At a glance - Tax consequences if you dispose of your Telstra ESOP 97 or Telstra ESOP 99 Shares under the Telstra Buy-Back

This section will assist you in determining the tax consequences if you sell your TESOP 97 or TESOP 99 Shares under the Telstra Buy-Back or if the Trustee disposes of your TESOP 97 or TESOP 99 Shares under the Telstra Buy-Back on your behalf. You can find further information regarding the Buy-Back in the *Telstra Tender Buy-Back Booklet.* If the Trustee holds TESOP 97 Loan Shares, TESOP 97 Extra Loan Shares or TESOP 99 Loan Shares on your behalf, you should also read the *TESOP Buy-Back Document*.

Warning

Telstra made loans available for TESOP 97 Loan Shares and TESOP 99 Loan Shares. These TESOP Loans do not cost you anything, you do not pay any interest on them, and you do not have to repay them except from the dividends paid on your TESOP shares held by the Trustee and from the proceeds of any sale of your TESOP shares held by the Trustee.

TESOP allows you to sell your TESOP shares held by the Trustee in certain circumstances. The Buy-Back offers you an alternative method to sell your TESOP shares. You are not obliged to sell your TESOP shares in the Buy-Back.

If you sell your TESOP shares held by the Trustee, you are deciding to no longer participate in TESOP and you will lose your interest-free TESOP Loan(s).

If you have TESOP 99 Loan Shares, the proceeds from the buy-back of those Shares will not cover the amount outstanding on your TESOP 99 Loan. You must pay more money to Telstra to repay your TESOP 99 Loan than you will receive from the sale of your TESOP 99 Loan Shares in the Buy-Back.

If I want to sell my TESOP shares must I do so in the Buy-Back?

The Buy-Back is not the only way of selling your TESOP shares. You may decide to sell any TESOP shares held in your own name on-market. For TESOP 97 Loan Shares and Extra Loan Shares held by the Trustee, you may request the Trustee to sell those shares on-market on your behalf. For TESOP 99 Loan Shares held by the Trustee, you may only request the Trustee to sell your TESOP 99 Loan Shares on-market if you have repaid all of your TESOP 99 Loan.

Whether it is appropriate for you to sell your shares on-market or under the Buy-Back will depend upon your particular circumstances, the price at which you are able to sell your TESOP shares and any costs associated with the sale.

The actual proceeds you receive on a subsequent sale of TESOP shares on-market may depend on the future price of Telstra shares and future dividends (if any) paid on Telstra shares. Of course, Telstra and the Trustee cannot give you any assurance as to the future price of Telstra shares or future dividends.

It is important you seek professional advice as to which method of sale is appropriate for you.

Determining your tax treatment

It is important that you refer to the appropriate box in the main table below to review the relevant taxation treatment if you participate in the Buy-Back. The appropriate box for you to refer to in the main table below depends upon:

- the type of shares you acquired;
- whether you made an election in respect of those shares or not; and
- whether your relevant employment with Telstra continues or ceased prior to the Buy-Back.

  You cease relevant employment with Telstra if you are no longer employed by the company that was your employer when you acquired your shares and you are no longer employed by a company in the Telstra Group.

This section provides general comments if you are, and have at all times been, an Australian tax resident. Telstra has applied for a class ruling from the Australian Taxation Office ("**ATO**") which is expected to provide confirmation of a number of the statements contained in this section. Whilst not anticipated, it is possible that the Class Ruling may express a view contrary to that set out below.

Unless otherwise specified, this discussion is based on the income tax legislation and administrative practice as at 17 October 2003. If you decide to participate in the Buy-Back Tender, your particular tax treatment will depend on your own circumstances.

It is important that you seek professional tax advice to take into account your particular circumstances.

The Summary Reference Table below will help you to refer to the appropriate box in the main table below.

Summary Reference Table

Type of Share	Continuing employee		Employee who ceased employment prior to the Telstra Buy-Back	
	Tax Election made in year shares acquired	**No Tax Election made in year shares acquired**	**Tax Election made in year shares acquired**	**No Tax Election made in year shares acquired**
TESOP 97 Non Loan Shares	**A**	**A**	**A**	**A**
TESOP 97 Loyalty Shares	**A**	**B**	**A**	**B**
TESOP 97 Loan Shares **TESOP 97 Extra Loan Shares**	**C**	**E**	**I**	**K**
TESOP 97 Extra Non-Loan Shares	**D**	**F**	**J**	**L**
TESOP 99 Loyalty Shares **TESOP 99 Extra Shares**	**Q**	**S**	**M**	**O**
TESOP 99 Loan Shares	**R**	**T**	**N**	**P**

(The alphabetical references to G and H have been deliberately omitted.)

Overview of your taxation treatment

If you sell your TESOP Shares in the Buy-Back, you will be taken for tax purposes to have disposed of your shares for $1.50 and to have received a dividend equal to the excess of the Buy-Back Price over $1.50. The boxes in this section describe the tax treatment of that dividend and how you would calculate any capital loss you may make from the disposal of the shares for tax purposes.

Taxation treatment of the dividend component

In relation to the dividend, there are a number of rules, which may affect its taxation treatment. Some of these rules are described in section 2.5 "Limits on Availability of Franking Credits and Tax Offsets" on page 19 of the Telstra Buy-Back Tender Booklet. These rules are particularly important if you acquired **any** Telstra Shares after 8 October 2003 or if you have entered into arrangements regarding any Telstra shares which meant that you have not held the shares 'at risk'.

If you are in this position, you should seek professional tax advice about the tax treatment of the dividend component of the Buy-Back Price.

Calculating your capital loss

The amount of the capital loss you may make for tax purposes may be affected by recently enacted legislation.

You may, for example, have a choice as to how you calculate your capital loss **if you made an election** in your 1997/98 tax return (affecting your TESOP 97 Shares) or in your 1999/2000 tax return (affecting your TESOP 99 Shares).

If you **made a tax election** in your 1997/98 tax return (affecting your TESOP 97 shares) and you **choose** to calculate your capital loss for TESOP 97 shares sold in the Buy-Back under the recently enacted legislation, you will **reduce** the capital loss you make for tax purposes. Alternatively, if you **made a tax election** in your 1999/2000 tax return (affecting your TESOP 99 shares) and you **choose** to calculate your capital loss for TESOP 99 shares sold in the Buy-Back under the recently enacted legislation, this may **increase** the capital loss you make for tax purposes.

You may **choose** to calculate your capital loss under the recently enacted legislation for particular shares. So, for example, you may choose to calculate your capital loss for TESOP 99 Loan Shares under the recently enacted legislation, but not for your TESOP 97 shares.

The calculation of the capital loss is described in more detail in the following section. The calculations **assume** that, for TESOP 97 shares, you would **not** choose to calculate your capital loss under the recently enacted legislation. Whereas, for TESOP 99 shares, the calculations assume that, if you are a continuing employee, you would choose to calculate your capital loss under the recently enacted legislation.

The amount of your capital loss described in the following section may depend on the tax market value of a share on a particular day. This is available from Telstra Share Registry on 1300 303 199

Note: Class Rulings Issued by the Australian Taxation Office

The following Class Rulings issued by the Australian Taxation Office discuss the taxation implications of disposing of shares in the Telstra Buy-back:

- ***Class Ruling 2004/38 – Income Tax: Off-Market Share Buy-Back: Telstra Corporation Limited***

  Applicable to all Telstra shares disposed of in the buy-back other than shares covered by Class Ruling 2004/57

  Please refer to the Class Ruling

- ***Class Ruling 2004/38 (Addendum) – Income Tax: Off-Market Share Buy-Back: Telstra Corporation Limited***

  Please refer to the Class Ruling

- ***Class Ruling 2004/57 – Income Tax: Off-Market Share Buy-Back: Telstra Corporation Limited: Telstra Employee Share Scheme Participants***

  Applicable to the following types of shares disposed of in the buy-back:

  - TESOP 97 Loan Shares;
  - TESOP 97 Extra Loan Shares;
  - TESOP 97 Extra Non-Loan Shares;
  - TESOP 99 Loan Shares; and
  - TESOP 99 Extra Shares.

  Please refer to the Class Ruling

<table>
<tr><th>Box</th><th>Type of Shares</th><th></th></tr>
<tr><td>A</td><td>TESOP 97 Loyalty Shares (Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return)
TESOP 97 Non Loan Shares</td><td><u>Assessable dividend</u>

You will be assessed on:
The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
The franking credit on the dividend component.
Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

Your capital loss will be $1.80 – being $3.30 less 1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 3 relating to the tax consequences of the sale of your TESOP 97 Loyalty Shares in the Buy-Back for a continuing employee.

Please see Illustrative example number 9 relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back for a former employee.</td></tr>
<tr><td>B</td><td>Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return
TESOP 97 Loyalty Shares</td><td><u>Assessable dividend</u>

You will be assessed on:
The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
The franking credit on the dividend component.
Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

Your capital loss will be $5.05 - being $6.55 (share’s Tax Market Value on 17 November 1998) less $1.50 (Capital Component of the Buy-Back Price)[1].

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 3 relating to the tax consequences of the sale of your TESOP 97 Loyalty Shares in the Buy-Back for a continuing employee.

Please see Illustrative example number 9 relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back for a former employee.</td></tr>
</table>

[1] If you ceased your relevant employment with the Telstra Group before 17 November 1998, you should use the tax market value of the share at the date you ceased your relevant employment.

C	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Capital gains tax consequences</u>** **If your shares are held *by the Trustee*** Your capital loss will be the Tax Market Value of the share immediately prior to when the Trustee disposes of the shares on your behalf less $1.50 (Capital Component of the Buy-Back Price). *The Tax Market Value may differ from the Buy-Back Price.* **If your shares are held *in your own name*** Your capital loss will be the: • Tax Market Value of the shares on the <u>later</u> of : • 15 November 2000 (in which case, the Tax Market Value would be $6.58); and • the date the loan is repaid; • Less $1.50 (Capital Component of the Buy-Back Price) The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. *You may choose to calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.* **<u>Example</u>** Please see Illustrative example number **1** relating to the tax consequences of the sale of your 97 Loan Shares and TESOP 97 Extra Loan Shares in the Buy-Back where the shares are held by the Trustee.

<table>
<tr>
<td>D</td>
<td>Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return

• TESOP 97 Extra Non-Loan Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

Your capital loss will be $5.08 - being $6.58 (share’s Tax Market Value on 15 November 2000) less $1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

You may choose to calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.

<u>Example</u>

Please see Illustrative example number 2 relating to the tax consequences of the sale of your TESOP 97 Extra Non-Loan Shares in the Buy-Back.</td>
</tr>
</table>

<table>
<tr>
<td>E</td>
<td>Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return

• TESOP 97 Loan Shares

• TESOP 97 Extra Loan Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Deferred assessable amount/capital gains tax consequences</u>

If your shares are held by the Trustee

You will also be taxed on $1.50 (Capital Component of the Buy-Back Price) for each Extra Loan Share disposed of under the Buy-Back.

You will not be subject to further taxation in respect of your TESOP 97 Loan Shares disposed of under the Buy-Back.

The CGT provisions will not apply to either the Loan Shares or the Extra Loan Shares You will not realise a capital gain or a capital loss .

If your shares are held in your own name [because the loan has been repaid]

In this case, a Taxing Point will have arisen prior to the Buy-Back.

<u>Note</u>: Your Taxing Point may have occurred in a previous tax year. In this case, no deferred assessable amount should arise in the 2003/04 tax year.

You would have been taxed on the Tax Market Value of your shares at the Taxing Point which is the <u>later</u> of:

• 15 November 2000 (in which case, the Tax Market Value would be $6.58); and
• the date the loan was repaid

Less the amount you paid for the shares.

Amount paid for Loan Shares = (No. of Loan Shares acquired x $3.30) <u>less</u> $1.00

Amount paid for your Extra Loan shares = Nil

A capital loss will arise when you dispose of your shares under the Buy-Back. Your capital loss will be:

• the Tax Market Value of the shares when the Taxing Point occurs (explained above)

• less $1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 1 your TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares in the Buy-Back where the shares are held by the Trustee.</td>
</tr>
</table>

F	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Capital gains tax consequences</u>** Your capital loss will be $5.08 - being $6.58 (the share's Tax Market Value on 15 November 2000) less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. **<u>Example</u>** Please see Illustrative example number **2** relating to the tax consequences of the sale of your TESOP 97 Extra Non- Loan Shares Buy-Back.

<table>
<tr>
<td>I</td>
<td><u>Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back</u>

Where you elected to seek the $1,000 tax exemption in your 1997/1998 tax return

• TESOP 97 Loan Shares

• TESOP 97 Extra Loan Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

If the loan was NOT repaid in full when you ceased relevant employment your capital loss will be:

• Tax Market Value of the shares on the <u>earlier</u> of:

  • date the loan was repaid in full; and
  • immediately prior to when the Trustee disposes of the shares on your behalf.

• Less $1.50 (Capital Component of the Buy-Back Price).

If you asked the TESOP Trustee to tender your TESOP 97 Loan Shares and Extra Loan Shares in the Buy-Back, the Tax Market Value of the shares will be determined immediately prior to when the Trustee disposes of the shares on your behalf. The Tax Market Value may differ from the Buy-Back Price.

If the loan was repaid in full when you ceased relevant employment your capital loss will be:

• Tax Market Value of the shares when you repaid the loan in full[2]

• less $1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

You may choose to calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.

<u>Example</u>

Please see Illustrative example number 7 relating to the tax consequences of the sale of your TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares in the Buy-Back where the shares are held in your name and you repaid the loan after ceasing employment.</td>
</tr>
</table>

J	**<u>Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back</u>** **Where you elected to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Capital gains tax consequences</u>** Your capital loss will be: • the Tax Market Value of the shares at the <u>earlier</u> of: • when you ceased relevant employment with the Telstra Group; and • 15 November 2000 (in which case, the Tax Market Value would be $6.58); • less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. *You may choose to calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.* **<u>Example</u>** Please see Illustrative example number **8** relating to the tax consequences of the sale of your TESOP 97 Extra Non-Loan Shares in the Buy-Back.

K	**<u>Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Deferred assessable amount</u>** A Taxing Point may have arisen prior to the Buy-Back. *<u>Note</u>: Your Taxing Point may have occurred in a previous tax year. In this case, no deferred assessable amount should arise in the 2003/04 tax year.* You would have been taxed on the amount (if any) calculated as the Tax Market Value of your shares at the **Taxing Point** which is the <u>earlier</u> of: • The date your relevant employment with the Telstra group ceases; and • the <u>later</u> of: • 15 November 2000 (in which case, the Tax Market Value would be $6.58); and • the <u>earlier</u> of: • the date the loan is repaid in full; or • immediately prior to when the Trustee disposes of the shares on your behalf • less the amount you paid for the shares. *Amount paid for Loan Shares = (No. of Loan Shares acquired x $3.30) <u>less</u> $1.00* *Amount paid for your Extra Loan Shares = Nil* If you sell your shares under the Telstra Buy-Back <u>within</u> <u>30 days</u> of the Taxing Point, your deferred assessable amount will not be determined on the basis outlined above. This may be the case if you ceased relevant employment with the Telstra Group on or after 24 October 2003 in circumstances where your loan was outstanding. In this case: • **no** deferred assessable amount should arise for your Loan Shares; • a deferred assessable amount of $1.50 will arise for each Extra Loan Share. No allowable deduction or capital loss will arise. **<u>Capital gains tax consequences</u>** The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of the date of the Taxing Point (explained above). If you sell your shares <u>30 days</u> or more after the date of the Taxing Point (explained above) your capital loss will be: • Tax Market Value of the shares on the date of the Taxing Point • less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

		Example Please see Illustrative example number **7** relating to the tax consequences of the sale of your TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares in the Buy-Back where the shares are held in your name and you repaid the loan after ceasing employment.
L	**Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back** **Where you did not elect to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Extra Non -Loan Shares**	**Assessable dividend** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **Capital gains tax consequences** Your capital loss will be: • the Tax Market Value of the shares on the earlier of: • the date your relevant employment with the Telstra Group ceased; and • 15 November 2000 (in which case, the Tax Market Value would be $6.58). • less 1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. **Example** Please see Illustrative example number **8** relating to the tax consequences of the sale of your TESOP 97 Extra Non-Loan Shares in the Buy-Back.

<table>
<tr>
<td>M</td>
<td><u>Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back</u>

Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return

• TESOP 99 Extra Shares

• TESOP 99 Loyalty Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

You have the <u>choice</u> to calculate your capital loss as <u>either</u>:

<u>Option A</u>

• $5.90 – being $7.40 less $1.50 (Capital Component of the Buy-Back Price);

OR

<u>Option B</u>

• Tax Market Value of the shares at the <u>earlier</u> of:
  • when you cease relevant employment with the Telstra Group; and
  • 16 October 2002 (in which case, the Tax Market Value would be $4.81).

• Less $1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 11 relating to the tax consequences of the sale of your TESOP 99 Extra Shares in the Buy-Back.

Please see Illustrative example number 12 relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back.</td>
</tr>
</table>

N	<u>**Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back**</u> **Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	<u>**Assessable dividend**</u> You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". <u>**Capital gains tax consequences**</u> You have the <u>choice</u> to calculate your capital loss as <u>either</u>: <u>Option A</u> • $5.90 – being $7.40 less $1.50 (Capital Component of the Buy-Back Price); **OR** <u>Option B</u> **If the loan was NOT repaid in full** when you ceased relevant employment, your capital loss will be: • Tax Market Value of the shares on the <u>earlier</u> of: ◦ the date the loan was repaid in full; <u>or</u> ◦ immediately prior to when the Trustee disposes of the shares on your behalf. • less $1.50 (Capital Component of the Buy-Back Price). *If you attach a cheque for the outstanding loan with your TESOP 99 Tender Form, the Tax Market Value of the shares will be determined at the date the loan is repaid in full. The Tax Market Value on this date may differ from the Buy-Back Price.* **If the loan was repaid in full when you ceased relevant employment before 16 October 2002,** your capital loss will be: • Tax Market Value of the shares when your relevant employment ceased; • less $1.50 (Capital Component of the Buy-Back Price). **If the loan was repaid in full before 16 October 2002 and you ceased relevant employment after the 16 October 2002** your capital loss will be: • $3.31 – being $4.81 (share's Tax Market Value on 16 October 2002) • less $1.50 (Capital Component of the Buy-Back Price). **If the loan was repaid in full after 16 October 2002 and was repaid in full when you ceased relevant employment after 16 October 2002,** your capital loss will be: • Tax Market Value of the shares on the date the loan was repaid in full less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

		Example Please see Illustrative example number **10** relating to the tax consequences of the sale of your TESOP 99 Loan Shares in the Buy-Back where you repay your outstanding loan and ask the Trust to tender your TESOP 99 Shares on your behalf.
O	**Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back** **Where you did not elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Extra Shares** • **TESOP 99 Loyalty Shares**	**Assessable dividend** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back. • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **Capital gains tax consequences** Your capital loss will be: • Tax Market Value of the shares on the earlier of: ◦ the date you ceased relevant employment with the Telstra Group ; and ◦ 16 October 2002 (in which case, the Tax Market Value would be $4.81); • less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. **Example** Please see Illustrative example number **11** relating to the tax consequences of the sale of your TESOP 99 Extra Shares in the Buy-Back. Please see Illustrative example number **12** relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back.

<table>
<tr>
<td>P</td>
<td><u>Only applicable if you have ceased relevant employment with Telstra prior to the Buy-Back</u>

Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return

• TESOP 99 Loan Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back; and
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Deferred assessable amount</u>

A Taxing Point may have arisen prior to the Buy-Back.

<u>Note</u>: Your Taxing Point may have occurred in a previous tax year. In this case, no deferred assessable amount should arise in the 2003/04 tax year.

There is a Taxing Point at the <u>earlier</u> of:

• The date your relevant employment with the Telstra group ceases; and
• The <u>later</u> of:

  • 16 October 2002 (Tax Market Value was $4.81); and
  • the <u>earlier</u> of:
    • the date the loan is repaid in full; or
    • immediately prior to when the Trustee disposes of the shares on your behalf.

You will only be taxed at the Taxing Point to the extent the Tax Market Value of the shares at the Taxing Point is greater than the amount you paid for your Loan Shares.

Amount paid for Loan Shares = (No. of Loan Shares acquired x $7.40) <u>less</u> $1.00

If you sell your shares under the Buy -Back <u>within</u> 30 days of the Taxing Point, your deferred assessable amount will not be determined on the basis outlined above. This may be the case if you ceased relevant employment with the Telstra Group on or after 24 October 2003 in circumstances where your loan was outstanding. In this case, no deferred assessable amount should arise. Further, no allowable deduction or capital loss will arise.

<u>Capital gains tax consequences</u>

The CGT provisions will not be applicable if you sell your shares <u>within 30 days</u> of the date of the Taxing Point (explained above).

If you sell your shares <u>30 days</u> <u>or more</u> after the date the Taxing Point (explained above) your capital loss will be:

• Tax Market Value of the shares on the date of the Taxing Point

• Less $1.50 (Capital Component of the Buy-Back Price).

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 10 relating to the tax consequences of the sale of your TESOP 99 Loan Shares in the Buy-Back where you repay your outstanding loan and ask the Trustee to tender your TESOP 99 Shares on your behalf.</td>
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</table>

Q	**Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Extra Shares** • **TESOP 99 Loyalty Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back. • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Capital gains tax consequences</u>** Your capital loss will be $5.90 – being $7.40 less $1.50 (Capital Component of the Buy-Back Price). *You may calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.* The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. **<u>Example</u>** Please see Illustrative example number **5** relating to the tax consequences of the sale of your TESOP 99 Extra Shares in the Buy-Back. Please see Illustrative example number **6** relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back.
R	**Where you elected to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back.; and • The franking credit on the dividend component . Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Capital gains tax consequences</u>** Your capital loss will be $5.90 – being $7.40 less $1.50 (Capital Component of the Buy-Back Price). *You may calculate your capital loss on a different basis from that outlined above. However, this may result in you reducing your capital loss for tax purposes.* The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains **<u>Example</u>** Please see Illustrative example number **4** relating to the tax consequences of the sale of your TESOP 99 Loan Shares in the Buy-Back where you repay your outstanding loan and ask the Trustee to tender your TESOP 99 Loan shares on your behalf.

<table>
<tr>
<td>S</td>
<td>Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return

• TESOP 99 Extra Shares

• TESOP 99 Loyalty Shares</td>
<td><u>Assessable dividend</u>

You will be assessed on:

• The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back.
• The franking credit on the dividend component.

Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled “Overview of your taxation treatment”.

<u>Capital gains tax consequences</u>

• Your capital loss will be $3.31 – being $4.81 (tax market value on 16 October 2002) less $1.50 (Capital Component of the Buy-Back Price)

The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains.

<u>Example</u>

Please see Illustrative example number 5 relating to the tax consequences of the sale of your TESOP 99 Extra Shares in the Buy-Back.

Please see Illustrative example number 6 relating to the tax consequences of the sale of your TESOP 99 Loyalty Shares in the Buy-Back.</td>
</tr>
</table>

T	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>Assessable dividend</u>** You will be assessed on: • The dividend component of the Buy-Back Price (the amount in excess of $1.50) for each Share bought back.; and • The franking credit on the dividend component. Generally, you should be entitled to a tax offset equal to the franking credit. The circumstances in which you may not be entitled to the tax offset are outlined in the section above entitled "Overview of your taxation treatment". **<u>Deferred assessable amount/Capital gains tax consequences</u>** **If your shares are held *by the Trustee*** No additional taxation consequences will arise in respect of the disposal of your TESOP 99 Loan Shares under the Telstra Buy-Back. In particular, no allowable deduction or capital loss will arise. The CGT provisions will not apply. **If your shares are held *in your own name*[because you repaid your loan]** In this case, a Taxing Point will have arisen prior to the Buy-Back. *<u>Note</u>: Your Taxing Point may have occurred in a previous tax year. In this case, no deferred assessable amount should arise in the 2003/04 tax year.* You would have been taxed on the Tax Market Value of your shares at the **Taxing Point** being the <u>later</u> of: • 16 October 2002 (Tax Market Value being $4.81); and • the <u>earlier</u> of: • the date the loan is repaid; and • immediately prior to when the Trustee disposes of the shares on your behalf. less the amount you paid for the shares. *Amount paid for loan shares = (No. of Loan Shares acquired x $7.40) <u>less</u> $1.00* A capital loss will arise when you dispose of your shares under the Buy-Back. Your capital loss will be: • the Tax Market Value of the shares at the Taxing Point • less $1.50 (Capital Component of the Buy-Back Price). The capital loss can be offset against current year capital gains or carried forward to be offset against future capital gains. **<u>Example</u>** Please see Illustrative example number **4** relating to the tax consequences of the sale of your TESOP 99 Loan Shares in the Buy-Back where you repay your outstanding loan and ask the Trustee to tender your TESOP 99 shares on your behalf.