a 14.0 per cent decline in mobility revenue largely due to lower hardware revenue.

Telstra Enterprise

Telstra Enterprise is responsible for sales and contract management for large business, government and global carrier customers in Australia and globally. It also provides product management for advanced technology solutions and services, including data and connectivity and NAS products such as managed network, unified communications, cloud, industry solutions and integrated services.

Income for Telstra Enterprise decreased by 8.1 per cent to \$3,468 million impacted by a 6.4 per cent decline across fixed products including a 7.2 per cent decline in data and connectivity income as the decrease in copper services was not fully offset by nbn service growth, and a 14.1 per cent decline in calling applications revenue attributable to declines in ISDN, inbound and fixed line calling products.

Networks and IT

Networks and IT is responsible for the overall planning, design, engineering architecture and construction of Telstra networks, technology and information technology solutions. It primarily supports the revenue generating activities of other segments. Networks and IT income decreased by 8.3 per cent to \$11 million.

Telstra InfraCo

Telstra InfraCo is a standalone infrastructure business unit within Telstra. It is responsible for key network assets including data centres and exchanges, our fibre network (including mobile backhaul), mobile towers, international subsea cables, poles, ducts and pipes.

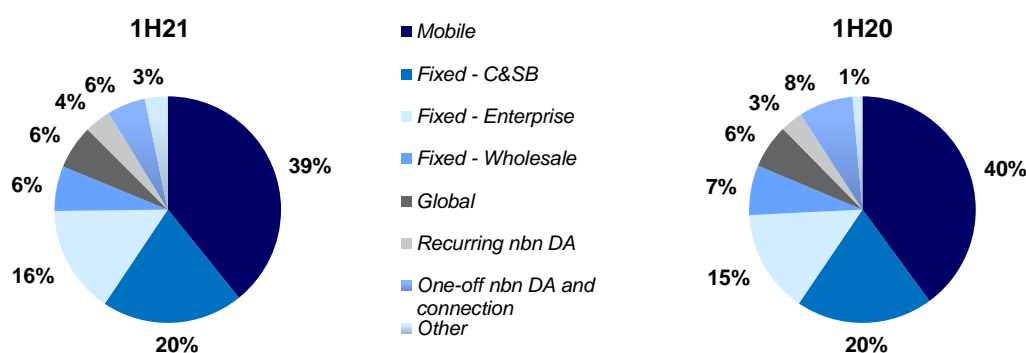
Telstra InfraCo income excluding internal access charges decreased by 8.9 per cent to \$1,356 million due to expected declines from Telstra Wholesale legacy fixed products and commercial works for NBN Co. This was partly offset by increased recurring nbn DA receipts in line with the progress of the nbn™ network rollout and receipts for access to passive infrastructure, and an increase in wholesale mobility. Including internal access charges, income decreased by 12.5 per cent to \$2,042 million.

All Other

Certain items of income and expense relating to multiple reportable segments are recorded by our corporate areas and included in the All Other category. This category also includes Product and Technology Group, Global Business Services (GBS) and Telstra Health. Income decreased by 17.1 per cent mainly due to declines in Per Subscriber Address Amount (PSAA) receipts and ISA ownership receipts in line with the progress of the nbn™ network rollout.

Product performance

Product income breakdown



Product income	1H21	1H20	Change
	\$m	\$m	%
Mobile	4,710	5,355	(12.0)
Fixed – C&SB	2,426	2,623	(7.5)
Fixed – Enterprise	1,852	1,978	(6.4)
Fixed – Wholesale	770	952	(19.1)
Global	755	846	(10.8)
Recurring nbn DA	452	432	4.6
One-off nbn DA & connection	658	1,039	(36.7)
Other	392	188	n/m
Total	12,015	13,413	(10.4)

EBITDA contribution margins ¹	1H21 %	2H20 %	1H20 %	FY20 %
Mobile	37.0	33.7	34.9	34.3
Fixed – C&SB	6.4	7.4	14.7	11.2
Fixed – Enterprise	23.2	28.1	27.8	28.0
Fixed – Wholesale	48.4	50.7	45.3	47.9
Global	21.7	22.3	21.4	21.9
Recurring nbn DA	94.7	93.9	93.8	93.8
Net one-off nbn DA less nbn net cost to connect	79.0	77.5	75.8	76.6

1. The data in this table includes adjustments to historic numbers to reflect changes in product hierarchy.

On a reported basis, total income (excluding finance income) declined by 10.4 per cent to \$12,015 million. On a guidance basis, total income (excluding finance income) was \$11,808 million. Competitive pressure, legacy product and service declines, and the nbn™ network rollout continued to negatively impact income. International roaming revenue loss due to international travel restrictions and customer initiatives in response to COVID-19 also contributed to a decline in revenue. The decline has been partly offset by positive signs in mobile with continued growth in customer services and an increase in postpaid Transacting Minimum Monthly Commitment (TMMC).

More detail on each of the products are outlined below on a reported basis unless otherwise stated, presented in accordance with our new product reporting framework which was announced to the market on 13 January 2021. The restated product reporting framework is the result of a review to drive simplicity and better alignment with how we go to market, our T22 strategy and our financial ambitions.

Mobile

Mobile income declined by 12.0 per cent to \$4,710 million largely due to lower hardware volumes (-\$500 million) and international roaming declines (~\$150 million). Retail services in operation (SIO) increased by 254,000 in the half bringing the total to 19.0 million. We now have 8.6 million postpaid handheld retail SIOs, an increase of 80,000 in the half including 22,000 from Belong.

Postpaid handheld revenue decreased by 6.2 per cent to \$2,352 million as net adds were offset by an 8.6 per cent ARPU decline from \$50.31 to \$45.99. Excluding the international roaming decline, ARPU decreased by 3.2 per cent as a \$3+ TMMC improvement in 1H21 compared with 1H20 and pricing changes were offset by out of bundle revenue decline, accounting for new plans which allocate more revenue to hardware, and dilution from Belong customer mix.

Prepaid handheld revenue increased by 4.1 per cent to \$404 million as unique users increased by 82,000 over the past 12 months (46,000 increase in the half). ARPU increased from \$19.20 to \$20.89 and the average voucher size stabilised.

Mobile broadband revenue decreased by 2.8 per cent to \$316 million as an increase in ARPU was offset by a 119,000 reduction in SIOs over the past 12 months (97,000 decline in the half) including a reduction in prepaid customer services. Revenue stabilised from 2H20 to 1H21 as more people worked and studied from home.

Internet of Things (IoT) and other revenue increased by 2.4 per cent to \$127 million while increasing SIOs by 456,000 in the half. Growth in carriage was offset by managed services decline.

Wholesale revenue increased 22.1 per cent to \$127 million. Wholesale SIOs increased by 163,000 in the half bringing the total to 1.7 million as Mobile Virtual Network Operators (MVNO) plans on the Telstra mobile network continued to rise in popularity.

Hardware, interconnect and other revenue decreased by 27.4 per cent to \$1,384 million largely due to lower handset sales.

Mobile EBITDA contribution margin increased by 2.1 percentage points to 37.0 per cent largely due to lower hardware revenue which is lower percentage margin than mobile services revenue.

Fixed – Consumer and Small Business (C&SB)

Fixed – C&SB income declined by 7.5 per cent to \$2,426 million impacted by nbn migration along with declines in legacy voice and Foxtel from Telstra. C&SB bundles and standalone data SIOs declined by 53,000 including 11,000 additions from Belong in the half, bringing the total to 3,656,000.

We continue to lead the nbn market with a total of 3.4 million nbn connections, an increase of 196,000 in the half. Our nbn market share is now 46 per cent (excluding satellite) with the migration to nbn now almost 90 per cent complete. The Telstra Smart Modem is now being utilised by 79 per cent of our fixed data consumer base, providing a better experience on the nbn with strong Wi-Fi connectivity and mobile back up.

On-net fixed revenue, which is revenue from services on the Telstra network, decreased by 44.8 per cent to \$462 million while off-net fixed revenue, which is revenue from services for which we are a reseller, increased by 18.2 per cent to \$1,470 million as customers continue to migrate on to the nbn™ network.

Consumer content and services revenue declined by 10.2 per cent to \$342 million due to lower Foxtel from Telstra SIOs despite growth in gaming.

Business apps and services revenue declined by 5.1 per cent to \$94 million due to legacy product decline partly offset by growth in IP voice and video calling, and professional services.

Interconnect, payphones and E000 revenue declined by 6.5 per cent to \$58 million mainly due to ongoing payphone usage and inbound calling services decline.

Fixed – C&SB EBITDA contribution margin declined by 8.3 percentage points to 6.4 per cent due to high margin revenue reduction and growing network payments to NBN Co, partly offset by fixed cost reduction.

Fixed – Enterprise

Fixed – Enterprise income decreased by 6.4 per cent to \$1,852 million reflecting declines in data and connectivity income and NAS income.

Data and connectivity income declined by 7.2 per cent to \$563 million. While the fibre SIO base has been retained, the copper SIO decline was not fully offset by nbn SIO growth.

NAS income decreased by 6.0 per cent to \$1,289 million due to a decline in legacy calling applications including ISDN, and fewer lower margin equipment sales.

Within NAS, calling applications revenue declined by 14.1 per cent to \$366 million due to ISDN, inbound and fixed line calling products. This was partly offset by growth in unified communications and collaboration product growth.

Managed services revenue increased by 6.5 per cent to \$328 million as more network customers attached cyber security services and from growth in cloud based applications.

Professional services revenue decreased by 5.2 per cent to \$181 million due to the completion of large strategic contracts, partly offset by growth in professional services relating to mobile and IoT.

Cloud applications revenue increased by 6.7 per cent to \$127 million from partner cloud products including AWS and Microsoft, enabling attachment to managed services.

Equipment sales revenue declined by 19.1 per cent to \$157 million from a general deferral of hardware spend due to market conditions resulting from COVID-19 and a shift to cloud based technologies.

Fixed – Enterprise EBITDA contribution margin declined by 4.6 percentage points to 23.2 per cent. Data and connectivity EBITDA contribution margin declined by 5.7 percentage points to 58.6 per cent reflecting reduced revenue on a constant cost base. NAS EBITDA contribution margin declined by 3.9 percentage points to 7.8 per cent due to reductions in higher margin legacy calling applications and professional services, announced pause on labour reductions, and one-off costs, partly offset by growth in managed services and cloud applications.

Fixed – Wholesale

Fixed – Wholesale income declined by 19.1 per cent to \$770 million impacted by ongoing migration to the nbn, partly offset by growth in ongoing products including Telstra fibre.

Data and connectivity revenue decreased by 6.4 per cent to \$176 million reflecting an ongoing SIO reduction in enterprise grade copper products and price competition in wideband fibre products.

Legacy calling and fixed revenue declined by 34.4 per cent to \$225 million due to the continued legacy fixed product SIO decline as the nbn migration continues.

Commercial and recoverable works revenue declined by 12.4 per cent to \$369 million as the nbn™ network rollout nears completion.

Fixed – Wholesale EBITDA contribution margin increased by 3.1 percentage points to 48.4 per cent due to strong cost out performance despite a decline in revenue.

Global

Global represents the international business of Telstra Enterprise. Income declined by 6.9 per cent in constant currency (CC) terms due to the continued move away from low margin legacy voice.

Fixed legacy voice revenue decreased by 20.9 per cent (CC) due to continued market decline and strategic focus on profitable revenue.

Data and connectivity revenue declined by 3.8 per cent (CC) however excluding one off benefits from early customer contract terminations in 1H20, was largely flat due to growth in capacity in the Wholesale segment.

NAS and other revenue decreased by 4.7 per cent (CC) due to a reduction in low margin customer premises equipment (CPE) sales, and a decline in professional services.

Global EBITDA contribution margin increased by 0.3 percentage points to 21.7 per cent reflecting cost initiatives and sales mix

offsetting revenue declines.

Recurring nbn DA

Recurring nbn DA income includes infrastructure services across ducts, racks and backhaul provided to NBN Co. Income increased by 4.6 per cent to \$452 million reflecting the nbn™ network rollout.

One-off nbn DA & connection

One-off nbn DA & connection income includes receipts from NBN Co for disconnecting customers from our legacy network, and one-off income we receive from customers to connect to the nbn™ network. Income decreased by 36.7 per cent to \$658 million as migration to the nbn network nears completion.

Other

Other product income includes Telstra Health and corporate adjustments. Corporate adjustments include items not related to products such as impact of bond rate movements on leave provisions. Income increased by \$204 million to \$392 million mainly due to a gain on sale and leaseback of the Pitt Street exchange property and other M&A transactions, and 16.6 per cent revenue growth in Telstra Health.

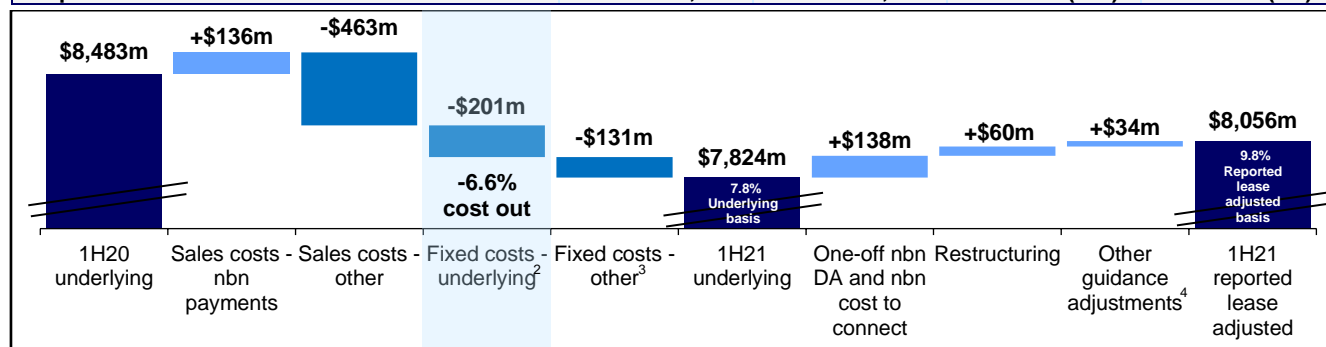
Expense performance

Total operating expenses declined by 8.0 per cent to \$7,943 million on a reported basis and declined by 9.8 per cent to \$8,056 million on a reported lease adjusted basis in part due to the 6.6 per cent or \$201 million reduction in underlying fixed costs from our productivity program and a \$138 million decrease in restructuring costs associated with T22 initiatives.

Sales costs, which are direct costs associated with revenue and customer growth, decreased by 7.3 per cent to \$4,134 million due to a \$463 million decline in other sales costs as a result of lower hardware costs, partly offset by a \$136 million increase in nbn access payments. Other fixed costs decreased by 13.5 per cent while one-off nbn DA and nbn cost to connect declined by 45.0 per cent in line with the progress of the nbn™ network rollout. On an underlying basis, total operating expenses declined by 7.8 per cent as underlying fixed cost reduction exceeded increased nbn access payments.

In June 2018, we announced we would target a \$2.5 billion annual reduction in underlying fixed costs by FY22 compared with restated underlying fixed costs of ~\$7.9 billion in base year FY16. We have now achieved approximately \$2.0 billion of annual cost out since FY16 and increased our FY22 target by \$200 million to \$2.7 billion.

Operating expenses ¹	1H21	1H20	Change	
	\$m	\$m	\$m	%
Sales costs	4,134	4,461	(327)	(7.3)
- nbn payments	960	824	136	16.5
- other	3,174	3,637	(463)	(12.7)
Fixed costs	3,690	4,022	(332)	(8.3)
- underlying ²	2,851	3,052	(201)	(6.6)
- other ³	839	970	(131)	(13.5)
Underlying	7,824	8,483	(659)	(7.8)
One-off nbn DA and nbn cost to connect	138	251	(113)	(45.0)
Restructuring	60	198	(138)	(69.7)
Other guidance adjustments ⁴	34	-	34	n/m
Reported lease adjusted⁵	8,056	8,932	(876)	(9.8)
Lease adjustments ⁶	(113)	(294)	181	n/m
Reported	7,943	8,638	(695)	(8.0)



1. Sales and fixed costs exclude costs associated with one-off nbn DA and nbn cost to connect.
2. Fixed costs - underlying was ~\$7.9b in FY16 on a restated basis and targeted to decline by our net cost productivity target of \$2.7b by FY22. Underlying fixed costs are costs excluding other fixed costs (as defined in footnote 3).
3. Fixed costs - other includes items supporting revenue growth including relevant NAS costs, mobile handset lease, and product impairment.
4. Other guidance adjustments include M&A transactions.
5. 'Reported lease adjusted' includes all mobile handset leases as operating expenses, and all rent/other leases below EBITDA.
6. Refer to note 7 of the *Guidance versus reported results* schedule.

Our progress on achieving our productivity target is reported through the above operating expenses table. The detail below provides commentary on the operating expenses as disclosed in our statutory accounts.

Operating expenses on a reported basis	1H21	1H20	Change
	\$m	\$m	%
Labour	2,033	2,170	(6.3)
Goods and services purchased	4,208	4,622	(9.0)
Net impairment losses on financial assets	78	80	(2.5)
Other expenses	1,624	1,766	(8.0)
Total	7,943	8,638	(8.0)

Labour

Total labour expenses decreased by 6.3 per cent or \$137 million to \$2,033 million. Salary and associated costs increased by \$72 million due to higher headcount including the additional FTE recruited to assist with customer service to support our COVID-19 response. Labour substitution costs declined by \$142 million from a reduction in labour outsourcing which was partly due to our COVID-19 response as a portion of our labour substitution headcount shifted to be permanent. Employee redundancy costs decreased by \$66 million due to the extension of our pause on job reductions in response to COVID-19.

Total FTE increased by 1.3 per cent or 367 to 28,637 including our COVID-19 response. FTE decreased by 1.1 per cent or 322 in the six months to December 2020.

Goods and services purchased

Total goods and services purchased decreased by 9.0 per cent or \$414 million to \$4,208 million.

Cost of goods sold, which includes mobile handsets and accessories, tablets, cellular Wi-Fi, broadband modems and other fixed hardware decreased by 22.9 per cent or \$428 million to \$1,440 million mainly due to lower handset and NAS equipment sales in 1H21.

Network payments increased by 3.6 per cent or \$55 million to \$1,582 million, including a \$136 million increase in nbn access payments as customers migrate across to nbn services. Offshore network payments were \$104 million lower mainly due to an associated decrease in revenue from a decline in voice and network traffic.

Other goods and services purchased declined by 3.3 per cent or \$41 million to \$1,186 million mainly due to a reduction in Foxtel service fees as a result of a decline in Foxtel from Telstra subscribers.

Net impairment losses on financial assets

Total net impairment losses on financial assets decreased by 2.5 per cent or \$2 million to \$78 million.

Other expenses

Total other expenses decreased by 8.0 per cent or \$142 million to \$1,624 million.

Service contracts and other agreements expenses declined by 11.2 per cent or \$77 million to \$611 million due to productivity and cost reduction programs. Impairment losses (excluding net losses on financial assets) increased by 96.4 per cent or \$53 million to \$108 million largely due to a \$34 million impairment loss for our Sensis investment classified as held for sale at 31 December 2020. Other expenses decreased by 11.5 per cent or \$118 million to \$905 million primarily due to a \$105 million decline in general and administrative costs.

Depreciation and amortisation

Depreciation and amortisation decreased by 10.8 per cent or \$293 million to \$2,429 million including a \$171m decrease in depreciation of right-of-use assets. Review of asset service lives during 1H21 resulted in no change in depreciation expense and a \$34 million decrease in amortisation expense.

Foreign currency impacts

For the purposes of reporting our consolidated results, the translation of foreign operations denominated in foreign currency to Australian dollars decreased our expenses by \$31 million across labour, goods and services purchased, and other expenses. This foreign exchange impact was offset by a \$36 million sales revenue decrease resulting in an unfavourable EBITDA contribution of \$5 million.

Net finance costs

Net finance costs decreased by 18.1 per cent or \$68 million to \$307 million due to a \$107 million reduction in interest on gross debt offset by \$39 million net increase in other financing items largely relating to contracts with customers as set out in note 4.2.4. The reduction in interest on gross debt came from lower borrowing costs of \$91 million and lower lease interest cost of \$16 million. Lower borrowing costs reflect a reduction in average gross borrowing cost from 4.8 per cent to 3.8 per cent and lower debt on issue.

Financial position

Summary statement of cash flows	1H21	1H20	Change
	\$m	\$m	%
Net cash provided by operating activities	3,443	2,733	26.0
Net cash used in investing activities	(777)	(1,213)	35.9
- Capital expenditure (before investments)	(1,597)	(1,507)	(6.0)
- Other investing cash flows	820	294	n/m
Free cashflow	2,666	1,520	75.4
Net cash used in financing activities	(1,836)	(1,389)	(32.2)
Net increase/(decrease) in cash and cash equivalents	830	131	n/m
Cash and cash equivalents at the beginning of the period	499	604	(17.4)
Effects of exchange rate changes on cash and cash equivalents	(34)	2	n/m
Cash and cash equivalents at the end of the period	1,295	737	75.7

Capital expenditure and cash flow

Free cashflow generated from operating and investing activities was \$2,666 million representing an increase of \$1,146 million or 75.4 per cent. It was positively impacted by a \$1,379 million improvement in working capital due to reduced handset receivables, and improved inventory and creditors positions, and a \$408 million inflow from the sale and leaseback of the Pitt Street exchange property and other M&A transactions. This was partly offset by a \$522 million decline in reported lease adjusted EBITDA largely due to a \$268 million decline in net one-off nbn DA receipts and a \$230 million decline in Fixed – C&SB EBITDA.

Net cash provided by operating activities increased by 26.0 per cent or \$710 million to \$3,443 million mainly due to a \$2,175 million decrease in payments to suppliers and employees, partly offset by a \$1,467 million decline in receipts from customers.

Net cash used in investing activities decreased by 35.9 per cent or \$436 million to \$777 million primarily due to a \$289 million increase in proceeds from sale and leaseback and a \$140 million increase in proceeds from sale of businesses.

Net cash used in financing activities increased by 32.2 per cent or \$447 million to \$1,836 million. This was largely due to \$698 million in proceeds from the sale of units in a controlled trust in 1H20 and a \$238 million increase in repayment of borrowings, partly offset by a \$279 million increase in proceeds from borrowings.

Our accrued capital expenditure for the year on a guidance basis was \$1,421 million or 13.3 per cent of sales revenue.

On a guidance basis free cashflow after operating lease payments was \$1,893 million. Performance against guidance has been adjusted for free cashflow associated with the sale and leaseback of the Pitt Street exchange property (-\$282 million), M&A (-\$126 million), operating lease payments (-\$396 million) and spectrum (\$31 million).

Debt issuance	\$m	Debt repayments	\$m
Bilateral loan facilities	700	10 year AUD bond	(500)
Proceeds under sale and leaseback transaction ¹	414	Bilateral loan facility	(100)
Other loans	15	Private placements	(145)
		Other loans	(59)
		Short term commercial paper and revolving bank facilities (net)	(443)
Total	1,129	Total	1,129

1. Treated as a financial liability under accounting standards.

Debt position

Our gross debt position was \$17,405 million comprising borrowings of \$15,108 million, lease liabilities of \$3,355 million less \$1,058 million in net derivative assets. Gross debt increased by 0.4 per cent or \$62 million since 30 June 2020 due to a net increase in lease liabilities of \$57 million and other non-cash increases of \$123 million, partly offset by a cash reduction of \$118 million in borrowings. Cash reduction in borrowings comprises debt issuance and proceeds from sale and leaseback of \$1,129 million less debt repayments of \$1,247 million.

Net debt decreased by 4.4 per cent or \$734 million to \$16,110 million reflecting an increase in cash holdings of \$796 million and the increase in gross debt.

Financial settings	1H21 Actual	FY21 Comfort zone
Debt servicing ¹	2.0x	1.5x to 2.0x
Gearing ²	51.5%	50% to 70%
Interest cover ³	13.6x	>7x

1. Debt servicing ratio is calculated as net debt/EBITDA (comfort zone recalibrated in 1H20 to reflect adoption of AASB16).

2. Gearing ratio is calculated as net debt/total net debt plus equity.

3. Interest cover is calculated as EBITDA/net interest on borrowings.

We remain within our comfort zones for our credit metrics. Our debt servicing is 2.0 times (30 June 2020: 1.9 times), gearing ratio is at 51.5 per cent (30 June 2020: 52.7 per cent) and interest cover is 13.6 times (30 June 2020: 11.7 times).

Summary statement of financial position	31 Dec 2020	30 Jun 2020	Change
	\$m	\$m	%
Current assets	7,385	6,534	13.0
Non-current assets	35,978	37,869	(5.0)
Total assets	43,363	44,403	(2.3)
Current liabilities	9,622	10,094	(4.7)
Non-current liabilities	18,556	19,162	(3.2)
Total liabilities	28,178	29,256	(3.7)
Net assets	15,185	15,147	0.3
Total equity	15,185	15,147	0.3
Return on average assets (%)	7.6	8.0	(0.4)pp
Return on average equity (%)	15.2	12.5	2.7pp

Statement of financial position

Our balance sheet remains in a strong position with net assets of \$15,185 million.

Current assets increased by 13.0 per cent to \$7,385 million. Cash and cash equivalents increased by \$796 million including proceeds from business and asset sales while derivative financial assets increased by \$325 million largely from reclassification to current asset for instruments maturing within the next 12 months. This was partly offset by a \$531 million decline in trade and other receivables and contract assets.

Non-current assets declined by 5.0 per cent to \$35,978 million. Derivative financial assets decreased by \$920 million due to a reclassification to current assets of instruments maturing with the next 12 months and foreign currency and other valuation impacts, property, plant and equipment declined by \$495 million mainly due to depreciation expenses, and intangible assets decreased by \$299 million mainly due to amortisation expense partly offset by software asset additions.

Current liabilities declined by 4.7 per cent to \$9,622 million. Trade and other payables declined by \$436 million mainly due to a \$227 million decline in accrued capital expenditure while current tax payables decreased by \$155 million as a result of payments of prior year tax provisions. This was partly offset by a \$95 million increase in liabilities classified as held for sale relating to our Sensis investment.

Non-current liabilities declined by 3.2 per cent to \$18,556 million. Borrowings decreased by \$776 million largely from reclassification to current liabilities of debt maturing within the next 12 months, foreign currency and other valuation impacts partly offset by increases from bilateral loan facilities and proceeds from the sale and leaseback of the Pitt Street exchange property. This was partly offset by a \$143 million increase in lease liabilities.

Guidance versus reported results

This schedule details adjustments made to the reported results for the current and comparative periods to reflect the performance of the business on the basis on which we provided guidance to the market, which is EBITDA on an underlying basis and 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. 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. Free cashflow defined as 'operating cash flows' less 'investing cash flows' less 'payments for operating lease liabilities', and excludes spectrum and guidance adjustments.

The following adjustments provide a detailed reconciliation from reported to guidance results for each guidance measure:

	Total Income			Underlying EBITDA			Free Cashflow	
	1H20	1H21		1H20	1H21		1H20	1H21
	\$m	\$m		\$m	\$m		\$m	\$m
Reported Total Income	13,413	12,015	Reported EBITDA	4,773	4,070	Reported Free Cashflow	1,520	2,666
<i>Adjustments</i>								
M&A adjustment ¹	1	(105)	M&A adjustment ¹	1	(105)	M&A adjustment ¹	0	(126)
Sensis impairment ²	n/a	n/a	Sensis impairment ²	0	34	Sensis impairment ²	0	0
Pitt St sale and leaseback ³	n/a	(102)	Pitt St sale and leaseback ³	0	(102)	Pitt St sale and leaseback ³	0	(282)
Restructuring costs ⁴	n/a	n/a	Restructuring costs ⁴	183	60	Restructuring costs ⁴	n/a	n/a
Net one-off NBN receipts ⁵	n/a	n/a	Net one-off NBN receipts ⁵	(788)	(520)	Net one-off NBN receipts ⁵	n/a	n/a
Spectrum payments ⁶	n/a	n/a	Spectrum payments ⁶	n/a	n/a	Spectrum payments ⁶	33	31
Lease ⁷	n/a	n/a	Lease ⁷	(294)	(113)	Lease ⁷	(548)	(396)
Guidance Total Income	13,414	11,808	Guidance Underlying EBITDA	3,875	3,324	Guidance Free Cashflow	1,005	1,893

The adjustments set out in the above tables have been reviewed by our auditor for consistency with the guidance basis as set out on this page.







Note:

- Adjustments relating to acquisition and disposals of controlled entities, joint ventures, associates and other investments and any associated net gains or losses and contingent consideration. During 1H21 we disposed of our e-commerce platform business, our FTTP Velocity business and acquired Epicon IT Solutions Pty Ltd (including its wholly owned subsidiary, Service Potential Pty Ltd) and Epicon Software Pty Ltd. 1H20 includes adjustments relating to the disposal of our investment in Chief Entertainment Pty Ltd.
- Adjustment related to impairment loss for our Sensis investment that is classified as held for sale at 31 December 2020.
- Adjustment relating to the sale and leaseback transaction of the Pitt Street exchange property.
- Adjustments for the strategic focus (T22 program) to improve customer experience, simplify structure and cut costs, in addition to our normal business as usual redundancies for the period.
- Adjustments for net one-off nbn receipts which is defined as net nbn one off Definitive Agreement receipts (consisting of PSAA, Infrastructure Ownership and Retraining) less nbn net cost to connect.
- Adjustment relating to the impact on free cashflow associated with our spectrum purchases and renewals for the period including:
 - \$28m for renewal of spectrum licences in the 900 MHz band
 - payments for spectrum and apparatus licences in various spectrum bands
- Adjustment for EBITDA impact for depreciation of mobile lease right-of-use assets. Adjustment for Free Cashflow impact of lease payments related to leases classified as operating leases prior to transition to AASB 16: 'Leases' (i.e. before 1 July 2019) and to any new leases accounted for after 1 July 2019.

n/a Adjustment is not relevant to the respective guidance measure.

Executive Variable Remuneration Plan (EVP) Metric Additional Detail

First half performance against FY21 EVP Performance Measures and Targets:

Performance Measure		Metric	Weighting	FY20 Baseline^	FY21*			1H21 Actual	
					Threshold	Target	Max		
Financial 60% of total weighting	 Total Income	Telstra External Income (excluding finance income)	15.0%	\$26,161m	Above bottom end of Market Guidance*	Approx. Midpoint of Market Guidance*	At or above top end of Market Guidance*	\$11,808m	
	 Underlying EBITDA	Underlying EBITDA is Earnings Before Interest, Tax, Depreciation & Amortisation, 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	15.0%	\$7,409m				\$3,324m	
	 Free Cash Flow (FCF)	Free Cashflow excluding M&A and spectrum plus operating lease payments (reported in financing cash flow under AASB 16)	15.0%	\$3,415m				\$1,893m	
	 Net Opex Reduction	Year-on-year reduction in operating non-Direct Variable Cost (DVC) expenses	15.0%	\$615m	\$350m	\$400m	\$500m	\$201m	
Strategic, Customer & Transforming 40% of total weighting	 Episode NPS		Improvement in our Episode NPS	10%	+23	+30	+32	+34	+26
	 Product Portfolio Simplification	Active Enterprise Products	TE Number of Active Plans, the target provides progress toward our T22 reduction of 50% by FY21	5%	422	328	308	268	341
		Services on in-market plans	Consumer and Small Business Fixed and Postpaid services on in-market plans	5%	4.86m	7.7m	8.2m	8.6m	7.58m
	 Digital Engagement	Digital Delivery	Sale transactions through digital channels. The 35% target is the average of Q4 FY21 not an average of performance for the year.	5%	30.3%	33.5%	35.0%	45.0%	39.8%
		Telstra Connect	Active Telstra Enterprise customers on Telstra Connect in the last 3 months of FY21	5%	6,610	6,840	7,100	9,000	5,954
	 People Capability & Engagement**		Top-line sustainable employee engagement score	10%	83	80	83	84	80

[^] For FY21 targets, the baseline refers to FY20 results calculated on the same basis as the metric definition.

* Market Guidance means guidance for FY21 as set out in Telstra's ASX announcement dated 13 August 2020.

** The calculation of our People Capability and Engagement metric is based on asking our employees a series of engagement questions to help us understand how we are tracking against other global high performing companies. The questions for these engagement surveys are provided by an external service provider. For the second half of FY21 we will transition to a new service provider. However, it is expected that the FY21 target and performance range will remain the same as there is equivalence between the global high performing norm under both the current and new service provider engagement questions, ensuring that the same level of engagement is required for the metric to be satisfied and we continue to target a top-quartile sustainable employment score.

Financial report

for the half-year ended 31 December 2020



About this report

This is the half-year financial report for Telstra Corporation Limited (referred to as the Company or Telstra Entity) and its controlled entities (together referred to as we, us, Telstra, the Telstra Group or the Group).

Telstra Corporation Limited is a 'for profit' company limited by shares and incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange (ASX). Our issued shares are also quoted on the New Zealand Stock Exchange (NZX).

Our half-year financial report does not include all of the information required for the annual financial report. It should be read in conjunction with our 2020 Annual Report and together with any public announcements made by us in accordance with the continuous disclosure obligations arising under the ASX listing rules and the *Corporations Act 2001*, up to the date of the Directors' Declaration.

Reading the financials

Section introduction

Introduction at the start of each section outlines the focus of the section and explains the purpose and content of that section.

Note and topic summary

A summary at the start of certain notes explains the objectives and content of that note, or at the start of certain specific topics clarifies complex concepts, with which users may not be familiar.

Narrative table

Some narrative disclosures are presented in a tabular format to provide readers with a clearer understanding of the information being presented.

Information panel

The information panel describes our key accounting estimates and judgements applied in the preparation of the financial report, which are relevant to that section or note.

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Income Statement

For the half-year ended 31 December 2020

Telstra Group	Note	Half-year ended 31 Dec	
		2020	2019
		\$m	\$m
Income			
Revenue (excluding finance income)	2.2	10,984	12,164
Other income	2.2	1,031	1,249
		12,015	13,413
Expenses			
Labour		2,033	2,170
Goods and services purchased		4,208	4,622
Net impairment losses on financial assets		78	80
Other expenses		1,624	1,766
		7,943	8,638
Share of net loss from joint ventures and associated entities		(2)	(2)
		7,945	8,640
Earnings before interest, income tax expense, depreciation and amortisation (EBITDA)		4,070	4,773
Depreciation and amortisation		2,429	2,722
Earnings before interest and income tax expense (EBIT)		1,641	2,051
Finance income	2.2	29	108
Finance costs		336	483
Net finance costs	4.2	307	375
Profit before income tax expense		1,334	1,676
Income tax expense		209	526
Profit for the period		1,125	1,150
Profit attributable to:			
Equity holders of Telstra Entity		1,098	1,139
Non-controlling interests		27	11
		1,125	1,150
Earnings per share (cents per share)		cents	cents
Basic		9.2	9.6
Diluted		9.2	9.6

The notes following the financial statements form part of the half-year financial report.

Statement of Comprehensive Income

Telstra Half-Year Financial Report

For the half-year ended 31 December 2020

Telstra Group	Half-year ended 31 Dec	
	2020	2019
	\$m	\$m
Profit for the period attributable to:		
Equity holders of Telstra Entity	1,098	1,139
Non-controlling interests	27	11
	1,125	1,150
Items that will not be reclassified to the income statement		
Retained profits		
Actuarial loss on defined benefit plans attributable to equity holders of Telstra Entity	(43)	(37)
Income tax on actuarial loss on defined benefit plans	13	11
Fair value of equity instruments reserve		
Gain on investments in equity instruments designated at fair value through other comprehensive income	1	1
Share of other comprehensive income of equity accounted investments	187	31
Income tax on fair value movements for investments in equity instruments	(50)	(5)
Foreign currency translation reserve		
Translation differences of foreign operations attributable to non-controlling interests	(1)	-
	107	1
Items that may be subsequently reclassified to the income statement		
Foreign currency translation reserve		
Translation differences of foreign operations attributable to equity holders of Telstra Entity	(123)	3
Cash flow hedging reserve		
Changes in cash flow hedging reserve	(35)	(11)
Income tax on movements in the cash flow hedging reserve	10	3
Foreign currency basis spread reserve		
Changes in the value of the foreign currency basis spread	(77)	(19)
Income tax on movements in the foreign currency basis spread reserve	23	6
	(202)	(18)
Total other comprehensive income	(95)	(17)
Total comprehensive income for the period	1,030	1,133
Total comprehensive income for the period attributable to:		
Equity holders of Telstra Entity	1,004	1,122
Non-controlling interests	26	11

The notes following the financial statements form part of the half-year financial report.

Statement of Financial Position

As at 31 December 2020

Telstra Group	Note	As at	
		31 Dec 2020	30 Jun 2020
		\$m	\$m
Current assets			
Cash and cash equivalents	2.3	1,295	499
Trade and other receivables and contract assets	3.3	4,590	5,121
Deferred contract costs		99	82
Inventories		461	418
Derivative financial assets	4.2	472	147
Current tax receivables		4	2
Prepayments		291	265
Assets classified as held for sale	5.2	173	-
Total current assets		7,385	6,534
Non-current assets			
Trade and other receivables and contract assets	3.3	1,425	1,428
Deferred contract costs		1,346	1,354
Inventories		26	28
Investments – accounted for using the equity method		881	897
Investments – other		15	21
Property, plant and equipment		21,004	21,499
Right-of-use assets	3.2	2,950	3,030
Intangible assets		7,113	7,412
Derivative financial assets	4.2	1,091	2,011
Deferred tax assets		58	66
Defined benefit asset		69	123
Total non-current assets		35,978	37,869
Total assets		43,363	44,403
Current liabilities			
Trade and other payables	3.4	3,544	3,980
Employee benefits		714	727
Other provisions		118	124
Lease liabilities	3.2	525	611
Borrowings	4.2	2,818	2,763
Derivative financial liabilities	4.2	81	54
Current tax payables		69	224
Contract liabilities and other revenue received in advance		1,658	1,611
Liabilities classified as held for sale	5.2	95	-
Total current liabilities		9,622	10,094
Non-current liabilities			
Other payables	3.4	7	4
Employee benefits		164	127
Other provisions		135	143
Lease liabilities	3.2	2,830	2,687
Borrowings	4.2	12,290	13,066
Derivative financial liabilities	4.2	424	320
Deferred tax liabilities		1,512	1,605
Defined benefit liabilities		8	8
Contract liabilities and other revenue received in advance		1,186	1,202
Total non-current liabilities		18,556	19,162
Total liabilities		28,178	29,256
Net assets		15,185	15,147

Statement of Financial Position (continued)

Telstra Half-Year Financial Report

As at 31 December 2020

Telstra Group	Note	As at	
		31 Dec 2020	30 Jun 2020
		\$m	\$m
Equity			
Share capital		4,426	4,451
Reserves		(59)	5
Retained profits		10,134	10,017
Equity available to Telstra Entity shareholders		14,501	14,473
Non-controlling interests		684	674
Total equity		15,185	15,147

The notes following the financial statements form part of the half-year financial report.

Statement of Cash Flows

For the half-year ended 31 December 2020

Telstra Group	Note	Half-year ended 31 Dec	
		2020	2019
		\$m	\$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax (GST))		13,634	15,101
Payments to suppliers and employees (inclusive of GST)		(9,892)	(12,067)
Government grants received for operating activities		157	143
Net cash generated by operations		3,899	3,177
Income taxes paid		(456)	(444)
Net cash provided by operating activities		3,443	2,733
Cash flows from investing activities			
Payments for property, plant and equipment		(1,096)	(1,178)
Payments for intangible assets		(501)	(329)
Capital expenditure (before investments)		(1,597)	(1,507)
Payments for businesses and shares in controlled entities (net of cash acquired)		(21)	(1)
Payments for joint ventures and associated entities		-	(19)
Total capital expenditure (including investments)		(1,618)	(1,527)
Proceeds from sale of property, plant and equipment		159	181
Proceeds from sale and leaseback	3.2	289	-
Proceeds from sale of businesses		140	-
Proceeds from sale of other investments		153	20
Distributions received from equity accounted investments		9	40
Receipts of the principal portion of finance lease receivables		69	44
Government grants received for investing activities		11	15
Interest received		11	14
Net cash used in investing activities		(777)	(1,213)
Operating cash flows less investing cash flows		2,666	1,520
Cash flows from financing activities			
Proceeds from borrowings		1,338	1,059
Repayment of borrowings		(1,456)	(1,218)
Payments for the principal portion of lease liabilities		(403)	(538)
Purchase of shares for employee share plans		(34)	(22)
Finance costs paid		(314)	(413)
Dividends paid to non-controlling interests		(16)	(7)
Dividends paid to equity holders of Telstra Entity	4.1	(951)	(951)
Proceeds from the sale of units in a controlled trust		-	698
Other		-	3
Net cash used in financing activities		(1,836)	(1,389)
Net increase in cash and cash equivalents		830	131
Cash and cash equivalents at the beginning of the period		499	604
Effects of exchange rate changes on cash and cash equivalents		(34)	2
Cash and cash equivalents at the end of the period	2.3	1,295	737

The notes following the financial statements form part of the half-year financial report.

Statement of Changes in Equity

Telstra Half-Year Financial Report

For the half-year ended 31 December 2020

Telstra Group	Note	Share capital	Reserves	Retained profits	Total	Non-control ling interests	Total equity
		\$m	\$m	\$m	\$m	\$m	\$m
Balance at 30 June 2020		4,451	5	10,017	14,473	674	15,147
Profit for the period		-	-	1,098	1,098	27	1,125
Other comprehensive income		-	(64)	(30)	(94)	(1)	(95)
Total comprehensive income for the period		-	(64)	1,068	1,004	26	1,030
Dividends	4.1	-	-	(951)	(951)	-	(951)
Transactions with non-controlling interests		-	-	-	-	(16)	(16)
Additional shares purchased		(34)	-	-	(34)	-	(34)
Share-based payments		9	-	-	9	-	9
Balance at 31 December 2020		4,426	(59)	10,134	14,501	684	15,185
Balance as at 30 June 2019		4,447	(58)	10,160	14,549	(19)	14,530
Change in accounting policy arising from AASB 16: 'Leases'		-	-	(2)	(2)	-	(2)
Restated balance at 1 July 2019		4,447	(58)	10,158	14,547	(19)	14,528
Profit for the period		-	-	1,139	1,139	11	1,150
Other comprehensive income		-	9	(26)	(17)	-	(17)
Total comprehensive income for the period		-	9	1,113	1,122	11	1,133
Dividends	4.1	-	-	(951)	(951)	(7)	(958)
Non-controlling interests from the sale of units in a controlled trust		-	-	-	-	698	698
Amounts repaid on share loans provided to employees		3	-	-	3	-	3
Additional shares purchased		(22)	-	-	(22)	-	(22)
Share-based payments		11	-	-	11	-	11
Balance at 31 December 2019		4,439	(49)	10,320	14,710	683	15,393

The notes following the financial statements form part of the half-year financial report.

Section 1. Basis of preparation

This section explains the basis of preparation of our half-year financial report and provides an update on some of our key accounting estimates and judgements to reflect latest information available.

1.1 Basis of preparation of the half-year financial report

Our half-year financial report is a condensed general purpose financial report, prepared by a 'for-profit' entity in accordance with the *Corporations Act 2001* and AASB 134: *'Interim Financial Reporting'* issued by the Australian Accounting Standards Board (AASB).

The financial report is presented in Australian dollars and, unless otherwise stated, all values have been rounded to the nearest million dollars (\$m) under the option available to us under the Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191.

The financial report is prepared in accordance with historical cost, except for some categories of financial instruments which are recorded at fair value.

The same accounting policies, including the principles of consolidation, have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in our 2020 Annual Report as no new or amended accounting policies had any material impact as disclosed in note 1.4.

For the purpose of preparing this report, each half-year has been treated as a discrete reporting period.

1.2 Terminology used in our income statement

EBITDA reflects earnings before interest, income tax, depreciation and amortisation. EBIT is a similar measure to EBITDA, but takes into account depreciation and amortisation.

We believe EBITDA is useful as a widely recognised measure of operating performance.

1.3 Key accounting estimates and judgements

Preparing the financial report requires management to make estimates and judgements. In preparing this report, the key sources of estimation uncertainty were consistent with those applied in the 2020 Annual Report.

1.3.1 COVID-19 pandemic

Financial impacts of the COVID-19 pandemic have been reflected in our financial performance for the half-year ended 31 December 2020 and considered in our financial position as at 31 December 2020. We have not identified any other impacts than those disclosed in note 1.4 to the financial statements in our 2020 Annual Report.

1.3.2 Summary of key management judgements

The key judgements and estimates used by management in applying the Group's accounting policies for the half-year ended 31 December 2020 have been updated to reflect the latest information available. They can be located in the following notes:

Key accounting estimates and judgements	Note	Page
Assessment of a significant financing component in mass market contracts	2.2	17
Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income	2.2	18
Determination of cash generating units (CGUs) and their recoverable amount for impairment assessment	3.1	20
Useful lives and residual values of fixed assets	3.1	20
Estimating allowance for doubtful debts	3.2	21
Impairment assessment of NXE Australia Pty Limited	5.2	28

1.4 Changes in accounting policies

A number of new or amended accounting standards became mandatory in the current reporting period. None of the accounting standards and amendments that became effective in the current reporting period had any material impacts on our accounting policies.

Section 2. Our performance

This section explains our results and performance of our segments, which are reported on the same basis as our internal management reporting structure. It also includes disaggregated revenue by segment.



2.1 Segments and disaggregated revenue

Segment information is based on the information that management uses to make decisions about operating matters and allows users to review operations through the eyes of management.

Our operating segments represent the business units which offer our main products and services in the market, however, only some of our operating segments meet the disclosure criteria for reportable segments.

The presentation of revenue is disaggregated by category and segment based on the timing of transfer of goods and services, major products and our geographical markets.

2.1.1 Operating segments

We report segment information on the same basis as our internal management reporting structure at the reporting date. Segment comparatives reflect any organisational changes that have occurred since the prior reporting period to present a like-for-like view.

During the half-year ended 31 December 2020, there were no changes to our operating segments. However, we have changed the way we manage and report our products to drive simplicity and to better align with how we go to market and our T22 strategy. We have restated the comparative period to provide a like-for-like view.

In our segment results, the 'All Other' category includes functions that do not qualify as operating segments in their own right (such as Global Business Services and Product and Technology Group) as well as the operating segments which do not meet the disclosure requirements of a reportable segment (such as Telstra Health).

We have four reportable segments as follows:

Segment	Operation
Telstra Consumer and Small Business (TC&SB)	<ul style="list-style-type: none"> provider of telecommunication products, services and solutions across mobiles, fixed and mobile broadband, telephony and Pay TV/IPTV and digital content to consumer and small business customers in Australia the operation of inbound and outbound call centres, Telstra shops (owned and licensed) and the Telstra dealership network online self-service capabilities for customers, from buying to billing and service requests
Telstra Enterprise (TE)	<ul style="list-style-type: none"> sales and contract management for large business and government customers in Australia and globally management of Telstra's networks outside Australia in conjunction with Networks and IT and Telstra InfraCo segments product management and delivery of advanced technology solutions and services, including Data and Internet Protocol (IP) networks, mobility services and Network Applications and Services (NAS) products such as managed network, unified communications, internet of things (IoT), cloud, industry solutions and integrated services and monitoring in Australia and globally delivery of outcome-based, transformative technology solutions through Telstra Purple, Telstra's technology services business
Networks and IT (N&IT)	<ul style="list-style-type: none"> overall planning, design, engineering architecture and construction of Telstra's networks, technology and information technology solutions except for fibre, exchanges and infrastructure within Telstra InfraCo's asset accountabilities delivering network technologies delivering digital platforms and capabilities to enable digital experiences build and management of the shared platforms, infrastructure, cloud services, software and technologies for all internal functions

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.1 Operating segments (continued)

Segment	Operation
Telstra InfraCo	<ul style="list-style-type: none"> wholesale provider of telecommunication products and services delivered over Telstra networks and associated support systems to other carriers, carriage service providers and internet service providers from 1 July 2020, in addition to operating fixed network infrastructure including data centres, non-mobiles related domestic fibre, Hybrid Fibre Coaxial cable, international subsea cables, exchanges, poles, ducts, pits and pipes, Telstra InfraCo's asset accountabilities also include our whole fibre network (both mobile and non-mobile backhaul), mobile towers and network supporting infrastructure but exclude PSTN, legacy fixed copper and satellite infrastructure providing other Telstra business units and wholesale customers with access to network infrastructure within Telstra InfraCo's asset accountabilities providing nbn co with long-term access to certain components of our infrastructure and certain network services under the Infrastructure Services Agreement and commercial contracts, respectively overall planning, design, engineering architecture and construction of fibre, exchanges and infrastructure within Telstra InfraCo's asset accountabilities

Consistent with information presented for internal management reporting purposes, the result of each segment is measured based on its EBITDA contribution.

EBITDA contribution excludes the effects of inter-segment balances and transactions, with some exceptions which mostly relate to the Telstra InfraCo segment result. Telstra InfraCo segment is managed and presented on a standalone basis and inclusive of its transactions with other functions. Other functions, however, do not reflect those transactions with Telstra InfraCo in their segment results. At the Group level the inter-segment transactions are eliminated.

EBITDA contribution differs from our reported EBITDA. In particular, the segment result includes the depreciation expense related to the right-of-use assets for mobile handsets arising from leases (Telstra as a lessee) which we sublease to our TC&SB customers in back-to-back arrangements. Given the nature of these leases, for management purposes we treat the depreciation of the mobile handsets right-of-use assets as an operating expense in order to provide a transparent view of our operating performance.

The table below summarises inter-segment transactions, the effects of which are not eliminated at the individual segment level, and provides further details of how we internally report financial results of our segments.

Nature of transaction	TC&SB	TE	N&IT	All Other	Telstra InfraCo
Internal access charges for use of Telstra InfraCo's network infrastructure presented as revenue (determined based on a variety of internally and externally observable inputs to reflect an arm's length basis for charging)	EBITDA contribution of the segments, that Telstra InfraCo generates access charges from, does not include those charges		n/a	n/a	Revenue and EBITDA contribution include the access charges from transactions with other segments (eliminated at the Telstra Group level)
Inter-company transactions for international connectivity disclosed as revenue from external customers and external expenses	EBITDA contribution includes inter-segment expenses recharged by TE	EBITDA contribution includes inter-segment revenue (earned from TC&SB and Telstra InfraCo) and expenses (recharged by Telstra InfraCo)	n/a	Elimination of inter-company transactions	EBITDA contribution includes inter-segment revenue (earned from TE) and expenses (recharged by TE)

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.1 Operating segments (continued)

Nature of transaction	TC&SB	TE	N&IT	All Other	Telstra InfraCo
Income from nbn disconnection fees and associated expenses	EBITDA contribution does not include those transactions		n/a	EBITDA contribution includes those transactions	EBITDA contribution does not include those transactions
Revenue and cost of goods associated with mobile handsets sold to TE customers via dealers	EBITDA contribution includes those transactions as TC&SB manages our supplier, delivery and dealership arrangements	EBITDA contribution does not include those transactions. However, it does include ongoing revenues derived from the mobile services sold to TE customers	n/a	n/a	n/a
Certain operation, maintenance and associated support function expenses (such as human resources and IT) related to Telstra InfraCo's assets (shared operations and maintenance costs are allocated based on a usage methodology, whilst the associated support function expenses are allocated using a driver-based allocation methodology)	n/a	n/a	EBITDA contribution includes those expenses that originate in the N&IT segment and All Other category but relate to Telstra InfraCo's assets		EBITDA contribution includes those expenses that originate in the N&IT segment and All Other category but relate to Telstra InfraCo's assets (eliminated at the Telstra Group level)
Network service delivery expenses for all segments (including costs associated with providing nbn co with access to our infrastructure)	EBITDA contribution does not include the network service delivery expense for TC&SB and TE customers		EBITDA contribution includes network service delivery expenses related to TC&SB, TE and Telstra InfraCo customers		EBITDA contribution does not include the network service delivery expense for Telstra InfraCo customers
Domestic promotion and advertising expenses for all segments	EBITDA contribution includes those expenses for the Telstra Entity	EBITDA contribution does not include those expenses			
Domestic redundancy and restructuring expenses for all segments	EBITDA contribution does not include those expenses			EBITDA contribution includes those expenses for the Telstra Entity	EBITDA contribution does not include those expenses

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue

Table A details our segment results and a reconciliation of EBITDA contribution to the Telstra Group's reported EBIT and profit before income tax expense. It also presents disaggregated revenue based on the timing of transfer of goods or services.

Table A Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Elimina- tions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
	Half-year ended 31 Dec 2020							
Revenue from contracts with customers								
Sale of services	4,926	3,157	-	(7)	8,076	1,206	-	9,282
Sale of goods	1,112	237	-	13	1,362	2	-	1,364
Other revenue from contracts with customers	9	21	-	2	32	-	-	32
	6,047	3,415	-	8	9,470	1,208	-	10,678
Revenue from other sources	164	38	1	1	204	102	-	306
Revenue from external customers	6,211	3,453	1	9	9,674	1,310	-	10,984
Access revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	n/a	686	(686)	-
Total revenue from external customers and Telstra InfraCo	6,211	3,453	1	9	9,674	1,996	(686)	10,984
Other income	142	15	10	818	985	46	-	1,031
Total income	6,353	3,468	11	827	10,659	2,042	(686)	12,015
Share of net profit/(loss) from equity accounted entities	-	3	-	(5)	(2)	-	-	(2)
EBITDA contribution	2,375	1,465	(741)	(68)	3,031	1,450	(524)	3,957
Depreciation of mobile handsets right-of-use assets								113
Telstra Group EBITDA								4,070
Depreciation and amortisation								(2,429)
Telstra Group EBIT								1,641
Net finance costs								(307)
Telstra Group profit before income tax expense								1,334

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table A (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Subtotal	Telstra InfraCo	Elimina- tions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
	Half-year ended 31 Dec 2019							
Revenue from contracts with customers								
Sale of services	5,122	3,384	-	(59)	8,447	1,304	-	9,751
Sale of goods	1,570	285	-	1	1,856	-	-	1,856
Other revenue from contracts with customers	5	18	-	2	25	-	-	25
	6,697	3,687	-	(56)	10,328	1,304	-	11,632
Revenue from other sources	364	56	2	3	425	107	-	532
Revenue from external customers	7,061	3,743	2	(53)	10,753	1,411	-	12,164
Access revenue from transactions between Telstra InfraCo and other segments	n/a	n/a	n/a	n/a	n/a	845	(845)	-
Total revenue from external customers and Telstra InfraCo	7,061	3,743	2	(53)	10,753	2,256	(845)	12,164
Other income	80	30	10	1,051	1,171	78	-	1,249
Total income	7,141	3,773	12	998	11,924	2,334	(845)	13,413
Share of net loss from equity accounted entities	-	-	-	(2)	(2)	-	-	(2)
EBITDA contribution	2,642	1,595	(814)	63	3,486	1,362	(369)	4,479
Depreciation of mobile handsets right-of-use assets								294
Telstra Group EBITDA								4,773
Depreciation and amortisation								(2,722)
Telstra Group EBIT								2,051
Net finance costs								(375)
Telstra Group profit before income tax expense								1,676

We recognise revenue from contracts with customers when the control of goods or services has been transferred to the customer. Revenue from sale of services is recognised over time, whereas revenue from sale of goods is recognised at a point in time. Other revenue from contracts with customers includes licensing revenue (recognised either at a point in time or over time) and agency revenue (recognised over time).

The effects of the following inter-segment transactions have not been excluded from segment EBITDA contribution:

- revenue from external customers in the TE segment includes \$114 million (2019: \$149 million) of inter-segment revenue treated as external expenses in the TC&SB and Telstra InfraCo segments, which is eliminated in the 'All Other' category
- external expenses in the TE segment also include \$4 million (2019: \$6 million) of inter-segment expenses treated as external revenue in Telstra InfraCo and eliminated in the 'All Other' category.

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Disaggregation of total income (including revenue from external customers and other income) by major products and of revenue from external customers by geographical markets are presented in Table B.

Our geographical operations are split between our Australian and offshore operations. No individual geographical area of our offshore operations forms a significant part of our operations.

Table B Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	\$m	\$m	\$m	\$m	\$m	\$m
	Half-year ended 31 Dec 2020					
Total income by major product						
Mobile	3,848	732	-	(3)	133	4,710
Revenue from contracts with customers	3,711	729	-	(3)	133	4,570
Revenue from other sources	137	3	-	-	-	140
Fixed - C&SB	2,426	-	-	-	-	2,426
Revenue from contracts with customers	2,318	-	-	-	-	2,318
Revenue from other sources	27	-	-	-	-	27
Other income	81	-	-	-	-	81
Fixed - Enterprise	-	1,852	-	-	-	1,852
Revenue from contracts with customers	-	1,824	-	-	-	1,824
Revenue from other sources	-	28	-	-	-	28
Fixed - Wholesale	-	-	-	-	770	770
Revenue from contracts with customers	-	-	-	-	622	622
Revenue from other sources	-	-	-	-	102	102
Other income	-	-	-	-	46	46
Global	-	869	-	(114)	-	755
Revenue from contracts with customers	-	862	-	(114)	-	748
Revenue from other sources	-	5	-	-	-	5
Other income	-	2	-	-	-	2
Recurring nbn DA	-	-	-	4	448	452
Revenue from contracts with customers	-	-	-	4	448	452
One-off nbn DA and connection	18	-	-	640	-	658
Revenue from contracts with customers	18	-	-	-	-	18
Other income	-	-	-	640	-	640
Other products and services	61	15	11	300	5	392
Revenue from contracts with customers	-	-	-	121	5	126
Revenue from other sources	-	2	1	1	-	4
Other income	61	13	10	178	-	262
Total revenue from contracts with customers	6,047	3,415	-	8	1,208	10,678
Total revenue from other sources	164	38	1	1	102	306
Total other income	142	15	10	818	46	1,031
	6,353	3,468	11	827	1,356	12,015
Total revenue from external customers by geographical market						
Australian customers	6,211	2,705	1	124	1,310	10,351
Revenue from contracts with customers	6,047	2,672	-	123	1,208	10,050
Revenue from other sources	164	33	1	1	102	301
Offshore customers	-	748	-	(115)	-	633
Revenue from contracts with customers	-	743	-	(115)	-	628
Revenue from other sources	-	5	-	-	-	5
	6,211	3,453	1	9	1,310	10,984

Section 2. Our performance (continued)

2.1 Segments and disaggregated revenue (continued)

2.1.2 Segment results and disaggregated revenue (continued)

Table B (continued) Telstra Group	TC&SB	TE	N&IT	All Other	Telstra InfraCo	Total
	\$m	\$m	\$m	\$m	\$m	\$m
	Half-year ended 31 Dec 2019					
Total income by major product						
Mobile	4,475	775	-	(3)	108	5,355
Revenue from contracts with customers	4,149	771	-	(3)	108	5,025
Revenue from other sources	326	4	-	-	-	330
Fixed - C&SB	2,623	-	-	-	-	2,623
Revenue from contracts with customers	2,506	-	-	-	-	2,506
Revenue from other sources	38	-	-	-	-	38
Other income	79	-	-	-	-	79
Fixed - Enterprise	-	1,978	-	-	-	1,978
Revenue from contracts with customers	-	1,936	-	-	-	1,936
Revenue from other sources	-	42	-	-	-	42
Fixed - Wholesale	-	-	-	-	952	952
Revenue from contracts with customers	-	-	-	-	767	767
Revenue from other sources	-	-	-	-	107	107
Other income	-	-	-	-	78	78
Global	-	995	-	(149)	-	846
Revenue from contracts with customers	-	982	-	(149)	-	833
Revenue from other sources	-	9	-	-	-	9
Other income	-	4	-	-	-	4
Recurring nbn DA	-	-	-	5	427	432
Revenue from contracts with customers	-	-	-	5	427	432
One-off nbn DA and connection	39	-	-	1,000	-	1,039
Revenue from contracts with customers	39	-	-	-	-	39
Other income	-	-	-	1,000	-	1,000
Other products and services	4	25	12	145	2	188
Revenue from contracts with customers	3	(2)	-	91	2	94
Revenue from other sources	-	1	2	3	-	6
Other income	1	26	10	51	-	88
Total revenue from contracts with customers	6,697	3,687	-	(56)	1,304	11,632
Total revenue from other sources	364	56	2	3	107	532
Total other income	80	30	10	1,051	78	1,249
	7,141	3,773	12	998	1,489	13,413
Total revenue from external customers by geographical market						
Australian customers	7,061	2,889	2	98	1,411	11,461
Revenue from contracts with customers	6,697	2,836	-	95	1,304	10,932
Revenue from other sources	364	53	2	3	107	529
Offshore customers	-	854	-	(151)	-	703
Revenue from contracts with customers	-	851	-	(151)	-	700
Revenue from other sources	-	3	-	-	-	3
	7,061	3,743	2	(53)	1,411	12,164

Other products and services include miscellaneous income and revenue from Telstra Health business unit.

'All Other' category by product and by geographical market includes eliminations of the inter-segment transactions described in the segment results following Table A in note 2.1.2.

Amounts disclosed in geographical markets were partly offset by revenue from operating segments which do not meet the disclosure requirements of a reportable segment. Other negative revenue amounts related to certain corporate level adjustments.

Section 2. Our performance (continued)

2.2 Income

Telstra Group	Half-year ended 31 Dec	
	2020	2019
	\$m	\$m
Revenue from contracts with customers	10,678	11,632
Revenue from other sources	306	532
Total revenue (excluding finance income)	10,984	12,164
Other income		
Net gain on disposal of property, plant and equipment and intangibles assets	22	147
Net gain on disposal of businesses	105	-
Net gain on sale and leaseback transactions	102	-
nbn disconnection fees	660	942
Government grants	100	97
Net foreign currency translation gains	30	9
Other miscellaneous income	12	54
	1,031	1,249
Total income (excluding finance income)	12,015	13,413
Finance income		
Finance income (excluding income from finance leases)	23	101
Finance income from finance leases (Telstra as a lessor)	6	7
	29	108
Total income	12,044	13,521

Disaggregated revenue from contracts with customers based on the nature and the timing of transfer of goods and services and by major products and geographical markets is presented in note 2.1.2 in Table A and in Table B respectively.

Revenue from other sources includes income from:

- our lease arrangements, including finance leases where Telstra is a dealer-lessor, operating leases and operating subleases
- customer contributions to extend, relocate or amend our network assets, where the customer does not purchase any ongoing services under the same (or linked) contract(s).

Net gain on disposal of businesses includes:

- \$60 million gain from disposal of Telstra's Velocity business providing high speed broadband to Telstra Velocity estates and South Brisbane Exchange (Velocity) regions, representing mainly a gain on sale and leaseback transaction. The \$140 million sales proceeds are receivable in instalments, with \$85 million received in December 2020 and the remainder over a three-year period. Following the disposal, we will leaseback the assets sold until the network integration and customer transition work is completed in each region, subsequent to which we will service the premises in those regions as a Retail Service Provider of the purchaser.
- \$45 million gain on disposal of assets and liabilities of e-commerce platform for total sale proceeds of \$55 million.

Net gain on sale and leaseback transactions resulted from sale and leaseback of our exchange property and mobile handsets subleased to our enterprise customers as detailed in note 3.2.2.

nbn disconnection fees earned under the Subscriber Agreement with nbn co are recognised as other income because they do not relate to our ordinary activities. We recognise this income when we have met our contractual obligations under this agreement.

Government grants include income under the Telstra Universal Service Obligation Performance Agreement, Mobile Black Spot Government program and other individually immaterial contracts accounted for as government grants. There are no unfulfilled conditions or other contingencies attached to these grants.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers

We continued to generate revenue from customer contracts described in note 2.2 to the financial statements in our 2020 Annual Report with the exception of the changes and updates detailed below.

(a) Telstra Consumer & Small Business contracts

In the financial year 2020 we introduced no-lock-in service plans for our fixed and mobile mass market products which are gradually replacing our fixed term contracts. In those arrangements, our customers can also purchase hardware, either outright or on a repayment plan, together with the no-lock-in service plans. However, if customers stop renewing their no-lock-in service plans, any outstanding hardware balance becomes payable immediately. The transition to no-lock-in contracts has caused reassessment of the existence of a significant financing component in the mobile bundles sold directly by us.

Assessment of a significant financing component in mass market contracts

We have applied judgement to assess if a financing component exists and is significant in the context of a contract as a whole. We considered such factors as commercial objectives of our offers, the duration of deferred payment terms and interest rates prevailing in the marketplace. Where relevant, we determined appropriate discount rates.

We separately account for the significant financing component in our mass market contracts offering handsets and other devices on deferred payment terms, with the exception of our no-lock-in mobile repayment contracts sold directly by us, where we have assessed that no significant financing component exists.

We measure the financing component at contract inception using a discount rate reflecting credit characteristics of the customer.

Section 2. Our performance (continued)

2.2 Income (continued)

2.2.1 Our contracts with customers (continued)

(b) Agreements with nbn co

We deliver a number of different services to nbn co under nbn Definitive Agreements (DAs). The transaction price in those agreements includes fixed and variable components, which require significant judgement as described below.

Impact of nbn Infrastructure Services Agreement (ISA) on revenue from customer contracts and other income

nbn co makes decisions about the access technologies (e.g. fibre to the premises 'FTTP', fibre to the basement 'FTTB', fibre to the node 'FTTN', fibre to the curb 'FTTC' or Hybrid Fibre Coaxial 'HFC') which it intends to use to serve premises in each of its rollout regions. In any given rollout region, these decisions trigger its election to acquire the relevant Telstra assets, the ownership of which we are progressively transferring to nbn co under the nbn Infrastructure Services Agreement (ISA). These assets include lead-in conduits (LICs), certain copper and HFC assets and associated passive infrastructure (being infrastructure that supports the relevant copper and HFC assets). In addition to the progressive transfer of these assets, we also provide nbn co with long-term access to certain other components of our infrastructure.

Under the ISA, we receive from nbn co the following payments:

- Infrastructure Ownership Payment (IOP) for the transfer of LICs, certain copper and HFC assets and associated passive infrastructure
- Infrastructure Access Payment (IAP) for long-term access to ducts and pits
- payments for long-term access to other infrastructure, including dark fibre and exchange rack space.

IOP are received over the duration of the nbn™ network rollout, CPI adjusted and linked to the progress of the nbn™ network rollout.

IAP are also indexed to CPI and will grow in line with the nbn™ network rollout until its completion (as defined under the DAs). Subsequently IAP will continue being indexed to CPI for the remaining average contracted period of 27 years.

IOP and IAP are classified in the income statement as other income and revenue, respectively, and are recognised on a percentage rollout basis of the nbn™ network footprint.

For any given period, the IOP and IAP amounts ultimately received from nbn co may vary from the amounts recognised in the income statement depending on the progress of the nbn™ network rollout and the final number of our existing fixed line premises as defined and determined under the ISA. A change in the nbn™ network rollout progress and/or the final number of these premises could result in a material change to the amount of IOP and IAP recognised in the income statement and the associated cash flows. Some of these adjustments cannot be finalised and the related amounts cannot be settled until the completion of the rollout and are subject to interest.

The nbn™ network rollout progress and its completion date are controlled by nbn co and the final number of the fixed line premises may continue to change even after all the relevant assets have been transferred to nbn co. Therefore, the final price adjustments and the resulting cash flows, including interest payable where relevant, may not be known until nbn co declares that the nbn™ network rollout is complete in accordance with the DAs.

We have applied judgement in relation to the variables described above in determining the amounts of IOP and IAP recognised during the half-year ended 31 December 2020 and recorded a cumulative reversal of \$6 million revenue from access services and \$38 million income from sale of our assets. Should evidence exist in future reporting periods that changes previously reported IOP and IAP amounts, other income and revenue will be adjusted in the future reporting periods.

Section 2. Our performance (continued)

2.3 Notes to the statement of cash flows

2.3.1 Cash and cash equivalents

Telstra Group	As at 31 Dec	
	2020	2019
	\$m	\$m
Cash at bank and on hand	261	239
Bank deposits	1,034	515
	1,295	754
Bank overdraft	-	(17)
Cash and cash equivalents in the statement of cash flows	1,295	737

Section 3. Our core assets, lease arrangements and working capital

This section describes our core long-term tangible (owned and leased) and intangible assets underpinning the Group's performance and provides a summary of our asset impairment assessment. This section also describes our short-term assets and liabilities, i.e. our working capital supporting the operating liquidity of our business.



3.1 Property, plant and equipment, goodwill and other intangible assets

Our impairment assessment compares the carrying value of our cash generating units (CGUs) with their recoverable amounts. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. Fair value less cost of disposal is measured with reference to quoted market prices in an active market. The value in use calculations use key assumptions such as cash flow forecasts, discount rates and terminal growth rates.

Goodwill and intangible assets with indefinite useful lives are not subject to amortisation and are assessed for impairment at least on an annual basis, or whenever an indicator of impairment exists. All other non-current tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable.

For our impairment testing, we identify CGUs, i.e. the smallest groups of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets.

3.1.1 Cash generating units with allocated goodwill

During the half-year ended 31 December 2020, there were no changes to our CGUs with allocated goodwill.

Determination of cash generating units (CGUs) and their recoverable amount for impairment assessment

We have applied judgement to identify our CGUs and determine their recoverable values.

We assess whether there are any impairment indicators based on qualitative and quantitative factors at each reporting period. A detailed impairment test is performed on an annual basis or whenever an indicator of impairment exists.

We have identified the potential impacts arising from the COVID-19 pandemic as an impairment indicator in two of our CGUs. To the extent possible, we have utilised the estimates, assumptions and judgements that reflect the COVID-19 uncertainties in our impairment testing.

We have concluded that the cash flows generated by those CGUs support their carrying values.

3.1.2 Our telecommunications network

In the financial year 2020, we identified the potential impacts arising from the COVID-19 pandemic as an impairment indicator and tested assets supporting our telecommunications networks for impairment. The value in use calculated at the time supported the carrying value of the ubiquitous network.

The uncertainty related to the COVID-19 pandemic persists, therefore we have reassessed this judgement for the half-year ended 31 December 2020. No impairment has been identified as the expected impacts of the pandemic on our cash flows remain consistent with and/or within the sensitivity range of the assessment completed in the financial year 2020.

3.1.3 Depreciation and amortisation

Useful lives and residual values of fixed assets

We apply judgement to estimate useful lives and residual values of our assets and review them each year. If useful lives or residual values need to be modified, the depreciation and amortisation expense changes from the date of reassessment until the end of the revised useful life (for both the current and future years).

This assessment includes a comparison with international trends for telecommunication companies and, in relation to communications assets, includes a determination of when the asset may be superseded technologically or made obsolete. For intangible assets, specifically business software, useful lives are adjusted to align with expected retirement dates for the relevant applications under the current corporate strategies.

For the half-year ended 31 December 2020, the net effect of our annual assessment of useful lives was nil change (2019: \$18 million decrease) in depreciation expense and a \$34 million (2019: \$42 million) decrease in amortisation expense.

Section 3. Our core assets, lease arrangements and working capital (continued)

3.2 Lease arrangements

We continue to account for our lease arrangements as described in note 3.3 to the financial statements in our 2020 Annual Report.

3.2.1 Telstra as a lessee

We recorded a \$173 million (2019: \$109 million) net loss on termination and modification of leases which mainly includes early termination charges for our mobile handset leases (Telstra as a lessee). These termination charges have been partly recovered from customers who have terminated their back-to-back operating leases. The recoveries are included in revenue from other sources as part of the \$111 million (2019: \$285 million) income from operating subleases of right-of-use assets (Telstra as an intermediate lessor).

3.2.2 Sale and leaseback transactions

In December 2020, we recognised a \$102 million net gain from a sale and leaseback transaction for an exchange property and received \$282 million in sale proceeds. We also recognised a \$136 million lease liability and a \$39 million right-of-use asset for the leaseback of the property.

During the half-year ended 31 December 2020, we also entered into a number of sale and leaseback transactions for mobile devices subleased to our enterprise customers under a finance lease, with a minimal net gain recognised on those transactions. We received \$7 million in sale proceeds.

3.3 Trade and other receivables and contract assets

Table A summarises trade and other receivables and contract assets. Where relevant, the amounts are presented net of impairment allowances.

Table A Telstra Group	As at	
	31 Dec 2020	30 Jun 2020
	\$m	\$m
Current		
Trade receivables from contracts with customers	3,190	3,248
Finance lease receivables	76	90
Accrued revenue	433	565
Other receivables	78	355
	3,777	4,258
Contract assets	813	863
	4,590	5,121
Non-current		
Trade receivables from contracts with customers	933	977
Finance lease receivables	200	198
Amounts owed by joint ventures and associated entities	48	16
Other receivables	50	8
	1,231	1,199
Contract assets	194	229
	1,425	1,428

Trade receivables from contracts with customers include receivables measured at amortised cost and at fair value. Refer to note 4.2.5 for further details on trade receivables from contracts with customers measured at fair value.

3.3.1 Impairment of trade and other receivables and contract assets

Estimating allowance for doubtful debts

We have applied judgement to estimate the allowance for doubtful debts for our trade and other receivables measured at amortised cost and for contract assets.

For trade receivables and contract assets arising from our Telstra Consumer & Small Business and Telstra Enterprise Australian customers, we have implemented a scenario based approach incorporating base, good and bad economic scenarios. The overall expected credit loss was calculated as a weighted average of the three scenarios.

Our analysis showed that generally overall macroeconomic factors, such as unemployment rates, interest rates or gross domestic product had no strong correlation with our bad debt losses unless certain thresholds had been exceeded.

Due to the COVID-19 pandemic, when estimating the expected credit loss in June 2020, we incorporated assumptions about unemployment rates and gross domestic product, multiple recovery scenarios and impacts from specific management actions, observable customer behaviours and other industry specific impacts.

Since June 2020, there were no material changes to our estimate of the expected credit loss to reflect risks and uncertainties brought about by the COVID-19 pandemic. Should the macroeconomic assumptions change in the future, it could have a material impact on our allowance for doubtful debts in the subsequent reporting periods.

Section 3. Our core assets, lease arrangements and working capital (continued)

3.4 Trade and other payables

Table A Telstra Group	As at	
	31 Dec 2020	30 Jun 2020
	\$m	\$m
Current		
Trade payables	1,076	988
Accrued expenses	1,548	1,774
Accrued capital expenditure	211	438
Accrued interest	189	221
Other payables	520	559
	3,544	3,980
Non-current		
Other payables	7	4
	7	4

As at 31 December 2020, 'Other payables' include \$98 million (June 2020: \$143 million) for amounts financed by vendors under supply chain finance arrangements. This program is scheduled to close by 30 June 2021.



Section 4. Our capital and risk management

This section sets out the policies and procedures applied to manage our capital structure and the financial risks we are exposed to. Our total capital is defined as equity and net debt. We manage our capital structure in order to maximise shareholder return, maintain optimal cost of capital and provide flexibility for strategic investments.

4.1 Dividends

This note includes the previous year final dividend paid and the current year interim dividend to be paid. Our dividend comprises both ordinary and special dividends.

As the current year interim dividend resolution was passed on 11 February 2021, no provision had been raised as at 31 December 2020.

We currently pay dividends to equity holders of Telstra Entity twice a year, an interim and a final dividend. The table below provides details about the previous year final dividend paid during the half-year ended 31 December 2020.

Telstra Entity	Half-year ended 31 Dec			
	2020	2019	2020	2019
	\$m	\$m	cents	cents
Dividends paid				
Previous year final dividend paid	951	951	8.0	8.0

The Dividend Reinvestment Plan (DRP) will continue to operate for the interim dividend in the financial year 2021. The election date for participation in the DRP is 26 February 2021.

On 11 February 2021, the Directors of Telstra Corporation Limited resolved to pay an interim dividend for the financial year 2021 of 8 cents per ordinary share, comprising an interim ordinary dividend of 5 cents and an interim special dividend of 3 cents. The interim dividend will be fully-franked at a tax rate of 30 per cent. The record date for the interim dividend will be 25 February 2021, with payment being made on 26 March 2021. From 24 February 2021, shares will trade excluding entitlement to the dividend.

As at 31 December 2020, the interim dividend was not determined or publicly recommended by the Board, therefore, no provision for the dividend has been raised in the statement of financial position. However, a provision for the interim dividend payable amounting to \$951 million has been raised as at the date of the resolution.

There are no income tax consequences for the Telstra Group resulting from the resolution and payment of the interim dividend, except for \$408 million of franking debits arising from the payment of this interim dividend that will be adjusted in our franking account balance.

Our franking account balance as at 31 December 2020 was a \$138 million surplus. We believe that our current franking account balance, combined with the franking credits that will arise on our expected tax instalments, will be sufficient to fully frank our 2021 interim dividend.

4.2 Capital management and financial instruments

Our capital management is undertaken in accordance with financial parameters regularly reviewed and approved by the Board.

We manage our capital structure which aims to provide returns for shareholders and benefits for other stakeholders, while:

- safeguarding our ability to continue as a going concern
- maintaining an optimal capital structure and cost of capital that provides flexibility for strategic investments.

In order to maintain or adjust the capital structure, we may issue or repay debt, adjust the amount of dividends paid to shareholders or return capital to shareholders.

As part of our capital management we monitor net debt. This note provides information about components of our net debt and related finance costs.

Our dividend policy together with dividends paid during the half-year ended 31 December 2020 have been detailed in note 4.1.

4.2.1 Net debt

Net debt equals total interest bearing financial liabilities and derivative financial instruments, less cash and cash equivalents. At 31 December 2020, net debt was \$16,110 million (June 2020: \$16,844 million).

Table A lists the carrying value of our net debt components and includes totals of current and non-current balances.

Table A Telstra Group	As at	
	31 Dec 2020	30 Jun 2020
	\$m	\$m
Lease liabilities	(3,355)	(3,298)
Borrowings	(15,108)	(15,829)
Net derivative financial instruments	1,058	1,784
Gross debt	(17,405)	(17,343)
Cash and cash equivalents	1,295	499
Net debt	(16,110)	(16,844)

No significant components of net debt are subject to any externally imposed capital requirements. With the exception of a breach by one of our subsidiaries on an \$8 million loan, we did not have any defaults or breaches under any of the agreements with our lenders during the half-year ended 31 December 2020. Subsequent to balance date, there is no outstanding breach on this loan as our subsidiary has repaid the loan in full.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.1 Net debt (continued)

Table B summarises the key movements in net debt during the period and provides our gearing ratio.

Table B Telstra Group	Half-year ended 31 Dec	
	2020	2019
	\$m	\$m
Net debt at 1 July	(16,844)	(14,727)
Debt issuance	(1,129)	(3)
Commercial paper (net)	183	(98)
Revolving bank facilities (net)	260	(250)
Debt repayments	804	510
Lease liability payments	403	538
Net cash outflow	521	697
Fair value gain/(loss) impacting		
Equity	(108)	(31)
Other expenses	26	(6)
Finance costs	1	2
Other non-cash movements		
Lease liability (Telstra as a lessee)	(460)	(3,839)
Other loans	(42)	(110)
Total non-cash movements	(583)	(3,984)
Total increase in gross debt	(62)	(3,287)
Net increase in cash and cash equivalents net of bank overdraft (includes foreign exchange differences)	796	133
Total decrease/(increase) in net debt	734	(3,154)
Net debt at 31 December	(16,110)	(17,881)
Total equity	(15,185)	(15,393)
Total capital	(31,295)	(33,274)
	%	%
Gearing ratio	51.5	53.7

Non-cash movements for lease liability (Telstra as a lessee) for the half-year ended 31 December 2019 incorporates \$3,644 million lease liability recognised on transition to the new lease accounting standard as disclosed in note 1.5 to the financial statements in our 2020 Annual Report.

Gearing ratio equals net debt divided by total capital, where total capital equals equity, as shown in the statement of financial position, plus net debt.

4.2.2 Borrowings and repayment of debt

(a) Funding activities

Debt issuance for the half-year ended 31 December 2020 of \$1,129 million comprised:

- \$700 million Australian dollar bilateral facilities maturing within five years
- \$414 million proceeds from sale and leaseback, treated as a financial liability under the accounting standards, of the underlying land and buildings housing the Clayton data centre in Victoria, Australia. The term of this liability is for an initial period of 30 years with two 10-year options to extend the lease.
- \$15 million other loans.

During the half-year ended 31 December 2020, we repaid \$804 million of term debt (Australian dollar equivalent). This included:

- \$500 million Australian dollar bond
- \$100 million Australian dollar bilateral facility
- \$60 million Japanese yen private placement
- \$50 million Hong Kong dollar private placement
- \$35 million Australian dollar private placements.

We also repaid other loans of \$59 million. The above also includes the cash settlement of derivative instruments, where applicable.

Table C shows our total and undrawn committed bank facilities at balance dates. Since 31 December 2020 we cancelled some of our facilities and entered into a new facility extending our maturity profile and reducing total available facilities to \$2,390 million.

Table C Telstra Group	As at	
	31 Dec 2020	30 Jun 2020
	\$m	\$m
Facilities available	3,490	4,090
Facilities used	-	(260)
Facilities unused	3,490	3,830

(b) Commercial paper

Our commercial paper is used principally to support working capital and short-term liquidity. As at 31 December 2020, we held \$194 million (June 2020: \$375 million) of commercial paper at carrying value.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.3 Borrowings

Table D details the carrying and fair values of borrowings included in the statement of financial position.

Table D Telstra Group	As at 31 Dec 2020		As at 30 Jun 2020	
	Carrying value	Fair value	Carrying value	Fair value
	\$m	\$m	\$m	\$m
Current borrowings				
Domestic - bonds and private placements	450	453	985	995
Offshore - bonds and private placements	2,108	2,151	971	971
Bank and other borrowings	66	66	432	435
Commercial paper	194	194	375	378
	2,818	2,864	2,763	2,779
Non-current borrowings				
Domestic - bonds and private placements	1,048	1,203	1,047	1,219
Offshore - bonds and private placements	9,843	10,632	11,740	12,744
Bank and other borrowings	986	1,006	279	285
Sale and leaseback financial liability	413	649	-	-
	12,290	13,490	13,066	14,248
Total borrowings	15,108	16,354	15,829	17,027

4.2.4 Finance costs

Table E presents our net finance costs. Interest expense on borrowings are net amounts after offsetting interest income and interest expense on associated derivative instruments.

Table E Telstra Group	Half-year ended 31 Dec	
	2020	2019
	\$m	\$m
Interest income	6	7
Finance income from finance leases (Telstra as a lessor)	6	7
Finance income from contracts with customers	16	92
Net interest income on defined benefit plan	1	2
Total finance income	29	108
Interest expense on		
Borrowings	(268)	(359)
Lease liabilities	(43)	(59)
Gross interest on debt	(311)	(418)
Finance costs from contracts with customers	(61)	(102)
Net gains on financial instruments included in remeasurements	12	12
	(49)	(90)
Interest capitalised	24	25
Total finance costs	(336)	(483)
Net finance costs	(307)	(375)

Net gains on derivative financial instruments included in remeasurements comprise unrealised valuation impacts on our borrowings and derivatives and are recorded in the income statement. These include net unrealised gains or losses which arise from changes in the fair value of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective. These fair values increase or decrease because of changes in financial indices and prices over which we have no control.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.5 Fair value measurement

The financial instruments included in the statement of financial position are measured either at fair value or their carrying value which approximates to fair value, with the exception of borrowings, which are held at amortised cost.

To determine fair value, we use both observable and unobservable inputs. We classify the inputs used in the valuation of our financial instruments according to the following three level hierarchy as shown below. The classification is based on the lowest level input that is significant to the fair value measurement as a whole.

Fair value hierarchy:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: the lowest level input that is significant to the fair value measurement is directly (as prices) or indirectly (derived from prices) observable
- Level 3: one or more key inputs for the instrument are not based on observable market data (unobservable inputs).

During the half-year ended 31 December 2020, there were no changes in valuation techniques for recurring fair value measurements of our financial instruments. There were also no transfers between fair value hierarchy levels.

The table below summaries the methods used to estimate the fair value of our financial instruments.

Level	Financial instrument	Fair value
Level 1	Listed investments in equity instruments	Quoted prices in active markets.
Level 2	Borrowings, cross currency and interest rate swaps	Valuation techniques maximising the use of observable market data. Present value of the estimated future cash flows using appropriate market based yield curves, which are independently derived. Yield curves are sourced from readily available market data quoted for all major currencies.
	Forward foreign exchange contracts	Quoted forward exchange rates at reporting date for contracts with similar maturity profiles.
Level 3	Trade receivables from contracts with customers	Trade receivables from contracts with customers measured at fair value are such where due to the variability of the contractual cash flows the instrument does not meet the classification requirements of financial assets at amortised cost. A valuation technique is used where the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Expected cash flows are estimated based on the terms of the customer contract taking into account possible variations in the amount and timing of cash flows. Discount rate is determined using a risk-free rate plus a risk adjustment reflecting the credit risk associated with the cash flows.
	Unlisted investments in equity instruments	Valuation techniques (where one or more of the significant inputs is not based on observable market data) include reference to discounted cash flows and fair values of recent orderly sell transactions between market participants involving instruments that are substantially the same.
	Contingent consideration	Initial recognition: expectations of future performance of the business. Subsequent measurement: present value of the future expected cash flows.

Section 4. Our capital and risk management (continued)

4.2 Capital management and financial instruments (continued)

4.2.5 Fair value measurement (continued)

Table F categorises our financial instruments which are measured at fair value, according to the valuation methodology applied.

Table F Telstra Group	As at 31 Dec 2020				As at 30 Jun 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Assets								
Trade receivables from contracts with customers	-	-	800	800	-	-	1,346	1,346
Derivative financial instruments	-	1,563	-	1,563	-	2,158	-	2,158
Investments in unlisted securities	-	-	15	15	-	-	21	21
	-	1,563	815	2,378	-	2,158	1,367	3,525
Liabilities								
Derivative financial instruments	-	(505)	-	(505)	-	(374)	-	(374)
	-	(505)	-	(505)	-	(374)	-	(374)
Total	-	1,058	815	1,873	-	1,784	1,367	3,151

(a) Level 3 financial instruments

Table G details movements in the level 3 unlisted security balances.

Table G Telstra Group	Half-year ended 31 Dec	
	2020	2019
	\$m	\$m
Opening balance 1 July	21	16
Disposal	(6)	-
Closing balance 31 December	15	16

During the half-year ended 31 December 2020, we have not received any dividends from our investments in these equity instruments and there have been no transfers to or from equity in relation to these investments.

4.2.6 Financial risk factors

Our underlying business activities result in exposure to operational risks and a number of financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Our overall risk management program seeks to mitigate these risks in order to reduce volatility in our financial performance and to support the delivery of our financial targets. We enter into derivative transactions in accordance with policies approved by the Board to manage our exposure to market risks and volatility of financial outcomes that arise as part of our normal business operations. We do not speculatively trade in derivative financial instruments.

The half-year financial report does not include all financial risk management information and disclosures required for the annual financial statements. For further details on our financial risk management refer to note 4.4 to the financial statements in our 2020 Annual Report. There have been no significant changes to our risk management policies since 30 June 2020.

Section 5. Our investments

This section outlines our group structure and includes information about our controlled entities, joint ventures and associated entities. It provides details of changes to these investments and their effect on our financial position and performance during the financial year. It also includes the results of our material joint ventures and associated entities.



5.1 Investments in controlled entities

5.1.1 Acquisition of Epicon

On 30 November 2020, we acquired 100% of Epicon IT Solutions Pty Ltd (including its wholly owned subsidiary, Service Potential Pty Ltd) and Epicon Software Pty Ltd via a share purchase for an upfront consideration of \$25 million. The Epicon companies provide IT management services to large enterprise and government customers.

5.2 Investments in joint ventures and associated entities

5.2.1 NXE Australia Pty Limited

The equity accounted investment in NXE Australia Pty Limited is assessed for impairment on an annual basis or whenever an impairment indicator exists.

Impairment assessment of NXE Australia Pty Limited

During the half-year ended 31 December 2020, we have not identified impairment indicators for our investment in NXE Australia Pty Limited.

For our impairment assessment we applied judgement to determine the recoverable amount of the investment using a value in use calculation, including selection of terminal growth rate and discount rate based on past experience and our expectations for the future. No impairment charge was required.

5.2.2 Investment in Project Sunshine I Pty Ltd held for sale

As at 31 December 2020, we have classified our investment in Project Sunshine I Pty Ltd and related balances as held for sale, and recognised in other expenses a \$34 million impairment loss on remeasurement to the fair value less cost to sell. The loss is included in the EBITDA contribution of the 'All Other' category in our segment note 2.1.2. The sale is expected to be completed by March 2021.

Section 6. Other information

This section provides other information and disclosures not included in the other sections, for example our commitments and contingencies, and significant events occurring after reporting date.



6.1 Other accounting policies

6.1.1 New accounting standards to be applied in future reporting periods

We have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective and we do not expect any of them to have a material impact on our financial results upon adoption.

AASB 2020-8 'Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2' was issued in September 2020 and will be effective for Telstra from 1 July 2021. We do not expect material impacts from this standard.

6.2 Provisions

6.2.1 Provision for Australian Competition and Consumer Commission (ACCC) investigation

In June 2020, we raised a \$50 million provision for any potential penalties arising from the investigation by the ACCC into our sales, complaint handling and debt collection practices, with a specific focus on conduct towards Indigenous Australians, including in particular locations in the NT, WA, QLD, NSW and SA. In November 2020, we reached an agreement with the ACCC which includes a proposed penalty of \$50 million. As at 31 December 2020, the penalty has not been paid. The Federal Court is scheduled to determine an application by the ACCC and Telstra to approve the \$50 million penalty in March 2021.

6.3 Commitments and contingencies

6.3.1 Capital expenditure commitments

During the half-year ended 31 December 2020, our capital commitments decreased by \$83 million due to reduced capital expenditure spend.

6.3.2 Contingent liabilities and contingent assets

(a) Investigations by regulators

Telstra is subject to a range of laws and regulations in Australia and overseas, including in the areas of telecommunications, corporate law, consumer and competition law and occupational health and safety. Telstra is also subject to investigations and reviews from time to time by regulators, including certain current investigations into whether Telstra has complied with relevant laws and regulations. A number of these investigations have arisen in circumstances where Telstra has self-reported issues where it has not complied with relevant laws and regulations. In Australia, the principal regulators that Telstra interacts with are the Australian Competition and Consumer Commission (ACCC), the Australian Communications and Media Authority (ACMA), the Australian Securities and Investments Commission (ASIC) and the Australian Securities Exchange (ASX). Any regulatory investigations and reviews may result in enforcement action, litigation (including class action proceedings) or civil or criminal penalties. We assess each investigation and review that we are subject to for the purposes of preparing our financial statements in accordance with the accounting standards.

In the ordinary course of our business, we identify, and may continue to identify, issues that have the potential to impact our customers and reputation, or which do not meet our standards. Where we identify these issues, we make disclosures in accordance with the accounting standards, or our other legal disclosure obligations, or provide for such liabilities as required.

(b) Other

Since 30 June 2020, there have been no significant changes to:

- contingent liabilities arising from common law claims
- indemnities, performance guarantees and financial support.

We have no significant contingent assets as at 31 December 2020.

6.4 Events after reporting date

We are not aware of any matter or circumstance that has occurred since 31 December 2020 that, in our opinion, has significantly affected or may significantly affect in future years:

- our operations
- the results of those operations, or
- the state of our affairs

other than the following:

6.4.1 Interim dividend

The details of our interim dividend for the half-year ended 31 December 2020 are disclosed in note 4.1.

6.4.2 Revised retail store strategy

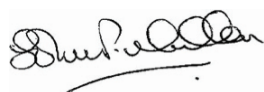
On 11 February 2021, we announced a revised retail store strategy to move to a fully Telstra-owned, branded retail store model. This will enhance our management of the future store footprint, support our digital sales ambition and improve our ability to manage third party risk and responsible selling practices. Consistent with this strategy, we provided a formal notice of non-renewal of the Telstra Dealership Agreements to each of our licensed stores. These agreements have varying tenures ranging up to the calendar year 2025. We have made non-binding indicative offers to certain licensees to acquire their stores. These offers are subject to negotiation, due diligence and final agreements before these stores can be acquired. We will continue to assess the remaining network of stores with the intention to have all licensed stores operated by Telstra by December 2025. Whilst there is uncertainty in the final outcomes of this strategy, we do not expect this to have a significant financial impact for the financial year 2021.

Directors' Declaration

This Directors' Declaration is required by the *Corporations Act 2001*. The Directors of Telstra Corporation Limited have made a resolution that declared:

- (a) in the Directors' opinion, there are reasonable grounds to believe that Telstra Corporation Limited will be able to pay its debts as and when they become due and payable
- (b) in the Directors' opinion, the financial statements and notes of the Telstra Group for the half-year ended 31 December 2020, as set out on pages 1 to 29 are in accordance with the *Corporations Act 2001*, including that:
 - (i) the financial report complies with Accounting Standard AASB 134: 'Interim Financial Reporting' and the Corporations Regulations 2001
 - (ii) the financial statements and notes give a true and fair view of the Telstra Group's financial position and performance for the half-year ended 31 December 2020.

For and on behalf of the board



John P Mullen
Chairman



Andrew R Penn
Chief Executive Officer and
Managing Director

11 February 2021
Melbourne, Australia

Independent auditor's review report to the members of Telstra Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Telstra Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2020, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Andrew Price
Partner
Melbourne
11 February 2021