

Director of Equivalence

Telstra's Operational Separation Annual Compliance Report For the 2007-08 Financial Year



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1. Introduction

This report is the Annual Compliance Report for the 2007-08 financial year required by clause 6.3(d) of Telstra's Operational Separation Plan (OSP).

2. Background

Operational Separation has been implemented as a statutory condition of Telstra's carrier licence, specified in Part 8 of Schedule 1 to the *Telecommunications Act 1997* (Cth) (Telecommunications Act). The objective of Operational Separation is to promote the principles of transparency and equivalence in the supply by Telstra of certain wholesale services.

Under the legislative framework Telstra was required to prepare a draft plan for Operational Separation, undertake public consultation and submit the draft plan to the Minister for approval. The draft plan was required to meet the legislative requirements set out in Part 8 of Schedule 1 to the Telecommunications Act and in two Determinations made by the Minister under that Act: the *Telecommunications (Requirements for Operational Separation Plan) Determination (No. 1) 2005*, and the *Telecommunications (Operational Separation – Designated Services) Determination (No. 1) 2005*.

After consultation with Telstra and the Australian Competition and Consumer Commission (ACCC), and taking into consideration the views of industry stakeholders and members of the public, the Minister approved Telstra's Operational Separation Plan on 23 June 2006.

Telstra's OSP supports the provision of high quality wholesale services through the establishment of four strategies (the Customer Responsiveness Strategy, the Service Quality Strategy, the Information Equivalence Strategy and the Information Security Strategy), a Price Equivalence Framework and notional contracts.

Telstra's OSP, the four strategies, the Price Equivalence Framework and the notional contracts can be found on Telstra Wholesale's internet site:

<http://telstrawholesale.com/dobusiness/customer-commitment/operational-separation.htm>

Telstra submits the Annual Compliance Report for each financial year to the ACCC and the Minister, and publishes the report on Telstra Wholesale's internet site within 120 days of the end of the financial year as required under clause 6.3 (e) of the OSP.

3. Telstra's Approach to Meeting the Obligations

On commencement of the development of the OSP, Telstra undertook an extensive program of work to review existing processes and where required, added to, modified, or established new processes to meet the OSP's additional obligations, including obligations relating to governance and compliance reporting. This involved a cross business project to ensure that all requirements were matched to corresponding processes that would facilitate the ongoing achievement of the obligations.

4. Telstra's Compliance Assurance Methodology

Telstra is utilising its compliance assurance methodology to assure and report on Telstra's performance of the obligations contained within the OSP, the four supporting strategies, the Price Equivalence Framework and the notional contracts. This approach focuses on having adequate controls embedded within business processes to ensure that obligations are appropriately managed. Where key internal controls are assessed as operating effectively, it can be concluded that the required obligations are being fulfilled via the accurate and complete performance of the underlying processes.

In summary, this approach involves ensuring underlying processes have appropriate controls to facilitate the achievement of the Operational Separation Plan obligations, and then performing ongoing assessment of these controls to monitor their effectiveness.

By adopting this value-add approach of continuously testing embedded key controls, Telstra is able to identify issues, investigate the circumstances and if applicable, implement remediation plans on a timely basis. This also satisfies Telstra's obligation, per clause 6.6 of the Operational Separation Plan, to monitor and report on its compliance for the financial year. This controls-based approach is a mature method of assurance that facilitates real time identification of issues and opportunities to implement improvements.

The findings set out in this report are based on this approach and Telstra believes those findings are complete and accurate.

The sections below detail the key elements of the compliance assurance methodology to monitor and report on Telstra's fulfilment of the OSP obligations.

4.1 Risk Management and Assurance (RM&A) Design Assessments – Year 1 of Operational Separation

As part of the cross business project undertaken during the first year of Operational Separation, Telstra performed various baselining activities to ensure adequate supporting processes and controls were in place to facilitate the achievement of the Operational Separation Plan obligations.

Once this exercise was completed by the relevant business areas within Telstra, Risk Management and Assurance (Telstra's Internal Audit Group), acting on the direction of the Director of Equivalence, conducted a series of assessments to confirm that obligations were supported by processes with appropriately designed internal controls.

Design assessments were performed on the OSP, the four strategies, the Price Equivalence Framework and notional contracts. The scope of the design assessments included:

- risk assessment of threats/impacts of not meeting the compliance obligations for the relevant Strategy/area;
- independent analysis of designed processes and/or other methods used to achieve the obligations;
- identification and documentation of designed controls to assess whether embedded controls were adequate to meet the obligations. This also included identification of any control gaps; and
- testing of the effectiveness of controls identified (where applicable).

Readiness assessments over the adequacy of the control environments and any remediation required were reported to senior management, the Executive Governance Committee, and the Audit Committee.

4.2 Ongoing Operating Effectiveness Assessments

An ongoing testing strategy has been implemented for each of the key internal controls identified during the Risk Management and Assurance Design Assessment reviews.

The main method of evaluating ongoing operating effectiveness of embedded key controls is through Telstra's Control Self Assessment Program. In some other instances where the testing of controls involves significant professional judgment, complexity or high technical component, other methods are utilised. These methods are discussed below.

4.2.1 Control Self Assessment

Control Self Assessment (CSA) is a Telstra wide program in which appropriately segregated staff throughout the business take responsibility and ownership of testing the operating effectiveness of key controls that have been previously identified and assessed by Risk Management and Assurance during their Design Assessments.

The results of CSA on controls relevant to Operational Separation allow the Director of Equivalence to discharge his responsibility to monitor Telstra's compliance with the OSP. In addition, the testing of controls relating to Operational Separation allows conclusions to be drawn as to whether Telstra has complied with all the obligations.

Key benefits for the Operational Separation Program that have been realised by the CSA program since its implementation include:

- increased awareness and ownership of key control activities throughout the business. This is achieved through involving staff throughout the business in evaluating controls;
- timely identification of issues with key controls allowing management to take appropriate remedial action in a timely manner;
- clear definition of roles and responsibilities and appropriate training;
- maintenance of a single central repository of controls evaluated through CSA and respective testing documentation. The system used in CSA also facilitates the review by our external auditors; and
- Increased awareness of risks and controls throughout the business. This is achieved through comprehensive training of staff involved in the program, and provision of ongoing support and education.

As set out above, key internal controls relating to the achievement of the Operational Separation obligations were identified during Risk Management and Assurance's Design Assessment reviews. These are then performed periodically on an ongoing basis by the individual business areas and Risk Management and Assurance maintain overall control, evaluation and oversight of the tests being performed.

CSA results are reported to senior business stakeholders and internal governance committees on a regular basis. This includes provision of results to the Director of Equivalence and Executive Governance Committee.

To ensure the ongoing quality of CSA, an independent team from Risk Management and Assurance performs an annual review of the program and of the quality of tests performed. RM&A also undertakes process walkthroughs each year to ensure the appropriateness of the controls and testing programs in place.

4.2.2 Other Mechanisms for Ongoing Assessment

The majority of controls tested on an ongoing basis are tested by CSA. However if the testing of controls involves significant professional judgment, complexity or the control has a highly technical component, the controls are centrally tested by Risk Management and Assurance or monitored by the network of Business Unit Compliance Managers. Where the controls cross various business areas, the Compliance Managers are responsible for monitoring compliance with the obligations and implementing remediation action if required in their business area. An example of an area monitored by the Compliance Managers is training completion rates.

If a significant exception is identified through the testing performed by either Risk Management and Assurance or the CSA program it is reported to senior business stakeholders and internal governance committees who ensure appropriate action is taken to resolve the reason for any exceptions.

5. Governance

The following governance structures have been established to support Telstra's Operational Separation Plan obligations. Refer to Appendix 1 for a diagram of the Governance Structure.

5.1 Board Audit Committee

The Board Audit Committee oversees Telstra's discharge of its compliance obligations including compliance with Telstra's Operational Separation obligations, receives periodic reports on the management of these obligations, reviews and approves the Annual Compliance Report, and oversees the activities of the Director of Equivalence.

5.2 Director of Equivalence

As per clause 6.6 of the OSP, the Director of Equivalence is responsible for:

- a) monitoring Telstra's compliance with the OSP;
- b) reporting to the CEO and the Operational Separation Committee (i.e. the Executive Governance Committee) on Telstra's compliance with the OSP;
- c) increasing awareness within Telstra of the OSP requirements;
- d) accepting, facilitating and responding to requests for information from the ACCC in relation to the OSP;
- e) developing and overseeing an ongoing internal education program directed towards ensuring compliance with the OSP;
- f) liaising with the external auditor responsible for the preparation of the independent audit report;
- g) overseeing the remediation of significant performance issues within the OSP. The status of remediation will be reported on a periodic basis to the Executive Governance Committee;
- h) monitoring the adequacy of processes for investigating and responding to complaints from wholesale customers;
- i) production of the Annual Compliance Report;
- j) reporting to the Minister on Telstra's compliance with the OSP; and
- k) monitoring implementation of measures to respond to non-compliance with the OSP.

5.3 Executive Governance Committee – Operational Separation

The Operational Separation Executive Governance Committee provides operational oversight of all aspects of Operational Separation performance, compliance and,

where necessary, makes recommendations for remediation to ensure the appropriateness of processes supporting the obligations contained within the OSP.

This governing body ensures the Director of Equivalence has appropriate information to report to the Audit Committee, CEO and company senior management on the achievement of the Operational Separation regulatory obligations.

The Committee is chaired by the Company Secretary and is comprised of Group Managing Directors and Executive Directors from a cross section of Telstra's business units.

Meetings are held quarterly where the following are discussed and/or reviewed to monitor compliance:

- Operational Separation metrics;
- Report on audit activities;
- Drafts of public reports;
- Compliance in general; and
- Other matters as required.

Each month the Operational Separation metrics and scorecard are provided to the Executive Governance Committee to keep the members up to date on key aspects of Operational Separation compliance.

5.4 Compliance Review Group

This group supports the Executive Governance Committee in overseeing compliance at an operational level. Detailed analysis of performance is undertaken and, where necessary, recommendations are made to the Executive Governance Committee.

The Compliance Review Group is chaired by the Assistant Company Secretary and is comprised of General Managers, Legal Counsel and Executive Directors from a cross section of Telstra's business units.

Meetings are held monthly where the following areas are discussed and/or reviewed to monitor compliance:

- Operational Separation metrics;
- Report on audit activities;
- Drafts of public reports and other key process deliverables;
- Compliance in general; and
- Other matters as required (e.g. consideration of the need for any Compliance Improvement Plans where required).

5.5 Service Operational Quality Working Group

The Service Operational Quality (SOQ) Working Group is responsible for ensuring compliance with the Service Quality Strategy requirements and notional contracts.



The SOQ Working Group is a cross business forum with participants representing Wholesale, Retail, Key Network Services and Corporate Business Units.

Meetings are held at least monthly and the following are standing items on the agenda:

- review and assessment of the previous monthly Operational Separation Plan Key Performance Indicators ('KPIs') results;
- endorsement of new actions required, and monitoring of progress and effectiveness of previous action plans;
- Compliance Improvement Plans (if required);
- metric change requests (if required);
- quarterly public report content endorsement; and
- notional contract compliance performance review (when required).

6. Year-end Evaluation of Results and Reporting

Per clause 6.3(d) of the OSP, an Annual Compliance Report must be produced summarising Telstra's progress in implementing and operating in accordance with the OSP.

In order to produce the report, an evaluation process has been established to collate and analyse the results of all ongoing assessment activities.

All results from the ongoing operating effectiveness assessments are evaluated. The process aims to bridge the gap between control weaknesses identified, if any, and actual instances of non-compliance, if any. That is, a control breakdown does not necessarily mean there has been an instance of non-compliance with an obligation.

Risk Management and Assurance evaluate all control weaknesses identified during the financial year. Where required, further investigation is performed to determine whether a weakness has resulted in an instance of non-compliance. Where this is confirmed, it will be disclosed in the year-end Annual Compliance Report.

7. External Audit

As per clause 6.4 of the OSP, an independent external auditor has been appointed to audit the extent to which Telstra has complied with the Operational Separation Plan during each financial year and to prepare a report on this compliance as at the end of each financial year. The external auditor's assessment is based on:

- a) reviewing and confirming the accuracy of the Annual Compliance Report against the requirements of the OSP;
- b) reviewing the data and internal testing procedures that have been performed by Telstra, to produce the Annual Compliance Report; and
- c) reviewing Telstra's internal compliance program in relation to the OSP.

Ernst & Young has been engaged as an independent external auditor to complete this requirement.

A copy of the independent external auditor's report is attached as Appendix 2 to this Annual Compliance Report. As such it will be submitted to the ACCC and the Minister and published on Telstra Wholesale's internet site within 120 days of the end of the financial year as required under clause 6.5 of the OSP.

8. Details of Implementation and Operation

This section of the report summarises the progress of Telstra's implementation and operation of the OSP obligations, the four strategies, the Price Equivalence Framework and notional contracts.

8.1 Operational Separation Plan

8.1.1 Introduction

Where details or obligations are included in the OSP and also considered within any of the four strategies, the Price Equivalence Framework or the notional contracts, they have been discussed later in the report.

The aim of Operational Separation is to promote the principles of transparency and equivalence in relation to the supply by Telstra of wholesale and retail services.

A key obligation of the OSP is the requirement for operational and organisational separation of Telstra.

8.1.2 Summary of Results

As per clause 6.3 of the OSP, this Annual Compliance Report has been produced for the 2007-08 financial year.

In accordance with clause 6.4 of the OSP, an independent external auditor was appointed to audit the extent to which Telstra has complied with the Operational Separation Plan during the 2007-08 financial year and their report on this compliance is included at Appendix 2.

8.1.3 Progress to Implementation

As outlined in section 3 Telstra's Approach to Meeting the Obligations, Telstra undertook an extensive program of work to review existing processes, and where required, added to, modified, or established new processes to meet the OSP's obligations.

The obligations in the OSP and Information Security Strategy took effect from 23 June 2006 and 30 November 2006 respectively. While the majority of required activities had been performed to ensure compliance with the obligations at these times, a small number (relating to organisational separation and information security) remained outstanding at the commencement date.

All resolution activities were completed as at 30 June 2007.

Telstra continues to leverage from the learnings of the first year of Operational Separation to improve its control environment including its Operational Separation



controls. Telstra is utilising its compliance assurance methodology to ensure that the OSP obligations are monitored and reported on an ongoing basis.

8.2 Customer Responsiveness Strategy

8.2.1 Introduction

In accordance with clause 4.2 of the OSP, the Customer Responsiveness Strategy dated 23 June 2006 was provided to the Minister and the ACCC, and made available on Telstra's internet site by 30 June 2006.

The Customer Responsiveness Strategy describes:

- processes for dealing with day-to-day complaints by wholesale customers, including a process for ensuring that complaints are dealt with in a timely and effective manner;
- monitoring of complaints made in relation to Telstra's obligations under clause 3.5 of the OSP;
- the provision of help desk facilities and defined escalation procedures to assist in the handling of complaints;
- a requirement for Telstra to produce and publish on its internet site a Complaints Management Policy (as amended from time to time) for the information of its wholesale customers;
- a requirement for Telstra to conduct regular reviews (at least annually) with wholesale customers about the quality of eligible services supplied and for the management by Telstra of wholesale customers' concerns; and
- the types of alternative dispute resolution processes that may be selected by the wholesale customer and Telstra for the resolution of disputes about the technical or operational attributes of Eligible Services supplied to wholesale customers.

By complying with the Customer Responsiveness Strategy, Telstra will monitor its compliance with the Service Quality Strategy and the Information Equivalence Strategy, ensure that it is responsive to complaints made by its wholesale customers, and establish a process for resolving disputes between Telstra and its wholesale customers as required by the OSP.

8.2.2 Summary of Results

As per the clause 4.3 of the OSP, Telstra commenced complying with the Customer Responsiveness Strategy from 31 July 2006.

The Complaint Management Policy and Alternative Dispute Resolution Policy are available on Telstra Wholesale's internet site:

<http://telstrawholesale.com/dobusiness/customer-commitment/operational-separation.htm>



A small number of complaints were received through the normal complaints handling process that related to obligations covered by the Operational Separation regime. Two of these related to provisioning of services. Each of these complaints has been investigated and resolved. The other two complaints related to Telstra's use of information and information security. One of these complaints has been investigated and resolved and a Compliance Improvement Plan has been developed as a result and all actions under this plan are complete as at the date of this report. The other complaint has also been investigated and resolved.

An assessment of each individual Strategy has been performed, and each clause categorised as either an obligation or supporting explanation. For each obligation, compliance has been measured for the financial year. Table 1 below details the obligations for the Customer Responsiveness Strategy.

A '✓' indicates obligations Telstra has complied with.

A 'X' indicates obligations where a compliance issue has been identified. Details of any compliance issues are provided in the table.

Table 1.

Customer Responsiveness Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
2.2	Day-to-day complaints management and service improvements	✓	
2.3	Help desk facilities	✓	
2.4	Escalation procedures	✓	
2.5	Complaints Management Policy	✓	
2.6	Regular reviews	✓	
3.4	Alternative dispute resolution	✓	
3.5	Alternative dispute resolution – General	✓	
3.6	Alternative dispute resolution – General	✓	
3.7	Alternative dispute resolution – General	✓	
3.8	Alternative dispute resolution – General	✓	
3.9	Alternative dispute resolution - Notice of Dispute	✓	
3.10	Alternative dispute resolution - Negotiation	✓	
3.11	Alternative dispute resolution - External procedures prior to litigation – Nomination of ADR Process	✓	

Customer Responsiveness Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
3.12	Alternative dispute resolution - Participation in ADR Process	✓	
3.13	Alternative dispute resolution - Mediation	✓	
3.14	Alternative dispute resolution - Technical Determination	✓	
3.15	Alternative dispute resolution - Litigation or ACCC arbitration	✓	
3.16	Alternative dispute resolution - End of the dispute resolution process	✓	
4.1	Monitoring Compliance - Compliance with the Service Quality Strategy	✓	
4.2	Monitoring Compliance - Compliance with the Service Quality Strategy	✓	
4.3	Monitoring Compliance - Compliance with the Information Equivalence Strategy	✓	
4.4	Monitoring Compliance - Compliance with the Information Equivalence Strategy	✓	
4.5	Monitoring Compliance - Other Compliance and Reporting	✓	

8.3 Service Quality Strategy

8.3.1 Introduction

In accordance with clause 4.2 of the Operational Separation Plan, the Service Quality Strategy dated 23 June 2006 was provided to the Minister and the ACCC, and made available on Telstra's internet site by 30 June 2006.

The Service Quality Strategy includes provisions requiring that:

- the frequency, completeness and accuracy of the provision of call or data traffic record information for Eligible Services offered to wholesale customers is at least equivalent to that provided to the Retail Business Units in respect of comparable Eligible Services;
- the billing information provided to the Wholesale Business Unit in relation to the supply of an Eligible Service is at least equivalent to that provided to the Retail Business Units in respect of the comparable Eligible Service;
- Telstra describes target timeframes for the provision of timely and effective access to Telstra's exchange buildings to relevant wholesale customers and commit to measure performance against those timeframes;
- Telstra implements processes to promote the principle of equivalence of supply by the Key Network Services Business Unit of Fault Detection, Handling and Rectification, and Service Activation and Provisioning; and
- Telstra meets certain service standards described in clauses 5.18 of the OSP, which will be measured quarterly.

8.3.2 Summary of Results

As per clause 4.3 of the OSP Telstra has complied with the Service Quality Strategy from 31 August 2006.

Telstra has produced and released the four Service Quality Reports for each quarter of the 2007-08 financial year.

The reports summarise the results of measurements of the KPIs set out in clause 5.18 of the OSP and clause 4.1 of the Service Quality Strategy relating to the equivalence of the operational quality of Designated Services supplied to wholesale customers and the Retail Business Units. Details of variances of +/- 2% or more in the KPIs are also explained.

The Service Quality Reports can be found on Telstra Wholesale's internet site:

<http://telstrawholesale.com/dobusiness/customer-commitment/operational-separation.htm>

An assessment of the Service Quality Strategy has been performed, and each clause categorised as either an obligation or supporting explanation. For each obligation, compliance has been measured for the financial year. Table 2 below details the obligations for the Service Quality Strategy.

A '✓' indicates obligations Telstra has complied with.

A 'X' indicates obligations where a compliance issue has been identified. Details of any compliance issues are provided in the table.

Table 2.

Service Quality Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
1.2	Purpose	✓	
2.1	Billing	✓	
3.1	Access to exchanges	✓	
4.2	Service Key Performance Indicators	✓	
5.1	Fault Detection, Handling and Rectification, and Service Activation and Provisioning	✓	
6.1	Compliance Improvement Plan Process	✓	
7.1	Reporting and Monitoring	✓	
8.1	Confidentiality	✓	

8.4 Information Equivalence Strategy

8.4.1 Introduction

In accordance with clause 4.2 of the Operational Separation Plan, the Information Equivalence Strategy dated 23 June 2006 was provided to the Minister and the ACCC, and made available on Telstra's internet site by 30 June 2006.

The Information Equivalence Strategy includes provisions requiring that:

- Telstra provide a Network Notification Process consisting of two reporting frameworks:
 - a Long Term Notification Report to be prepared and provided to affected wholesale customers every 12 months, containing general details of any relevant change in network functionality, network architecture, network capacity and operational support systems in certain circumstances. The initial Long Term Notification Report was to be made available by 1 November 2006 and the second Report was made on 30 August 2007;
 - a series of short term or operational notifications that will be made to relevant Telstra wholesale customers on a more frequent basis. It is expected that these will generally include notifications in relation to:
 - (i) planned events;
 - (ii) certain access network upgrades;
 - (iii) ADSL availability;
 - (iv) exchange service area information;
 - (v) major service impacting network incidents;
 - (vi) other general service or provisioning impacting matters relating to operational support systems; and
 - (vii) disaster recovery plan information

By complying with the Information Equivalence Strategy obligations, Telstra will demonstrate that the provision of information by the Key Network Services Business Unit or the Wholesale Business Unit to wholesale customers about relevant changes to Telstra's network is, to the extent possible, equivalent to the provision of the same or similar information to the Retail Business Unit as required by the OSP.

8.4.2 Summary of Results

As per clause 4.1 of the OSP Telstra complied with the Information Equivalence Strategy from 31 October 2006.

As per clause 4.1 of the Information Equivalence Strategy, Telstra prepared and made available to affected wholesale customers the initial Long Term Notification Report on 1 November 2006 and the second Long Term Notification Report on 30 August 2007.

The 2008 Long Term Notification Report was released on the 19 August 2008. Compliance with clauses 4.1, 4.2 and 4.5 of the Information Equivalence Strategy is measured against the 2007 LTNR Report.

An assessment of the Information Equivalence Strategy has been performed, and each clause categorised as either an obligation or supporting explanation.

For each obligation, compliance has been measured for the financial year. Table 3 below details the obligations for the Information Equivalence Strategy.

A '✓' indicates obligations Telstra has complied with.

A 'X' indicates obligations where a compliance issue has been identified. Details of any compliance issues are provided in the table.

Table 3.

Information Equivalence Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
3.2	Scope	✓	
3.4	Scope	✓	
4.1	Scope of Long Term Notification Report	✓	Compliance is measured against the 2007 LTNR Report
4.2	Scope of Long Term Notification Report	✓	
4.5	Format of Long Term Notification Report	✓	
5.1	Short Term Operational Notifications – Planned Event Notifications	✓	
5.2	Short Term Operational Notifications – Planned Event Notifications	✓	
5.3	Short Term Operational Notifications – Planned Event Notifications	✓	
5.5	Short Term Operational Notifications – Network Upgrade Notifications	✓	
5.6	Short Term Operational Notifications – Network Upgrade Notifications	✓	
5.7	Short Term Operational Notifications – Network Upgrade Notifications	✓	
5.9	Short Term Operational Notifications – ADSL Availability Notifications	✓	

Information Equivalence Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
5.10	Short Term Operational Notifications – ADSL Availability Notifications	✓	
5.11	Short Term Operational Notifications – Exchange Service Area Information Notifications	✓	
5.13	Short Term Operational Notifications – Exchange Service Area Information Notifications	✓	
5.15	Short Term Operational Notifications – Major Network Incident Notifications	✓	
5.16	Short Term Operational Notifications – Operational Support Systems (OSS) Announcements	✓	
5.17	Short Term Operational Notifications – Disaster Recovery Plan Information (DISPLAN Notification)	✓	
5.18	Short Term Operational Notifications – Disaster Recovery Plan Information (DISPLAN Notification)	✓	
6.1	Forecasting of network demand	✓	

8.5 Information Security Strategy

8.5.1 Introduction

In accordance with clause 4.2 of the OSP, the Information Security Strategy dated 23 June 2006 was provided to the Minister and the ACCC, and made available on Telstra's internet site by 30 June 2006.

The Information Security Strategy contains provisions requiring that Telstra have processes by which it will comply with certain requirements including:

- principles for access and use of confidential information of a wholesale customer that require Telstra to ensure that:
 - the Wholesale Business Unit does not disclose confidential information relating to a wholesale customer to a Retail Business Unit unless authorised by the wholesale customer or to the Key Network Services Business Unit otherwise than on a need-to-know basis or where authorised to do so by the wholesale customer; and
 - the Key Network Services Business Unit does not disclose confidential information in relation to the wholesale customer to the Retail Business Unit unless authorised to do so by the wholesale customer.
- principles for determining when an employee of the Key Network Services Business Unit has a need-to-know the confidential information of a wholesale customer;
- describing the security measures in relation to Telstra's information storage systems and data systems (including data collection, storage and archiving);
- describing the security measures taken in relation to the physical security of confidential information;
- describing the measures taken to ensure that an employee of the Retail Business Unit or the Key Network Services Business Unit who had been an employee of the Wholesale Business Unit at any time does not disclose or use confidential information of a wholesale customer of which the employee had become aware whilst working for the Wholesale Business Unit; and
- outlining the steps that will be taken to implement the policy, including describing the proposed further training of staff in relation to the Information Security Strategy.

All resolution activities for the Information Security Strategy were completed as at the date of issuance of the inaugural 2006/07 Annual Compliance Report.

By complying with the Information Security Strategy as required by the OSP, Telstra will protect confidential information relating to Telstra's wholesale customers.

8.5.2 Summary of Results

An assessment of the Information Security Strategy has been performed, and each clause categorised as either an obligation or supporting explanation. For each obligation, compliance has been measured for the financial year. Table 4 below details the obligations for the Information Security Strategy.

A '✓' indicates obligations Telstra has complied with.

A 'X' indicates obligations where a compliance issue has been identified. Details of any compliance issues are provided in the table.

Table 4.

Information Security Strategy Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
2.1	Obligations	✓	
5.2	Information storage systems and data systems	✓	
5.3	Information in the Wholesale Business Unit's systems	✓	
5.4	Information in shared systems	✓	
5.6	Approval process	✓	
5.7	Access monitoring	✓	
5.8	Access monitoring	✓	
5.9	Management of system control issues	✓	
5.11	Physical security of information	✓	
5.12	Physical separation of wholesale and retail premises	✓	
5.13	Physical separation of wholesale and retail premises	✓	
5.14	Private locations for customer meetings	✓	
5.15	Data collection, storage and archiving	✓	
5.17	Data collection, storage and archiving	✓	
6.2	Implementation	✓	
6.3	Implementation	✓	
6.4	Implementation	✓	

8.6 Price Equivalence Framework

8.6.1 Introduction

As required by clause 5.1 of the OSP, Telstra established a Price Equivalence Framework (PEF) relating to Designated Services by 30 June 2006 and the resultant PEF was provided to the Department on 30 June 2006.

The PEF sets out the arrangements and approach under which Telstra will conduct imputation tests and consider results from those tests to assess Telstra's proposals for material price changes for Designated Services. This includes:

- the PEF Strategy which sets out how the PEF will apply to material price changes proposed by Telstra for Designated Services and to generally describe the elements of the PEF;
- Telstra's Retail Pricing Tool, which is a set of imputation tests that seek to assess the impact that Telstra's price changes would likely have on the margin available to an efficient competitor;
- a schedule of notional wholesale prices for Designated Services to be considered by Telstra as an input to the Retail Pricing Tool; and
- the ACCC's Retail Pricing Protocol (where such a protocol has been developed by the ACCC).

One of the aims of complying with the PEF is to provide public assurance that Telstra is acting legitimately in the pricing of relevant Eligible Services supplied to customers of a Retail Business Unit, when compared with the prices at which Telstra provides Designated Services to wholesale customers.

8.6.2 Summary of Results

As per the PEF dated 30 June 2006, Telstra commenced using the Retail Pricing Tool from 1 December 2006.

Telstra has produced and released the four Price Equivalence Framework Reports for each quarter of the 2007-08 financial year.

Telstra made one material price change during the 2007-08 financial year. This related to ADSL services over the December 2007 quarter and was reported in the Price Equivalence Framework Report for the December 2007 quarter. The material price change involved extending the BigPond Big Broadband offer. This offer had several limbs and entitled new BigPond customers to a maximum of twelve months half price access to BigPond ADSL or Cable Broadband as well as free or discounted installation. To be eligible for the maximum discount, new customers were required to commit to a 24 month contract, pre-select to Telstra for their PSTN voice services, sign-up online or take-up online billing and subscribe to an eligible post-paid mobile service with a value equal to, or above, \$20 per month.

The Pricing Equivalence Reports can be found on Telstra Wholesale’s internet site:

<http://telstrawholesale.com/dobusiness/customer-commitment/operational-separation.htm>

An assessment of the PEF has been performed, and each clause categorised as either an obligation or supporting explanation. For each obligation, compliance has been measured for the financial year. Table 5 below details the obligations for the PEF.

A ‘✓’ indicates obligations Telstra has complied with.

A ‘X’ indicates obligations where a compliance issue has been identified. Details of any compliance issues are provided in the table.

Table 5.

Price Equivalence Framework Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
1.1	Establishment of a PEF	Not applicable	This was a one-off requirement for Year 1 of Operational Separation
4.2	General principles for testing price equivalence	Not applicable	This was a one-off requirement for Year 1 of Operational Separation
5.2	Matching of Designated Services and retail services	✓	
5.4	Customer Class	✓	
6.1	Inputs to PEF Imputation Test – Internal Wholesale Price	✓	
6.2	Inputs to PEF Imputation Test – Avoidable Cost	✓	
6.3	Inputs to PEF Imputation Test – Revenues	✓	
7.1	Processes for PEF – Materiality Threshold	✓	
7.2	Processes for PEF – Materiality Threshold	✓	

Price Equivalence Framework Clause	Obligation Areas	Compliance Effective	Comments (where applicable)
8.1	Reporting to the Minister and ACCC	✓	There was one material price change during the 2007-08 financial year. This change occurred and was reported in the quarter ended December 2007.
8.2	Reporting to the Minister and ACCC	✓	Refer to OSP s.6.3 which outlines the details that are required in the Annual Compliance Report
8.3	Reporting to the public	✓	
8.4	Reporting to the public	✓	
8.5	Reporting to the public	✓	
8.6	Independent Audit Report	✓	
9.1	Publication	Not applicable	This was a one-off requirement for Year 1 of Operational Separation
10.1	Timeline and Implementation	Not applicable	This was a one-off requirement for Year 1 of Operational Separation

8.7 Notional Contracts

8.7.1 Introduction

As per clause 5.7 of the OSP, Telstra has established notional contracts in relation to the supply of key elements of Designated Services between the operationally separated Key Network Services Business Unit and

- (a) the Wholesale Business Unit; and
- (b) the Retail Business Units.

As per clause 5.8 the notional contracts established by Telstra include stipulated matters to demonstrate equivalence in:

- (a) the operational quality of Designated Services supplied to the Wholesale Business Unit and the Retail Business Units; and
- (b) the standard of delivery of
 - (i) Fault Detection, Handling and Rectification; and
 - (ii) Service Activation and Provisioning, in relation to Designated Services supplied to the Wholesale Business Unit and the Retail Business Units.

By Telstra developing the notional contracts and complying with the commitments in those notional contracts, the aim is to support the principle of equivalence in relation to the supply of key elements of designated services and the standard delivery of fault detection, handling and rectification and service activation and provisioning.

8.7.2 Implementation

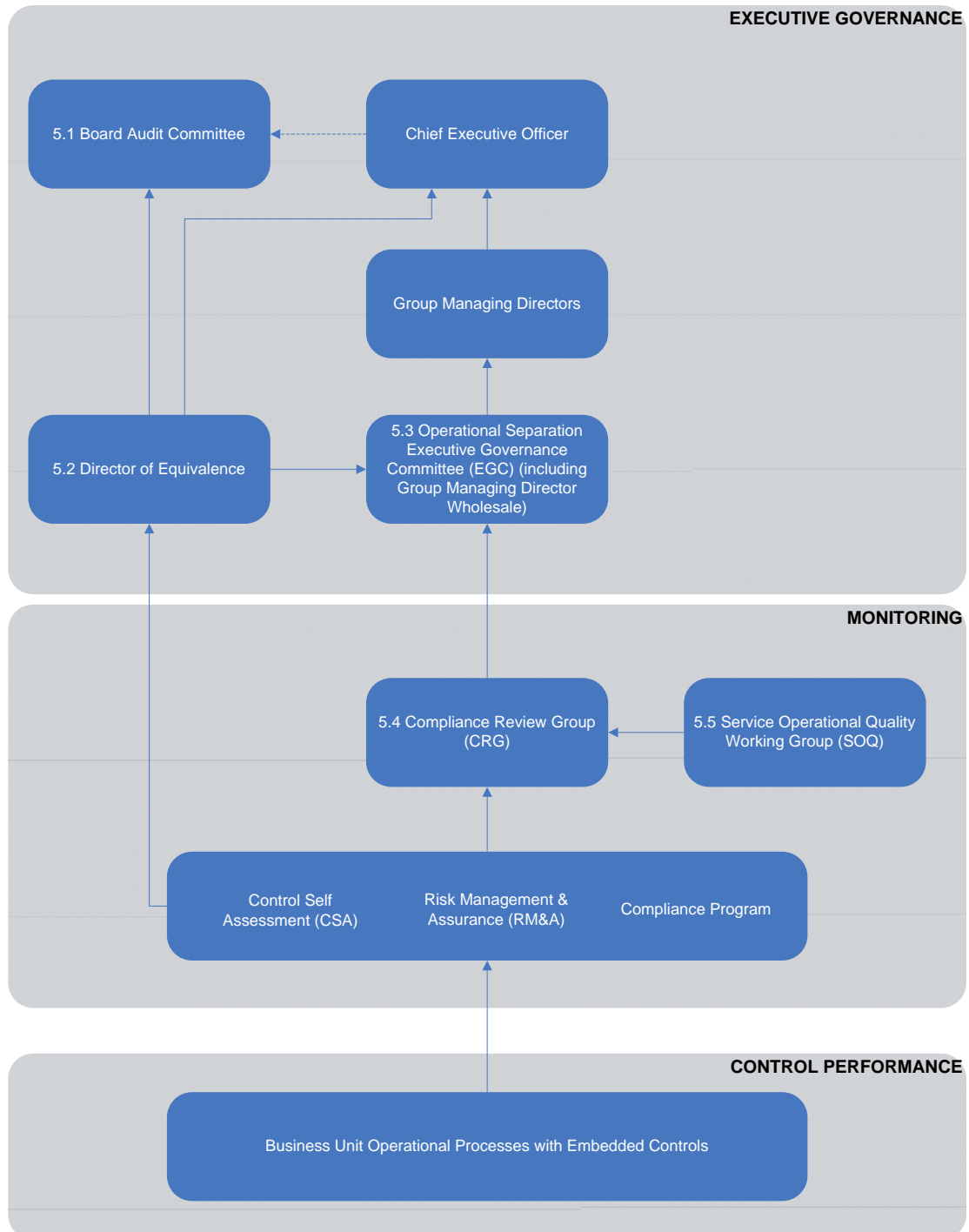
Notional contracts were completed and implemented by 31 July 2006.

Both of the notional contracts are available on Telstra Wholesale's internet site:

<http://telstrawholesale.com/dobusiness/customer-commitment/operational-separation.htm>

Appendix 1 Operational Separation – Telstra’s Governance Structures

This diagram represents the governance structures that have been established to support Telstra’s Operational Separation Plan obligations.



Appendix 2 Independent External Auditor's Report



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INDEPENDENT REVIEW REPORT

To the Directors, Telstra Corporation Limited

Background and Scope

The Operational Separation Plan ('the Plan') at Clause 6.4 requires Telstra Corporation Limited ('Telstra') to appoint an independent auditor to assess Telstra's compliance with the Plan by:

- (a) reviewing and confirming the accuracy of the Annual Compliance Report against the requirements of the Plan;
- (b) reviewing the data and internal testing procedures that have been performed by Telstra, to produce the Annual Compliance Report; and
- (c) reviewing Telstra's internal compliance program in relation to the Plan.

Ernst & Young is the independent auditor of Telstra's statutory financial report, and performs that engagement in accordance with Australian Auditing and Assurance Standards. We have been engaged to perform the review referred to above, in accordance with the scope and standards described herein.

Telstra's Management is responsible for maintaining an effective internal control structure including control procedures sufficient to meet the requirements of the Plan and its associated documents, namely the Customer Responsiveness Strategy, the Service Quality Strategy, the Information Equivalence Strategy, the Information Security Strategy, and the Price Equivalence Framework (together referred to as 'the Plan and Associated Documents') during the year ended 30 June 2008. Telstra's Management is also responsible for the reporting by Telstra of its compliance with the requirements of the Plan and Associated Documents in Telstra's Annual Compliance Report for the year ended 30 June 2008.

The scopes with respect to control procedures and compliance reporting are further described below.

Operational Separation control procedures

Part 8 of Schedule 1 of the Telecommunications Act 1997 ('the Act') deals with the Operational Separation of Telstra, Section 48(2)(f) of which requires Telstra to ensure it has systems, procedures and processes that (i) promote and facilitate compliance with the plan; (ii) provide for the monitoring of, and reporting on, compliance with the plan; (iii) address the development of performance measures relating to compliance with the plan; and (iv) ensure audit, and other checks, of compliance with the plan.

Telstra's Management is responsible for the fulfilment of these objects, and has asserted in the Annual Compliance Report prepared by the Director of Equivalence as to:

- (i) Telstra's approach to meeting the obligations (Section 3);
- (ii) Telstra's compliance assurance methodology (Section 4);
- (iii) Governance (Section 5);
- (iv) Year-end evaluation of results and reporting (Section 6); and
- (v) Details of implementation and operation (Section 8).

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Appendix 2 Independent External Auditor's Report



In Section 8, Telstra reports on its compliance with the requirements of the Plan and Associated Documents, and has asserted its compliance with those requirements in Tables 1, 2, 3, 4 and 5 of Section 8 of the Annual Compliance Report.

We have reviewed Telstra's Operational Separation control procedures, designed to meet the obligations as represented in Tables 1, 2, 3, 4 and 5 of Section 8 of the Annual Compliance Report, in order to state whether on the basis of our examination anything has come to our attention that would indicate that they have not operated effectively during the year ended 30 June 2008, based on the requirements of the Plan and Associated Documents and the Relevant Sections of Telstra's Annual Compliance Report.

Our review has been conducted in accordance with Auditing Standard AUS 810 'Special Purpose Reports on the Effectiveness of Control Procedures'. A review is limited primarily to inquiries of company personnel, inspection of evidence and observation of, and inquiry about, the operation of the control procedures for a small number of transactions or events.

Annual Compliance Report

Section 48(2)(f) of Schedule 1 of the Act requires Telstra to ensure it has systems, procedures and processes to provide for the monitoring of and reporting on compliance with the plan, while Section 51(1)(b)(i) directs Telstra to prepare a report about the extent to which it has complied with the plan during the year. This requirement is elaborated in Clause 6.3 (d) of the Plan, the specific subject matter of which is presented by Telstra in Appendix 3 of the Annual Compliance Report. The Appendix contains Telstra Management's assertions relating to each of the specific requirements, which supplement the detailed assertions contained in Section 8 of the Annual Compliance Report, as to implementation and operation of Plan obligations.

We have reviewed the assertions reported in Tables 1, 2, 3, 4 and 5 of Section 8 and Appendix 3 of the Annual Compliance Report, in order to state whether, on the basis of our examination, anything has come to our attention that would indicate that the Annual Compliance Report is not a complete and reliable presentation of the status of Telstra's performance against the obligations contained in the Plan and Associated Documents.

Our review has been conducted in accordance with Auditing and Assurance Standard AUS 110 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. A review is limited primarily to inquiries of company personnel, inspection of evidence and observation of, and inquiry about, the operation of the control procedures associated with the compilation of the Annual Compliance Report.

Limitations

Telstra's Management is responsible for establishing and maintaining an effective internal control system, and for record-keeping, decision-making and other management functions. An effective internal control system reduces the likelihood that fraud, errors or irregularities, or non-compliance with laws and regulations will occur and remain undetected; however, it does not eliminate that possibility. Our work does not guarantee that fraud, errors or irregularities, or non-compliances will not occur and may not detect them should they occur. Further, the internal control structure, within which the control procedures that we reviewed operate, has not been audited and no opinion is expressed as to its effectiveness.

A review is not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period and the tests performed are on a sample basis. In certain circumstances, we have necessarily relied on representations from management. This approach is taken because the nature of the control does not readily allow reliance on documentation and because professional standards for review engagements permit our work to be limited primarily to inquiries and analysis. A review does not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.



Appendix 2 Independent External Auditor's Report



Statement

Based on our review, which is not an audit:

- (i) nothing has come to our attention that causes us to believe that Telstra did not maintain, in all material respects, control procedures that effectively achieved the obligations contained in the Plan and Associated Documents, during the year ended 30 June 2008; and
- (ii) nothing has come to our attention that causes us to believe that the assertions, as reported in Tables 1, 2, 3, 4 and 5 of Section 8 and Appendix 3 of the Annual Compliance Report are not a complete and reliable presentation, in all material respects, of the status of Telstra's performance against the obligations contained in the Plan and Associated Documents.

A handwritten signature in black ink that reads "Ernst & Young". The signature is written in a cursive, flowing style.

Ernst & Young

Melbourne, 23 October 2008



Appendix 3 Annual Compliance Report Specific Requirements

Per clause 6.3(d) of the OSP an Annual Compliance Report must be produced summarising Telstra's progress in implementing and operating in accordance with the OSP.

Table 6 below details the specific requirements to be summarised in the Annual Compliance Report per clause 6.3(d) of the OSP, and where these have been addressed in this report.

Table 6.

Specific Requirement	Where it is Addressed in the Report
(i) Telstra's progress in developing, implementing and complying with notional contracts;	8.7 Notional Contracts
(ii) Telstra's performance in meeting all of its obligations under the OSP, including commitments contained in notional contracts;	Throughout the report, particularly in 8, Details of Implementation and Operation.
(iii) any areas of non-compliance with the OSP and action taken to address the non-compliance;	Under "Summary of Results" throughout the report (for example 8.1.3 and 8.5.3)
(iv) the type of complaints Telstra has received from wholesale customers as contemplated by the Customer Responsiveness Strategy;	8.2.2 Summary of Results
(v) action taken by Telstra to respond to the complaints referred to in subparagraph (iv) above;	8.2.2 Summary of Results
(vi) action taken by Telstra to address any systemic problems in relation to its obligations under the OSP;	There were no systemic problems identified in relation to Telstra's compliance with the OSP obligations during the 2007-08 financial year.
(vii) the results of measurements, taken in accordance with clause 5.18 of the OSP, of the equivalence of the operational quality of Designated Services supplied to wholesale customers	8.3.2 "Summary of Results" – Includes references to the public Service Quality reports

Specific Requirement	Where it is Addressed in the Report
and the Retail Business Unit;	
(viii) for the 2006-07 financial year and for each subsequent financial year, any areas of material non-compliance with the price equivalence framework described in clauses 5.1 to 5.5;	There were no areas of material non-compliance with the Price Equivalence Framework identified during the 2007-08 financial year.
(ix) for the 2006/2007 financial year and for each subsequent financial year, any areas of material non-compliance with the Information Security Strategy;	There were no areas of material non-compliance with the Information Security Strategy identified during the 2007-08 financial year.
(x) for the 2006/2007 financial year and for each subsequent financial year, any areas of material non-compliance with the Customer Responsiveness Strategy; and	There were no areas of material non-compliance with the Customer Responsiveness Strategy identified during the 2007-08 financial year.
(xi) any matter arising out of implementation of or compliance with the OSP that has impaired Telstra's ability to compete on a fair and efficient basis.	No specific matters have arisen.