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Telstra Limited 2021 AGM Report

ASX Code	TLS
Meeting Time/Date	9:30am, Tuesday 12 October 2021
Type of Meeting	Virtual, with voice option
Monitor	Mike Robey, assisted by Steve Van Emmerik
Pre-AGM Meeting?	Yes, with Chair John Mullen and Peter Hearl, Chair of Remuneration

Telstra's tide turns

What the Company Does

Telstra is the legacy full-service telecommunications provider in Australia, servicing both the retail, Enterprise and small business markets. It holds international undersea cable assets and has a point of presence in many countries in the region. It has branched into the adjacencies of pay TV, health and energy services. In addition, it has an investment arm called Telstra ventures.

Developments in the Financial Year

Telstra is near the end of its 3-year digitisation program, called T22, the aim of which was to radically simplify and digitise the business. This required replacing most of the legacy systems and processes with digital native ones. By their own admission they started down this track a little late but made up for this by expanding the scope to include nearly all the network and business and operational support systems (BSS and OSS). A number of these had seen very large expense over recent years to maintain product and service developments. We have been advised that this is the most extensive digitisation program of any telco globally. The broad commercial aim of this is to dramatically reduce their fixed cost base for the future.

Telstra has irretrievably lost over $6 billion of annual profit in the last decade or so, predominantly from the impact of the NBN (Government owned National Broadband network) but also the permanent loss of revenue from voice, text and international roaming. The "Over The Top" (OTT) online services, such as Facebook, Instagram, WhatsApp, Spotify, Google etc reduced the price for these services to zero, as well as earlier, usurping the small business advertising revenue from the Yellow Pages. Ironically the OTT services pay little in tax and nothing at all for the use of the Telstra mobile and the NBN networks, upon which they are critically dependent. They leave the payment for network access to their customers.

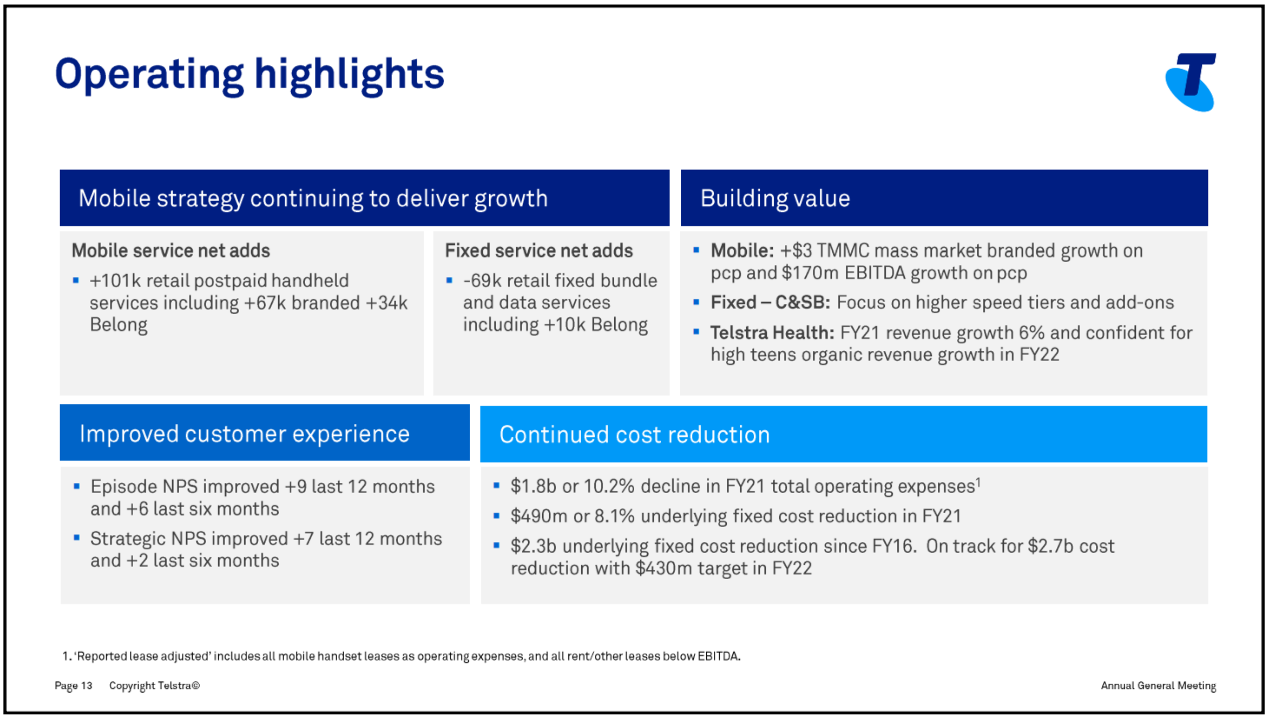
For consumers, T22 entailed culling all but 20 service plans, from 1800, thereby making the choices simpler and capable of self-service online. Calls to customer service have fallen by 66%, and 70% of service interactions are answered digitally. In the Enterprise business the online service interactions are lower, at 28%. Fixed costs overall have been reduced by $2.3b.

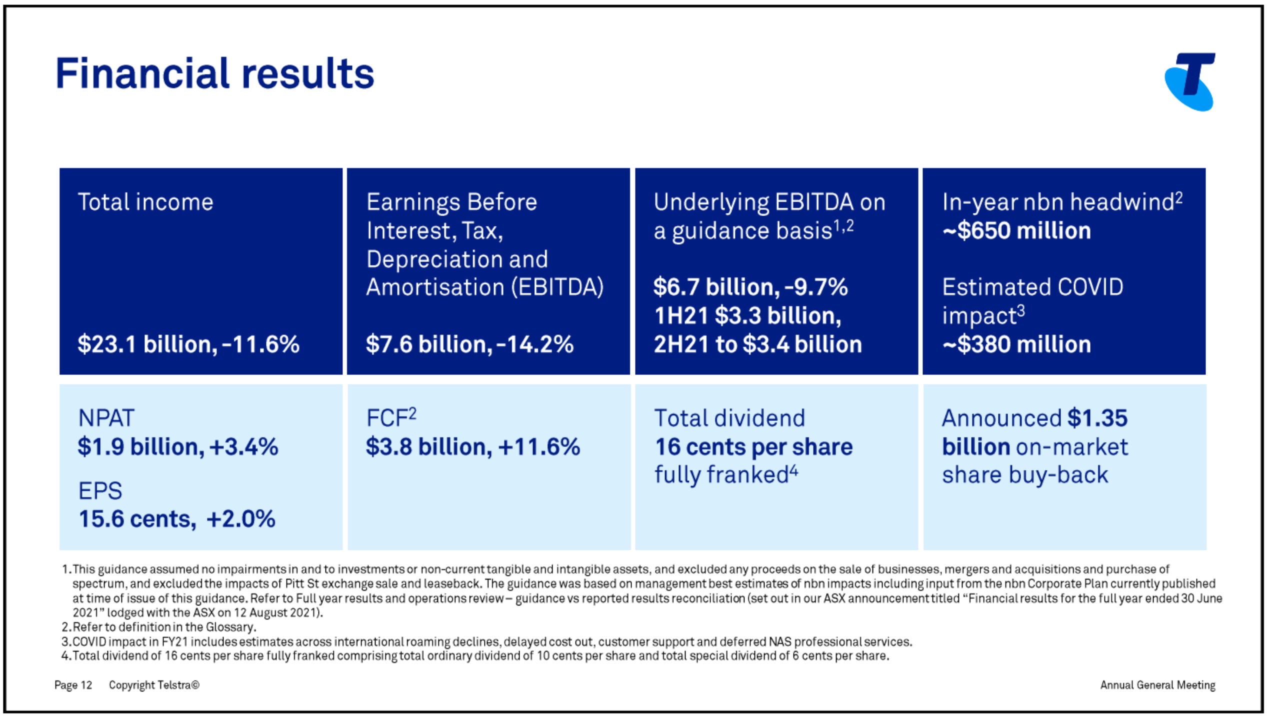
Meanwhile Covid forced much of Australia into various levels of lockdown, for which demand for internet service and speed ramped up, at the same time as ability to pay for these services fell, due to income constraints. Telstra brought forward $500m in capex to support this upgrade and took a $380m hit in supporting Covid-affected customers.

In order to monetise some of the assets on their balance sheet, Telstra also sold 49% of its mobile tower business to a consortium of the Future Fund, Commonwealth Super and Sunsuper for $2.8b, retaining the towers and microcells which form its coverage differentiation.

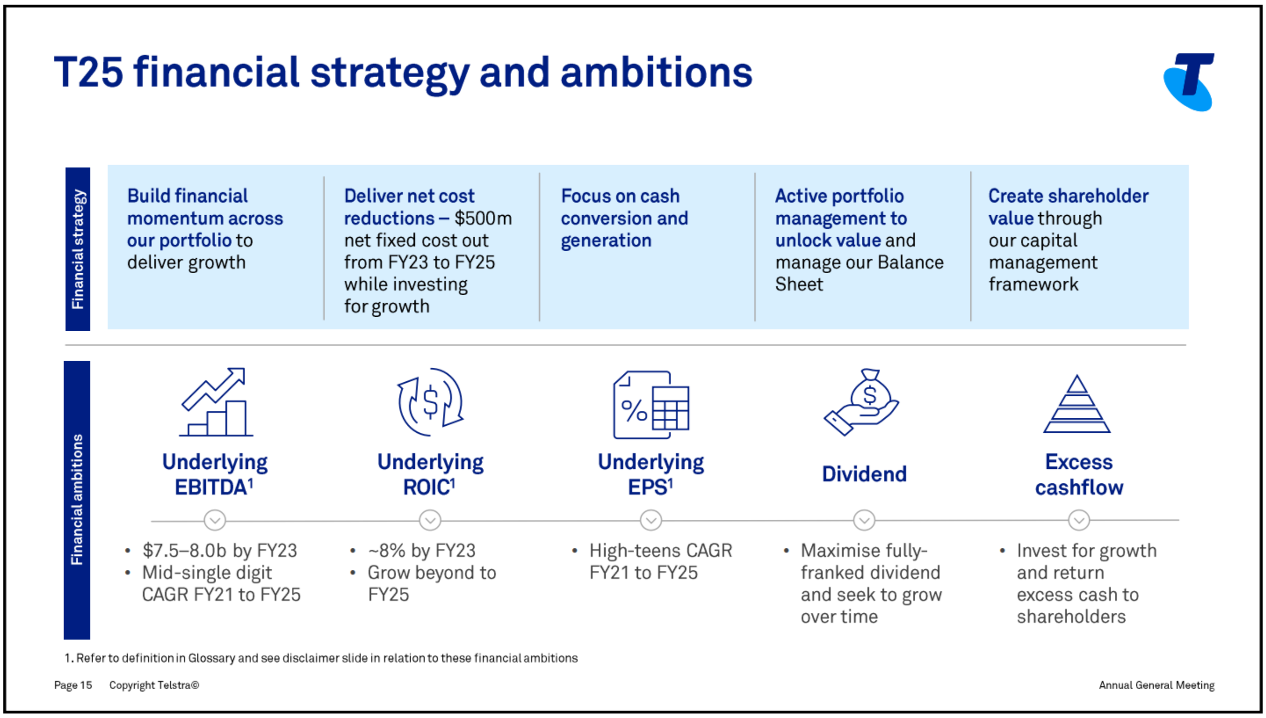
It also proposed a split into four separate Divisions, Telstra InfraCo Fixed, InfraCo Towers (the remaining 51%, now branded Amplitel), ServCo and Telstra International. This will be the subject of an Extraordinary General Shareholder Meeting in Q1, FY2022 and could prepare them for a bid to purchase part or all of the NBN, when the Government puts this up for tender.

Additionally, Telstra has expanded (by business acquisition) into the adjacent business of digital health, and is moving into the retail energy market, though it is not clear what unique propositions they will have there.





Telstra also introduced the next stage of its strategy, imaginatively called T25, which flips from being all about positioning for low cost and digitisation, to growth (with some cost-outs, for good measure):



Debate and Voting at the AGM

The AGM was virtual but had the option for questioners to request (a day in advance) to be able to ask questions. The Chairman and CEO gave their presentations for the first 45 mins and presumably expected to settle in for the long haul with a range of personal complaints, mobile coverage concerns, billing issues, excessive payments to the CEO and so on, which have dogged these AGMs for some time. Possibly due to the virtual format and the administrative requirement to register for voice access, these were very few and dealt with well by the Chairman. Your ASA monitor did use the voice option for one question and though there was about 15s delay in the system, with the voice being in real-time and the webinar behind, it proved to be adequate. The small hitch was that we were told at the outset that questions submitted online were given priority, so the remaining questions were changed to text.

The ASA asked for Telstra to publish benchmarking data against the other telcos (consultants tell him that Telstra is king of them all), how the agile teams will work after the split up of the 4 business units (same as they do now, just in different business units) and when the Chair will be retiring. Mullen was coy about this latter question, leaving himself open for another term from FY 2024 onwards.

We also asked if Ms Louden, the entrepreneurial young female director appointed last year, would give us a verbal report on her first year as director in arguably Australia's most complex digital business. She did so, on the spot and appears to have found herself in a good place. Mullen also rated her as an excellent director, who contributes strongly.

The meeting was over quickly and all resolutions passed with over 96% support.

Press coverage of the AGM focussed on the content of the Chairman and CEO presentations and not the theatre.

Outlook Statements from the Company

FY22 guidance

	FY21	FY22 guidance[1]
Total Income	$22.9b	**$21.6b to $23.6b**
Underlying EBITDA[2]	$6.7b	**$7.0b to $7.3b**
Capex[3]	$3.0b	**$2.8b to $3.0b**
Free cashflow after lease payments (FCFaL)[4]	$3.7b	**$3.5b to $3.9b**

1. This guidance excludes material one-offs, such as mergers and acquisitions, disposals, impairments, spectrum, restructuring costs and such other items as determined by the Board and management.
2. Underlying EBITDA excludes net one-off nbn DA receipts less nbn net C2C and guidance adjustments. FY20/21 underlying EBITDA also includes depreciation of mobile lease right-of-use assets.
3. Capex is measured on an accrued basis and excludes spectrum and guidance adjustments, externally funded capex, and capitalised leases.
4. Free cashflow after lease payments defined as 'operating cash flows' less 'investing cash flows' less 'payments for lease liabilities', and excludes spectrum and guidance adjustments.

Page 14 Annual General Meeting

Meeting Statistics

Number of Holdings Represented by ASA	1632
Number of Shares represented by ASA	24.3m (equivalent to 10th largest holder)
Value of Shares represented by ASA	$93.6m
Number Attending Meeting	N/A
Market capitalisation	$45.8m
Were proxies voted?	Yes, on a poll

Monitor Shareholding

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