

Australian Taxation Summary

1. INTRODUCTION

Telstra Corporation Limited ("**Issuer**" or "**Telstra**") may offer bonds, notes and other debt instruments (together the "**Notes**") under its Debt Issuance Program ("**Program**").

The following is a summary of the Australian withholding tax treatment under the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, "**Australian Tax Act**"), the Taxation Administration Act 1953 of Australia and any relevant regulations, rulings or judicial or administrative pronouncements on payments of interest (as defined in the Australian Tax Act) on Notes issued under the Program and certain other Australian tax matters.

This summary applies to Noteholders that are:

- residents of Australia for tax purposes that do not hold their Notes in the course of carrying on a business outside of Australia, and non-residents of Australia for tax purposes that hold their Notes in the course of carrying on a business at or through a permanent establishment in Australia ("**Australian Holders**"); and
- non-residents of Australia for tax purposes that do not acquire their Notes in the course of carrying on a business at or through a permanent establishment in Australia, and Australian tax residents that acquire their Notes in the course of carrying on a business outside of Australia ("**Non-Australian Holders**").

The summary is not exhaustive and, in particular, does not deal with the position of certain classes of Noteholders (including, without limitation, dealers in securities, custodians or other third parties who hold Notes on behalf of any person). In addition, unless expressly stated, the summary does not consider the Australian tax consequences for persons who hold interests in the Notes through Austraclear, Euroclear, Clearstream, Luxembourg, the CMU or another clearing system.

Noteholders should also be aware that particular terms of issue of any Series of Notes may affect the tax treatment of that Series of Notes. Information regarding taxes in respect of Notes may also be set out in the relevant Pricing Supplement (or another relevant supplement to this Offering Circular).

This summary is not intended to be, nor should it be construed as legal or tax advice to any particular holder of Notes. Each Noteholder should seek professional tax advice in relation to their particular circumstances.

2. AUSTRALIAN INTEREST WITHHOLDING TAX

The Australian Tax Act characterises securities as either "debt interests" (for all entities) or "equity interests" (for companies) including for the purposes of interest withholding tax ("**IWT**") and dividend withholding tax. For Australian IWT purposes, "interest" is defined to include amounts in the nature of, or in substitution for, interest and certain other amounts.

Australian Holders

Payments of interest in respect of the Notes to Australian Holders will not be subject to Australian IWT.

Non-Australian Holders

IWT is payable at a rate of 10 percent of the gross amount of interest paid by the Issuer to a Non-Australian Holder unless an exemption is available.

(a) Section 128F exemption from IWT

An exemption from IWT is available in respect of interest paid on the Notes if the requirements of section 128F of the Australian Tax Act are satisfied.

Unless otherwise specified in the relevant Pricing Supplement (or another relevant supplement to this Offering Circular), the Issuer intends to issue the Notes in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

In broad terms, the requirements are as follows:

- (i) the Issuer is a resident of Australia and a company (as defined in section 128F(9) of the Australian Tax Act) when it issues the Notes and when interest is paid;
- (ii) the Notes are issued in a manner which satisfies the “public offer” test in section 128F of the Australian Tax Act.

In relation to the Notes, there are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in capital markets are aware that the Issuer is offering the Notes for issue. In summary, the five methods are:

- offers to 10 or more unrelated financiers, or securities dealers or entities that carry on the business of investing in securities;
 - offers to 100 or more investors of a certain type;
 - offers of listed Notes;
 - offers via publicly available information sources; or
 - offers to a dealer, manager or underwriter who offers to sell the Notes within 30 days by one of the preceding methods;
- (iii) the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that the Notes (or interests in those Notes) were being, or would later be, acquired, directly or indirectly, by an “associate” of the Issuer, except as permitted by section 128F(5) of the Australian Tax Act (see below); and
 - (iv) at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an “associate” of the Issuer, except as permitted by section 128F(6) of the Australian Tax Act (see below).

An “associate” of the Issuer for the purposes of section 128F of the Australian Tax Act includes:

- a person or entity which holds more than 50 % of the voting shares of, or otherwise controls, the Issuer;
- an entity in which more than 50% of the voting shares are held by, or which is otherwise controlled by, the Issuer;
- a trustee of a trust where the Issuer is capable of benefiting (whether directly or indirectly) under that trust; and
- a person or entity who is an “associate” of another person or company which is an “associate” of the Issuer under any of the foregoing.

However, for the purposes of sections 128F(5) and (6) of the Australian Tax Act (see paragraphs (iii) and (iv) above) an “associate” of the Issuer does not include a Non-Australian Holder that is acting in the capacity of:

- (A) in the case of section 128F(5) only, a dealer, manager or underwriter in relation to the placement of the relevant Notes, or a clearing house, custodian, funds manager or responsible entity of a registered managed investment scheme (for the purposes of the Corporations Act); or
- (B) in the case of section 128F(6), a clearing house, paying agent, custodian, funds manager or responsible entity of a registered managed investment scheme (for the purposes of the Corporations Act).

(b) Exemptions under certain double tax conventions

The Australian government has signed new or amended double tax conventions (“**New Treaties**”) with a number of countries (each a “**Specified Country**”). The New Treaties apply to interest derived by a resident of a Specified Country.

Broadly, the New Treaties effectively prevent IWT applying to interest derived by:

- the governments of the Specified Countries and certain governmental authorities and agencies in a Specified Country; and
- a "financial institution" resident in a Specified Country which is unrelated to and dealing wholly independently with the Issuer. The term "financial institution" refers to either a bank or any other enterprise which substantially derives its profits by carrying on a business of raising and providing finance. However, interest paid under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption.

The Australian Federal Treasury maintains a listing of Australia's double tax conventions which provides details of country, status, withholding tax rate limits and Australian domestic implementation. This listing is available to the public at the Federal Treasury's Department website at:
<http://www.treasury.gov.au/Policy-Topics/Taxation/Tax-Treaties>.

(c) Notes in bearer form - section 126 of the Australian Tax Act

Section 126 of the Australian Tax Act imposes a type of withholding tax at the rate of (currently) 45 percent on the payment of interest on Bearer Notes if the Issuer fails to disclose the names and addresses of the holders of Bearer Notes to the Australian Taxation Office ("ATO").

Section 126 does not apply to the payment of interest on Bearer Notes held by non-Australian residents who do not carry on business at or through a permanent establishment in Australia where the issue of those Bearer Notes has satisfied the requirements of section 128F or IWT is payable.

In addition, the ATO has confirmed that for the purpose of section 126, the holder of debentures in bearer form is the person in possession of the debentures. Section 126 is, therefore, limited in its application to persons in possession of Bearer Notes who are residents of Australia or non-Australian residents who are engaged in carrying on business at or through a permanent establishment in Australia. Where interests in Bearer Notes are held through Euroclear, Clearstream, Luxembourg, the CMU or another clearing system, the Issuer intends to treat the relevant operator of the clearing system (or its nominee) as the bearer of the Notes for the purposes of section 126.

(d) Payment of additional amounts

if the Issuer is at any time compelled or authorised by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by the Commonwealth of Australia in respect of the Notes, the Issuer must pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of those Notes after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If the Issuer is compelled by law in relation to any Notes to increase a payment in respect of a Note, the Issuer will have the option to redeem those Notes.

3. AUSTRALIAN INCOME TAX – INTEREST PAYMENTS

Australian Holders will be required to include any interest in respect of their Notes in their Australian assessable income.

Whether the interest should be recognised as assessable income on a cash receipts or accruals basis (see also the "taxation of financial arrangements" summary in section 4 below) will depend on the individual circumstances of the Australian Holder.

On the basis that the Issuer satisfies the requirements of section 128F of the Australian Tax Act in respect of interest paid on the Notes, then Non-Australian Holders should not be subject to Australian income tax in respect of interest payments received on their Notes.

4. OTHER TAX MATTERS

Under Australian laws as presently in effect:

- *taxation of financial arrangements* – the Australian Tax Act contains tax timing rules for certain taxpayers to bring to account gains and losses from “financial arrangements”. The rules do not alter the rules relating to the imposition of IWT nor override the IWT exemption available under section 128F of the Australian Tax Act.”

In addition, the rules do not apply to certain taxpayers or in respect of certain short term “financial arrangements”. They should not, for example, generally apply to holders of Notes which are individuals and certain other entities (e.g. certain superannuation entities and managed investment schemes) which do not meet various turnover or asset thresholds, unless they make an election that the rules apply to their “financial arrangements”. Potential Noteholders should seek their own tax advice regarding their own personal circumstances as to whether such an election should be made;

- *death duties* – no Notes will be subject to death, estate or succession duties imposed by Australia, or by any political subdivision or authority therein having power to tax, if held at the time of death;
- *stamp duty and other taxes* - no *ad valorem* stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Notes;
- *TFN/ABN withholding* - withholding tax is imposed at the rate of 46.5 percent on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number (“TFN”), (in certain circumstances) an Australian Business Number (“ABN”) or proof of some other exception (as appropriate).

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Notes, then withholding will not apply to payments to a Non-Australian Holder. Payments to Australian Holders in respect of Registered Notes may be subject to a withholding where the Australian Holder does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate);

- *additional withholdings from certain payments to non-residents* - the Governor-General may make regulations requiring withholding from certain payments to non-residents of Australia (other than payments of interest and other amounts which are already subject to the current IWT rules or specifically exempt from those rules). Regulations may only be made if the responsible Minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The possible application of any future regulations to the proceeds of any sale of the Notes will need to be monitored;
- *garnishee directions by the Commissioner of Taxation* – the Commissioner may give a direction requiring the Issuer to deduct from any payment to a Noteholder any amount in respect of Australian tax payable by the Noteholder. If the Issuer is served with such a direction, then the Issuer will comply with that direction and will make any deduction required by that direction;
- *supply withholding tax* – payments in respect of the Notes can be made free and clear of any “supply withholding tax”; and
- *goods and services tax (GST)* - neither the issue nor receipt of the Notes will give rise to a liability for GST in Australia on the basis that the supply of Notes will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of the Notes, would give rise to any GST liability in Australia.