IN THE MATTER OF UNDERTAKING DATED 22 MARCH 2006 LODGED BY TELSTRA CORPORATION LIMITED WITH THE AUSTRALIAN COMPETITION AND CONSUMER COMMISSION IN RESPECT OF PSTN ORIGINATING AND TERMINATING ACCESS AND LOCAL CARRIAGE SERVICE ("LCS") ("the Access Undertaking")

STATEMENT OF [C-I-C]

On 29 September 2006, I, **[c-i-c]** of [c-i-c], state as follows:

1   The information in this statement is confidential to Telstra Corporation Limited ("**Telstra**"). I have prepared this statement on the basis that the information in it will remain confidential and that the information will only be disclosed to a person:

    (a)   who has executed a confidentiality undertaking in terms that are satisfactory to Telstra; and

    (b)   who may only use the information for the following purposes:

        (i)   making submissions to the Australian Competition and Consumer Commission ("**ACCC**") in respect of the Access Undertaking; or

        (ii)   any application made to the Australian Competition Tribunal under s 152E of the Trade Practices Act for review of a decision made by the ACCC in respect of the Access Undertaking; or

        (iii)   any other purpose approved by Telstra in writing.

Introduction

2   I have been employed by Telstra for approximately six years. [c-i-c]

3   The team that I head manages all aspects of the PSTN group of products. The PSTN group of products comprises basic access, local calls, subscriber trunk dialing ("**STD**") (or national long distance calls), fixed to mobile calls,

international direct dialing (**"IDD"**) and a number of "value added products" (such as messaging, fixed short messaging service (**"SMS"**), call forwarding, call diversions etc.). The team, including myself, comprises eight persons, each of whom act, subject to my supervision, as product managers for a grouping of PSTN products, namely access; calling; faxstream and complex (essentially the sending of facsimiles via the PSTN); silent line and value added services (for example, fixed line SMS); features (for example, call forwarding, call waiting, call return); messaging and call completion; and fixed customer premises equipment (ie telephone handsets).

4   The PSTN Access and Calling team deals with all aspects of the above PSTN products, including managing and assessing their costs, revenues, service levels, processes and product development. The team monitors performance and pricing of these products and prepares reports on these matters for distribution to the Telstra Business Units and Telstra Senior Management. This includes monitoring the numbers of calls and minutes of use (**"MOU"**) of the PSTN products. This is on a product by product basis on the basis of a wide range of metrics, including total call volumes and MOU and minutes per customer.

5   Through the team's detailed knowledge of the PSTN products referred to at paragraph 3 above, the team provides support to all Telstra Business Units who deal with these products with their own customers. This includes, for example, preparing reports and analysis on PSTN products for the Business Units, responding to queries from the Business Units, working with those Units in the planning of particular campaigns and providing data on the impact on products of the introduction or promotion of other Telstra products.

6   [c-i-c]

7   Overall volumes of minutes being carried on the PSTN are declining. In this statement I address, first, the key areas where declining volumes of calls being carried on Telstra's PSTN are being experienced, and, second, the reasons for that decline in volume.

Declining Volumes

8   The decline in volumes are most significant in local calls and, to a lesser extent, STD calls. The decline in local calls is particularly significant, given these calls make up the majority of the calls being carried on the PSTN. [c-i-c]

9   In terms of local calls, the volume of calls on the PSTN peaked in or around 2000/01 and thereafter started to decline. [c-i-c]

10   A similar pattern has been experienced with STD calls. [c-i-c]

Reasons for PSTN call decline

11   There are two primary reasons for the decline in local calls. The first reason is the increased uptake by Telstra's dial up internet customers of broadband internet access. The second reason is substitution of fixed line calls on the PSTN for mobile telephone calls (**"mobile substitution"**). I am aware of these reasons for the decline through my role as manager of the PSTN Product Portfolio, and the detailed analysis of and experience that I and my group have in these products.

12   As noted above, the first main factor causing the decline in local calls on the PSTN is the increased uptake by Telstra's existing internet dial-up customers of broadband internet access. Through a detailed review of the actual data for local calls (dial-up internet access being a local call), my team has assessed that slightly under half of the decline in local calls on the PSTN is due to the increased uptake of broadband. In effect, as Telstra's existing customers migrate from dial-up internet access to broadband, the local calls associated with dial-up internet access are no longer being made by those customers. From the historical data, it is evident there has been an increased uptake in broadband in the past few years as broadband becomes a cheaper product. In addition, high volume internet users, who would, if using dial-up internet access, have made long held calls on the PSTN, are more inclined to move across to broadband, given their high volume use of the internet.

13   The second main reason for the decline in local calls, accounting for, again, just under half of the decline, is mobile substitution, and use of SMS, Instant Messaging and email. My team has assessed, through review of historical call data, and the team's judgment and expertise in this area, that the majority of this proportion of the decline in local calls is due to mobile substitution. This is

particularly so as a result of the introduction of mobile "bucket" plans, where customers get a certain dollar value of calls (eg up to $400 worth of calls per month), but with the actual cost of those calls capped at a much lower amount (for example, $49 per month - hence the terms $49 cap plan, $59 cap plan and so on).

14   In addition, the increased use of broadband as discussed at paragraph 12 above provides customers with greater utility of email, online SMS and Instant Messaging for their personal communications. The "always-on" nature of Broadband internet also allows easier access to information that would have traditionally been sourced through the placement of a local call (for example, checking movie showing times, airport arrival and departure information and so on). The evolution of the internet, and the communication opportunities it provides to customers, is a large driver of the decline in local calls being carried on the PSTN.

15   Finally, the balance, and less significant, reasons for the decline are the loss of customers to competitors and the migration of Telstra PSTN customers to the Telstra Integrated Services Digital Network (**"ISDN"**). ISDN is essentially a digital network that allows a customer, typically a business customer, to have a number of separate lines to their premises all carried on the same digital "wire" or "pipe". In this way, a customer who previously had, for example, three PSTN lines, and who is growing and needs, say, 10 lines, may migrate to an ISDN product and take 10 lines via the one ISDN wire or "pipe". Therefore, calls that were previously made on the PSTN have migrated to the ISDN.

16   In terms of the decline in STD calls and fixed to mobile calls, mobile, SMS and Instant Messaging substitution are the primary reasons for the decline. Again, mobile substitution has been assessed by my team as the key factor for the decline. The migration of Telstra customers from dial up internet access to broadband internet access affects only local calls (as noted, dial up internet access being by way of a local call).

17   For IDD calls, the reason for the decline are similar, being increasing substitution to cheaper products, such as calling cards, as well as the increased use of the internet to contact people overseas, such as email, SMS, chatrooms, voice calls over the internet (**"VoIP"**) and Instant Messaging.

DATED: 29 September 2006

[C-I-C]