Australian Shareholders' Association Limited
ABN 40 000 625 669
Suite 11, Level 22
227 Elizabeth Street, Sydney NSW 2000
PO Box A398, Sydney South NSW 1235
t (02) 9252 4244 | f (02) 9071 9877
e share@asa.asn.au

Voting Intentions – Telstra 2021 AGM

ASX Code	TLS
Meeting Time/Date	9:30am, Tuesday 12 October 2021
Type of Meeting	Virtual. https://agmlive.link/telstra2021
Monitor	Mike Robey
Pre-AGM Meeting?	Yes, with Chair John Mullen, Investor relations Mgr. Nathan Burley and Peter Hearl, Chairman of People and Remuneration

Proposed Voting Summary

3a	Re-election of Roy Chestnutt as a Director	For
3b	Re-election of Niek Jan van Damme as a Director	For
4	Allocation of equity to the CEO	For
5	Remuneration report	For

Key Financials

	2021	2020	2019	2018	2017
Statutory NPAT ($m)	1.857	1.819	2.149	3.529	3.874
Underlying NPAT ($m)	1.857	1.819	2.149	3.529	3.874
Statutory EPS (cents)	15.6	15.3	18.1	30.0	32.5
Dividend per Share (cents)	16.0	16.0	19.0	26.5	31.0
Share Price at End of FY ($)	3.76	3.13	3.85	2.62	4.30
Statutory CEO Remuneration ($)	5.305	3.656	4,998	3.745	5.208
Total Shareholder Return (%)	25.2	(14.5)	53.0	(34.0)	(17.0)

Statutory NPAT and EPS are the audited figure from the financial accounts. Underlying NPAT is (usually) an unaudited figure used in management presentations or commentary. Total Shareholder Return is calculated as the share price change over the year plus the dividend declared during the year, divided by the share price at end of previous year. This may differ from the figure quoted by the company.

Summary of Historical ASA Issues with the Company

- There is a relatively poor match of Ms Loudon's skills with the stated board skills set. She is a successful entrepreneur in an online business which connects consultants to companies which require their services. It has little in common with Telstra. The Telstra position is that she brings a useful young entrepreneurial mindset to the board.
- The skills matrix is not granular enough to be useful for shareholders

Review of Board on Governance, Transparency, Fairness to Retail Shareholders

Positives

- The Board of 11 has an independent Non-Executive Chair and majority of independent directors. The Chairman has passed 12 years on the board but has announced he will step down during his current term.
- The Board has 36% female directors with diversity of geography, age, and ethnic background.
- Directors, except for the recently appointed Ms Loudon, and other KMP have/are investing at least one year's worth of base cash fees in company shares.
- The company is leading in Australia in the ESG areas of its business and in the processes to manage them. Telstra has been certified carbon neutral since 2020 in large part by buying 2 million carbon credits from India. It has committed to at least 50% reduction in absolute emissions by 2030 and has a 2025 target of using 100% renewable energy. It has also built appropriate targets into the key executive accountabilities.
- The digitisation program now in its last year is a textbook case study for telcos. It is arguably the most complete of any large established telco and the fact that the business has turned the corner is a credit to Telstra. Significant levels of self service have been achieved through the My Telstra app and call centre volumes are well down, though surprisingly, complaints are marginally up. Telstra has reduced the number of consumer plans to 20, removed phone subsidy arrangements, removed excess data cost gouging and brought its plans into a much more competitive price range for customers. We would have expected that all this would reduce complaints, which in the past have largely been about billing, but it may be due to the transition to the new plans. We shall ask at the AGM.

Areas for improvement

- Telstra has mostly completed a process of digital transformation of its legacy network and service businesses and has invested into growth opportunities in the adjacencies of digital health and energy. We believe this is the time to publish business targets in this new area.
- Because the ongoing success of the company is critically dependent upon the level of digital competence at all levels, we believe that the Board should also have a suitably experienced online digital specialist. The board in 2018 added two experienced traditional telco specialists, which is welcome, but we are unsure if they have sufficient experience in complex online digital-only business models, such in social networking, travel etc.
- Mr Ebeid, who was the Enterprises boss lasted only 2 years, so the recruitment process was clearly flawed in this instance.

Summary

Telstra has undertaken a bold multi-year restructuring of all aspects of its legacy business, with the aim of creating a digital network and services business much as a new start-up online business would. This has entailed dumping the complex product and service platforms, which have been the cause of major maintenance and customer service costs and replacing with digital native systems and processes. In particular, in the Consumer and Small Business area they have provided real-time customer self-service options which are being taken up strongly by its customers. The Enterprise business is much slower in changing, but the Covid pandemic accelerated the digitisation in all business areas. It remains to be seen if the transformation in the Enterprise segment can achieve the cost reductions and efficiency improvements of the Consumer and Small Business segment.

Items for Voting

Item 3a	Re-election of Roy Chestnutt as a Director
ASA Vote	For

Roy comes with a 30-year background in US telecommunications, covering network equipment manufacturers and carriers. He was the chief strategy officer of Verizon, the largest carrier in the US, for a number of years before taking up the Directorship at Telstra in 2018. He is a welcome addition from both direct experience in a large carrier and in strategy formulation in a legacy telco and has a manageable workload, with consultancy work in areas of relevance to Telstra.

He already has adequate skin in the game, with about 100% of his salary in shares.

For these reasons we support the re-election of Mr Chestnutt.

Item 3b	Re-election of Niek Jan van Damme as a Director
ASA Vote	For

Niek Jan has a 20-year history of work with telecommunications, starting in brand management and moving into change management in major European telcos, where his experience will be valuable in the newly formed Telstra. He held leadership positions in both challenger and major telcos. He was appointed to the Board in 2018 and has adequate skin in the game, holding 112% of his annual salary in shares. He has no other Directorships.

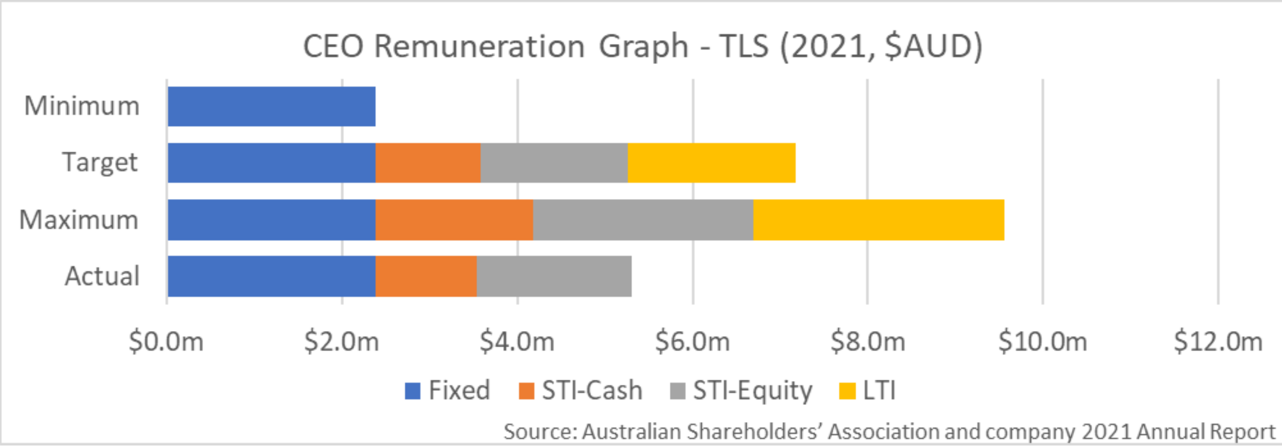
For these reasons we support the re-election of Mr van Damme.

Item 4a and b	Allocation of equity to the CEO
ASA Vote	For

This resolution refers to the awards under the EVP program, which we have chosen to support.

The quanta are: 404,414 Restricted Shares and 462, 188 Performance Rights. These were calculated using a 30-day VWAP of $3.19 on June 30 2021. Please see the discussion below under remuneration.

Item 5	Remuneration report
ASA Vote	For



Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Telstra has an unconventional but reasonable remuneration structure, as follows:

- Fixed remuneration, FAR.
- An EVP (Executive Variable remuneration Plan) comprising a cash STI in the first year (Y1), restricted shares in Y2 to Y5 in four equal portions and an LTI paid in Y5.
- Threshold EVP is 100% of FAR, target is 200% and maximum 300%
- The award split is 25% cash, 35% restricted shares (RS) and 40% Performance shares (PS)

Positives

- CEO's actual take-home remuneration, as well as the target and maximum opportunity of each component is clearly disclosed.
- The total quantum of the CEO remuneration package does not reasonably exceed the Godfrey Remuneration Group report benchmarks.
- The quantum of Board fees does not reasonably exceed the Godfrey Remuneration Group report benchmarks.
- At least 50% of CEO's pay is genuinely at risk.
- Majority of STIs are based on quantifiable and disclosed performance metrics and, where non-financial hurdles are used, no STIs to be paid unless a financial gateway is met.
- At least 75% of STIs is paid in equity over 5 years. This is unusual, but puts more award gain into the future, which we support. It also explains the absence of a financial measure for the LTI measure, since STI covers the same period and has measures of total revenue, Underlying EBITDA, Free Cashflow and %YoY cost reduction.
- Clear disclosure is provided for all KMP performance hurdles and the weightings applied for each incentive.
- No retesting of performance hurdles is allowed.
- LTI hurdles are based only on RTSR, using the ASX100 as the comparator group (minus resource companies)
- LTI hurdles are measured at five years. This is appropriate for a business with long term horizons. The absence of a balancing financial measure is somewhat offset by the fact that the other 5-year EVP component, a hybrid of STI and LTI, has 60% weighting of financial measures.
- No LTI awards based on comparator groups vest unless performance is >50th percentile.
- All share grants are allocated at face value.

- Share grants are satisfied by equity purchased on-market.
- Hurdles are based on earnings are based on statutory earnings.
- No retention payment on any awards is subject only to continuing service.
- No termination payments exceed 12 months fixed pay.

Overall, the Remuneration report is readable, transparent, and understandable with a logical relationship between rewards and financial performance and corporate governance. The level of detail is excellent and the EVP structure, whilst not fully compliant with the ASA guidelines, is long term focussed and on balance acceptable. In this turnaround year the CEO was awarded only 63.8% of the maximum, despite having made substantial progress in digitising the business, so the plan is challenging.

Monitor Shareholding

The individual (or their associates) involved in the preparation of this voting intention has no shareholding in this company.