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TLS.AX - Telstra Corporation Ltd Annual Shareholders Meeting

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## CORPORATE PARTICIPANTS

**Andrew Richard Penn** *Telstra Corporation Limited - CEO, MD & Director*

**Craig William Dunn** *Telstra Corporation Limited - Non-Executive Director*

**Eelco Blok** *Telstra Corporation Limited - Non-Executive Director*

**John Patrick Mullen** *Telstra Corporation Limited - Chairman of the Board*

**Nora Lia Scheinkestel** *Telstra Corporation Limited - Non-Executive Director*

## CONFERENCE CALL PARTICIPANTS

**Shane Murphy; Communications, Electrical and Plumbing Union of Australia; National President**

**Sue Shields; Australian Shareholders Association; Volunteer Company Monitor**

**Carolyn Briggs**

**John Ellery; Communications Union; Senior Union Official**

## PRESENTATION

**Carolyn Briggs**

Good morning, everybody, and welcome to this beautiful part of our city down near the -- this beautiful center that's for the AGM for Telstra.

So my name is Carolyn Briggs, and I'm the elder spokesperson of the Boon Wurrung, which is the language. [I'm] Yaluk-ut Weelam, which means the people of the river. So I'm here to welcome you all.

So I've introduced myself. So now here you are, and I'd like to pay my respects to the Telstra Board that are here this morning and also pay my respects to you. I also pay my respects to my elders and to my ancestors and to our futures, our younger generation what are coming through.

So in the language afforded to me, (foreign language). That means welcome to our beautiful home, the lands of the 2 great bays: Nairm, being Port Phillip Bay; and Mar-ran, being Western Port Bay. But it's also about this beautiful river that runs -- flows past us, which is known as the Yarra. But to our people, it's known as the birrarrung. And it's also, when we put gar on the end of it, it's barerarerungar, meaning the country of the river. So you are part of the country of the river. You're getting a little bit of a history lesson in language.

So as a descendant of the First Peoples of Melbourne, we welcome you, and the word Womin Djeka means come with a purpose.

The lands that we now stand is the traditional country of the Yaluk-ut Weelam clan of the Boon Wurrung language group. The Boon Wurrung people were part of a much larger nation or confederacy known as the Eastern Kulin. Kulin means mankind. The Boon Wurrung and the Eastern Kulin have a unique history and culture, and we are pleased to be able to celebrate that history and heritage with you today. Just that word, Womin Djeka, come, ask to come and what is your intention for coming, that is to be a part of this AGM 2019.

Traditionally, the Boon Wurrung and the other clans of the Kulin Nation would meet, just like you, to celebrate, to trade. These celebrations were held each month to celebrate the coming of the new full moon. The descendants of the Boon Wurrung and the Eastern Kulin have continued to take an active and progressive approach to the leadership and protection of our values. This is one way -- this is one more way that we can acknowledge and celebrate our shared indigenous history and heritage.

In traditional society of the Eastern Kulin, we were committed to the maintenance of our society by valuing the importance of learning, showing respect, celebrating life and honoring the sacred ground. This importance of learning was a transmission of knowledge and understanding that

ensured our culture survived. This commitment to learning has been a part of every generation since time began, and that's one of the reasons why we are still strong today.

We believe that you must respect the past in order to understand its futures, and according -- and these are the things that maintain our guiding principles for our life ways. Showing respect. In our traditions, visitors are always welcome, but they're required to show respects to the Wurrunggi Biik, the laws of the land. This is the same way we show respect to each other's diversities, cultures, religious or spiritual beliefs today, and we are here to celebrate the 2019 Telstra AGM. This is also a celebration of life, the arrival of new children, the coming of the six seasons. The visiting of the neighboring clans was very much an important part of our traditional life.

We talk about respecting sacred ground. We should all acknowledge the sacred ground in which we stand, and Melbourne is a host to many people from many different nations. And we still call upon them to respect sacred ground by understanding its history and heritage of the First People of the Eastern Kulin. And today, it's my hope that we can all take pride in our shared history and celebrate the strength of this great country of ours.

And according to our traditions, our lands will always be protected by our creator, Bundjil, who travels as an eagle, and by Waang who protects our waterways, travels as a crow. Bundjil asked all First Peoples to ask all visitors to make a number of commitments: one, not to harm the biiks, our lands; not to harm our warreeny, our waterways; and particularly, not harm Bundjil's children. And if you accept these laws or these (foreign language), this is about allowing you to travel through our many landscapes in safety. And this is one way we do this by your commitment is through the exchange of a small bough dipped in the water of the lands. So once again, (foreign language). I wish you well in your endeavors with the new AGM for this year.

So let's celebrate, so (foreign language). In this celebration, I want you to all say Womin Djeka. You can do a bit louder because you're articulating 2,000 generation of the word come, what's your purpose for coming. Thank you. (foreign language) or I wish you well.

(presentation)

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Great. Good morning, ladies and gentlemen. My name is John Mullen, and it's my pleasure to welcome you this morning to Telstra's 2019 Annual General Meeting. All of your directors are here, including your Chief Executive Officer, Andy Penn, and I join them in offering you a very warm welcome this morning. Thank you also to Auntie Carolyn for the earlier welcome to country.

Today's meeting is being webcast. So welcome also to those shareholders joining us online. And with a quorum present, I would like to formally declare today's meeting open.

The Notice of Meeting was distributed earlier, and that set out the business and the resolutions to be considered today. So I propose to take that notice as read.

There are a number of items of business on the agenda today, all of which are shown on the screen behind me. Items 3 to 5 set out resolutions to be voted on today. Item 6 is a conditional item, and any vote cast on it will be of no effect unless we receive what is known as a second strike on our remuneration report. To assist with the efficient conduct of the meeting, I declare the resolutions on items 3 to 6 now properly before the meeting.

Voting on items 3, 4 and 5 and, if required, item 6 will be conducted by poll, and that poll is now open. If for any reason any shareholder wants to leave the meeting early, you can still vote by completing your voting card and placing it in one of the ballot boxes near the exits.

I'd like to now formally introduce the colleagues with me here today. With me on stage are Andy Penn, our Chief Executive Officer; Sue Laver, our Company Secretary; Vicki Brady, our Chief Financial Officer; and my fellow members of the Board. And can I particularly welcome new director, Eelco Blok, who has been nominated by the Board for election at today's meeting. I'd also like to introduce Andrew Price from our auditors Ernst & Young. I think I see him over there. Andrew is available if shareholders have any questions about the audit or the audit process.

So let me now turn to Telstra's activities and performance during the 2019 financial year. This year has been one of the most important years in Telstra's history. Now why do I say that? I say that because 2019 was the year when we commenced our T22 strategy to transform Telstra for the future, a year in which we completed our nearly \$3 billion strategic investment program that was needed to create the types of networks we will need in the future and to completely digitize our business and a year in which as an industry, passed the halfway mark in the migration to the nbn. I don't want to appear overly dramatic, but it is our belief that the T22 transformation that Telstra's undertaking today is the most radical and ambitious being undertaken by any telecommunications company in the world today.

And we have made significant progress already, and Telstra today is a very different, much simpler and more customer-focused organization than we were just a year ago. Andy will give you more details shortly, but let me just try and give you a few examples.

Firstly, we have reduced more than 1,800 Consumer and Small Business plans to just 20 in-market plans. We've done away with lock-in contracts on all new Consumer and Small Business fixed and mobile plans. We've eliminated excess data charges in Australia on all our new mobile plans. And since 2016, the number of calls coming into our contact centers has fallen by more than 15 million per year, and our goal is to reduce them by another 16 million by 2022, all driven by a better customer experience. That will be a reduction of over 2/3 of the calls coming into Telstra or 31 million calls in total.

And the number of trucks that we needed to dispatch to repair faults was 900,000 fewer than last year. And we've achieved around \$1.2 billion of annual cost reduction since FY '16 with a further target of another \$630 million this year. We are on track to achieve our target of an annual \$2.5 billion reduction in underlying fixed costs by fiscal year '22.

Now in this regard, we announced around 6,000 direct employee role reductions this year. And that, of course, is a source of great concern as every employee is a person with a family, with hopes and with aspirations, and we must never forget the human dimension in these decisions. However, shareholders should be aware that one of the biggest drivers of this is the transfer of Telstra's fixed line business back to government ownership. So while we've lost 6,000 employees, nbn now employs 6,400 employees and many thousands of contractors in addition. So overall, employment has actually risen in the industry. And clearly, it's simply not possible to maintain all those employees when the part of the business that they worked in is being transferred to another entity.

Now our industry is changing at an extraordinary pace, and it will never be the same again. And if we don't adapt, we will fail. No business is too big to fail today if it doesn't reinvent itself on a continual basis. So you're witnessing the greatest transformation that Telstra has ever undertaken, way beyond anything that we have tried to do before.

Now, a couple of years ago, Andy Penn said that Telstra was becoming a technology company. There was a predictable coterie of critics who said that Telstra was aspiring to be another Google or Facebook, which of course was not at all what he meant. But Andy was absolutely right. Like other telcos the world over, Telstra has come from a world of monopoly or semi-monopoly telephone operations, originally just connecting person to person with voice communication. But that world has gone forever, and our industry today is exploding into a world of cloud computing, machine learning, artificial intelligence, Internet of Things, autonomous vehicles, big data, drones, satellite technologies and many, many more. And this is the new technological world, and that old world is not coming back. And while we may not like it, the days of Telstra's high legacy margins and 100% dividend payout ratio are not coming back either.

So let me now turn to Telstra's performance during the year. Firstly, our results were in line with guidance and with market expectations. We delivered what we said we would deliver. However, as expected and previously flagged, our results also reflected current market realities, including the impact of the nbn and intense competition.

We reported total revenue of \$27.8 billion, EBITDA of \$8 billion and net profit after tax of \$2.1 billion. A major reason for the decline in the profit compared to last year was the impact of the nbn, which represented some \$600 million of negative recurring EBITDA headwind during the year.

Combined with the total interim dividend paid in February 2019, shareholders will receive a total dividend of \$0.16 per share fully franked for FY '19, which we'll be returning \$1.9 billion to shareholders.

Now what is particularly significant about our results this year, however, is that they indicate an inflection point for the business. The clearest view of the future financial performance of our business is one that excludes the nbn headwind. And in this respect, we expect fiscal year '20 to be a pivotal year for us financially as momentum in our underlying business is expected to deliver up to \$500 million of growth, excluding those nbn headwinds. This is a significant improvement on the decline of around \$400 million in fiscal year '19.

2019 was also the year in which we again demonstrated clear network leadership. We were the first operator in Australia, and in fact amongst the first in the world, to launch 5G, the next generation of mobile telecommunications technology. 5G is enabling extraordinary new developments and opportunities in new fields such as those that I mentioned: Internet of Things, machine learning, artificial intelligence and so on. We continue to expand our network, and Telstra's mobile coverage footprint now stretches out to more than 2.5 million square kilometers, vastly more than any other mobile network in Australia and our coverage extends to 99.5% of the Australian population. We are really proud of this, and our commitment remains to work cooperatively with governments and with other stakeholders to continue to do our absolute best to bridge the gap between metro and rural areas better than anyone else.

And in this regard, just how important actually is Telstra to Australia and to Australians? Well, we now provide over 23 million customer services, including more than 18 million domestic mobile retail customer services, 3.7 million retail bundles and stand-alone fixed data services and 1.4 million stand-alone voice services. We estimate that up to 95% of Australians use Telstra in some way on a regular basis, even if they don't realize it.

An example, if you are on a competitor's network and you do a Google search, your request likely goes from your phone via a Telstra submarine cable to Google in the U.S. and back again. If you use an ATM or you pay for something by EFTPOS or you book a taxi or an airline ticket, chances are your bank or other organization will be using Telstra to provide the service. 65 million voice calls are made every day on our fixed and mobile networks, and more than 33 petabytes of data are received and sent. Our submarine cables linking us to the outside world are long enough to encircle the planet 10x. We offer voice, data and video over mobile, fixed, nbn, wideband, narrowband and other networks for machine-to-machine transmission.

Now this complex array of technologies works exceptionally well and is exceptionally reliable. Yet with this scale of customer interaction, only one small part of this complex system needs to go wrong and that can equate to thousands and thousands of unsatisfactory experiences for customers. As Chairman, I receive a lot of complaints and I respond to every one of them because that is my job, and they disappoint me every time. When I analyze those complaints, they often relate to the systems that we're using: legacy systems that are difficult to navigate, systems that are now being removed or improved as part of T22.

Despite the best of intentions, there's always human error where maybe a customer's billing is wrong, maybe the technician didn't come at the time promised, maybe their nbn connection doesn't work and nbn blames Telstra and Telstra blames nbn and so on. As I mentioned before, we receive about 0.5 million calls per week, mostly to address relatively minor but frustrating issues. And despite the substantial reduction we have achieved in these complaints and calls, we still have a long way to go. And I feel this frustration keenly as do my fellow directors and Telstra's employees, especially as they work so hard every day to improve things. This then is why Telstra's T22 strategy to radically simplify and streamline the business and digitize our interactions with customers to the greatest extent possible is so critically important.

Now let me make a few comments about the nbn. The creation of the nbn 10 years ago has had a seminal effect on our industry and on Australia. And it's always easier to comment with the benefit of hindsight, I know, but it is my view that over the last 10 years, private sector competition between strong players, such as Telstra, Optus, TPG and others, was always going to build 100-megabit broadband access and speed to the majority of the population in Australia in an ongoing competitive landscape and at no cost whatsoever to the taxpayer. Governments could then have decided how much subsidy they were willing to provide the industry to extend this coverage to regional and rural areas where private sector economics were unattractive. This would all have been at a fraction of the tech cost of today's nbn. Instead, however, in the nbn, we have created a state-owned monopoly that is going to cost the country more than \$50 billion.

This said, however we got here, and Telstra too must bear part of the blame for this due to its recalcitrance in helping government at the time, but whether we like it or not, the nbn is here to stay. And today, it is in Telstra's interest, it's in the industry's interest and the country's interest to do all we can to make the nbn successful, and Telstra is unequivocally trying to play its part in achieving this.



However, that decision 10 years ago has left a number of substantive challenges for the industry and Australia to solve. In the 12 years since the nbn project was announced and the 10 years-odd since the nbn itself was formed, Australia's mobile industry have consistently ranked amongst the best in the world. In Australia -- in August this year, the Speedtest Global Index rated Australia as having the second-fastest mobile networks in the world after South Korea. However, in the same test, Australia's fixed broadband industry ranked 58th fastest in the world, behind countries like Moldova, Belarus, Panama and Andorra.

Financially, the impact on all fixed broadband providers has been significant despite some compensation paid to those operators whose fixed line businesses have been nationalized. In Telstra's case, we estimate that we have now absorbed around 50% of the economic headwind that the nbn creates for us or about \$1.7 billion on an annualized basis with more than 60% of Australia's homes now connected.

Telstra has in part been compensated by the government for this of course, the majority of which is being returned to shareholders. But after the end of the nbn rollout, Telstra will be worse off by more than \$3 billion of EBITDA per year into the future. The impact on the bottom line and therefore EPS from which we pay dividends is even greater, an up to 50% reduction in net profit after tax, resulting in an inevitable flow-through to dividends and share price.

There are a few precedents in corporate Australia for a challenge of this magnitude, and there's no magic solution to make up for the loss of up to half of a company's net profit. But we are not sitting on our hands. Our T22 program is a radical and ambitious initiative to fundamentally restructure Telstra to enable us to respond rapidly to this changing environment and to continue to lead the Australian telco market.

Then there have been claims by some that the payments nbn makes to Telstra for infrastructure access are the reason why nbn's wholesale prices are so high. In fact, as the industry well knows, exactly the opposite is true. These payments to Telstra have actually helped keep the cost of the nbn down. By the nbn's own admission, without access to Telstra's very extensive network of exchanges, fiber, ducts, pits and pipes, the nbn would have had to build all this infrastructure from scratch at a much higher cost and over a much longer period.

Then another topical matter which is becoming problematic is the question of the nbn starting to sell directly to enterprise customers. The original mandate for the nbn was that the nbn would be a wholesale provider only and would not favor or discriminate between retail service providers, or RSPs. It certainly wasn't envisaged that the nbn co would negotiate contracts directly with customers and encourage them to seek special deals from certain RSPs. That, however, is what we are seeing today. Instead of remaining a wholesaler, the nbn is now going outside this mandate and is targeting our customers directly.

As one of our competitors clearly noted recently, the reasons why the industry object to this are 3. Firstly, reciprocity. It seems inequitable that the nbn can now move outside its mandate and sell directly to our customers but RSPs in the industry have to stay within their mandate and cannot sell to the nbn's own protected market in return due to regulations which prevent retail providers investing in fixed line infrastructure to provide consumer services.

Secondly, the original intent of the nbn was to bring high-speed Internet at competitive pricing to those without such access. It seems a waste of collective resources to be delaying investment in the consumer rollout to people yet to be connected and instead be focusing investment in the enterprise market where the nbn is duplicating existing high-speed fiber for no service or speed advantage.

And thirdly, the nbn's government ownership gives it a very significant cost of capital advantage over the private sector, which is being used to its competitive advantage.

Now we understand that maximizing the financial return of the nbn is important. However, for the nbn to be allowed to move outside its mandate and to achieve this but reciprocal competition from RSPs remains restricted seems inequitable. There is very little doubt in my mind that were the nbn opened to competition, wholesale broadband prices in Australia would fall materially. Now let me be clear, we are not recommending that the nation's policy settings be changed but we are saying that if the policy settings are not to change, then both sides should respect their original mandates.



And lastly, may I try to make another important comment on affordability: affordability of the project itself and affordability of retail broadband services. You will have seen that Telstra, along with much of the rest of the industry, has been recommending that the nbn reduces wholesale broadband prices. This has been criticized by some as being self-serving. And while of course this would benefit Telstra, it would also benefit all the rest of the industry and all of the actual users of broadband since without a drop in wholesale pricing, the inevitable outcome will be higher retail prices. Dismissing the industry's suggestion as whinging may make good media headlines, but this avoids Australia facing into the real issue here for both the industry and for the country.

When Telstra was a regulated wholesale provider to the industry, Telstra charged on average about \$20 per user per month. The nbn is now charging some \$44 per month on average, and the nbn states its ambition is to get that up to \$49 by fiscal year '23. As a very broad generalization, a retail service provider's average internal cost is then some \$12 to \$18 on top, plus approximately another \$6 to \$8 for the amortized cost to connect. So this gives an all-in cost for an RSP to resell the nbn of over \$70 per month. Market prices to the consumer, however, are averaging below \$70 per month, excluding GST.

But clearly, losing money is unsustainable for all 180-odd RSPs out there, and this is why we have already seen some companies starting to withdraw from reselling the nbn. In addition, these economics are leaving many companies to invest in 5G fixed wireless and other technological solutions to allow them to offer competitive broadband without using the nbn at all, which just makes the situation even worse.

Ironically, it is actually becoming in the interests of those competitors that are embracing these new technologies that nbn's prices remain high so the alternative technologies become more attractive. And bottom line of this is that Australia already has some of the highest wholesale broadband pricing in the world. And if this trend continues, over time, most resellers of the nbn will withdraw or they will go broke. The downside of this, in turn, will be fewer service providers and ultimately, higher broadband prices to the consumer.

Alternatively, a reduction in the wholesale price of the nbn would mean that reselling the nbn would be profitable for all RSPs, resulting in a dynamic and competitive broadband industry and retail prices would be kept materially lower. Now Telstra will compete either way. But surely, a reduction in the wholesale price, a competitive market and lower prices for consumers has to be a better outcome than the high-priced oligopoly, both for the industry and for Australia. To this end, we welcome the announcement yesterday by the ACCC that it's launching an inquiry into nbn pricing from an affordability perspective.

Now let me just close this out by saying -- by stressing here that I'm in no way criticizing the leadership of the nbn. To the contrary, they are capable and professional people with whom we have a constructive and engaged relationship and whom we respect. These challenges are not of their making either as they too have to work with the cards they have been dealt, and they are doing their very best in difficult circumstances. But this is not just an nbn or a Telstra problem. It is a problem for the whole of Australia to resolve: the government, the industry and the nbn together.

So turning now to the changes this year in Telstra's leadership. Andy will talk about his management team shortly, but we continue to completely reshape our Board to put in place the right balance of experience, including global telecommunications experience, technical expertise and fresh thinking. I may be biased, but with a couple of new appointments still to come, I think that we are building one of the strongest Boards in Australia and a Board fit for purpose to help steer Telstra through these unprecedented times.

You will hear shortly from the directors standing for election, but can I again firstly welcome Eelco Blok. Eelco brings more than 30 years' experience at the Netherlands' leading landline and mobile telecommunications company, KPN, and he is an outstanding addition to our Board. Then directors will be aware that 2 current directors, Craig Dunn and Nora Scheinkestel, are also eligible for reelection. Both are highly valued and respected members of our Board, and both have made huge contributions to Telstra.

Let me start with Craig Dunn. Craig is an outstanding director who joined our Board in 2016. He is the current Chairman of the Audit and Risk Committee and a member of the Nomination Committee. In my view, Craig is one of the best public company directors in the country. We are aware that there has been commentary around Craig's association with the AMP where he was CEO more than 6 years ago. However, it is important to note that at no time whatsoever has Craig ever been accused of anything improper himself. All I can say as Chair is that Craig is an extremely valuable director with exceptional skills in the areas of finance, risk and general Board supervision, and the Board supports his reelection 100%. Were he not to be reelected, it would be a great loss to Telstra, and I therefore ask that you too vote in favor of his reelection.





Let me then also comment briefly on the other director standing for reelection today, Nora Scheinkestel. Nora is a member of the Board's Audit and Risk Committee, Nomination Committee and Remuneration Committee. And previously, she was Chairman of the Audit and Risk Committee from 2012 to 2019. If successful, this will be Nora's fourth 3-year term.

In accordance with our Board tenure principles, where a nonexecutive director is approaching the end of their third 3-year term, a more formal review of their continuing directorship takes place, including considering length of service when making an assessment of the director's independence. Nora is simply an outstanding director and brings considerable skill, wisdom and experience to our Board. And in particular, Nora has a deep corporate memory, including being involved in the nbn transaction from the very beginning. With a number of directors only being recently appointed, this continuity of key corporate knowledge is critically important to us. So when the Board considered Nora's tenure, independence and contribution, it had no hesitation in unanimously recommending she remain a member of the Telstra Board. I hope that you too will support her reelection.

This brings me then to the issue of executive remuneration and items 4, 5 and potentially 6 on today's agenda. Shareholders will recall that last year, significant concerns were raised around the remuneration report by proxy advisers and others, meaning that a substantial number of shareholders did not approve the report. This gave us what was termed -- is termed a first strike, and this was deeply disappointing both to me and to my Board colleagues.

We were disappointed because the Telstra Board takes this responsibility incredibly seriously. We spend a huge amount of time really trying to get the balance right between protecting shareholders' interests and not overpaying executives, while at the same time motivating, incentivizing and retaining the best management talent that we can. This is particularly the case where, as in our situation, market dynamics, including ones outside management's control, have been challenging and shareholder returns have not always been able to be at the level that we would've hoped for.

But the fact is Telstra is a \$42 billion market cap company with around 30,000 employees, 1.3 million shareholders, and we operate at the leading edge of telecommunications markets here in Australia and around the world. We are operating in times of great challenge and volatility, and the future of the company depends on our implementing one of the world's largest and most complex transformation strategies within a tight time frame. In that environment, first-class leadership could not be more critical, and attracting, retaining and motivating high-caliber executives depends on a number of things, one of course of which is remuneration. Overseas and Australian executives will simply not leave well-paid jobs elsewhere to join Telstra unless we have a competitive remuneration strategy.

This year, Telstra's Remuneration Committee and the rest of the Board again spent a significant amount of time trying to get the structure right. We consulted extensively. We listened, we worked and we reworked our executive compensation scheme to try to find the best balance. The plan for FY '20, therefore, includes a number of material changes to try to better align with the creation of sustainable, long-term shareholder value.

We have reduced maximum potential remuneration. We've increased the equity versus cash ratio. We have extended vesting for restricted shares. We've expanded the claw-back provisions on our equity terms and a number of other measures. We strongly believe that these changes strike the right balance between protecting shareholder interest, not overpaying executives, but at the same time, motivating, incentivizing and retaining talented leaders. And we really, really hope that shareholders will agree.

I'm on the record as saying that some executive remuneration in Australia, and especially overseas, has been too high in the past, and there's no doubt that this has damaged the reputation of big business around the world. However, executive remuneration in Telstra has been progressively trending down, I absolutely do not think that this is the case in Telstra today.

Indeed, I would like to particularly stress how important it is to reward and motivate management in difficult times, even more so perhaps than in good times. It's a natural reaction for shareholders who've seen their shares reduce in value to be disappointed and to question whether executives are feeling the same pain as well. However, the share price cannot be the only metric by which we evaluate management performance. External factors can mean that you can have a reduction in the share price despite outstanding management performance, just as you can have increased share price despite mediocre management performance.



If in the end the only criterion is the share price itself, then why even bother with the complicated remuneration structures that we have? Simply pay the executive a fixed amount and do away with the whole industry that has grown up around remuneration, including proxy advisers and company remuneration committees that spend an inordinate amount of time trying to get remuneration right.

But if you want to pay on performance, then you have to look at a lot more than just the share price to judge good or poor management performance and really understand the drivers inside the business. For Telstra, the reality is that external factors, including the impact of the nbn headwinds I mentioned earlier, are very substantial drivers of our company's performance. And this would've been far worse if management had not done such an excellent job in this environment.

We genuinely believe that Telstra's management has performed excellently this year, and we are fortunate that the last 12 months has also seen Telstra's share price rise materially and outperform the market. This has led to a well-earned increase in compensation for the team and for our Chief Executive, Andy Penn, whose actual pay increased by 34% this year. But the context for this is really important to understand.

The remuneration that Andy has received actually fell by almost 50% over the previous 2 years because Telstra was under pressure from a number of external factors over which Andy had little control, including the impact of the nbn headwinds that I mentioned earlier. So even with the rise this year, therefore, the total remuneration that he received is still more than 20% below where he was 3 years ago. And ultimately, because Andy received such a significant portion of his total remuneration in the form of shares, we are comfortable that his remuneration is directly tied to Telstra's share price performance and it mirrors shareholders' own experience.

For all of that, however, executive remuneration continues to challenge the Board, and we continue to search for solutions that satisfy everybody. In the end, all we can do is to diligently and transparently set targets for management that we think are ambitious and will deliver lasting value to shareholders despite the market environment, and we believe that, that is what we have done this year. But we must also never forget that incentive schemes are designed to be an incentive, not a disincentive. Chairs and directors may come and go but in the end, the single greatest contributor to shareholder value in a business is a talented and motivated management team.

When I was younger, almost every executive aspired to be the CEO of a big public company. Today, there's a real risk that the media scrutiny, the populist criticism and governance challenges are starting to lead talented executives to look for alternative career paths, such as private equity as an example, where they can build their careers out of the spotlight. So there's no doubt transparency and accountability are, of course, good things, but we need to be very careful that the pendulum does not swing too far and we lose top talent as this ultimately will only be to the detriment of shareholders.

Andy is a strong leader and has assembled a very talented and high-performing management team to steer Telstra through these unprecedented times. Rewarding Andy and his team appropriately for their efforts is critical. And in this regard, I cannot apologize for continuing to do what we believe is the right thing for the company and the right thing for shareholders in the long term.

So let me close then by touching on Telstra's role in society more broadly. In the past year, the Australian corporate landscape has undergone a seismic readjustment, particularly in the wake of the recent banking Royal Commission. Customers, regulators, investors and the community-at-large have very publicly reminded large organizations of the value that they place on companies being transparent, ethical and accountable in everything they do. An important part of that is how companies conduct themselves and the contribution that they make to the communities of which they are part. That is a good thing, and Telstra can be very proud of its record in this respect, especially regarding the important role we continue to play in connecting and supporting communities, including in regional and remote areas, and in serving the needs of our customers in vulnerable circumstances.

As digital technologies play an increasingly central role in our world, there remains a significant gap between those who are connected and those who are not. And to bridge that gap, this year, we helped around 1 million customers living in vulnerable circumstances to stay connected, including providing assistance for people on low incomes, impacted by domestic or family violence or living with a disability. We also reached more than 30,000 people through our digital capability programs and created more than \$110 million of value through our social investment programs.

Through the Telstra Foundation, we also support digital learning experiences in schools, public libraries and remote indigenous communities. No other telecommunications company in Australia, and in fact few other businesses full stop, can match Telstra for its involvement in and positive impact on the communities in which we operate. This year, we also achieved a 40% reduction in our carbons emissions intensity, and we collected 15.5 tonnes of mobile phones from our customers for recycling. It is an ongoing source of enormous organizational pride for all of us.

So to sum up then, 2019 was an incredibly important year for Telstra, a year in which we met guidance and market expectations, where we maintained or grew market share in key areas and where we built significant early momentum behind our ambitious T22 strategy. The nbn is what it is, and we have to work with this. But in the end, the end of the nbn rollout is actually in sight, after which looking at Telstra's performance and progress will become much clearer again.

T22 is positioning us for success at a time when telecommunications networks are amongst the most important pieces of infrastructure in the world, a time when the demand for connectivity has never been greater. And to succeed in this new world, we need to find ways to translate demand into revenue and profit to completely reinvent Telstra as a new digitally enabled business able not just to compete but to win, and that is exactly what we are doing.

We are still closer to the start of T22 than the finish, but we are confident that we are moving at speed and creating sustained value for our customers, our shareholders and our employees. You can be confident that you have shares in not just the best telco in Australia but one that is respected around the world, and we're all working extremely hard to make the company even better still.

Finally, and before I invite Andy to address you, let me sincerely thank you, our shareholders, for your patience and your support during the year. Let me also thank our customers for their ongoing support as without them, there would be no Telstra. And lastly but by no means least, let me also thank every Telstra staff member. The Board greatly appreciates all that you do, and I believe so too do our shareholders.

Thank you for listening, and now let me introduce our Chief Executive Officer, Andy Penn, and invite him to address the meeting. Thank you.

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**Andrew Richard Penn** - *Telstra Corporation Limited - CEO, MD & Director*

Well, thank you very much, Chairman, and good morning, everybody. Thank you all for joining us here today, particularly including those who've joined us online. We do very much value this opportunity to meet with shareholders and to keep you across the many incredible opportunities that face your company in the future.

We also welcome, of course, the opportunity to hear your comments and your feedback and to address any of the questions that you may have.

In my presentation this morning, I'd like to cover 4 things. Firstly, and building on the Chairman's comments earlier, I will provide an overview why this year has become such a pivotal year for your company.

Secondly, I will comment further on the progress we are making in transforming your company through our T22 strategy.

Thirdly, I want to explain why telecommunication networks will have such a significant influence on the success of our economy and our nation over the next decade and why 5G is absolutely central to this.

And finally, I will confirm our guidance for the 2020 financial year.

The Chairman has already taken you through our financial results for the year, but I wanted to share why I believe 2019 was such a pivotal year. Notwithstanding the intense competitive environment and the challenging structural dynamics of the industry, including the nbn, 2019 was the year in which we believe we have started to see the turning point in the fortunes of the company from the changes that we are making. 2019 was the year in which we completed the strategic investment program which we announced in 2016. Whilst we will obviously continue to make investments, we are now doing so on a business-as-usual basis.

2019 is the year in which, as you heard from the Chairman, we passed the halfway mark on the nbn. And 2019 was also the year in which we again demonstrated our clear telecommunications network leadership by being the first operator in Australia and among the first globally to launch 5G, the next generation of mobile telecommunications technology. 5G is clearly going to be important for Telstra's growth in the future, but it's also going to be important for Australia's future, and I will talk while -- I will explain why that is the case in a moment.

Finally, 2019 was also the year in which we commenced our T22 strategy to radically simplify our products and services, improve the digital experience for our customers, establish Telstra InfraCo as a separate business unit, simplify how we work, reduce our cost base and improve our portfolio management. In short then, 2019 was a year in which we made very significant progress in our program to meet Telstra's challenges of today and to put us in the best possible position for the future.

Telstra today is already a very different, much simpler company, a more focused customer organization than we were a year ago. Importantly though, we are well positioned for the era into which we are about to head, the 2020s.

Let me now comment, therefore, on the progress this year on the many initiatives under T22. T22 is built fundamentally around 4 pillars and 2 critical enablers: building the networks of the future and digitizing our business. We have made a very strong start, so let me cover some of the highlights, firstly, under Pillar 1: to radically simplify our product offerings, eliminate customer pain points and create all-digital experiences. We have completely overhauled and simplified our product range, reducing more than 1,800 consumer and small business plans to just 20, creating simpler, more flexible ways for customers to choose the best-value connectivity and devices for them. During the year, Telstra became the first telco in Australia to introduce no lock-in plans across both fixed and mobile. We also launched our build-your-own mobile plans to give our customers freedom and flexibility and removed excess data charges on all new mobile plans.

As the Chairman said earlier, one of the most pleasing measures of the progress we have made was a 22% reduction in the number of calls coming into our call centers from our consumer and small business customers during the year. We've also significantly improved our online experience, including refreshing the Telstra 24x7 App, and our digital experience now accounts for more than 53% of all service transactions, including account management, prepaid product and billing-related inquiries.

As well as flexibility, simplicity and choice, our customers also, though, want to be rewarded and recognized for their loyalty towards Telstra. And in response to this, this year, we launched Telstra Plus, a program offering customers the opportunity to earn rewards, discounts on new technology as well as bonus entertainment and much more.

Our support for our small business customers was also improved this year with no lock-in contracts and excess data charges removed on new mobile and tablet plans as well as more dedicated support services. This includes account management for all small business customers through our new 24/7 tech support service where we have trained thousands of dedicated small business specialists.

Last month we also launched Telstra Purple, Australia's largest Australian-owned technology services business. Telstra Purple brings together Telstra's enterprise business technology service capabilities. It consists of 1,500 certified experts in network, security, cloud, collaboration, mobility, software, data analytics and design.

Turning then to Pillar 2: the creation of Telstra InfraCo. Telstra InfraCo now controls assets with a book value of more than \$11 billion, and it is responsible for key network assets at Telstra, including data centers and exchanges, most of our fiber network, the residual copper and HFC networks not transferred to the nbn, the international subsea cables that the Chairman mentioned, poles, ducts and pipes.

Let me take a moment, though, to remind shareholders the rationale for setting up Telstra InfraCo, which is threefold. Firstly, we are conscious that the investment community increasingly considers infrastructure assets differently from operating businesses. Therefore, InfraCo provides a greater degree of transparency for our shareholders on the very significant infrastructure assets that we own.

Secondly, by housing our infrastructure assets in a separate stand-alone business unit, this creates and facilitates a stronger management focus on maximizing the value of these assets.

And thirdly, to create optionality for the future, particularly for when the nbn might be privatized given that this is the stated policy of both sides of government. And encouragingly, we are making good progress on all of these objectives.

The third pillar of T22 is on simplifying our structure and ways of working. A critical part of transforming Telstra for the future is changing how we work to allow our people to collaborate more easily so that they can deliver better, faster outcomes for our customers. The Chairman has described earlier the changes that we are making in our workforce and, in particular, the numbers of people that are impacted, and that is why we are continuing to make sure that we support those people through up to \$50 million transition program, which provides a range of services for those that are moving into new roles.

The fourth strategic pillar is delivering an industry-leading cost reduction program and portfolio management. We accelerated our cost program in the second half of 2019 and into 2020, and we remain on track to reach our target of reducing our annualized fixed costs by \$2.5 billion by 2022.

The other aspect of Pillar 4 is focused on actively managing our portfolio to monetize up to \$2 billion in assets. In this regard, throughout the year, we've restructured Telstra Ventures, we exited Ooyala, and more recently, we sold the Edison Exchange in Brisbane's CBD as well as entering into an agreement to sell 3 international data centers.

We also recently announced the establishment and part sale of an unlisted property trust to own 37 of Telstra's exchanges, excluding -- including existing properties. As part of this transaction, Charter Hall-led consortium has acquired a 49% stake in the new trust for \$700 million. This reflects a capitalization rate of 4.4% and values the entire property trust at more than \$1.4 billion. So combined, the recent changes to Telstra Ventures, the sale of the Edison Exchange and the other transactions that I have mentioned bring the total value of assets monetized as part of T22 to around \$1 billion.

T22 is built on the foundation provided by our strategic investment program that we announced in 2016. We have now completed this program, having invested \$2.6 billion digitizing the business and building the networks of the future. But let me be clear, without these investments, the initiatives that we are undertaking within our T22 program would just not have been possible. The digitization aspect of the program has seen our customer management, our provisioning, our billing, HR and many other of our computer systems upgraded, digitized and taken to the cloud as key enablers of the many customer experience improvements that we are delivering. As an example, the enhanced functionality on our Salesforce customer management system has helped increase our sales pipeline over the past year. We also introduced Telstra Connect as a single digital channel for business-to-business customer interactions, bringing together more than 50 active portals that we previously had. Ongoing investment in our network has also been very important and a foundation for our T22 program. This is about building the networks for the future, including launching 5G this year.

I will talk more about 5G in a moment. But in addition to 5G, we also added more than 250 new mobile sites and upgraded a further 1,200, including extending our 4G coverage even further. As the Chairman had mentioned, we now have mobile coverage to 2.5 million square kilometers of Australia's landmass, at least 1 million square kilometers than any other mobile network operator in Australia.

Service reliability and resilience also remain critical factors for our mobile customers and a key network differentiator for Telstra. Since 2016, customer impact hours from outages have been reduced 76% as a consequence of the ongoing improvements that we have been making. We also continue to lead the market in key speed benchmarks. Independent third-party recognition for the speed and quality of our network this year included winning the P3 and Systemics network surveys for Australia's best mobile network and the Netflix Speed Index for the last 18 months in a row.

Perhaps the most significant network achievement this year, however, was launching 5G. Telstra is a global leader in 5G and was the first to introduce it here. The rollout is ongoing and is currently focused on CBD locations and selected regional centers where more than 4 million people work, live or visit every single day. We have already enabled more than 350 sites and base stations around the country in 10 cities. We will increase this to more than 800 by the end of the calendar year, and we expect 5G coverage to increase almost fivefold over the next 12 months as a further 35 Australian cities and major towns are connected.



Tens of thousands of customers are already enjoying 5G today. And in fact, our customers that currently have a 5G device are spending around 26% of their time and 61% of their data on 5G, and their 5G devices can let them experience twice the speed of 4G. Ultimately, we expect 5G to deliver speeds up to 10x faster than 4G.

5G is a critically important telecommunications technology therefore. However, the real point about 5G is that it is arriving at the same time as other key technologies are converging and maturing: cloud computing, artificial intelligence or machine learning, edge computing, software-defined networks, to mention but a few. Because as we move into the 2020s, it's the combination of these technologies that is going to propel the world forward in automation and robotics, autonomous cars and trucks, augmented virtual reality tools, robotic surgery. The economic and productivity gains will be extraordinary. The changes to our society will be transformational. And the common feature of this technology innovation is that it all depends on high-capacity, fast and reliable telecommunication networks. And that is why it is so important to get the policy settings for telecommunications in Australia right. It's not just about Telstra, this is for the future success of our nation.

In this regard, we believe there are 6 key principles and policy areas where focus is needed right now to ensure Australians can take advantage of the economic and social opportunities that this rapidly evolving technology environment create.

Firstly, Australia needs a policy and regulatory framework that is pro-investment. High-quality telecommunications networks require an incredible amount of capital investment. Telstra spent \$4 billion alone just in the last 12 months on capital expenditure. The industry in total has spent more than \$12 billion a year over the last 3 years. And the investment is crucial. There is no point with application developers and software engineers or service providers investing in great products and services if the network providers do not have the capacity or the incentive to invest in the communication platforms to support them. We, therefore, urge policymakers and regulators, whilst asking legitimate questions such as whether customers are getting a good deal at a low price, please do so through the lens of the amount of capital the telecommunication companies need to invest.

Most telcos' returns on invested capital are already below their cost of capital. Unless the economics, therefore, in the industry are allowed to improve, the consequences will be lower investment in the future, which will lead to poorer-quality networks similar to that which you see in many international markets. Competition is intense in our industry in both fixed and mobile. The last few years in particular has seen increasing data allowances to customers and other inclusions as well as falling prices. Competition is good for industry, and it's good for customers, but it would be wrong to conclude that there is insufficient competition in Australia today.

A second objective is the need to ensure the social and economic benefits of the nbn are realized. Australia needs the nbn to be successful, as you heard from the Chairman. But as he explained, there are areas where, without change, our fixed line networks in Australia are going to continue to fall behind when compared internationally. This will clearly have a negative impact on Australia's competitive standing. Yes, we need the nbn to be successful but not at the expense of the rest of the industry failing. That has to change.

The third objective is that we must have a regulatory and policy framework that has the same rules and for the same service, regardless of the origins of the industry or the provider. Technology is evolving very quickly, and regulation is struggling to keep pace. As a consequence, some of the policy settings in place today are no longer fit for purpose. For example, many companies, such as Telstra, hold telecommunication carrier or broadcast licenses. These licenses impose very significant obligations on us and liabilities. If we do not meet these obligations, there are serious consequences.

At the same time, many of the services that we provide are increasingly mirrored by companies who sit outside of this regulatory framework, including those that operate over the Internet rather than traditional channels. These service providers do not have the same universal services obligations. They do not provide the same customer protections as telecommunication companies. I'm not criticizing them for that. I'm simply making the point that it is an unlevel playing field when it comes to regulation, and this is bad for competition and bad for customers.

My fourth point is on the critical issue of security. Cyber breaches and security incidents are definitely on the rise. Our 2019 cybersecurity report shows that 65% of Australian businesses were interrupted one way or another by cyber breach over the last 12 months. Meeting this challenge needs tight engagement between government, who control national security policy, and the private sector, where much of the technical innovation



in cybersecurity takes place. The importance of ongoing engagement on critical topics, such as regulation in encryption, data retention, the operation of networks, interception, grow more important by the day, in fact, more important by the hour.

My fifth point is that policy and regulatory framework for telecommunications needs to be pro-innovation. As a nation, our future has to be built on innovation. It is the key to diversifying and strengthening our economy, the key to driving the creation of new globally connected industries, the key to developing a strong services-based export sector and the key to boosting productivity and driving new employment. Telstra is part of this. We are currently in the process of recruiting more than 1,500 new roles into the companies in new areas such as software engineering, data analytics and data science and cybersecurity. However, the pool from which we are recruiting domestically is too small.

Last year, Australia's tertiary system produced about 1,200 software engineers. Telstra is seeking to recruit 1,500. India produced 44,000. We must, therefore, continue to support and increase the emphasis on science, technology, engineering and mathematic subjects through every layer of our education, training and retraining sectors in our curriculum and in our classrooms. We must also systematically review our regulations in every industry, in every sector, in everything from R&D, immigration visas, dialing up the incentives and dialing down the red tape.

My final point is that we must have a framework that is pro-customer and, in particular, pro-inclusion. Too many Australians, and particularly regional, low-income Australians, are simply missing out on the opportunities of the digital age. Policy must continue to recognize these divides and contribute to a future where a focus on affordability, accessibility and digital ability programs work to build inclusion, particularly for vulnerable and low-income customers, those that are most in need.

As a society and as an economy, as businesses and as individuals, we have become incredibly dependent on our telecommunications networks. That is why telecommunications is fast becoming and arguably already is the single most important infrastructure in every company, in every community, in every state and in every country in the world. It is also why Telstra remains absolutely committed to ensuring our business is future fit with the best network. Shareholders would be aware that just last week, we announced that we will switch off our 3G technology in June 2024. As we grow and upgrade our mobile network, we have reached a point where we must say goodbye to the older network technology. Just as we did in 2016 when we switched off 2G to give 4G a boost, we are now at the point where we need to look at switching off 3G to give that spectrum to 5G.

Before finishing up, I would like to reconfirm our guidance for the 2020 financial year. The guidance which can be seen on the screen behind me was updated last month following the release of nbn's 2020 corporate plan. That plan indicated a 25% reduction in the total number of premises forecast to be connected during 2020 from 2 million to 1.5 million. A change, obviously, of that magnitude does materially impact Telstra's guidance on total income, underlying EBITDA and the amount of included in-year nbn headwind as well as our net one-off nbn DA receipts, less the nbn net cost to connect.

This change also led Telstra to update our 2020 cost reduction target from \$660 million to \$630 million. The changes to forecast activations also affect and defer PSSA (sic) [PSAA] receipts from nbn in -- from 2020 into the future. This, of course, will also be partly offset by the natural hedge, including benefits from lower nbn cost to connect, lower network payments to nbn and retained wholesale EBITDA.

I want to reinforce, however, that it's only the change to this nbn rollout and their corporate plan that has changed our guidance for 2020. I would also like to highlight that the updated plan does not alter our view provided to the market in August that our underlying EBITDA, when we exclude the in-year nbn headwind, is expected to grow by up to \$500 million in 2020. This is a significant improvement on the decline of around \$400 million in 2019, and goes to the point that the Chairman has said why this is such an important year and such a point of -- an inflection point for the company.

So let me summarize before I hand back to the Chairman. 2019 was a year in which we met our guidance and built important momentum behind our T22 strategy. As expected and as previously flagged, our results currently reflected the current market realities, including the impact of the nbn and intense competition. Whilst these factors will continue to influence the year ahead, we are now approximately halfway through the negative headwind from the nbn, and we expect the hard work from our teams to translate to momentum in the underlying business. Our progress was a result of the combined efforts of many people, including our many dedicated employees. Every day, they are focused on serving our customers and helping to return value to our shareholders. And on your behalf, I want to sincerely thank them for their efforts and their commitment.





I'd also like to thank the Telstra management team, many of which are here today, for their dedication, hard work and willingness to step up to the very significant challenges this year. I'm incredibly proud to work with such a talented and committed group of professionals.

We are sitting at an incredibly exciting inflection point in technology, in telecommunications and for Telstra. We are only a few months away from the dawn of the 2020s. We're already at the dawn of 5G, and we have entered a period of rapid technology innovation, which will provide significant opportunities for your company in the future.

T22 is about positioning us in this world as a simpler, more digitally enabled business with the best network, the right economic model, a strong balance sheet and skills and capabilities, cultures and ways of working that we need to succeed.

Thank you, and let me hand back to the Chairman.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Great. Thank you very much, Andy. So turning now to the formal business of the meeting. The items for our business for today's meeting are set out on the screen. I will shortly introduce and invite questions on all of these items. But before I do, I will outline the question and voting procedures for today's meeting.

When you registered this morning, you will have been given a card: Yellow cards are for shareholders who may speak and vote. Blue cards are for shareholders who may speak but not vote. You will need your card to ask a question or reenter the meeting. I will introduce each item and then invite questions from the floor. There are several microphones located in the room, as you can see, with the numbers there. If you'd like to ask a question, please move to the reserved seating area behind one of the microphones. Please show your card to the microphone attendant and give your name. As a courtesy to all shareholders, please also state your affiliation if you are not here today in your personal capacity. The microphone attendant will invite you to the microphone when your turn comes. As always, in the interest of all shareholders, please try to ask only one question at a time and keep your questions and comments in no more than 2 minutes to allow as many shareholders as possible to speak and for me to remember what you asked. And also, please ask questions which are relevant to shareholders as a whole.

If you have individual customer or shareholder issues, that's fine, but please speak with one of our customer service staff here who can help you. They are located in the room here and in the customer service area outside wearing Telstra shirts. If we can't answer your question fully here today, then we will aim to provide you with a response after the meeting.

As I mentioned at the start of the meeting, voting on items 3 to 5 and on 6, if required, is being conducted by poll. For shareholders who are able to vote at today's meeting, you can lodge your vote by completing the voting boxes on your yellow card.

If you have questions about voting at any time today, please speak with one of our staff in the room here or in the shareholder registration area outside who will be happy to assist you. We have received proxies from nearly 22,000 shareholders and direct votes from approximately another 13,200 shareholders. The votes recorded for and against each item will be shown on a slide behind me at the conclusion of the discussion of that item. The for numbers displayed for items 3 to 5 and against for items 6, if required, will include proxies received and available to be voted by the Chairman of the meeting. Miss [Emma Jones] of Link Market Services Limited, who's Telstra's share registrar, will act as returning officer in relation to the poll. The results of the poll on items 3 to 5 and 6, if a second strike is received on the remuneration report, will be available later today on the ASX and on our website.

Lastly, a light lunch will be served at approximately 12 noon. However, if the meeting is still underway at that time, we will not be able to adjourn the meeting for lunch.

So I turn now to item 2 on today's agenda, which is to discuss the company's financial statements and reports for the year ended 30th of June 2019. This item provides shareholders with the opportunity to ask questions about and to comment on our 2019 financial statements and reports as well as the business operations and management of Telstra. You may also ask questions of our auditor.



Shareholders, I now invite you to move to a microphone to ask any questions you have about our 2019 results or any general questions you have about the company.

## QUESTIONS AND ANSWERS

**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Are you ready to go? #3.

### Unidentified Participant

Chairman, I would like to introduce Sue Shields from the Australian Shareholders Association.

### Sue Shields;Australian Shareholders Association;Volunteer Company Monitor

Good morning. My name is Sue Shields, and I'm a volunteer company monitor with the Australian Shareholders Association. Today, I hold proxies from over 2,000 shareholders for approximately 27 million securities, which puts the ASA in your top 10 shareholding. The ordinary dividend this year represents a 59% payout ratio on underlying earnings. While the Australian Shareholders Association appreciates that in determining the dividend the Board took into account the objectives of maintaining financial strength and flexibility, it's well short of one of the principles of Telstra's capital management framework, namely a payout ratio of 70% to 90%. What assurances can you give us concerning future payout ratios?

**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Great. Thank you very much, a good question. I can give you a firm assurance to your question. The policy on our capital management is well laid out, and it seeks to achieve a combination of both balance sheet strength while returning as much as possible to shareholders at the same time. We are very conscious that this year, the ordinary paid out 59% and the special, I think, about 63%. But overall, our payout this year was around 88%.

It's inevitable, while that's our framework, that there will be fluctuations from time to time. This was a particularly unusual year with a lot of redundancy costs and restructuring going on. Next year will be a cleaner year and, we hope, going forward as well. So we're very confident that over time, we will absolutely adhere to those 2 measures we have given, being 70% to 90% of ordinary and approximately 75% of the special, so you can be assured of that. Thank you. #1.

### Unidentified Participant

Chairman, I would like to introduce Shane Murphy from Sydney, New South Wales to speak.

### Shane Murphy;Communications, Electrical and Plumbing Union of Australia;National President

Thank you, John, Andy and shareholders. I stood here as a national president of the CEPU -- not here but in Sydney, 12 months ago or around that time at the last AGM. And since then, we've continually seen customer frustrations, a lower payment to shareholders. And whilst we've seen a slight increase in the share price, we're seeing a significant increase in offerings in pay or remuneration to the CEO. At the same time as that offering of some 33% to 34% remuneration increase is being offered, workers are still struggling to get an enterprise agreement with the company.

Whilst we have made some significant inroads over the past negotiation meetings, we are still without an agreement for working people by being offered or paid pay rises below inflation. And yet, today, we still have the CEO being offered some 34% increase in overall remuneration. That clearly



causes us as representatives of working people in this nation, in this company concerns. There is a clear disconnect between what current workers who form a big part of the success of this company are being offered compared to those at the executive level or the CEO. Thank you.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you, Shane. Look, I of course, 100% understand where you're coming from, but let me try and make a couple of points in response to that. Firstly, I did mention in my earlier comments, yes, Andy's total remuneration rose by 34%, but that is, firstly, a fixed and a variable amount. The fixed remuneration of the CEO at Telstra has been falling for 10 years and is now lower than it was 10 years ago. Andy's variable remuneration goes up and down with results. And yes, it went up 34% this year, but let's not forget it went down 50% in the last 2 years. So he is but still 20% below where he was 2 years or 3 years ago. So no one is expecting your members to take a 50% reduction in their compensation. And remember, they have a fixed, but they also have a variable piece, which you didn't mention. So there is an STI component there for the employees as well.

I'd say that said there's no easy answer to your concern other than say that the amount being offered today, which I think is 1.8%, is actually more than inflation. Inflation, to my knowledge, is a little bit lower than that. And I have every confidence that the management team will find an acceptable resolution for both you and the company. But also bear in mind that, to my understanding, other major telecommunications players in the industry have settled for around that sort of area as well. So what you are discussing with Telstra is by no means out of line with the rest of the market.

Thank you. #3 again.

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**Unidentified Participant**

Chairman, I would like to introduce [Carly Robertson] from Melbourne, Victoria.

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**Unidentified Shareholder**

[Carly Robertson] here as a shareholder. I would like to recognize and thank management for earlier this year committing to an alignment review of Telstra's key industry memberships, including the Business Council of Australia. As the world grapples with the increasing impact of climate change and global warming, I believe it is vital that Telstra ensures all public advocacy and policy development made on its behalf by industry associations be consistent with scientific consensus and Telstra's own response to climate change.

I understand that the current review is scheduled to be concluded by the end of 2019. I would like to know, if the review ultimately identifies material differences between the advocacy of a current industry association membership and that of Telstra's own climate change position statement, what action will management take to rectify this inconsistency? Will you consider suspending or ending memberships of associations whose advocacy is not accurately representing the actions and policies of Telstra?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you. Let me have a go at that. I mean, firstly, I think the most important thing is that Telstra does the right thing whether in the area of climate change or anything else, irrespective of what industry associations may or may not say. We all belong -- most companies belong to a range of associations, and we can't go in and out of those associations every time there is a particular issue with which we agree or disagree. That said, in the area of climate change, I think we've got actually a pretty good track record. We think we can hold our heads up high. If I recall correctly, we set ourselves a target of 50% emissions reduction in 2017 to be achieved by FY '20. We are already at 40% I think, Andy, which means we should actually exceed that target. We're 1 of 3 Australian companies to be included in the CDP's 2018 climate A list. We've invested some \$60 million in energy efficiency, and we've invested in 2 renewable electricity generation projects.

I think we -- I hope we can generally put our hands on our hearts and say that we lead our industry in that regard. So we look at every policy adopted by every association that we are associated with. If something ultimately becomes widely divergent from our own views, then yes, we would move away from that entity. But I'm sure you'll understand we can't go in and out all the time as there are a lot of these issues that arise.

Two. Thank you.

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**Unidentified Participant**

Chairman, I'd like to introduce [Richard Colin] from Sassafras, Victoria.

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**Unidentified Participant**

Thank you, Mr. Chairman. My question is about the risk with 5G. Given that Swiss Re lists 5G in its top 5 risks for 2019, can you confirm that Telstra has no public liability insurance for any injury caused by 5G and, therefore, assumes full direct liability for all claims? Why does the Board deem it appropriate to expose shareholders to such extreme liability by deploying 5G technology before the safety of the technology has been positively established through comprehensive independent testing instead of through extrapolation, assumption and experimentation on the public?

And further, infringement of the Nuremberg Code prohibits experimentation on human subjects without consent. It says consent is absolutely essential. I want to make it clear: I do not consent.

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Okay. Thank you. The whole industry, including Telstra, has spent an inordinate amount of time and money on researching any potential health impacts of all the Gs, not just 5G, so have governments, so have a wide number of international studies. I can assure you we are acutely aware of our responsibilities in those areas. But there is absolutely not one shred of evidence that 5G or, for that matter, 4G, has any harmful effect on humans. And I realize, for those that believe, like anti-vaccination or even the Flat Earth Society, it is very hard to change people's opinion...

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**Unidentified Participant**

May I just...

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Let me just finish. If ever there's any indication whatsoever that we and the industry are wrong, you can be 100% sure that we will not only accept the liability, but we will be all over it. But as of today, there is absolutely no evidence.

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**Unidentified Participant**

May I just refer you to Prof. Martin Pall from the University of Washington, emeritus professor there, who, in an open letter to ARPANSA stated 187 bodies of evidence about human exposure and health risk?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Well, the same thing about vaccination and flat earth, I'm sorry. I just -- we can only go with the science that is proven by a majority collective view, and there is no such science today.



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**Unidentified Participant**

I'll also state for the record that I am electrically sensitive. So I really don't care what your studies may or may not prove because I feel it.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

I can see you're a very sensitive person, and so am I, to this issue. We will do the right thing, I can assure you.

#4 -- oh, no, sorry, #1.

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**Unidentified Participant**

Chairman, I'd like to introduce John Ellery from Warragul, Victoria to ask his question.

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**John Ellery; Communications Union; Senior Union Official**

Yes. Good morning, members of the Board. Just to introduce myself, John Ellery, I am a senior union official with the Communications Union. Previously, I spent from 1975, 19 years working in Telstra's leading research area, so I'm not unaware of the circumstances of new technology and all that sort of stuff. I've spent the last 25 years watching a really great company go downhill. And quite frankly, you people on the Board really need to ask one simple question of yourself and that is, where are you taking this company?

This company now employs less than 25,000 staff. Originally, it probably employed about 100,000 Australians. So all those Australians that used to work for a once great icon in Australia, most of them don't work for that company anymore. And it's an absolute disgrace.

The intention with T22 is to have 9,500 job cuts, not the reported 8,000. It's 9,500 job cuts. That will leave less than 20,000 staff once this program of Mr. Penn's is completed. You, the Board, have corporate responsibility, given you have been set up by the Australian taxpayer. That's where Telstra came from, a company-owned by taxpayers who clearly expected jobs in Australia for Australians. That arrangement allowed many thousand Australians to be employed and pay their taxes and do all sorts of things that the average everyday Australian as a worker did.

You have 20,000 staff members who are seeking security in their job with Telstra, not with some constructed arrangement that you're pursuing at the moment, which is to appear to throw most of those people across to wholly owned subsidiaries. That's what we're learning out of their enterprise agreement negotiations, that your master plan is to probably get the bigger, wider Telstra down to about 5,000 staff. Now that is outrageous. People who are moved or potentially moved across to subsidiaries are in a very precarious position. And we call on you to stop that madness.

You've also got 20,000 staff, as Shane mentioned before, who are being offered a paltry ludicrous pay rise at the very same time that Mr. Penn is seeking a 34% pay rise. Again, we say absolutely outrageous, ludicrous, and you should stop this nonsense.

You have an extremely contentious enterprise agreement proposal that is really all about trying to force staff to take long service leave, for instance, at the behest of the manager, not at the individual. People who have been long-serving staff of yours are now being pushed into taking long service leave when the boss wants them to. Again, pull back on these ludicrous plans that you have. You claim it's cost cutting. We say it's ludicrous.

So I repeat, what is your master plan for these 20,000 current staff? Or is it only to have 5,000 Telstra staff and then have the rest of them moved over to subsidiaries or just plain sacked or moved -- or their jobs moved offshore? You've been pretty good at that. You got a lot of call center staff offshore in Manila. You got a lot of technical staff not even working for Telstra doing Telstra work that was done in Australia by your high-level technical people over in Pune in India. So you've really got a real question about you about what are your moral guidance -- what is your moral guidance about where are jobs being produced in Australia.



20,000 of your current staff really want to know where their future lies. I'll leave it at that.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Okay. Thank you. I did try to address some of this in my earlier comments. Of course, we take it very seriously. We do not like -- we feel the human impact of losing staff. But your suggestion that because Telstra once employed 100,000 people, somehow we're doing badly when we no longer employ that. I think if the measure of a company's success was how many staff it has employed, I'm not sure that the shareholders in this meeting room would be very happy with us.

The reality is our world is changing. I've been through the impact of the nbn. Half of those 6,000, which is ultimately going to be 8,000 or 9,000, those people are losing their jobs because we're losing half of the business that we used to operate. Are you really suggesting that we keep those people just sitting in an office somewhere while the work is being done in another part of the industry?

Unfortunately, we're not alone. Every industry is going through it. If you go into David Jones and go in the lift, there isn't somebody who'll go jing-jing, "Which floor, sir?" You press a button. Now that is happening across every industry. And ours is probably at the leading edge of it.

Your 5,000 staff thing, it's the first I've heard of that. I'm not aware of -- anybody on the Board -- and I can see management nodding. We've never heard of the 5,000. So I'm not sure where you invented that from.

Where are we going? Well, we're just trying to explain. We're going through the biggest transformation this company has ever been through. The T22 program is extensive. It's to make sure that Telstra survives and wins in this environment where everyone is going through the same thing. Look at every big telco, they have exactly the same thing. They're laying off staff. They're restructuring. They're embracing technology. Sadly, that is the reality of life.

And one more thing on Andy's pay, I really have to say I struggle that for some reason, the business community is singled out. If somebody devotes their life to sports and on a Friday night, they instead of going out with their mates, they go training and they give up their holidays and weekends to get to the top of their sport, they get rewarded for it. And nobody seems to begrudge that. And it's the same with music. The online gaming industry, young kids can earn USD 5 million now by playing Fortnite. And even influencers, you can earn millions of dollars just by wearing a nice jacket and standing in front of a landmark. And yet when a business executive devotes a huge portion of their life, they work long, long hours, weekends, they miss family events, when they get to the top of their profession, somehow it is morally wrong that they get rewarded for it in an international global market. I think that is wrong. Thank you. #3.

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**Unidentified Participant**

Chairman, I would like to introduce [Scott Hunter] from Melbourne, please.

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**Unidentified Participant**

I've got a few brief comments to make. In 1983, there were 26,000 public phone boxes. There's now 13,000. These were a public asset originally paid for by the taxpayer, need to be kept and maintained. And they're for emergency calls that are often needed. The new design has no privacy to make a call. There used to be a booth with a bench to put one's bag and documents on. The new ones don't. They're designed by someone who doesn't use them. \$0.50 for a call. If you use a \$2 coin, you don't get change. Every other device in this country, ticket machines, drink machines give change. Why don't phone boxes?

The Telstra pricing of some services is wrong and unfair. The cheapest home phone plan is \$42 a month with each call to a mobile phone charged at \$1 a minute. Mobile plans can be got for \$30 a month, which is \$1 a day with unlimited calls to mobile phones. One is too cheap, the other's too dear.

There are a lot of prank, attempted scam, robbery, nuisance calls which need to be blocked, traced and stopped permanently, particularly ones fraudulently claiming to be Telstra staff. The technology is available to do this. The aim of these scammers is to steal information to rob everyone they contact. This could bankrupt potentially everyone in Australia. Don't wait for the government to ask you to stop these calls. Telstra should show leadership and do it themselves.

Is there a Telstra museum? If so, where is it? If not, why not? It could display PMG, telecom and Telstra history and artifacts, phones, phone books, phone boxes and phone cards. There is a secondary market for these items and souvenirs. Telstra should be middle manning the price.

When someone comes out to connect up the nbn and the contractors they use through incompetence cut off the Telstra service to a house and you have to ring up and get Telstra to come out and repair it at Telstra's expense, and you're left without a phone for 3 days, does Telstra pass on the cost of this back to the nbn or do they just pay it themselves? If they pay it themselves, why?

And when you sack 4,000 middle-level management staff, that leaves staff at the bottom unmanaged. Is this wise? What happens to the sacked staff? And it's not just the person sacked, but the position forever. Can't you retrain them as the IT staff you need?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, thanks for sticking to the 2 questions. That's 1, 2, 3, 4, 5, 6, 7, 8 -- that's 9, but I'll do my best. I'll do my best. So on the phone boxes, I have to say I'm not intimately acquainted with why it doesn't give change, but I'm sure -- I don't know, Andy, have you -- do you want to say anything about that?

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**Andrew Richard Penn** - *Telstra Corporation Limited - CEO, MD & Director*

Well, I'm happy to. We actually have 15,500 public phone boxes at the moment. They're under the universal services obligation with the government, so we work with them regarding the design and the placement of them, but ultimately, our aspiration is actually to make them free. So it does not make sense to go through and systematically upgrade the technology to provide change. We'll make them essentially free over time.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Great. And the next one was on mobile charges. Look, this is a very dynamic industry. Our mobile plans have to be competitive with the rest of the industry. We make no secret of the fact that we're more expensive than most operators because we believe we have the best network and the best service. But that said, we have to be competitive or people wouldn't use us.

On the scams, that is a very difficult one, and it's easy for you to say we should just wave a magic wand and fix scam calls. We can and do block numbers where we know that scams are originating, but the technology is out there just to rotate through millions of different numbers. So a call comes from a different number every time. We and the rest of the industry, we're working with ACMA, working with ACCC on trying to find ways of identifying the sources of these scam calls and trying to build technologies to beat them, but it's a constant race as the scammers and the criminals, like in many areas of society, are always innovating and one step ahead.

All I can say really is that the individual has to try to use their own wisdom. And if you don't trust it, just hang up. If it's really important, it'll keep -- it'll come back. If it isn't, just hang up. And there is a -- actually a Telstra brochure which can be found on the website, is it really Telstra calling, that will give you some guidance through that. But sadly, our society does have criminals in it, and we don't have a solution to fixing every single one of those criminal attempts.

Is there a Telstra museum? Yes, there is, and it is in Hawthorn. It is actually well worth a visit. Some fantastic history in there.

Regarding the nbn. I can't really generalize. And it depends when a fault is fixed whether the fault was the fault of the nbn or it was the fault of Telstra or some other matter, but I can assure you, we don't give nbn a free ride there.

You asked what will happen to the 4,000 middle management staff. Obviously, I don't know individual outcome, but I do know that Telstra's invested \$50 million in trying to help people retrain outside the company. And within the company, we have an extensive retraining program, which I think we'll see 1,500 people or something, or more, actually move into other jobs.

That I think was the end of your 9 questions. I hope I've answered those. Thank you. #4.

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**Unidentified Participant**

Chairman, I would like to introduce [Vince Misquitta] from Sunshine, Victoria.

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**Unidentified Participant**

John, I have a 2-part question. My first question is directed to the CEO, Andy. I'm a former employee of Telstra. And Andy, when your predecessor, David Thodey, was in charge, we had an active Telstra Alumni program. Under your leadership, it has gone quiet.

And my second part is -- second question is, when I was going to university many years ago, a professor of economics said to me that the salary of the lowest-paid employee and the highest-paid employee should never be more than 10x that so that we don't have a situation where we have CEOs becoming too rich. Would you look at the -- at some sort of a ratio for Telstra?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Let me answer the second bit. And then maybe, Andy, you can have a go at the first bit.

So on the multiple, yes, look, that is something that we are very conscious of. If we look around the world, Australia and Telstra actually performs pretty well and obviously still not to the satisfaction of everybody. The multiple in the United States is 287x. The multiple in the U.K. is 200x. In Telstra, it's about 60 but depending on -- because so much of Andy's pay is variable, goes up and down, if he got no variable pay, it would be 20. So on a fixed comparison, it's only 20. But obviously, that goes up with whether it's been a good year or a bad year. So we are, as Australia, amongst the lowest. And Telstra sits pretty well within that -- within Australia as well.

Do you want to have a go at the first question?

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**Andrew Richard Penn - Telstra Corporation Limited - CEO, MD & Director**

Yes, sure. Well, obviously Telstra has a very rich and significant alumni being such a large organization. And at different points in the past, we've had various different alumni programs. We obviously take feedback in terms of how they are received and how people are wanting to engage with the organization. We've mentioned the Telstra Museum. That's something that a number of our alumnis get involved in. Telstra Exchange, which is something that we use in terms of our broader communication, as well as Telstra Super, which obviously is an important part of our post-employment support of employees.

The former Alumni program was not giving us the significant support that we would have aspired for it to have. I'm very happy to continue to get feedback from former Telstra employees, and I'm -- personally like to speak to them from time to time and get their feedback as well because it's something that we'll continue to look at.

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Thanks, Andy. #4.



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**Unidentified Participant**

Chairman, I would like to introduce [Peter Star] from Sydney, New South Wales.

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**Unidentified Shareholder**

If I'd been here last year, maybe we wouldn't have got the strike. And I apologize for that. For those who don't know, I've been a long-term shareholder, more than 12 years. I also represent a number of other shareholders in Dyer-McInerney superannuation pension fund.

John, it's always a hard thing, remuneration across the board. And I go to a number of meetings. But from where I stand, and I heard what Sue had to say, I feel that you look at -- the mum-and-dad shareholders look at the share price. And I know it's easy to gloss over and say, well, it doesn't matter because it -- back in February 2015, we were at \$6.61, but we've had nbn and all the rest, and we've got \$11 million. And I know Nora's been there. And I've been there when all that negotiations and everything we went through. It's a hard thing for mum-and-dad shareholders sometimes to see, well, Friday, our shares closed at \$3.57. Yesterday, we closed at \$3.50 because of some announcement. We're just getting tossed around, and we feel it, especially for the people who are holding and continue to hold and do -- even reinvest.

So I just think that as far as what we're going to pay Andy, from the shareholders I represent and myself personally, I don't have a great problem with it. But I just think we just need to be aware of the alignment as far as where the shares and the price sits because that's what affects mum-and-dad shareholders. And this company is made up of a lot of mum-and-dad shareholders, John.

Your predecessor, Ms. Livingstone, probably wishes she was back here instead of being dragged through the mess at CommBank and the Royal Commission and the tears that's brought her. But you're here. So it is -- the mum-and-dad shareholders are very important to this organization and to this company.

So I'll have some other things to say on other questions.

But -- and -- but again, second one, just for you, John -- Andy, I don't know if Michael Ackland is here. Is he here, Andy?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

It depends what you're going to ask.

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**Unidentified Shareholder**

Don't worry.

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Yes, he is. He's here.

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**Unidentified Shareholder**

I hope he got the message from his staff.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Did you get the message? He did. He did.

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**Unidentified Shareholder**

Now he knows me. He'll be able to talk to me.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you. Look, [Peter], of course, we are acutely aware of the impact that the share price has on mums and dads on superannuation funds and the like. We have, I think, pretty well the highest retail shareholder base of any major corporate in Australia, at around 50%, which is all of the people in this room today and many, many, many more. We have 1.3 million shareholders. The vast majority of whom are private individuals. So we absolutely understand that. We are all shareholders, too. Every one of us sitting on -- up here is a shareholder, so we experience it, too.

The reality is, however, we only have a limited degree of control over what happens to share prices. A big business is no different to a little business. If you're in a small business, if you've got 2 news agencies, and they're both making a profit, and you sell one newsagent, you'll only have one news agency left. Are you going to employ all the same number of staff? Are you going to earn the same? No, you're not. And that's what's happening to Telstra. The nbn is taking away about 1/2 -- up to 1/2 of our net profit, which -- from which dividends are paid and obviously impacts the share price.

So that's a fact. We can't do anything about it but other than we then have to not just sit on our hands, but we have to try to rebuild Telstra as actively as we can, so that we can increase dividends again one day and see our share price rise. And that's what's the T22 program is all about. And there are many thousands of people working extremely long hours trying to deliver the sort of result that you asked for from mum-and-dad shareholders. So we will never forget it. We can't unfortunately wave a magic wand, but we will never forget our responsibility. Okay. #1.

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**Unidentified Participant**

Chairman, I'd like to introduce [Ian Blair] from Carlton, Victoria to ask his question.

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**Unidentified Participant**

Firstly, I'd like to congratulate the Board for having a good presentation, and I hope that it's available on the net rather than just having it as a printed document.

Secondly, I, in over a 10-year period, work for 5 years with Telstra. So I'm a strong Telstra fan.

I've got 2: 1 observation and 1 question. Firstly, I was there at the time of the nbn negotiations. And I was appalled that the Board rolled over with Richard Alston and let the government turn round and take it away. Telstra was in a fantastic position to have rolled out the whole nbn, done it for 1/2 the cost and yet got totally -- Turnbull and everyone else who've torn it apart.

So I think it's too late to plead. But in future, have a bit of backbone to stand up to the government. And to turn around, Telstra is a huge company. And with all the fathers and mothers and families, shareholders, you should be able to convince the government on proper policy. So Gina Rinehart was prepared to get out on the mining industry and the mining tax, let's see the Board on the back of a truck going around and convincing the government on good telecom policy because, as you rightfully pointed out, a whole future digital disruption is going to dominate every industry, and we need to be on top of it.



So the question is, how about Telstra having a fantastic training program that's available to us shareholders so that we can keep up with 5G and what the next one is, but also train their staff that are coming away so that we don't have to get them in on 457 visas. I think we've got the talent in Australia, let's train them and use them here.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, firstly, on the nbn and backbone, et cetera., I think I made some comments earlier. There are clearly some strong views around as to what the nbn could have been or not been if things had been different, but they weren't. We are where we are. I mean please don't forget that when you're negotiating with the government, it's not a normal commercial relationship because they just pass the law to make you do what they want you to do. And that's quite hard to fight.

However, today, we are where we are. And yes, we absolutely try to have backbone, as you put it, to robustly defend the interest of Telstra. But we're also mindful, as you heard from both Andy's comments and mine, that this current issue -- anyway, the nbn and the broadband issue, that's a national issue. That's not a Telstra issue or an nbn or anybody else. It's a national issue that the whole industry and government needs to get together to resolve, and you can be sure that we will absolutely do our part in that.

Then I think you asked, how do we ensure that -- or how do you as shareholders ensure that the company is keeping up with technology and leading Telstra in all the changes that are going on. I can honestly say there, I've been amazed in the time that I've been at Telstra that Telstra really does punch above its weight, as the expression goes, on a global basis. So we may be a big fish in a little pond here in Australia. When you go overseas, Telstra is a very little fish in a very big pond. But I'm constantly amazed that the access that Telstra gets, the recognition that Telstra gets for the innovation that takes place under Andy and the team and it's fulfilling a long tradition, a whole number of industry-firsts have taken place here in Australia. The most recent one being 5G on the Gold Coast with Ericsson. So I think it was the first -- that was the first global demonstration of 5G.

Andy personally sits not just on the GMSA -- the GSMA, but he's on a -- quite a number of industry bodies and fora where Telstra's voice is heard loud and clear. And I can absolutely say Telstra is right up there at the cutting-edge of change in our industry. And we as a Board will continue to 100% support Andy and the team, in making sure that Telstra stays there. Something I think you can be justified and be proud of. Thank you. #3.

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**Unidentified Participant**

Chairman, I would like to introduce [Norman Wong] from Melbourne.

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**Unidentified Shareholder**

Thank you. Mr. Chairman, members of the Board and shareholders, my question is how active are your customer satisfaction surveys, if they exist?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you. So trying to keep pace obviously with what the customer thinks given the number of customers we have, 18 million or more, is always a challenge. And no measure is perfect. We measure 2 principal metrics, which is around the Net Promoter Score methodology, which is a widely accepted methodology used in the marketplace around the world. And we divide that into episode. And by episode NPS, we mean when you've just had an interaction or an experience with Telstra, you've just been on the phone or you've just bought something from a store or whatever you've just at that moment done, we ask you for your feedback on Telstra's performance and customer service at that moment in time. That we feel represents the cutting edge of change and improvement that we're making in Telstra.

Then we also measure what's called strategic NPS, which is a sort of general perception of Telstra, would you recommend Telstra to someone else, et cetera. That inevitably lags movement. If a company goes into decline or starts to really improve, it takes a while before the general perception

changes. It will do eventually. So what happens in episode will ultimately impact strategic, but it takes time. So we measure both in order to try to be on top of the now but also the general impression that Telstra is creating. And you'll be glad to know that we are making good gains. Still nowhere near where we'd like to be, but we're making good gains. And management are targeted every year, part of their variable compensation is based around achievement of improvement in those Net Promoter Scores.

Thank you, #3 again I think. Yes.

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**Unidentified Participant**

Chairman, I would like to introduce [Hans Witteveen] from Seymour Place.

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**Unidentified Shareholder**

Mr. Chairman, in the financial statement, the cost reduction program in reducing fixed cost, it always comes back to staff reductions, 8,000 people, whatever it is. My question is how is this balanced against maintaining skill levels with it to keep the company going? I did take note of the CEO's comment that we are recruiting people for new skills. But at the same time, you also need to keep people to maintain the old levels until you are at the new platforms. You spoke very convincingly on the needs to recognize the skills of the Board. You spoke less convincingly on the remuneration of the actual staff. But the real question is, when you let 8,000 people go, how are you dealing with maintaining the skills to keep business going?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Yes. Look, that's obviously a critically important issue. It's also a complicated issue, because of the people that leave, some people are leaving because we just don't have that job anymore. Some people are leaving because technology has changed, and that particular activity is now being replaced with another and a whole variety of different reasons.

But I do know that our HR team, very ably led by Alex Badenoch who's here, puts a huge amount of time and effort with the rest of the management team on ensuring that the skills mix is right, is fit for purpose. Sometimes, you lose people you don't want to lose, of course, it doesn't always go with plan. But by and large, we've been actually really reassured that, if anything, the skill set of Telstra is improving, it's rising, it's not declining as a lot of those older more manual jobs are disappearing and they're being replaced by more high-tech jobs. But it is something we absolutely have to focus on. The race is for talent just as much as it is for financial success, and we have to make sure that we're up there and a leader in that respect.

#1, please.

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**Unidentified Participant**

Chairman, I'd like to introduce [Bill Davey] from Victoria.

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**Unidentified Shareholder**

I'm [Bill Davey], a shareholder. My question is what percentage of revenue comes from broadband as against mobile services? And what's your estimate in, say, 5 years' time, the split between the revenue streams?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Sorry, what percentage comes from the segments and...



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**Unidentified Shareholder**

Percentage of revenue comes from broadband services as against mobile services.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Yes. Well, our -- correct me if I'm wrong, Andy. I think our fixed revenue is about 19% or 20% of our total revenue, and the data and IP revenue is about 9%.

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**Andrew Richard Penn** - *Telstra Corporation Limited - CEO, MD & Director*

And mobile would be close to...

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Mobile's 40 -- 38, 40. Yes. But mobile is a bigger contributor to margin than the others.

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**Unidentified Shareholder**

And what's the estimate in, say, 5 years' time, is it more mobile against fixed broadband? Or...

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, we would hope to maintain a strong fixed base despite the whole of the -- it will change going on in the nbn. That's the one obviously where we have less certainty probably. Mobile is clearly going to be an absolute critical success factor for any telecommunications company in the future. I mean, we have nearly 50% market share. It's our biggest profit generator. And we have by far the best network in Australia, so we will be doubling down on our performance in that area. That said, obviously, fixed, we're now becoming just a reseller of the nbn, and we have to try and succeed in that world. And we've done actually quite well there in that as a transition took place from a director's relationship with a customer to the relationship through the nbn, there are a lot of predictions that Telstra will lose share, et cetera, well, we haven't. In fact, if anything, we've certainly held, if not grown, market share.

And the old data and IP area, that's obviously an area of considerable flux. I made some comments there about the nbn's activities in that area. That's an important part of that. It's a small but still very important part of our business. And we have to see that transition through to whether it's to new wideband solutions provided by Telstra or a reselling of the nbn. #4

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**Unidentified Participant**

Chairman, I would like to introduce [Lee Kilton] from Northern Rivers, New South Wales.

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**Unidentified Shareholder**

Thank you, Mr. Chairman. I am representing my self-managed super fund. And I've taken a 50% hit in my earnings from my investment at Telstra this year, so I feel the pain of some of the staff who haven't had increases. I don't share the pain with the Board because you haven't had any decrease at all, but that's the way it is.



Last year, we had a reduction in profit after tax of nearly 10% in the company. This year, we're down 40%, and that is the net profit after tax which, in fact, is what affects most of our investment in the company. It seems to me that this meeting should have been held 7 or 8 years ago when we were given hope for the future by the new technologies and the new systems that are being put in place.

Last year at the AGM, you mentioned that the nbn was the main contributor to our woes. And we all pointed out to you that this wasn't something new. You had known about the nbn for some time. Next year, you're saying that we're hitting even greater headwinds with the nbn. So I wonder where the 10% to the 40% will go next year and, consequently, what happens to our dividends in years ahead?

The buck stops with the Board. And as I mentioned to you last year, there's no point in bemoaning the fact that we have an nbn rollout that we've known about for 10 years. You've been on the Board for more than 10 years, and there are one or two other members of the Board that have been there for significant periods of time. Surely, at that stage, when they introduced the nbn, you did some modeling as to what the effects of the rollout would be and how you would maintain value in the company when that started to take place. You talked about the newsagent, having 2 newsagents and selling 1 and not expecting it to be the same business afterwards. Well, what did your modeling say you should do with this company when shares were up around the \$6.50 mark when the CEO was appointed and when you took over as Chair, and we're now sitting at \$3.50 in round terms?

So we can say the share price is of little relevance because we can't control what the market says. What the share price does is it is the collective intelligence of the investing public out there, both here and overseas, as to whether this is a company worth that sort of money to invest in.

So I get back to my point that the collective responsibility here rests with the Board as to the direction and the quality of the company and what we are doing with the resources within the company. I asked a question at last year's AGM as to what you're doing with Board renewal because I don't see any younger faces who've grown up with digital technology sitting on the Board or even recommended for Board positions. I see a lot of people who are professional directors that sit on the Board that haven't grown up with that space of technology that we are needing to take this company forward.

So can you please explain to me what you are doing with Board renewal that reflects the future direction of the company, not the past history of the company?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you. Okay. Let me have a go at the first bit. Yes, we did know 10 years ago that the government had an intention to create an nbn. We did not know what form that would take. We did not know how that would be structured. We did not know when it would actually finally happen. So in all that meantime, we had to continue running Telstra because there was no nbn. So to suggest that we should have suddenly made all those changes 10 years ago in the anticipation the nbn might have arrived, I think it's a little ludicrous.

That said, when the nbn did arrive, yes, we did make a whole lot of projections. And one thing, whether we're at fault or I don't know, we certainly estimate -- the whole industry, estimate that reselling the nbn would be a profitable occupation. We all had different views on how profitable. We certainly had our modeling. That, unfortunately, has turned out for the whole industry to not be the case.

So absolutely, is the Board accountable? 100%, so is management. But it's very easy to say, well, you've lost half your net profit, well just go and replace it. I have this conversation with shareholders all the time. So what do you actually recommend that Telstra does that it's not doing now with the T22 program or anything else? And very easy to say, just find \$3 billion, but that is the equivalent of finding another ASX 20 company. It's the equivalent of creating overnight another Qantas.

So I really think it's a little impractical to expect that a Board or management team can wave a magic wand and just achieve that.

That said, we are on the hook 100% and accountable for doing something about it, which is what we are doing. And the T22 program is one of the most ambitious in the world, if not the most ambitious, as I mentioned earlier. I found it quite interesting that in recent times, we used to go overseas a lot to look at other major telcos and see what lessons we could learn because everyone is going through the same challenges, and they don't



have any solutions either. And we have gone overseas to look and see what we could learn. The T22 program is actually engendering a traffic the other way, and we are starting to have a number of visits from very large international telcos who are coming to look at the T22 experience. And the Telstra experience has been leading in this respect. So have we got it all right? No. Are we able to fix everything and fill every gap? No. But I can assure you we are trying extremely hard, and it is being recognized in the global telco world.

Last but not least, your comment about Board renewal. Let me say 2 things. One, I'm extremely proud of the Board renewal that we have. We now have an extremely well-equipped Board for the challenges of today. We have 3 leading technology senior executives from around the world who have been through this sort of thing in much bigger economies than ours. We're extremely lucky to have them. And then we have some very diligent and talented local directors as well.

We have 2 vacancies that we are about to fill. I was -- had been hoping that I would have been able to do it before this meeting in order to address exactly your question. Both of those will be filled before Christmas. And one of them, you'll be delighted to know, is an awful lot younger than all the rest of us on this Board, and we look forward to introducing you to her next year. #1.

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#### Unidentified Participant

Chairman, I'd like to introduce [Patrick Massarani] from Sydney to come to the mic.

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#### Unidentified Shareholder

Chairman, Board, shareholders, mention has been made of the Telstra Alumni program this morning. It's a cause that the Board's devotion could not be questioned on. Indeed, you've bolstered their ranks by 9,500. Those staff who haven't yet graduated to alumni status are increasingly concerned that their roles are going to be moved into subsidiaries like corporate nesting dolls. Their terms and conditions undermined each step further removed from the company that's taken. What undertaking can you give to those staff that their conditions won't go backwards, that they won't be undercut through the creation of subsidiaries?

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#### John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board

I don't understand why there would be a fear that -- I mean, a company like Telstra, I don't know many companies we've got in the group, we've got many hundreds, and our employees and assets are structured all across of those. It really -- we are, however, one group, and whether an employee is in this part or that part, doesn't make any difference to their terms and conditions.

So we have no intention of some sinister methodology of moving somebody from one company to another to, in some way, disadvantage them or give them less terms and conditions than they have today. There's no intent to do that.

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#### Unidentified Shareholder

Sorry, so just for clarity, so do I understand correctly that you would not be in a position to give an undertaking that staff will not be transferred to subsidiaries where they would receive less favorable conditions than that which they currently receive as Telstra employees?

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#### John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board

I can give you an undertaking. There is no intent to transfer somebody from company A to company B just to reduce their terms and conditions. Absolutely, I can.

Okay. #3.





**Unidentified Participant**

Chairman, I would like to introduce [Dr. Michael Chambliss] from Rosanna.

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**Unidentified Shareholder**

I'm representing myself, my wife, my family and super fund and the children. We all got Telstra shares from beginning. And first of all, we bought the share because it was a monopoly. I like monopoly. Unfortunately, the company changed their mind, and then they stripped the monopoly from Telstra, and it's very unfortunate.

But now this nbn has been built gradually. But now they not even -- they are not just a wholesaler, they are also pinching the customer from the Telstra, Vocus and other, Optus. They're like Coles, Woolies and [those reports]. They are pinching customer. Would they in fact impact the profit of the retailers?

Second thing is that if you -- because we have to earn money in this section, can you ask Mr. Penn, create a new business in the Telstra Corporation so they earn money to compensate for the loss of business in Telstra?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

What was that? Any money to compensate the loss of...

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**Andrew Richard Penn** - *Telstra Corporation Limited - CEO, MD & Director*

I'm not sure. I mean, the reference was to the nbn entering into the enterprise market. I'm not sure...

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

I'm not sure I've got all of your questions. So come back if I've left anything out. But let's -- we should keep the nbn in perspective? Yes, it's a big impact on our business, but we still have an extremely dynamic and successful business outside the nbn. I don't want the whole focus just to be on the impact of the nbn. Our mobile business, it's 50% market share in the company. We are absolutely world leading. I gave you some of the statistics earlier. Australia ranked #2 in the world. So that is the future of Telstra. So don't be too alarmed that because we're having battles in the fixed area with the nbn that it spells doom for the whole corporation. It doesn't. It doesn't.

That said, we were asked about [back burn]. Yes, we are fighting our corner in the whole fixed area because it is an important part of our business, a profitable part of our business. And the particular issue that I raised was the mandate of nbn not to go direct to our customers but to sell wholesale through ourselves and other service providers. That we believe is critical to the structure and the order that governments have put into the fixed market. Whether we like or not, it's the way it is. But both sides need to respect their mandate. So we will be pressing government and nbn very hard to try to make sure that they honor their side of the bargain, just like we are honoring our side of the bargain. #4.

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**Unidentified Participant**

Chairman, I would like to introduce [Kevin Saunders] from Melbourne, Victoria.

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**Unidentified Shareholder**

Chairman, I'm a shareholder, both directly and as part of a superannuation fund. My question, you've clearly pointed out today the impact of nbn on our business, and you referred to it I think quite cleverly as owning 2 shops, and now you only have 1 shop. My point is I would like to know, as we now have 1 shop, do we still require such a large Board and senior management, and should our CEO still be paid the same salary?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, I think that's just a reiteration of something that we've been over a few times. I would again stress Boards are really important, but what is a lot more important are management teams. And the one thing that you as shareholders can guarantee will damage your interest is if you don't have a top, top talented management team to navigate through these difficult times.

Managing a business in good times is an awful lot easier than managing a business in difficult times. And it's absolutely critical that the Board ensures that you as shareholders have an outstanding management team, which I believe we do. But we have to support them and remunerate them accordingly, or we won't have such a team. #1, please.

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**Unidentified Participant**

Chairman, next up, I've got an [Emily Cross] from Melbourne who would like to ask her question.

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**Unidentified Participant**

I apologize for my croaky voice. Gentlemen, first of all, I usually get up on principle at AGMs because apart from the lady representing the shareholders, no other female has as yet taken to the microphone here.

So could you unravel this particular little story for me? As I look around the room, most people have got hair my color, so I thank you for the platinum plan. But could you unravel this story for me? At the Carleton shop where I usually go from my appointments, in the last 6 months, the first young person who used to take my problems has gone off to do a musical career. He was brilliant. Second one got moved to another store to be manager, good luck to them. Another one has gone off to USA somewhere to take up a position with some U.S. IT company. So my question is, what efforts do you make to keep young people at these lower levels in stores in the company, and you know, give them opportunities to become one of you?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

That's a very good question. Yes. Let me try and answer it with an anecdote. A friend of mine, I discovered by accident, actually has a son working at Telstra, who is -- I'd say, he is probably 28, or something like that. A young person. And my friend said, "Oh would you meet with him and just have a chat you know, it would make his day." So I said, "I'd love to, of course, no problem." So I went ahead and had a coffee with him a little while ago in Sydney. He is an extremely bright young man involved in the digitization project that's digitizing our company from top to bottom, working in agile teams. And I came away from that meeting so enthused, probably more I think than he was, he said that the digital transformation program going on in Telstra today is the most exciting in Australia. Everybody in his area wants to work in it. I actually know with another hat, I've been told that the CIO the Chief -- the Head of IT -- sorry in [Toll], said to me, "Oh we can't recruit anybody in digitization, because everyone's -- all engineers have gone to Telstra."

So we do actually have an extremely dynamic young middle core there that is building a Telstra of the future. And these people are all of my children's age, they're not our age. And our job is the supervision of the industry overall. But the people who will be sitting here in years to come will be some of those really bright and driven, dynamic and motivated young people in Telstra, I can absolutely assure you there are a lot of them. Thank you.

Well, believe it or not, there are no more questions as yet. Share -- Shareholders even better news, lunch and refreshments are now being served outside. So if I wait. No more questions?

Okay. Great. Is that okay? There are no more questions here. That's finished that item.

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## PRESENTATION

**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Now our next item is item 3, being director election and reelection.

As I mentioned before, we have 3 candidates standing for election or reelection, and their details are shared in the notice of meeting.

So I'd now like to invite the 3 candidates Eelco, Craig and Nora to address the meeting in that order.

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**Eelco Blok** - *Telstra Corporation Limited - Non-Executive Director*

Thank you, John. Good morning. Yes. Good morning, ladies and gentlemen. My name is Eelco Blok. I'm very honored to have been nominated to join the Board of Telstra. I've enjoyed the journey so far, since I joined the Board in the beginning of this year. I'm Dutch and have 35 years of telecommunication experience, of which, the last 7 years from 2011 until 2018 as CEO of KPN, the Dutch former [incumbent] operator. In addition, I was on the Board of Directors of -- at the Industry Association, the GSMA. And given my telecommunications experience and the transformation of KPN, I believe I'm well positioned to contribute to Telstra, particularly as the company transforms under the T22 strategy. I look forward to continue to add as much value as I can to this great company, its customers, its employees and its shareholders. Thank you.

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**Craig William Dunn** - *Telstra Corporation Limited - Non-Executive Director*

Okay. Well, thank you, John, and good morning, ladies and gentlemen. It's been a great honor to serve on the Board as your representative, and I'm grateful for the opportunities to speak to you all today.

Telstra, of course, occupies a very special place in the history of our great country and has always made a very significant contribution and an enduring one to the communities it serves, as I know, it will continue to do so. But as John mentioned in his opening remarks this morning, no company's future can be guaranteed or its success can be guaranteed, particularly in a world of such constant and rapid change.

And so it is critical that a business can respond and adapt quickly and decisively. That means sometimes making very difficult decisions to stay relevant and to keep providing value to its customers. It obviously needs to do that in a way that's responsible, but also in a way that adds value to the risk capital that you shareholders invest in the company.

And as John and Andy has explained, T22 does just that. And in an environment that we are facing as a company, it's important that the stewardship and effective governance of Telstra at a Board level is done very well. And it's also important that those that take on that responsibility are equally committed to the delivery of the T22 program as it works its way through the next couple of years. And I, like the rest of my colleagues, am very committed to the rollout of T22. I believe I've made a demonstrable contribution to the Board, and I believe I have the career experience to keep doing so.

I've worked in the financial services sector for nearly 25 years. I've lived and worked overseas, both in Asia and in Europe. And during that period, I've learned some very valuable lessons, which I think are things that can be shared at Telstra, including during the period of the global financial crisis, and more recently, as with other directors, following the Royal Commission into financial services.



And a key lesson that stand out -- stands out for me from both of those experiences is the importance of good corporate governance and effective Board oversight in providing a clear compass for sound decision-making for the benefit of shareholders and customers alike.

I've also made a significant contribution to the development of sound public policy settings in financial services. I've been on a number of government -- important government inquiries. And I think, again, that's something that can add to, given the regulatory oversight in the telecommunications sector.

And finally, in a large and complex organization like Telstra, I think it's critical that your Boards make-up include directors with strong financial backgrounds. And with that in mind, I was very honored to take on the role of Chair of Telstra's Audit and Risk Committee earlier this year.

So with your support, I look forward to continuing to support you and working for this great company. Thank you.

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**Nora Lia Scheinkestel** - *Telstra Corporation Limited - Non-Executive Director*

Good morning, ladies and gentlemen. I feel we're starting to sound like a bit of a broken record, but I can't emphasize enough how Telstra is at the forefront of the profound change that's happening in society today. And it is brought about by new technology, but also by fundamental change in the way we're living, working, playing. And Telstra is helping our customers, both retail and business, to adjust to these changes, which are affecting every aspect of their lives. But we too are feeling the impacts. And that is why we have embarked on this very important transformation program T22, so that we can better serve our customers, but also be a fitter and stronger company, delivering good returns to our shareholders and providing meaningful roles for our employees.

I've served 9 years on the Telstra Board. And normally, I would have retired at this meeting, but the Board has asked me to serve another term, subject, of course, to your deciding to reelect me today. That's because they believe that my experience in the 9 years here at Telstra, but also in more than 25 years serving on many other Boards across pretty much every sector of our economy will be of help as we progress through this significant transformation.

I've been part of reshaping other companies facing intense competition in their markets, significant disruption and huge regulatory change. I've chaired many audit and risk committees of major listed Australian companies, and believe that, that background will continue to help the Telstra management team and Board, manage the critical risks which are inherent in the important work we're undertaking.

We've also had a lot of change, as the Chairman mentioned. We've had change on our Board of Directors, and obviously, in our own management team as we prepare ourselves for the challenges that lie ahead. The Board, therefore, also recognized that I could bring both continuity and some corporate history. Indeed, as I think's been mentioned earlier today, I joined the Board, while the ink on the first nbn deal was still wet. So I've seen 2 of those now, and we look forward to the next stage.

Delivering on T22 and then setting the course for Telstra for the next phase ahead, I think is critical, not just for our company, but indeed, for our country. And I do believe that I can help the Telstra Board and management team achieve those objectives. Thank you.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thanks, Nora. Right. So now we turn to the formal part of the reelections. So item 3A on today's agenda, which is to consider the election of Eelco Blok. As you've heard, Eelco joined the Board in February this year. He is a member of our nomination committee. And over this last year, we've been recruiting some very talented telecommunications professionals, which greatly add to the wealth of experience we have on the Board. Eelco has added to that significant depth, given his recent experience, and the similar challenges facing operators all around the world, and he brings great value to the Board as we continue to execute it on our critical T22 strategy.

So the Board, other than Eelco himself, of course, recommends his election. I will now take any questions you may have regarding Eelco's election.



Do we have any questions? Yes.

## QUESTIONS AND ANSWERS

### Unidentified Participant

Yes, Chairman, introducing [Joanna Richardson] from Yarraville.

### Unidentified Participant

Okay. I really like the idea of the retention of corporate memory and experience balanced with the renewal of the Board. I'm also interested in diversity across Boards, not just of gender and age but background. I'm a bit curious as to why we've gone to Europe rather than our closer neighbors in Asia, which is a very broad idea, but just what was the thinking behind going to Holland, yes?

### John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board

Yes, certainly. So I can assure you, it's not an easy thing finding directors of the talent and capability of some of my colleagues here. We undertook a global search across Asia, Europe and the United States. It is important to us that we try and get a balance because the 3 regions are very different. The United States, in particular, is a very dynamic, highly competitive and low-regulated environment. Europe is a much heavier regulated environment, a lot more like us. And Asia is probably a more emerging and sort of in between the 2.

We interviewed a number of very capable candidates. And for this position, Eelco was the outstanding candidate, head and shoulders above the others that we met with. It wasn't necessarily a specific target that we had to have someone from Europe. What we did have to have was somebody who really understands the deep technological change going on in our industry. It is a kind of enormous change, as you've heard, but technically, it's extremely complicated. And I'm the very -- I'm the first to admit that myself, when management are presenting a very complicated technological issue, I don't have the skills to necessarily drill down into every last part of that proposal. It's very important that we have a number of directors who do have that experience and are able to do that. And Eelco certainly fits that bill, he has deep technical knowledge of about her industry, which is absolutely critical.

And you don't want your whole Board to be all in telco industry, you want a balance, as you said, a diversity of backgrounds and everything, which is what we're working on doing. We are cognizant that our -- the gender ratio has dropped due to losing 2 female directors. We are in the process of rectifying that, so that we will get ourselves back up to a much better level by the time we meet next year. Thank you.

Okay. If there are no more questions then we will now vote on this item, the proxy and direct voting position has been shown on the slide behind me.

As indicated in the notice of meeting, I intend to vote all available proxies on this item in favor of Eelco's election. So please now complete your vote for item 3A.

(Voting)

### John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board

Good. Thank you. Congratulations, Eelco.

I now turn to item 3B, which is to consider the reelection of Craig Dunn. As you've heard, again, Craig has been our non-executive director since 2016, a member of the Nomination Committee and also fulfills an important role as Chairman of the Audit and Risk Committee.

As I mentioned earlier, he is an outstanding director, he is a highly regarded business leader with significant expertise and experience in financial services, financial technology and providing strategic advice for government and major companies. The Board, other than Craig, of course, recommends his reelection, and I will now take any questions you have in relation to his reelection. Do we have any questions?

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**Unidentified Participant**

Chairman, we are introducing Sue Shields from the Australian Shareholders Association?

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**Sue Shields;Australian Shareholders Association;Volunteer Company Monitor**

Could we sit down and expand on how on reflection his experience with AMP and Westpac adds to his contribution at Telstra?

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Yes. Thank you for that. I might ask Craig to respond directly. I think it would be wrong fittingly coming through me.

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**Craig William Dunn - Telstra Corporation Limited - Non-Executive Director**

Yes. Thank you, John, and thank you for the question. So I'm sure like others who have had responsibilities in leading or governing in financial services, given recent events they've reflected very deeply on their learnings. And I've certainly done that. I touched on briefly in that in my address to the meeting. But just to go into a bit further detail to answer your question. The sorts of things that I've reflected on go to increasing a focus on nonfinancial risks, also to making sure that companies have good and different procedures in place for bundled customers who often face greater challenges than sort of the broader customer base to make sure that we have very good root cause analysis that goes around our customer complaints, so we can learn from customer complaints and improve our outcomes for customers. And also, I'd say, just making sure that there are very clear accountabilities for management in their day-to-day responsibilities for the organization. And I'm seeking to apply all those learnings as a director on the Board and also in my role as Chair of the Audit and Risk Committee.

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**John Patrick Mullen - Telstra Corporation Limited - Chairman of the Board**

Thank you very much, Craig. I think we have another question on microphone 4.

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**Unidentified Participant**

Yes, Chairman, I would like to introduce [Lee Kilton] from Northern Rivers, New South Wales.

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**Unidentified Shareholder**

Chairman, my comments really follow-on from what I said earlier on. I have difficulty with this and the following reelection candidate in that they're both being part of a Board that hasn't delivered value for shareholders, and I believe in Board renewal, and I believe this is an opportunity to have Board renewal. And I see absolutely no reason why we should be reelecting members to a Board that hasn't performed?

**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Okay. Well, Mr. [Kilton], you're obviously entitled to your opinion. One thing I can assure you is, we are undergoing Board renewal, significant Board renewal, if you look along the table here, there are a lot of relatively new faces. And as I've said, by the end of the year, we'll have another 2 new faces. So I've -- actually, the issue is more the other of keeping corporate memory, which is why we are so strongly recommending Nora.

So I hear you, sir, but I think that your Board is actually in a good shape. I feel it's the strongest Board since I've been at Telstra, and many other Boards I've been on, I think this is a very strong Board indeed, representing your interests. #4 again, I think.

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**Unidentified Participant**

Chairman, I would like to introduce [Peter Star] from Sydney New South Wales.

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**Unidentified Shareholder**

Through you, John, to Mr. Dunn. The concerns I have on behalf of the shareholders that I am here representing and myself, is you were at AMP and the fallout, as we know from the Royal Commission and what's happened there, I just can't see how you cannot shoulder some responsibility for that, given that you were the CEO and now you're seeking reelection here for the Board. And I have to tell you honestly that I can't vote for you.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

I would just like to -- quick comment. Firstly Craig left the Board at AMP -- left AMP more than 6 years ago. And secondly, there is absolutely no allegation whatsoever been raised of anything improper on his part. All I can say is this is a Telstra meeting and a Telstra Board, Craig is an exceptionally useful diligent and professional director on the Telstra Board and we would be far, far worse not having him on the Board. So I and all of my colleagues 100% support his reelection. We think he is a man of great integrity and he brings a lot.

Any more questions? Fine. In that case thank you very much. I also intend to vote all available proxies on this item in favor of Craig's reelection. So please complete your vote now for item 3B.

(Voting)

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you, congratulations, Craig.

I turn now to item 3C on today's agenda which is to consider the reelection of Nora Scheinkestel. Nora has been a member of your Board since 2010. As you heard, she's a member of the Nomination and Remuneration Committees. She's also a member of the Audit and Risk Committee which she chaired extremely ably for close to 7 years until earlier this year. She's an outstanding director and has served as Chairman and director in a range of companies across various industry sectors and in the public, private and government area. She continues to make a very significant and valuable contribution to our Board. And as I have mentioned earlier, provides continuity in light of the changes of the Board in recent times. And the Board, other than Nora, unanimously recommends her reelection.

I will now take any questions you may have regarding Nora's election as well, please. Peter?





**Unidentified Shareholder**

Hi, Nora, how are you? I'm very glad that you decided to stay another term. I think it's important. All the proxies and my own personal votes will be voting for you. I think you've done an outstanding job. You were there when we were negotiating the contracts. If Sol Trujillo hadn't have stuffed it up, Telstra would have built nbn, that's the reality of it for those who don't know. But thank you, Nora.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Praise, indeed, Nora. Thank you. I think that's it. Any more questions? No. Good. Thank you all for your questions.

We've now finalized the discussion and the proxy and direct voting position is being shown on the slide behind me, similarly as indicated in the Notice of the Meeting, I intend to vote all available proxies on this item in favor of Nora's reelection. Please now complete your vote for item 3C.

(Voting)

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Looks like you've got ahead of me. So that's great. Congratulations, Nora.

Great. I now turn to item 4 on today's agenda which is to consider the grounds of restricted shares and performance rights to our CEO, Andy Penn, under the Telstra FY19 Executive Variable Remuneration Plan as outlined on the screen behind me. Details of the proposed grants are set out in the explanatory notes to the Notice of Meeting.

In summary the number of restricted shares and performance rights to be granted to the CEO was based on the dollar value of the CEO's EVP outcome. The CEO's EVP outcome was in turn determined based on the performance of Telstra over the 2019 financial year as against specific measures set by the Board for that year.

Each restricted share is a fully paid ordinary Telstra share, these shares are restricted and the CEO will not be able to sell these shares until after 30th June 2021.

Each performance right entitles the CEO to 1 fully paid ordinary Telstra share but the CEO will only be able to receive these shares if Telstra's relative total shareholder return ranks at the 50th percentile or greater against an ASX 100 comparator group over a 5 year period ending in June 2023. The CEO cannot trade any performance rights granted to him.

The Board, other than Andy Penn himself, considers the grants of restricted shares and performance rights to the CEO to be appropriate in all the circumstances and recommends shareholders vote in favor of items 4A and 4B. And I will now take questions on these 2 items.

Microphone 4.

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**Unidentified Participant**

Sorry, it's me again, Mr. Chairman. Can you just clarify these performance rights are being issued based on a value of \$3.73 roughly, is it?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

It's on a VWAP of 5 days or 7 days, I think, isn't it? Yes.

**Unidentified Participant**

So there's a dollar value of [\$6.50] -- to the award and that's divided by the share price of \$3.73.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Precisely, to give the number of grants, yes.

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**Unidentified Participant**

I know this may sound a bit harsh, but again when the CEO was appointed, the share price was about \$6.50 in round terms, I would be a lot more comfortable if he was assessed on this bonus that he will get on the share value when he took over as CEO, not drawing a line under the last few disastrous years, and saying, let's just issue him rights at a reduced level.

To me, he should be judged on his performance since taking office as opposed to some arbitrary figure which most of us wouldn't have been happy getting £3.70 for our shares when we've paid £6.50 for them. So I would just ask that maybe we reconsider the number based on what the share price was when he started having an influence on the share price of the company.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Look, I hear you but his incentive is not on a share price target, it is on a range of metrics that we believe are the right metrics to drive a successful future for Telstra. Every year we go through those, there are quite a number of metrics that make up the EVP, both financial and nonfinancial. And it's against the success of those that ultimately a grant is given. The share price is then just an arithmetical exercise to calculate the number of shares.

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**Unidentified Participant**

Mr. Chairman, it's not an arithmetical exercise, we can talk about gymnastics in the remuneration system, but he's been given a number of shares based on a value which is well below the value of the shares when he took office. So you can talk about the metrics and everything else, the bottom line is the number of shares being offered under this system are based on a much reduced value in the shares -- in the share value.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

The number of shares are based on the share price at the time the scheme is put in place and at the time the targets are set. If Andy delivers on all of those and the rest of the management team on all of those metrics, obviously we anticipate the share price will rise. It may, it may not. But we can only judge Andy on the things that he can control himself. Which, by the way, is a standard market practice across all industry.

Thank you. Peter, again.

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**Unidentified Shareholder**

John, just for the benefit of the other shareholders in the room, I just want to point out that I did raise this in an email to Mr. Penn and he did respond. And I have to say, John, that our leanings are with the previous speaker, but I can see that you do work hard, Andy, I know that for a fact, so I will be voting for it. But as I said, John's already acknowledged that the mum-and-dad shareholders really look at that share price, you know. And I know it's a big thing for mum-and-dad shareholders, as John's acknowledged.

And just one other thing, John, while I'm here. I was just asked to mention, for those who remember David Thodey, I keep in regular contact with him. He did ask to say hello to all the mum-and-dad shareholders as well.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

But I don't want to be seen to be pushing back, but somebody very eloquently said earlier, it was lovely when we were a monopoly. Monopolies are

great things if they -- if you have them. They are very bad things if you're everybody else. The world has moved on. Telstra is not the monopoly provider anymore.

Now, the nbn is here to stay. It has transformed the landscape. Technology is developing left, right and center. There are new entrants. This 5G is the real world. And I understand the angst and concern of the smaller shareholder, but just to say, I wanted to go back to where it was and be \$6 and pay out 100% of the dividends, it's just not going to happen. We are in a dynamic, competitive world today. And no amount of wishful thinking looking back is going to help.

We are where we are today. But the responsibility of the Board and the management is to try to move us forward from where we are today and deliver as much value to you as shareholders as we possibly can, and that's what we're trying to do. Sadly, that will not please everybody and we can't turn the clock back.

Thank you. Any more questions? Yes, #3.

Chairman, reintroducing [Hans Witteveen] from Seymour, please.

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**Unidentified Shareholder**

Thank you, again, Mr. Chairman. The previous speaker raised the question of the value of the shares. And I believe that because today's date is the decision date, therefore, the date of legal effect and the shares should be valued at whatever the market share is today. You were very eloquent in terms of \$6.50 a pop, which is what I fondly remember. But as you said, we can't go back, the value of the shares should be -- what if the market shares today? And I believe, in legal terms, today is when we decide, and that's what the CEO should get?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, the shares are set at the price at the time the scheme is [entered], and you are being asked to vote on the issue of shares as at that point in time and the price that relates to that. It's not a share price as it is today itself. This was long ago -- but -- yes, anyway, I mean, it's -- obviously, this has been -- has to be worked out well in advance of an AGM. And all that the Board has to approve the metrics, the incentives for management for the forthcoming year, and these calculations are done at that time. And you, as shareholders, are then asked to ratify that, which you obviously have every right not to do so, if you don't agree.

Okay. I think there are no more questions on that one. So the Board -- sorry, no, we will, therefore -- we finalized, and we will, therefore, move to the voting, and the proxy and direct voting position, again, should be being shown on the slide behind me. As indicated in the Notice of Meeting, I also intend to vote all available proxies in favor of with regards to the CEO. So please now fill in your voting cards for Items 4A and 4B.

(Voting)



**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Thank you very much. So I'll now turn to item 5 on today's agenda, which is to consider the adoption of the remuneration report for the year ended 30th of June 2019.

In my opening address at the start of today's meeting, I tried to cover all the key aspects relating to remuneration at Telstra this year. I highlighted some of the key enhancements that we've made to the Executive Variable Remuneration Plan for the 2020 year to ensure it continues to best meet the overall objectives of our remuneration policy and delivery of our T22 strategy and aligns with creation of sustainable long-term shareholder value. We've also, of course, had some quite considerable debate amongst shareholders here from the floor on this matter already. However, if there are any more questions, I will now take them on item 5.

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**Unidentified Participant**

Chairman, reintroducing Sue Shields.

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**Sue Shields;Australian Shareholders Association;Volunteer Company Monitor**

The Australian Shareholders Association supports the remuneration resolution. And we recognize that a comprehensive review and consultation has resulted in significant changes. Increasing the vesting period of the restricted shares from 2- to a 4-year period, and the 5-year relative total shareholder return on performance shares are high ground compatibility with ASA guidelines. And we thank you for including us in your consultation.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, thank you. Those are kind words and we equally much appreciated the input we got from professional organizations such as yourselves and others. We did indeed engage very broadly, and we had some 44 meetings with major shareholder groups on this. And thank you for your kind words. They're much appreciated.

Okay. I think -- I'm sorry, #3.

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**Unidentified Participant**

Chairman, reintroducing [Scott Hunter] from Melbourne, please.

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**Unidentified Shareholder**

Before in justifying payments to Telstra staff, you said something about sports people, they get paid more than and game players and whatever. And these were just ball kickers, ball movers, button pressers and tweet influencers who take far more out of society than they're worth than what they put in, but that's irrelevant to what Telstra have paid. But Telstra staff getting, say, for the CEO, \$6,000 a day, and the 10 executives on Page 46 that get over \$1 million a year, which works out to a daily figure of \$3,000 a day with the potential to double it, people would say that if they had a job like that, they're on a pretty good wicket. And the incentive to having a job like that and keeping it is to just keep it for one more day. And why do you need long-term incentives when you're rewarding them so well?

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Well, thank you. I don't really know how to respond beyond what I've already responded many times to very similar questions. We absolutely recognize the executive pay is a sensitive issue, but all we can do is to really diligently do our very best to ensure that we get a balance between



motivating and incentivizing the best management in the business and making sure that we represent shareholders' interests at the same time, and I believe we do. We will never please everybody, of course, but I think we have found that balance as best we can. We've got questions, Peter.

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**Unidentified Participant**

Chairman, I'd like to reintroduce [Peter Star] from Sydney, New South Wales.

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

It might be easier if you can stand up here, it may be a lot quicker.

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**Unidentified Shareholder**

Thank you, John. Just quickly, it's probably good, Andy, that you don't make too many more appearances on the 2GB Ray Hadley show. I think, run the company and -- but he did all right. So...

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

I'll take that as a compliment, Peter, thank you.

Great. No more questions? Okay. And that means we have now finalized the discussion on item 5. The proxy and direct voting position on this item as well is being shown behind me. And as indicated in the Notice of Meeting, I intend to vote all available proxies in favor of item 5 as well. Please now complete your vote for this item.

(Voting)

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**John Patrick Mullen** - *Telstra Corporation Limited - Chairman of the Board*

Shareholders, based on the proxy and direct voting -- sorry, position is displayed on the screen for item 5 and the number of votes that I have been informed are represented on the floor today. It is clear that more than 75% of the votes cast or to be cast on item 5 will be cast in favor of the remuneration report. This means that the company has not received a second strike. And as a result, shareholders are not required to vote on item 6, the conditional spill resolution. Item 6, therefore, will not be put to the meeting.

Shareholders -- shareholders, that concludes our discussion of all items on today's agenda. If you haven't already done so, please do complete your voting now, every vote is important. Attendants are carrying ballot boxes throughout the room and ballot boxes are also located near the exits. The poll will remain open for a further 15 minutes to enable shareholders to cast their votes, and the results of the poll on items 3 to 5 will be available later today and can be obtained by visiting the ASX or our websites.

All items of business having been considered, I can now declare the meeting closed, subject to finalization of the poll.

Thank you to all of those of you who viewed the AGM online. Thank you also to our microphone attendants, audiovisual and other support in making today go so smoothly.

Lastly, thank you very much to all of you for your attendance today, and I now invite you to join us for lunch in the foyer outside. Thank you very much.

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