

AGM 2018 – Frequently asked questions by shareholders

We thank our shareholders for the questions they submitted ahead of the Telstra 2018 AGM as well as the questions put forward at the event. The information below addresses the main themes of these questions. We hope you find it helpful.

Company performance and share price	<p>Telstra is operating in very challenging market dynamics and this has had an impact on returns for shareholders.</p> <p>There are a range of factors that influence your company's financial performance, its share price and the dividend paid to shareholders.</p> <p>An absolutely unique challenge we have is the nbn, which is taking Telstra's place as the wholesale network provider of fixed services in Australia. The rollout of the nbn is having the single biggest impact on Telstra's financial performance and it is profound. Our net profit is the principal driver of how much dividend the company can pay to shareholders. When fully rolled out, the nbn will have reduced Telstra's net profit after tax by close to a half.</p> <p>We also face increased competition in the mobile market. This includes the entrance of a fourth mobile network operator, TPG, which is now pursuing a merger with Vodafone. If this proposed merger eventuates, it will create an even more challenging competitor.</p> <p>Despite these challenges, the Telstra Board is confident that we are taking the right action to address the situation by defining a new strategy, Telstra2022 (T22), and executing on it.</p>
Company strategy Telstra 2022	<p>The T22 strategy was announced on 20 June 2018. T22 will enable us to lead the market by simplifying our products and services to improve customer experience, simplifying our operations, and reducing our cost base. We will use our strong foundations to do so: from our state-of-the-art assets, to expansive scale, a nationwide network footprint, a growing customer base and a strong enterprise business.</p> <p>Telstra's size and legacy are significant assets that have contributed to our past success but they are also now acting as a barrier and they're getting in the way of what Telstra now needs to be – a company agile and nimble enough to respond quickly to rapidly changing market dynamics.</p> <p>T22 will fundamentally change the nature of telecommunication products and services in Australia as well as radically change how we work. At its core, T22 is about delivering simpler, more flexible products with a great digital service experience. We believe our plan is amongst the most ambitious in the telecommunications industry and this plan includes digitising our entire core operation, reducing consumer plans to just 20, reducing two to four layers of management, eliminating the needs for two thirds of customer service calls, continuing to provide the best network in Australia and taking out \$2.5 billion of cost.</p> <p>The T22 strategy is detailed below on page 5 and further information is also available on pages 10 and 11 of our 2018 Annual Report.</p>

<p>Customer service</p>	<p>We recognise that despite our desire to provide world-class service, we do not always meet our customers' expectations. As a business with millions of customers, handling over 900 million data and mobile connections every day, even relatively small problems can have a big impact.</p> <p>For Telstra to fix customer service once and for all, there is simply no alternative other than disrupting ourselves and becoming a digital business.</p> <p>At its core, therefore, T22 is about delivering simpler, more flexible products with a great digital service experience.</p>
<p>Dividends</p>	<p>Future dividends</p> <p>While we do not provide guidance on the dividend, we are conscious of how important this is to our shareholders. Dividend decisions for FY19 will be announced in FY19.</p> <p>Our dividend policy is to pay ordinary dividends of 70-90 per cent of underlying earnings¹, fully-franked. In addition, it is our intention to return in the order of 75 per cent of net one-off nbn receipts² to shareholders over time via fully-franked special dividends.</p> <p>Recent dividends</p> <p>The FY18 total dividend of 22 cents per share, fully franked, included:</p> <ul style="list-style-type: none"> • total ordinary dividends of 15 cents per share representing a 78 per cent payout ratio on underlying earnings^{1, 3} • total special dividends of 7 cents per share which represents a 65 per cent payout ratio on net one-off nbn receipts². <p>Why did we have to cut the dividend?</p> <p>In August 2017 we announced a new dividend policy to support the objectives of our capital management framework. The policy more closely aligns ordinary dividends to underlying earnings¹ and is consistent with shareholder feedback to maintain a strong balance sheet and flexibility to manage the business and invest, especially during the nbn transition.</p> <p>The impact of the nbn on Telstra's financial performance is profound. Our net profit after tax (NPAT) is the principal driver of how much dividend the company can pay. The nbn will have reduced Telstra's NPAT by close to a half when fully rolled out. There are few precedents in Australia for a challenge of this magnitude and it sits right at the heart of the issues we faced this year.</p> <p>¹ Underlying earnings is defined as Net Profit After Tax (NPAT) from continuing operations excluding net one-off nbn receipts (as defined in footnote 2).</p> <p>² "Net one-off nbn receipts" is defined as net nbn one off Definitive Agreement receipts (consisting of Per Subscriber Address Amount, Infrastructure Ownership and Retraining) less nbn net cost to connect less tax.</p> <p>³ 77% payout ratio on underlying earnings excluding Impairment and Foxtel gain on sale.</p>

<p>Dividend Reinvestment Plan (DRP)</p>	<p>Telstra operates a DRP which enables eligible shareholders to reinvest all or part of their dividend payments into additional Telstra shares. Please visit our DRP website for further information including the DRP rules.</p> <p>Residual amounts arising from shareholders participating in the DRP are donated to charity. Residual amounts from the recent 2018 final dividend paid, the few cents to a few dollars that would not buy a full Telstra share, were donated to the Alannah and Madeline Foundation (AMF). These donations will help AMF care for children who have experienced or witnessed serious violence, reduce the incidence of bullying, cyber bullying and other cyber risks, and, advocate for the safety and wellbeing of children.</p> <p>Shareholders who wish to opt out of donating their residual amount to charity should email telstra@linkmarketservices.com.au. Donations previously made cannot be reversed but if \$2 or more they are tax deductible.</p>
<p>Executive remuneration</p>	<p>It has been a challenging year for Telstra as we address significant market pressures, the impact of the nbn and increased competition.</p> <p>The Telstra Board set a demanding plan for our management team in the face of significant challenges to our business. Even though many measures of this plan were met, the Board recognises that this has not translated into positive outcomes for our shareholders.</p> <p>Accordingly, the Telstra Board applied discretion and reduced the Executive Variable Remuneration Plan (EVP) outcomes by 30 per cent to balance recognising the achievements of the management team and the experience of shareholders. Despite this action, some shareholders still feel that the remuneration outcomes were either not sufficiently transparent or resulted in higher payouts than were reasonable. With hindsight, the Board recognises that there may not have been enough transparency around some of the metrics that we adopted to measure management performance and the reasons these were chosen.</p> <p>Please visit our investor centre to read the letter Chairman John Mullen wrote to shareholders on 11 October 2018 providing additional information on our FY19 EVP. The letter provides more information on how shareholder interests are reflected in the plan set for management and the targets which underpin their variable pay opportunity.</p> <p>For FY19, there is a particular focus on goals which clearly align the management team to the delivery of our ambitious and bold T22 strategy.</p>

<p>Is it really Telstra calling? (Scam calls)</p>	<p>Any attempt to deceive Telstra customers with false information is very concerning. Scammers are becoming increasingly sophisticated and customers need to be prepared for scam callers. Our advice is to hang up immediately if you are not sure who is calling.</p> <p>Telstra offers advice through the "Is it Really Telstra Calling" brochure which can be found at www.telstra.com/verify. You can report a suspicious call to Telstra's Sales Watch Hotline on 1800 260 270. If it is a persistent nuisance caller then we suggest you contact our Unwelcome Call centre https://www.telstra.com.au/consumer-advice/unwelcome-calls/contact-us or call 1800 805 996.</p> <p>Reducing scam calls is a whole-of-industry concern. It is legally and technically challenging to block scam callers as there needs to be a thorough process to correctly identify these calls and verify the activity. Even if a scam caller can be blocked, they can quickly begin using another number.</p>
<p>Offshore call centres</p>	<p>We use a mix of Telstra staff, local agencies and overseas partners to manage our customer calls and service needs. This provides flexibility to meet changing call volumes across the business. There are no plans to change this approach.</p> <p>Over time we expect to reduce all call volumes which will decrease our front of house workforce, including our workforce outside of Australia.</p> <p>We will continue to have infrastructure and people based in multiple locations, including outside of Australia, to service our global customer base.</p>
<p>Shareholder discounts and benefits</p>	<p>We appreciate and understand that many of our shareholders would like loyalty recognised. We have examined shareholder discount and reward programs a number of times and have found the programs are very expensive to administer and would constrain our ability to offer programs to all of our loyal customers like Telstra Thanks*.</p> <p>The Telstra Thanks* program is designed to thank our customers for their continuing loyalty and support. Many customers have taken advantage of the program and have expressed appreciation for the benefits they have received. We invite you to visit our website https://www.telstra.com.au/thanks to take advantage of any of the customer rewards you may be entitled to.</p> <p>Shareholders who are customers may also be able to receive a Telstra Pensioner Discount on their eligible Telstra fixed line service if they have a valid Pension Concession Card issued by the Department of Human Services (Centrelink) or Department of Veterans Affairs (DVA). To request the Pensioner Discount or to check your discount rates, please call 13 22 00 or visit your nearest Telstra store.</p>

TELSTRA2022

Strategic pillars	Radically simplify our product offerings, eliminate customer pain points and create all digital experiences	Establish a standalone infrastructure business unit to drive performance and set up optionality post the nbn rollout	Greatly simplify our structure and ways of working to empower our people and serve our customers	Industry leading cost reduction program and portfolio management		
Enabled by our \$3b investment program	New digital platforms Australia's largest, fastest, safest, smartest and most reliable next generation network					
Delivering	Market leading customer experience	Simplified products, business and operating model	Extended network superiority and 5G leadership	Achieve Global High Performance Norm in employee engagement	Net cost productivity of \$2.5bn by FY22	Post-nbn ROIC > 10%