



Challenges persist

Company/ASX Code	Telstra Corporation Ltd/TLS
AGM date	Tuesday 13 October 2020
Time and location	Virtually https://agmlive.link/telstra2020
Registry	Link Market Services
Webcast	Yes, full virtual meeting
Poll or show of hands	Poll on all items
Monitor	Sue Shields assisted by Mike Robey
Pre AGM Meeting?	Yes with Chair John Mullen, Chair of the Remuneration Committee Peter Hearl and Head of Investor Relations Ross Moffat.

Please note any potential conflict as follows: The individuals involved in the preparation of this voting intention have no shareholding in this company.

Item 1	Chairman and CEO Presentations
Item 2	Discussion of Financial Statements and reports
ASA Vote	No vote required

Financial performance

Telstra appears challenged in the current environment, the National Broadcasting Network (nbn) has eroded margins in fixed broadband while competition, together with the impact of COVID-19 on international roaming, are driving returns lower in mobile where Telstra generates the majority of its profitability.

Total income was \$26.2b down 5.9%, EBITDA (earnings before interest, tax, depreciation, and amortisation) was \$8.9b up 11.5%, NPAT (net profit after tax) was \$1.8b down 14.4% while EPS (earnings per share) was down 15.5% to 15.3 cents.

Telstra has highlighted the Mobile division and to a lesser degree Global Enterprise Services (GES) and Network Application Services (NAS) businesses as areas of growth, however, while mobile has the potential to deliver significant EBITDA growth, contributions from GES and NAS will be challenged by lower margins.

The total dividend was maintained at 16pcs returning \$1.9b to shareholders, 99% of underlying earnings and above the ratio of 70-90% set out in Telstra’s capital management framework.

Key events

Telstra has past the midway point in T22, a major three-year plan to transform the company by simplifying operations and product sets, improve customer experiences and reduce costs. Telstra reports significant progress but what is not clear from the results is whether it is delivering anything to the bottom line. The company also reduced the Post-nbn ROIC (return on invested capital) from >10% to >7%.

These points were raised at the pre-AGM meeting. The reasons given were a change in accounting standards, competition in mobiles and Covid, however the Chairman felt confident that a ROIC of 8% would be achieved and that the benefits of T22 would ultimately flow through to the bottom line.

Summary of financial data

As at FYE	2020	2019	2018	2017	2016
NPAT (\$ billion)	1.819	2.149	3.529	3.874	5.849*
UPAT (\$ billion)	1.819	2.149	3.529	3.874	3.832
Share price (\$)	3.13	3.85	2.62	4.30	5.56
Dividend (cents)	16	16	22	31	31
TSR (%)	-14.5%	53%	-34%	17%	4%
EPS (cents)	15.3	18.1	30.0	32.5	47.4*
CEO total remuneration, actual (\$m)	5.846	4.998	3.745	5.208	6.768

*Includes proceeds from Autohome shares

For 2020 the CEO's total actual remuneration was 69 the Australian Full time Adult Average Weekly Total Earnings (annualised is \$91,983 based on May 2020 data from the Australian Bureau of Statistics).

Key Board changes

Telstra lists just three core skills, namely Telecoms and technology, ASX large company experience and at the pre-AGM meeting we asked if the company could publish a meaningful skills matrix which highlights skills and competencies needed on the board and the process for evaluating performance.

Mr Mullen indicated a formal skills matrix didn't quite fit and that internally Telstra has a very rigorous process of board selection and evaluation. He explained that when he took over as Chairman he wanted to strengthen the Board around three key principles. His first priority was to have high level industry knowledge with direct global telecommunications experience on the board and he pointed to Eelco Blok, Roy Chestnutt and Niek Jan van Damme as members currently meeting that priority. The second objective was to have someone from the investor community and the election of Elana Rubin (see below) fills that role.

Finally, given the expansion in technology platforms and the huge growth in social media, Mr Mullen said the board needed a younger perspective with relevant experience. US based technology executive, investor and advisor Trae Vassallo, was appointed in 2015 but the travel proved too onerous and she resigned at the end of her term. Mr Mullen said it has taken an extensive two-year search to find an Australian-based replacement resulting in Bridget Loudon's nomination (see below).

Item 3 – Election and Re-election of Directors

Item 3a	Peter Hearl – Re-election
ASA Vote	For

Summary of ASA Position

Peter Hearl, aged 69, was appointed in 2014 and is Chairman of the Remuneration Committee and a member of the Nomination Committee. He is an experienced company director with substantial international experience as a senior executive in the consumer goods sector. Company directorships include Santos (from 2016) and Treasury Wine Estates (2012-17).

Mr Hearl owns 100,000 Telstra shares (\$313,000 at 30 June 20)

Item 3b	Bridget Loudon – Election
ASA Vote	For

Summary of ASA Position

Bridget Loudon, aged 32, was appointed in August 2020 and is a member of the Nomination Committee.

Ms Loudon is founder and Chief Executive Officer of Expert360. Expert360 is recognised as a game-changing platform and Australia's number one skilled talent platform, using sophisticated vetting and matching technology to connect more than 1000 companies with more than 30,000 elite consultants, project managers, data analysts and developers. She is regarded as a leader in how organisations transform themselves to capture the opportunities presented by developments in technology. Ms Loudon is a Director, Expert 360 (from 2013) and E360 Holdings (from 2019).

We challenged Mr Mullen on the choice of Ms Loudon to the Board, on the basis that she appeared not to fit at all the recently published Board skills. We also complimented him on breaking the mould of board choices by selecting a much younger skilled member. His defence was that he didn't want everyone on the board to be the ex CEO of a large public company as he felt it had that experience in spades. He explained the board needed a balance of different skills and Ms Loudon would bring real value to the Board as she heads a large company in disruptive technology and is immersed in the practical application of technology among the younger generation in Australia. We are prepared to give him the benefit of the doubt and vote for her appointment. It does however raise the question of why have a skills matrix if you do not intend to follow it.

Item 3c	John Mullen – Re-election
ASA Vote	For

Summary of ASA Position

John Mullen, aged 65, was appointed a director in 2008 and Chairman effective April 2016. He is Chairman of the Nomination committee and was previously Chairman of the Remuneration Committee.

Mr Mullen has extensive international transportation and logistics experience and is Chairman of Brambles (From 2020) and Chairman Toll Holdings (Private – since 2017) and Chair of a Not-for-Profit.

At the pre-AGM we questioned his independence and workload. In response Mr Hearl said that within the board Mr Mullen’s re-election was unanimous. He added that the Telstra board is one of the hardest working and cohesive he had been associated with and that Mr Mullen was at the forefront of the workload.

Mr Mullen indicated this would be his final term and explained that he and the CEO (Chief Executive Officer) Andy Penn were accountable for the delivery of the T22 program some 18 months away. He said it was important to see that out and once it was delivered Telstra would formally start the succession process for himself and the CEO.

Although Mr Mullen will exceed the 12 year guideline for independence during this term, we accept that he will be handing over to a new Chair in this period at the same time as overseeing a change in CEO, so will vote for his re-election.

Mr Mullen owns 101,159 Telstra shares (\$316,627.67 at 30 June 20)

Item 3d	Elana Rubin – Election
ASA Vote	For

Summary of ASA Position

Ms Rubin, aged 62, was appointed in February 2020 and is a member of the People and Remuneration Committee and the Nomination Committee.

She has more than 20 years Board experience across the financial service sector, including superannuation and funds management as well as the property, infrastructure and government sectors. Ms Rubin is Chairman of Afterpay (from 2020) and directorships include Slater and Gordon (from 2018) and Mirvac (2010-19).

Ms Rubin owns 51,728 Telstra shares (\$161,908 at 30 June 20)

Item 4	Adoption of new constitution
ASA Vote	For

Summary of ASA Position

The constitutional change is required to permit two actions, namely a) being able to charge for certain paper-based shareholder transactions, such as off-market transfers and duplicate dividend statements and b) being able to hold virtual AGM meetings. In our pre-AGM discussion, we questioned the issue of fairness of the fee for these services. The response was that this was a fee arising from their registry and would be passed on at cost. We sought an undertaking that virtual meetings will only be held in future if a hybrid meeting is impossible and Telstra said they would first assess how this year's virtual AGM proceeded before committing to a hybrid meeting format.

We see no objections to voting for the constitutional changes

Item 5	Allocation of Equity to CEO Andy Penn
ASA Vote	For

Summary of ASA Position

Shareholders are being asked to approve a grant of 394,786 Restricted Shares and 451,184 Performance Rights an outcome of \$3,463,970 which equates to 72.5% of the target opportunity and 48.3% of the maximum opportunity under the Telstra FY20 Executive Variable Remuneration Plan (EVP) (see below).

Item 6	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

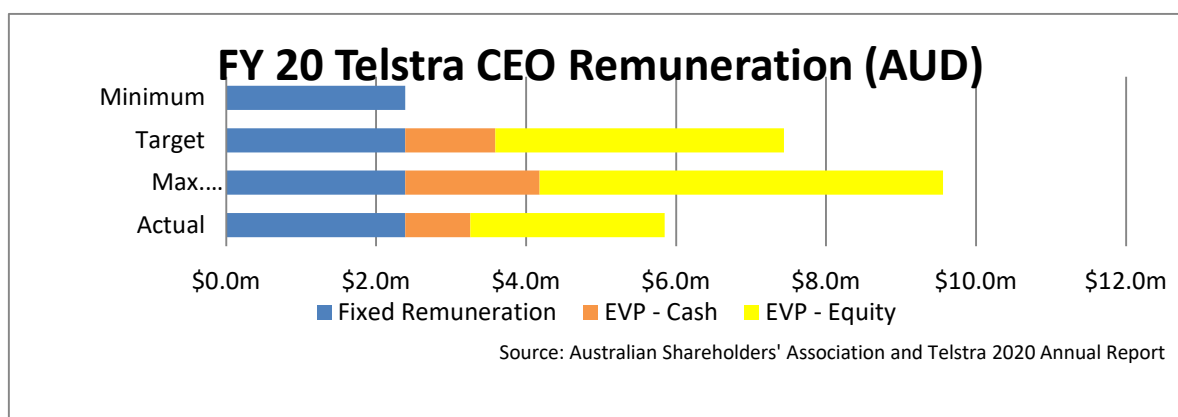
The remuneration scheme aligns with ASA guidelines:

- Actual remuneration is disclosed
- The EVP criteria are stated and weighted
- There are four financial (60%) and four strategic (40%) EVP metrics
- Total remuneration at risk of greater than 50%
- Face value is used to determine number of performance grants
- The vesting period of the Restricted Shares is four years.

Remuneration targets for CEO remuneration in FY20 are summarised in the table and graphic below. The structure for 2021 is unchanged from 2020 when substantial changes were made as a result of shareholder feedback.

FY 20 TELSTRA CEO REMMUNERATION TABLE

CEO rem. framework	Actual \$m	% of Total	Target \$m	% of Total	Max Opp \$m	% of Total
Fixed Rem	2.39	41%	2.39	32%	2.39	25%
EVP - Cash	0.87	15%	1.2	17%	1.79	19%
EVP - Equity	2.59	44%	3.85	51%	5.38	56%
Total	5.85	100%	7.44	100%	9.56	100%



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