Australian Shareholders' Association Limited
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Plain sailing?

Company/ASX Code	Telstra / TLS
AGM time and date	**9:30am, Tuesday 17 October**
Location	Melbourne Convention and Exhibition Centre
Registry	Link
Type of meeting	Hybrid
Monitor	Mike Robey and buddy Lionel Werbeloff
Pre-AGM Meeting	With current chair John Mullen and incoming chair Craig Dunn

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

1. How we intend to vote

No.	Resolution description	
3a	That Maxine Brenner be elected as a director	For
3b	That Ming Long AM be elected as a director	For
3c	That Bridget Louden be re-elected as a director	Undecided
3d	That Elana Rubin AM be re-elected as a director	For
4a	Grant of Restricted Shares to the CEO	For
4b	Grant of Performance Rights to the CEO	For
5	Remuneration Report	For

2. Summary of Issues and Voting Intentions for AGM/EGM

- There are no major issues arising this year
- This year is the first for the new CEO, Vicky Brady
- We have a quibble concerning the lack of granularity of the Board skills matrix

3. Matters Considered

Accounts and reports

Telstra has performed well in FY23. The NBN headwind (migration of high margin copper-based internet service to low margin NBN resale) has abated as the transition is almost complete. Telstra has also met market guidance on all its key financials. Revenue grew 5.4% to $23.25b, earnings before income tax and depreciation (EBITDA) grew by 8.4% to $7.862b and profit grew 13.1% to $2.05b. Particularly welcome was the return on invested capital (ROIC) of 8.1% which for a capital-intensive business such as Telstra means that they are getting shareholder returns in excess of the cost of capital.

The problem child in their portfolio is the Enterprise Business, which has greater competition and is suffering from the decline in dedicated data services as Corporations move onto the cloud. One bright spot here is the Digicel business which folds into the international segment which yielded $719m in income in the year with an EBITDA margin of 46.8%. Given the favourable conditions under which Telstra entered this business (where the Federal Government in fear of growing Chinese influence in the Pacific Islands, funded $2.4b of the equity), this has been a welcome new addition to Telstra’s growth prospects.

Consumer Mobile is the star performer in Australia and grew in both average revenue per user (ARPU) and user numbers leading to revenue growth of 9.5% for the year.

Financial performance

(As at FYE)	**2023**	**2022**	**2021**	**2020**	**2019**
NPAT ($m)	2,051	1,814	1,902	1,839	2,149
Share price ($)	4.30	3.85	3.76	3.13	3.85
Dividend (cents)	17	16	16	16	19
Simple TSR (%)	16.1	6.6	25.2	(14.5)	54.2
EPS (cents)	17	14	16	15	18
CEO total remuneration, actual ($m)	4.391	4.272	5.305	3.656	4.998

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Governance and culture

Telstra has explicitly included culture in its articulated strategies T22 and its update T25.

On culture, it’s episode net promoter score (eNPS) (ie would you as a customer recommend Telstra to others) was above the maximum target and their best result in 15 years, so the punching bag that was Telstra to many customers in the past seems to have gone. It achieved a score of 63.5 for Rep Trak, an external corporate benchmark stakeholder reputation index, which is a little below their target, so they still have some way to go to match world’s best (which is around 76 out of 100).

Key events

In the prior year an EGM was held to endorse a restructuring of the Telstra businesses, which was widely supposed to lead to an easier monetisation of the network assets, in much the way that the sale of 49% of the mobile towers business Amplitel. However further monetisation of these assets did not happen, and the reason given by the new CEO was that the potential of the data they hold was greater in an AI world.

Key board or senior management changes

This year saw the changing of the guard at CEO level, with the former CFO Vicky Brady becoming CEO. In addition, the long serving Chairman Mr Mullen has announced he will step down at this year’s AGM and hand over to Mr Craig Dunn. In addition, the architect of the people strategy, Ms

Badenoch resigned. We note that the people engagement score was one of the few targets which were not met, but we were assured that this was unrelated to the resignation.

Sustainability/ESG

Telstra has a comprehensive sustainability program and have been certified carbon neutral since 2020. It integrates responsibility for sustainability deep into the business hierarchy. They have achieved reduction of absolute scope 1 and 2 emissions of 30% since 2019, well on the way to reaching an intermediate target of 50% by 2030. They do note a risk in achieving 50% reduction in scope 3 emissions as well as reaching 100% renewable energy usage by 2025, in part due to the challenges this requires for the Australian energy grid. They will be among the first ASX listed companies to be required to report against new standards (ISSB) in FY 2014. In our discussion with the outgoing chairman, he noted that this deadline has focussed the effort and that they are well on track.

It has a useful table in the Annual Report outlining the physical risks it faces (flood, fire etc) under different global warming scenarios and the mitigation strategies they have deployed.

ASA focus issues (not discussed above or under remuneration report or re-election of directors)

We raised the issue of the Directors Skills Matrix being too broad brush and provided the incoming Chairman with an example of a more granular matrix provided by a foreign telecommunications company.

4. Rationale for Voting Intentions

The newly appointed Telstra Directors, Maxine Brenner and Ming Long, both women, come with good experience and, as far as we can tell from the inadequate skills matrix, are a good fit. This brings the board to 50% women, upon the retirement of Mr Mullen.

Resolution 3a That Maxine Brenner be elected as a director (for)

Ms Brenner, a lawyer and former Managing Director in investment banking, was appointed to the board in February 2023. She has recently purchased Telstra shares worth more than her FY23 remuneration. We consider her independent.

Ms Brenner is a director of three other ASX listed companies, Woolworths, Qantas, and Origin Energy. We do not consider her workload excessive.

We believe that Ms Brenner is well qualified, can contribute to the board and we support her election.

Resolution 3b That Ming Long AM, being eligible, be elected as a director (for)

Ms Long, with a background in private equity owned organisations, was appointed to the board in January 2023. She already owns Telstra shares in excess of her FY23 remuneration. We consider her independent.

Ms Long is not a director of any other ASX listed companies but is a director of two unlisted companies and two industry boards. We do not consider her workload excessive.

We believe that Ms Long is well qualified, can contribute to the board and we support her election.

Resolution 3c That Bridget Louden, being eligible, be re-elected as a director (undecided)

Ms Loudon, a founder and CEO of Expert360 and a former management consultant, was appointed to the board in August 2020. She has a shareholding equivalent to only 21% of her FY23 remuneration. We consider her independent.

Ms Louden is not a director of any other ASX listed companies but is CEO of Expert360 and a director of two related unlisted companies. We do not consider her workload excessive.

We believe that Ms Louden is well qualified and can contribute to the board. However, we are concerned about her lack of "skin in the game" (ie shareholding) so will ask at the AGM for a commitment to substantially increase her shareholding and base our vote on how she answers.

Resolution 3d That Elana Rubin AM, being eligible, be re-elected as a director (for)

Ms Rubin, with an executive experience in industrial relations, social and economic policy, and superannuation and with 20 years board experience across the financial service sector, was appointed to the board in February 2020. She has a shareholding equivalent to only 83% of her FY23 remuneration. We consider her independent.

Ms Rubin is a director of one ASX listed company, Dexus Funds Management. We do not consider her workload excessive.

We believe that Ms Rubin is well qualified, can contribute to the board however we would like her to have a higher Telstra shareholding. On balance we support her election.

Resolution 4a Grant of Restricted Shares to the CEO (for)

The remuneration structure is unchanged from last year and is a model of clarity, supported by detail of the target measures. We support the resolution.

Resolution 4b Grant of Performance Rights to the CEO (for)

As for Resolution 4a, the remuneration structure is unchanged from last year and is a model of clarity, supported by detail of the target measures. We support the resolution.

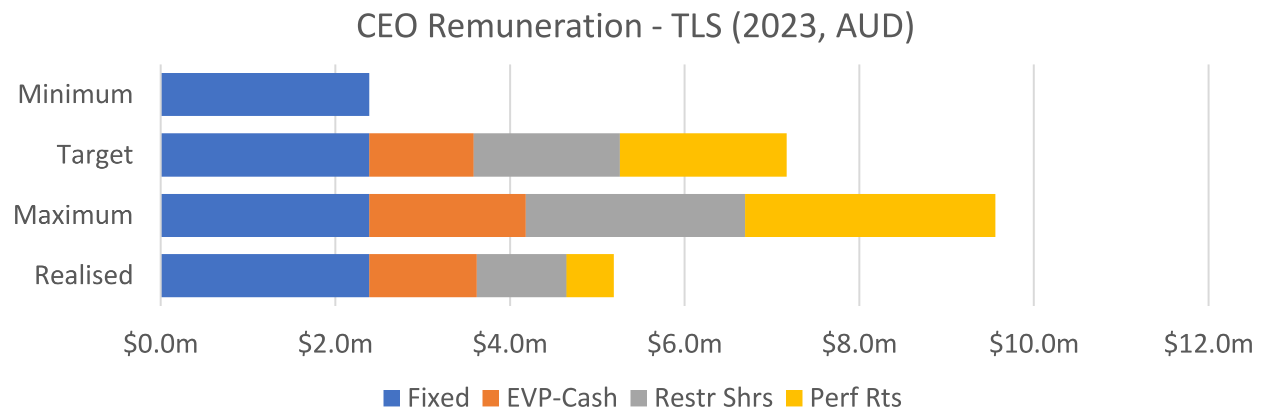
Resolution 5 Remuneration Report (for)

As for Resolution 4, the remuneration structure is unchanged from last year and is a model of clarity, supported by detail of the target measures. We support the resolution.

Appendix 1
Remuneration framework detail

CEO rem. Framework for FY23	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	2.390	33.3	2.390	25.0
EVP – cash	1.195	16.7	1.793	18.8
EVP – restricted shares (1-4 year vesting)	1.673	23.3	2.510	26.2
EVP – performance rights (5 year vesting)	1.912	26.7	2.868	30.0
Total	7.170	100.0	9.561	100.0

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan. *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.



Source: Australian Shareholders' Association and company Annual Report, realised EVP awards are from prior years

Telstra has a single remuneration structure called an Executive Variable remuneration Plan (EVP) rather than the conventional short-term incentives (STI) and long-term incentives (LTI). It is unchanged since last year.

It comprises 25% in cash, paid in the period immediately following the results release, 35% in restricted shares and 40% in performance rights. Restricted shares vest progressively over 4 years, commencing a year after the performance period. Performance rights vest after 5 years against a relative total shareholder return (rTSR) condition but do not require that the absolute TSR be positive. This last point was justified in that Telstra has been subject to the nationalization of the fixed network by the Government owned NBN, which had a negative impact on all service providers. The comparator group for rTSR is the ASX100. Telstra had a multi-year headwind in its fixed network offerings since each customer migration off the legacy fixed network onto the NBN involves a margin loss for Telstra. This process of migration is nearly over, so the headwinds have abated.

Target EVP for the CEO is set at 200% of her fixed pay and the maximum at 300%.

The EVP is subject to achieving primary performance measures, which comprise 60% financial – total external income 15%, underlying earnings before interest, depreciation and tax (EBITDA) 15%, free cash flow (FCF) 15%, net operating expense reduction 15%, and 40% for other strategic measures (episode net promoter score 15%, consumer and small business (C&SB) product simplification 5%, C&SB digital engagement 5%, Telstra Enterprise digital engagement 5%, employee engagement 10%).

The Performance rights start to vest after 5 years if the rTSR exceeds 50%, at which 50% are awarded which increases linearly to 100% vesting at 75% of the comparator group rTSR.