

# AGM 2020 – Frequently asked questions by shareholders

We thank our shareholders for the questions they submitted ahead of the Telstra 2020 AGM (held on 13 October 2020) as well as the questions put forward at the meeting. The information below addresses the main themes of these questions. We hope you find it helpful.

## Share price - what are the expectations and when is it going to improve?

Telstra has lost over \$6 billion of profit from a broad range of factors most of which were outside Telstra's control, the biggest of which obviously has been the nbn. It is inevitable that this has impacted the share price.

However, Telstra has responded to this by launching the most far-reaching and ambitious transformation programme of any Telco globally, our T22 programme. The best thing we can do for the share price is to successfully implement this transformation successfully which is what we are doing.

## Company strategy – progress on T22

When we launched T22 in 2018 we said it was about disrupting ourselves before we were disrupted. That approach has helped us through COVID and it will help us capitalise on new and different growth opportunities in the future.

Three of the fundamentals from our progress on T22 so far are:

1. Simplifying and digitising the business. This has ranged from reducing 1800 mass market consumer plans to 20 plans in-market; introducing new technology stacks that streamline the customer experience and join the dots in the systems and processes behind the scenes for our people; rapidly introducing messaging during COVID as our call centres in The Philippines and India were disrupted; to setting a new aspiration that all calls from our consumer and small business customers will be answered in Australia by the time T22 is complete. Today we are already answering more than 50% of calls in Australia and we want to take that to 100%.

Irrespective of where we answer these calls, improved service and increased digitisation will lead to fewer calls. It is pleasing to see that since the beginning of our T22 programme, inbound calls have reduced by almost 50% from 36m to 21m per annum and we project that this will reduce by almost half again by the end of T22.

2. 5G and our ongoing mobile leadership. Telstra 5G now covers over 40% of the Australian population, an area that more than 12 million Australians live in, work in or pass through every day. We already have 5G in selected areas of 53 cities and towns and have accelerated the rollout so that coverage will reach to around 75 per cent of the Australian population by June 2021. As with the roll-out of 3G and 4G previously, Telstra is the clear market leader in 5G already and this reinforces that Telstra has, and will retain, by far the best network in Australia.
3. The establishment of Telstra InfraCo. We have made excellent progress with the establishment of our internal InfraCo structure. This means that we will now be able to provide transparency over the different asset classes in our infrastructure business, and from the end of this financial year (FY21) be ready to consider monetizing some or all of these assets if this creates appropriate value for shareholders. In the

event of any eventual privatisation of the nbn this may include the opportunity for Telstra to work with government on solutions for the nbn that might provide increased value for Telstra shareholders, the government and the community.

An overview of the T22 strategy is available on page 4 (below).

## 5G

5G is a tremendously exciting development and is going to underpin the strength of our mobile business for years to come. Telstra has taken a clear lead in 5G in Australia with some 75% of the population going to be covered by the end of this financial year (FY21).

Just as with 3G and 4G, we do not even know what all the eventual uses of 5G will be, but we are confident that whatever they are Telstra will be at the forefront of the technology in Australia and our early investment will deliver great returns in the future.

There will always be a place for both fixed broadband and mobiles, and we do not see the nbn as a threat to our 5G investment.

Refer to point 2 of *Company strategy – progress on T22* above for further information on 5G.

## Customer service – why is it difficult to communicate with Telstra, especially over the last six months?

As many people are aware, as a result of COVID thousands of our call centre staff, particularly in the Philippines and India, almost overnight were unable to do their normal jobs and this put enormous strain on our ability to respond to customers' needs. We moved a large amount of this work online and to Australia, but we are conscious of the delays that some customers have experienced during this period and we sincerely apologise for this.

The teams have worked incredibly hard to rebuild our capability and our customer service call centre performance is just about back to normal.

However, these workforce capacity challenges offshore and the acceleration to digital channels have provoked our thinking on our customer service model for the future. As a consequence, by the end of our T22 program, we now plan to answer all in-bound calls from our consumer and small business customers in Australia. This in turn will enable our teams offshore to focus on supporting our customers' digital experiences.

## Dividends

The board is acutely aware of the importance of the dividend to shareholders, and understands the nervousness from some that COVID and other pressures may force Telstra to again cut its dividend.

To maintain the dividend at 16c within our Capital Management framework post the nbn, we need to achieve Underlying EBITDA in the order of \$7.5-\$8.5b, and we are absolutely aspiring to achieve this.

The board clearly understands the importance of the dividend and if necessary is prepared to temporarily exceed our capital management framework principle of paying an ordinary dividend of 70-90% of underlying earnings to maintain a 16c dividend, and would consider the following factors in determining whether to do so:

1. whether an underlying EBITDA of \$7.5b to \$8.5b post the rollout of the nbn is achievable.
2. whether the free cash flow dividend payout ratio remains supportive and we retain a strong financial position.

3. whether there are other factors that would make the payment of the dividend at that level imprudent.

This does not represent a guarantee of any level of dividend into the future as the board will need to consider all relevant circumstances before declaring each dividend, but this demonstrates the board's commitment to doing all that it can responsibly do to maintain the current dividend and eventually increase it again over time.

### **Executive remuneration - why has the share price halved yet salaries never have?**

The Telstra Board takes the responsibility of executive remuneration incredibly seriously and spends a huge amount of time trying to get the balance right between protecting shareholders' interests and not over-paying executives, while at the same time motivating, incentivising and retaining the best management talent that we can.

Having said that, the share price cannot be the only metric by which we evaluate management's performance. Firstly, external factors can mean that you can have a reduction in share price despite outstanding management performance, just as you can have an increase in share price despite mediocre management performance.

Secondly, the CEO and Senior Executives receive 75% of their variable remuneration in the form of shares, so if the share price declines this directly affects their remuneration in the same way as it affects shareholders. We believe we have got the balance as right as we can.

### **Impact of the nbn**

We can now see the point where the nbn migration will be fully complete and its impact finally washed through our financials. Come FY23 the negative EBITDA impact of the nbn will have been fully absorbed and all the one off payments for nbn disconnections will have been received.

That will be an historic moment but shareholders would be aware the net cost to Telstra of this has been huge – around \$3.5 billion in recurring EBITDA when it is complete.

The board of Telstra is acutely aware that the level of earnings being delivered by Telstra, the dividend and the share price are a disappointment to many investors, as indeed they are to Telstra. The reality is that Telstra has lost over \$6 billion of profit in the last decade or so, predominantly from the impact of the nbn but also the loss of voice revenues, sms revenues, global roaming and other pressures, and this has had an inevitable impact on earnings, dividends and our share price.

There are few precedents in corporate Australia for an impact or a challenge of this magnitude. Telstra reacted to this challenge by introducing its T22 programme which is acknowledged as the most ambitious transformation of any global Telco today. The cost out and digital transformation elements of T22 are unprecedented in ambition and timeframe. Against its domestic and global peers, although tough for everyone, Telstra's performance stands up well across most metrics including earnings, ROIC, margins and revenue per user.

The nbn is almost behind us, our underlying EBITDA excluding the nbn headwind has started to grow again, and new opportunities are opening up every day.

# T22

<b>Strategic pillars</b>	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction program and portfolio management		
<b>Enabled by our up to \$3b investment program</b>	New digital platforms					
<b>Delivering</b>	Australia's largest, fastest, safest, smartest and most reliable next generation network					
<b>Delivering</b>	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5b by FY22	Post-nbn ROIC > 7% <sup>1</sup>

1. Post-nbn defined as FY23 on AASB16 basis. Targeted outcome reduced from >10% in August 2020.

i. [Telstra.com.au/5g](https://www.telstra.com.au/5g)