

22 February 2008

Senator Hon Stephen Conroy
Minister for Broadband, Communications
and the Digital Economy
Level 3, 4 Treasury Place
Melbourne VIC 3002

Geoff Booth
Group Managing Director
Telstra Country Wide
Level 25, 242 Exhibition Street
Melbourne VIC 3000

T: 03 9632 6444

Dear Minister

Rectification under Clause 15 of the Carrier Licence Condition

On behalf of Telstra, I am writing to confirm Telstra's agreement to a comprehensive set of actions in response to your 18 January decision under *Clause 15 of the Carrier Licence Conditions (Telstra Corporation Limited) Declaration 1997* (the CLC).

Telstra appreciates having the opportunity to work constructively with you in agreeing these actions, which will demonstrate that the Next G™ network provides equivalent or better coverage and retail services to CDMA under the CLC.

Commitment and Timetable

Telstra is currently implementing the comprehensive program of initiatives detailed in this letter and will report to you by 20 March 2008.

The successful implementation of these initiatives will enable a decision to be taken in sufficient lead time to allow Telstra to give its customers final notice and for the CDMA network to be switched off, as scheduled, on 28 April 2008.

Network Coverage

Telstra welcomes your finding that the Next G™ network footprint is equivalent to the CDMA network and that it provides equivalent or better coverage with an external antenna.

While this was not material to finding that the Next G™ network footprint is equivalent to CDMA, in your Statement of Reasons a small number of localised areas were identified from the ACMA drive survey where CDMA coverage may be greater than Next G™ coverage.

Telstra has re-examined these locations, completed action to address any coverage discrepancies, and will confirm on 20 March that there is network coverage equivalence in these areas.

Your advisers and you have mentioned one additional location where a different Next G™ network configuration could lead to a slightly different hand-held coverage footprint compared with CDMA. We have re-surveyed this location and there is network coverage equivalence.

ACMA also referred to an area south of Moree stemming from the coverage map comparison, indicating that small sections of roads and tracks might be without antenna coverage. Telstra has reviewed this area, completed corrective action and will report on 20 March that there is network coverage equivalence.

As agreed, Telstra will include in its 20 March report the engineering data to demonstrate network coverage equivalence in the above locations that will enable ACMA to independently verify these results.

Handheld coverage and Handset Related Issues

In your Statement of Reasons, you identified a number of specific problems relating to handheld coverage and Next G™ handsets, including those stemming from the findings in Chapter 7 of the ACMA reports (findings that Telstra disagrees with) and the results of the Mystery Shopper Survey.

Telstra is now implementing a plan to address specific problems that relate to 'past actions' as well as additional measures to ensure that, going forward, customers are advised to purchase suitable equipment and receive the correct advice from retail staff.

Telstra considers that its action plan will give customers who have purchased Next G™ handsets, which might not provide equivalent coverage or who have received deficient retail sales advice, every reasonable opportunity to have their genuine problems addressed prior to 20 March when it reports back to you.

1800 888 888 hotline

Following your 18 January determination, Telstra moved immediately to establish a 1800 888 888 hotline number, specifically to assist customers who believe they are not receiving equivalent coverage because of the Next G™ equipment they have purchased. The easily remembered number has been operational since 22 January and will continue until 28 days after the anticipated CDMA switch-off on 28 April.

Callers to the hotline are being assessed in accordance with its handset exchange policy under which Telstra is investigating all instances of genuine non-equivalence in CDMA and Next G™ handset performance raised by customers who purchased the handset via a Telstra call centre, Telstra Shop or a Telstra dealer.

Concerns raised by customers regarding relative CDMA and Next G™ handset performance are investigated to identify the most appropriate actions based on each customer's specific issue. Issues that can be resolved through this process include incorrect handset settings, software upgrades, incorrect SIM cards and whether the customer has made a "Like-for-Like" migration from CDMA to the Next G™ network. "Like-for-Like" means that when a CDMA customer was using accessories such as a car kit or external antenna to increase their CDMA reception then they should use a similar configuration with their Next G™ equipment. If a customer had handheld CDMA coverage but requires an external antenna to achieve equivalent Next G™ coverage performance, the handset policy includes the provision of an external antenna at no cost.

In genuine cases, where a solution is not identified by assessing the other possible reasons for non-equivalent handset coverage performance, Telstra offers to

exchange the customer's handset for a Blue Tick handset at no charge to the customer for the handset.

In its 20 March report, Telstra will provide details of the numbers of callers to the hotline, the actions taken to address their issues, including the swapping out of handsets in "genuine cases" where customers are not able to achieve equivalent coverage due to the lower sensitivity of their Next G™ handsets, and the percentage of callers that by our measures have had their issues satisfactorily resolved.

Telstra will obtain independent verification from a qualified organisation that it has established and operated the hotline in accordance with the commitments in this letter.

Promotion of the Hotline

Telstra announced the 1800 number through a media release by the Group Managing Director of Telstra Country Wide, Geoff Booth, which was followed up by interviews by Mr Booth and a number of other senior Telstra managers. There have already been over 1,000 media stories generated by the 1800 number announcement.

The hotline has been promoted to key stakeholders in regional and rural Australia, including the various national and state farming organisations. TCW local managers are ensuring that the hotline and related information is made available to their key local stakeholders. Telstra participated in a stakeholder meeting that you organised on 11 February which demonstrated overall satisfaction with the Next G™ network and support of Telstra's pro-active approach to customer issues. Telstra is continuing to work with the stakeholders who attended that meeting.

Information on the 1800 hotline is in a prominent position on the Telstra.com website and the mobile phone section of the Telstra.com website.

The 1800 hotline is being prominently promoted in Telstra retail outlets. Posters and a "Next G™ network coverage and you" brochure are being distributed to outlets. The brochure is also on Telstra's website.

Telstra is including the 1800 hotline in its newspaper advertising (metropolitan and regional), both general Next G™ advertising and, in the case of targeted regional areas, in Blue Tick-specific handset advertising as well.

Telstra's Website

As indicated above, Telstra is prominently displaying the 1800 number on the telstra.com website.

In addition, Telstra has a number of other enhancements to its website, so that all Next G™ customers, regardless of whether they have already purchased Next G™ equipment or not, have all the information they need to make an informed choice and assess whether the equipment they have purchased is suited to their coverage needs.

- Telstra has ensured that the important Next G™ equipment and coverage messages figure prominently on the website. This includes reference to Blue

Tick phones, the importance of external antennas and patch leads, and the need to make a Like-for-Like migration from CDMA.

- Telstra also has a statement on its website for each Next G™ handset about where it is recommended for use. This statement is not only being provided for Blue Tick phones. It is also being provided for non Blue Tick phones.
- In addition, Telstra is ensuring that the Next G™ coverage maps part of the mobiles section of its website includes words that accurately describe the fact that the maps are a prediction of handheld coverage, subject to the usual caveats that apply to all mobile networks. The coverage maps part of the website also includes a section called “Maximise your Coverage” that clearly states that Blue Tick phones are recommended for rural handheld coverage.
- The “Next G™ network coverage and you” brochure for customers who purchase or inquire about a Next G™ service in retail outlets is on Telstra’s website.

Pro-active high performance mobile health checks of Next G™ devices

Telstra has re-instigated its program of conducting pro-active analysis of customers’ Next G™ drop-out rates to identify customers that may be experiencing abnormal levels of drop-outs. These customers are then contacted to enable Telstra to ascertain the reason for their relatively high drop-out rates. High drop-out rates have a range of causes, including the use of unsuitable handsets and customer operating on the very edge of coverage, even with a perfectly suitable Blue Tick phone.

This is an effective means of pro-actively identifying customers who may not be using the right accessories, have the wrong network settings or who have purchased lower sensitivity handsets that may not provide them with equivalent coverage. Telstra will report on this program on 20 March.

Retail Sales Advice

Telstra is committed to ensuring that its retail sales channels are providing the highest quality of advice to Next G™ customers going forward.

Providing the appropriate advice to customers does not start or end at the “point of purchase”. Telstra’s core messages in relation to Blue Tick devices and Like for Like migration have been disseminated for many months through a range of advertising and promotional mechanisms as well as through media releases, placements, stories and interviews. As part of its commitment to ensuring that every customer has every opportunity to understand the key coverage issues, Telstra is continuing to push these messages out through the media, on its website, in its advertising and through its close work with national, state and local stakeholders.

Initial Retail Steps

Following your 18 January decision, Telstra has moved quickly to ensure that customers are receiving the right Next G™ advice and that the relevant Next G™ equipment continues to be available. The actions undertaken include reinforcing the Blue Tick and Like-for-Like messages; ensuring Blue Tick devices and accessories are available and prominently positioned; developing and rolling out a “things you need to check” brochure; displaying the 1800 hotline number on posters and an audio-

visual presentation for those shops with that capability. Telstra will report on these initial steps in its 20 March report to you.

Accreditation Program

Telstra is implementing a retail shop accreditation program, which as you indicated in your 18 January media release, also means we are taking the lead in the industry.

The purpose of the accreditation program is to enable Telstra retail shop channels to provide a minimum standard of excellence to customers in relation to the Next G™ network and customers' equipment needs.

The accreditation program will focus on both shop staff and retail outlets. The staff certification will focus on ensuring that customers receive appropriate advice that suits their individual needs (including handset settings and configuration). Training is being rolled out and certification has commenced.

Retail outlet accreditation will be based on sales staff training; the ranging of equipment; a visible in-store presence of key Next G™ coverage messages; and having available appropriate documentation to support a customer's purchase or inquiry.

Telstra is looking to implement the accreditation program in Telstra shops and by agreement with its major dealers, recognising that Telstra faces legal constraints in forcing dealers and licensees to take actions that are not part of their contracts.

Telstra will devote significant resources to the accreditation program and will give priority to the most important Telstra owned and licensed stores. We will aim to accredit 70% of these high priority outlets by the end of March and complete the accreditation program in six months.

By the time of its 20 March report to you, Telstra will be in a position to report very significant progress with the program, including the accreditations completed and the timelines going forward. As agreed, Telstra will obtain independent verification from a qualified organisation that it is implementing the accreditation program in accordance with the commitments outlined in this letter.

Coverage Advocates

Telstra announced on 24 January the appointment of more than 50 specially trained Coverage Advocates to help customers move from CDMA to Next G™ and ensure they have the right handsets and equipment to do so seamlessly.

The Coverage Advocates are operating in regional areas to assist customers, including visiting people at their homes or businesses and demonstrating equipment. They have been proactively contacting customers who remain on the CDMA network and talking to them about how best to migrate to Next G™.

If a customer raises a matter that cannot be resolved remotely, the Coverage Advocates are visiting their home or workplace to test the coverage and demonstrate the performance of Telstra's Next G™ mobile handsets and equipment. This will be particularly helpful for people like farmers, who may find it difficult to get into town.

Telstra will include details of the results of the Coverage Advocates program in its 20 March report to you.

Next G™ Telemetry Services

In your Statement of Reasons you conclude that you are not satisfied that equipment necessary to access Next G™ telemetry services equivalent to CDMA services has been made available in sufficient time to enable delivery, installation and testing.

For many months, Telstra has been working closely with suppliers of telemetry equipment and identifiable telemetry customers to facilitate the timely migration of telemetry services to Next G™.

Telstra is now seeking further feedback from customers we are able to identify as telemetry customers who have not migrated on why they have not migrated and whether there are any impediments to them migrating by 28 April. We are working with customers who are having difficulties. We will recontact customers around their planned migration time to ensure they remain on track to migrate their services.

It is Telstra's aim to demonstrate that all the remaining identifiable telemetry customers have been given every reasonable opportunity to migrate by the time we report on 20 March. We are giving the highest priority to emergency services organisations and utilities.

Telstra has ensured that the necessary Next G™ telemetry modems and modules have been developed and are in the market. However, Telstra is not in a position to compel individual solution providers to develop software applications for particular telemetry solutions.

Telstra can actively encourage customers to migrate but it cannot force them to migrate on a timely basis. While the three month deferral of the switch-off of the CDMA network provides additional time for telemetry customers to migrate, at the end of the day, this decision rests with the customers.

Telstra is aware that a number of telemetry solution providers intended to maintain their CDMA solution until the planned 28 January closure date. A number of these providers are likely to extend this policy through to the new planned closure date of 28 April, a decision that they have a right to make and that Telstra is unable to influence.

In its 20 March report to you, Telstra will demonstrate how it has given appropriate notice and every reasonable opportunity to migrate to identifiable telemetry customers, including emergency services organisations and utilities (recognising customer confidentiality).

In its 20 March report, Telstra will demonstrate that the necessary Next G™ telemetry modems and modules have been made available in sufficient time to enable the migration and testing of solutions. As agreed, this will include obtaining independent verification from suppliers that the relevant Next G™ telemetry modems and modules are available and when they became available.

Next G™ Wireless Link (NGWL)

In your Statement of Reasons you conclude you are not satisfied that the equipment necessary to access NGWL services equivalent to CDMA WLL services has been made available in sufficient time to enable delivery, installation and testing. You also

conclude you are not satisfied there is equivalent or better availability of NGWL services as compared to CDMA WLL services.

As you know, only a small number of CDMA WLL services have failed to migrate to NGWL. Telstra will ensure that these customers are provided every reasonable opportunity to migrate prior to our report on 20 March.

A handful of customers have requested a USO service or not agreed to migrate. Customers who request that Telstra supply a USO service will receive such a service in accordance with Telstra's USO responsibilities. Telstra will continue to use every means possible to re-contact the small number of customers remaining on CDMA WLL to give them every opportunity to advise us of their future requirements.

In its 20 March report, Telstra will provide an update on the migration of CDMA WLL customers to NGWL. By this point, Telstra expects to have migrated to NGWL every CDMA WLL customer who has asked to migrate. We expect to have met our USO responsibilities in relation to customers who have asked Telstra for a USO service. We will demonstrate we have provided the handful of CDMA WLL customers who have made no decision with every reasonable opportunity to migrate.

Telstra considers that NGWL provides equivalent voice, fax and data services to CDMA WLL and these services are readily available and being provided to customers.

Telstra will implement the remaining NGWL software upgrade referred to in your Statement of Reasons where this will assist in minimising faults.

As agreed, Telstra is commissioning an independent survey of its NGWL customer base. This survey will focus on service availability and service equivalence issues. On 20 March, Telstra will report on the survey results, the completion of the software installation and provide an update on customer complaint and fault levels.

Call Drop-Outs

In your Statement of Reasons, you seek more information on call drop-outs but do not indicate this is a 'specific problem' that requires rectifying.

Drop-out levels for both the CDMA and the Next G™ network lie well below the design criteria applied to both networks and are well within acceptable limits under the recognised international benchmarks.

In its 20 March report, Telstra will provide directly comparable drop-out results for CDMA and Next G™, including regional breakdowns, for the September and December 2007 quarters on a confidential basis. Telstra will also include in its 20 March report industry benchmark information to demonstrate that drop-out performance is well within acceptable limits.

Network Congestion

In your Statement of Reasons, you seek more information on network congestion but do not indicate this is a 'specific problem' that requires rectifying.

The congestion levels for both the CDMA and the Next G™ network lie well below the design criteria applied to both networks and are well within the acceptable limits under the recognised international benchmarks.

In its 20 March report, Telstra will provide directly comparable network congestion results, including the regional breakdowns, for both the September and December 2007 quarters on a confidential basis. Telstra will also include in its 20 March report to you industry benchmark information to demonstrate that Next G™ network congestions performance is will within acceptable limits.

Overall Availability of Other Equipment and Services

In your Statement of Reasons, you conclude you are not satisfied that all other necessary Next G™ customer equipment, including handsets, and all other services, are available to retail customers.

Telstra is puzzled by DBCDE's line of thinking in providing this advice to you as Telstra's stock holdings were sufficient for all customers to have migrated to Next G™ by 28 January 2008 and this remains the case moving forward.

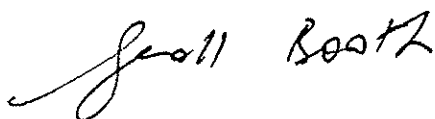
A Telstra officer will provide a statutory declaration on stock levels to you, which will include details on the availability of handsets and accessories like car kits and antennas.

Conclusion

Telstra welcomes the fact that, through our constructive discussions, we have been able to agree to a comprehensive plan to address the issues raised in your Statement of Reasons.

Telstra is implementing this plan as a matter of priority and will report to you on 20 March, to enable you to reconsider this matter under *Clause 15* of the CLC prior to the planned switch-off of CDMA on 28 April.

Yours sincerely

A handwritten signature in black ink that reads "Geoff Booth". The signature is written in a cursive style with a large, sweeping initial 'G'.

Geoff Booth
Group Managing Director
Telstra Country Wide