TESOP 1997/1998

Tax Time and Telstra Shares

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1.0 INTRODUCTION - It’s tax time again

It's tax time! And for the first time, Telstra staff will need to consider their Telstra shares when filling in tax returns.

During the float, eligible Telstra employees had the opportunity to participate in it using a variety of mechanisms. These included:

Blue Form

Participation in the Employee Offer, the Telstra Employee Share Ownership Plan (TESOP), by applying for shares using the BLUE form.

Green Form

Participation in the Public Offer, by applying for shares using the GREEN form. This form also allowed individuals the opportunity to obtain the pre-registration benefits.

Yellow Form

Participation in the Public Offer as an individual, jointly with someone else, or through some other legal structure by applying for shares using the YELLOW form. This form also provided the opportunity to obtain the pre-registration benefits.

Orange Form

Participation in the Public Offer as an individual, jointly with someone else, or through some other legal structure, by applying for shares using the ORANGE form. This form did not have any associated pre-registration benefits.

There may be different tax implications associated with each mechanism - they are separated below into implications associated with being part of the TESOP, and those with being part of the Public Offer (separate from the TESOP).

Tax and the TESOP

The following guide assumes that you are still an employee of Telstra and are not able to sell the loan shares, the extra loan shares or the extra non-loan shares (see Glossary next page) for a period of three years until 17 November 2000, as long as you remain an employee.

If you acquired shares using the BLUE form and used the Telstra loan then you need to:

* Consider whether to make a written election to claim the $1000 tax free "discount benefit" in the 1997/98 tax year (which incorporates the $1 discount provided by Telstra and the first $999 in value of the extra loan shares), and only be assessed on the remaining value of the extra loan shares in the 1997/98 tax year; and

* Include the fully franked dividend received as a trust distribution, together with the attached franking credits, as assessable income in the 1997/98 tax year. This includes the part of the distribution applied on your behalf in the reduction of your Telstra loan.

If you acquired shares using the BLUE form and used your own money, then you need to:

* Consider whether to make a written election to claim the $1000 tax free "discount benefit" in the 1997/98 tax year, and only be assessed on the remaining value of the extra non-loan shares in the 1997/98 tax year, and;

* Include the fully franked dividend received as a trust distribution, together with the attached franking credits, as assessable income in the 1997/98 tax year, and;

* consider whether you are required to include any capital gains from the sale of any non-loan shares before 1 July 1998 as assessable income in the 1997/98 year.

Implications of making a written election

The income tax consequences to you of acquiring loan shares, extra loan shares and extra non-loan shares under the TESOP depend on whether you make a written election under the tax rules before you lodge your tax return for the 1997/1998 tax year.

The choice of whether to receive the $1000 exemption or defer tax on the discount benefit until a later stage will depend on your individual circumstances. There is no one right answer for everyone. This is why it is important to seek advice.

For more details see the questions and answers in this liftout.

Taxation and the Telstra Public Share Offer

Eligible Telstra employees are eligible to receive a free loyalty bonus of one loyalty share at no cost for every 10 shares purchased in the Public Offer - provided three conditions are satisfied:

* You acquired shares under the Public Offer using your employee name

* You were an eligible employee (one who was able to participate in the TESOP)

* You continue to hold the shares received in the Public Offer continuously for 12 months until 17 November 1998.

Under this offer, you can receive up to a maximum of 200 free loyalty shares. You did not have to participate in the TESOP to be eligible - they were an additional offer, over and above the 'one for four' offer in the TESOP. You are eligible for these loyalty shares whether you used the GREEN, YELLOW or ORANGE forms to apply for the shares, provided the above three conditions were met.

If you acquired shares using the GREEN, YELLOW or ORANGE forms you need to:

* Consider whether to include the value of the loyalty shares that you may become entitled to receive in November 1998 as assessable income in the 1997/98 tax year, and;

* Include the fully franked dividend received as a trust distribution, together with the attached franking credits, as assessable income in the 1997/98 tax year, and;

* Consider whether you are required to include any capital gains from the sale of any shares before 1 July 1998 as assessable income in the 1997/98 year.

There is no $1000 tax free benefit associated with the free loyalty shares, as they are not part of the TESOP.

The tax implications will depend on whether you are also a member of the TESOP and you make a written election.

Remember: Seek expert advice when filling in your tax return

2.0 Will you get your loyalty shares

Eligible employees who applied for shares in the public offer are also eligible for loyalty shares at no cost in November 1998 (see main article for conditions). However the Registrar may not know that you are eligible, and you may miss out. This is particularly the case if you applied for, and received, shares as an individual under your employee name using either the YELLOW or ORANGE forms.

There is a simple test as to whether you have been registered as eligible - check your shareholder number. The first two numbers should be "99". If they are not, then you should contact the Telstra IR Registrar on 1800 060 608 and register as soon as possible.

3.0 Glossary

The legal form of the Public Offer and the Employee Offer were complex. For example, it involved the establishment of a Trust to hold the Telstra shares and the issuing of extra shares at no cost to employees under two different arrangements. Some of the more common terms are explained below.

Instalment Receipts

The Commonwealth chose to sell its Telstra shares by requiring investors to pay for them in two separate payments - the first payment at the time of the Telstra float and the second payment due on 17 November 1998. The actual shares are being held in a Trust established by the Commonwealth (the Telstra IR Trustee Ltd - TIRT) until the second payment has been made. In the meantime, Instalment Receipts have been issued to provide evidence of the beneficial ownership of the underlying Telstra shares pending the second instalment being made.

Shares

Means a Telstra share and, where the context permits, a Telstra Instalment Receipt.

Restriction Period

In order for the TESOP to qualify for the $1000 tax free benefit, it is a requirement, if you remain an employee in the Telstra Group, that the shares (other than the non-loan shares) be restricted from trading for at least three years.

Loan Shares

Shares which have been purchased through the use of a loan provided to you by Telstra. These shares were applied for using the BLUE form.

Extra Loan Shares

These are the shares that were provided by the Commonwealth on a 'one for four' basis at no extra cost to staff, for shares that were purchased using the Telstra Loan (ie those applied for on the BLUE form).

Non-Loan Shares

These are shares acquired by employees with the BLUE form using their own money rather than the Telstra loan.

Extra Non-Loan Shares

All staff had the opportunity to apply for shares using their own money using the BLUE form. The Commonwealth still provided extra shares at no cost on a 'one for four' basis for any shares applied for in this way. These shares are referred to as Extra Non-Loan Shares.

Extra Shares

This term covers both Extra Loan Shares and Extra Non-Loan Shares.

Trust Distribution

During the year a fully franked dividend was paid to all Instalment Receipt holders. This dividend was paid by Telstra to the Telstra IR Trustee (TIRT) which, in turn, distributed the dividend to Instalment Receipt holders. The TESOP Trustee Pty Ltd holds the Instalment Receipts acquired by staff under the TESOP on your behalf, except for non-loan shares. In relation to loan shares and extra loan shares the TESOP Trustee used part of the dividend on your behalf to partially repay your Telstra loan. The balance of the dividend was passed on to staff members to cover any tax payable on the distribution. In relation to extra non-loan shares, the dividend was passed on to employees in full. In relation to non-loan shares, TIRT distributed the dividend to holders of these shares in full.

4.0 Questions and Answers

This guide is a supplement to the taxation information provided to you in the Employee Offer Document which you received in October 1997. It is intended to help you to understand some of the Australian taxation consequences associated with:

* The shares acquired with a Telstra loan under Telstra's Employee Share Ownership Plan (ie "Loan Shares");

* The shares acquired at no additional cost under the "One for Four Offer" (ie "Extra Shares"); and

* The Shares which you may become entitled to receive at no additional cost under the "One for Ten Loyalty Offer" (ie "Loyalty Shares").

The guide provides answers to some of the commonly asked tax questions. It also provides a sample election notice for tax purposes (next page) and a work sheet to assist in calculating the taxable amount where an election is made to be taxed in the 1997/98 financial year (back page).

This guide is based on, and should be read in conjunction with, the taxation information contained in the Employee Offer Document. That information was confirmed by the Australian Taxation Office on the basis that you were an employee of the Telstra group on the allocation date (ie 16 November 1997).

It is emphasised that the taxation consequences associated with your shares are complicated and will depend heavily on your own circumstances. Consequently, the actual taxation consequences associated with your shares may be different to those outlined in this guide. The information in this guide is general in nature and is not intended to be comprehensive.

This guide assumes that you are a resident of Australia for tax purposes and that your residency status does not change. It also assumes that you are not a share trader and have not acquired any other shares or rights under any other employee share schemes (whether or not implemented by Telstra or another employer). It further assumes that any shares acquired by you under the Public Offer have not been disposed of by you. If you have disposed of any of these shares, then the income tax consequences to you in relation to the Loyalty Shares may be different to the consequences set out below.

The advice in this guide is provided by PricewaterhouseCoopers to Telstra Corporation Limited. Given the complexity of the Telstra Employee Share Ownership Plan and the fact that the application of the tax rules may depend heavily on each person's circumstances, you should not rely on the information contained in this document other than as a general guide. You should consult you own taxation adviser to determine the tax consequences in your own situation.

The questions below mainly focus on the position for individuals who remain employed with the Telstra group at 1 July 1998. If you have terminated your employment with the Telstra group on or before 30 June 1998, you should consult your own tax adviser before you lodge your 1997/98 tax return.

Questions 1 to 7 assume that the employee has participated in both the "One for Four Offer" and the "One for Ten Offer". Question 8 deals with the situation where the employee participated only in the "One for Ten Offer".

Q 1. Will I be subject to income tax in relation to the Extra Shares, Loyalty Shares and Loan Shares?

Yes. As the Extra Shares and the Loyalty Shares are provided at no additional cost to you, you have received a discount in relation to these shares and you will be subject to income tax on this discount benefit. However, a tax exemption may be available, depending on your circumstances, for *up* to $1000 in relation to the Extra Shares. This is explained later.

In relation to the Loan Shares acquired by you, you may also be subject to income tax on these shares, depending on whether you use the $1000 exemption for the Extra Shares.

In relation to the Non-Loan Shares acquired by you (ie shares acquired under the "One for Four Offer" with your own money), you should not be subject to tax on aquisition of these shares regardless of whether you use the $1000 exemption for the Extra Shares.

Q 2. When will I be assessed for tax in relation to these shares and what amount will be assessable to me as income?

This will depend on whether you choose to use the tax exemption for the Extra Shares. Question 3 considers the position where you choose to use the tax exemption and Question 4 explains what happens where you do not choose to do so.

Q 3. What if I choose to use the tax exemption for the Extra Shares?

Extra Shares

If you choose to use the tax exemption for the Extra Shares and the value of the Extra Shares that you received did not exceed the "exemption limit" (which is explained below), the discount benefit that you received in relation to the Extra Shares will be wholly exempt from tax. Where the value of your Extra Shares exceeded the exemption limit, you will be assessed for income tax on the excess at the time you acquired the Extra Shares (ie you will be assessed in the 1997/98 financial year on the excess). In other words, the discount benefit will be exempt from tax to the extent of the exemption limit only.

In working out whether there is any excess which is assessable, you should note that:

* The value of each Extra Share that you received was $3.30 (ie the amount of the first and final instalments for Shares applicable to Public Applicants).

* The exemption limit is $1000 if you have not purchased any Loan Shares. However, if you have acquired Loan Shares, this exemption limit is reduced to $999 because Telstra provided you with a total nominal $1.00 benefit to reduce the cost of purchasing the Loan Shares. That is, the Loan Shares were provided to you at a very small (ie nominal) discount of $1.00 in total. This nominal benefit in relation to the Loan Shares will be tax free if you choose to use the exemption for the Extra Shares, but this nominal discount uses up $1.00 of the exemption threshold for the Extra Shares.

Loyalty Shares

If you choose to use the tax exemption for the Extra Shares, you will be assessed for income tax on the Loyalty Shares and no tax exemption will be available in relation to these Loyalty Shares. You will need to include as assessable income in your 1997/98 tax return the value of each Loyalty Share which you *may become entitled to receive* under the "One for Ten Loyalty Offer". For the purpose of calculating the amount assessable, the value of each Loyalty Share is $3.30 (ie the amount of the first and final instalments for shares applicable to Public Applicants).

You will be assessed on the Loyalty Shares as described above even though:

* You have not actually received any of the Loyalty Shares in the 1997/98 financial year; and

* You may never actually receive the Loyalty Shares (for example, because you do not hold the Shares that you purchased in the Public Offer with your own money for at least 12 months).

Question 6 explains why you will be assessed on the Loyalty Shares in 1997/98 even though you have not received them in that year and may never receive them. Question 7 explains what happens when you have paid tax on the Loyalty Shares, but you never actually receive them.

Where on the 1998 tax return should I declare any assessable discount benefit?

If you are assessable on any discount benefit in relation to the Shares in the 1997/98 financial year, you should use Question 18, Box V in the supplementary section of your 1998 tax return. Refer to *TaxPack 98 and the TaxPack 98 Supplement* for further information in relation to the manner in

which the income should be disclosed and other amounts which need to be included in that box.

If you choose to use the tax exemption, you must complete a written election before you lodge your 1997/98 tax return. This is explained in Question 5.

Q 4. What if I choose not to use the tax exemption in relation to the Extra Shares?

If you choose not to use the tax exemption in relation to the Extra Shares, it *may* be possible, depending on your circumstances, for you to defer the taxing point in relation to the Extra Shares and the Loyalty Shares until after the 1997/98 financial year. However, this will affect the manner in which you will be taxed on the Extra Shares, the Loyalty Shares and the Loan Shares.

Extra Shares and Loan Shares

You will not be assessed on the Extra Shares or the Loan Shares at the time you acquire them. However, you will be assessed for income tax at a later time (taxing date), subject to the comments below, on the full value of the Extra Shares at that time and on any increase in value of the Loan Shares (and also possibly on the nominal discount benefit of $1.00 on the Loan Shares).

The taxing date is an important date and you should make sure you understand the taxation implications which occur on this date. The taxing date will be the earliest of the following times:

* The time you leave employment in the Telstra group;

* The time when you are able to sell the relevant shares (ie when the selling restriction on the relevant Shares ceases to apply);

* 10 years after you acquired the relevant instalment receipts.

Therefore, as Loan Shares and Extra Loan Shares are subject to a selling restriction where the associated loan has not been repaid, it may be possible to defer tax on the Loan Shares and Extra Loan Shares for up to 10 years, provided that you do not cease employment with the Telstra group.

In relation to Extra Non-Loan Shares, assessment can be deferred for up to three years only, provided that you do not terminate your employment with the Telstra group (ie the disposal of these Shares is restricted for three years only).

Thus, the taxing date for various Extra Shares may be different because the period of the selling restrictions may differ (eg assuming no termination of employment, Extra Loan Shares could potentially be subject to a selling restriction for up to 10 years while Extra Non Loan Shares would be subject to a maximum selling restriction period of three years only).

In relation to the amount which will be assessed at the taxing date, this will generally be determined as follows:

- the ASX traded price of the instalment receipts at the taxing date plus the final instalment less, in the case of instalment receipts acquired with a Telstra loan, the first and final instalment applicable to Public Applicants (ie. $3.30 per instalment receipt)*; or

- if you sell the instalment receipts in an arm's length transaction within 30 days of the taxing date, the sale price less, in the case of instalment receipts acquired with a Telstra loan, the first instalment applicable to Public Applicants (ie. $1.95 per instalment receipt)*.

* If you hold shares at the taxing date, the amount assessed at the taxing date will be based on:

- the market value of the shares at the taxing date as determined under the tax rules less, in the case of shares acquired with a Telstra loan, the sum of the first and final instalments (ie. $3.30 per share);* or

- if you sell the relevant shares in an arm's length transaction within 30 days of the taxing date, the sale price of the shares less, in the case of shares acquired with a Telstra loan, the sum of the first and final instalment (ie. $3.30 per share).*

*Note: In the case of Loan Shares, a slight adjustment may need to be made to this formula to take into account the nominal discount benefit of $1.00 received on the Loan Shares.

As the taxation consequences in this area are very complicated, you should seek expert advice before giving up the exemption concession. Furthermore, you should note the following points before deciding not to use the exemption concession:

* By choosing not to use the exemption concession, you will lose the benefit of the $1000 exemption. That is, subject to the comments above, income tax will be imposed on the full value of the Extra Shares at the taxing date (not just the excess over the exemption limit) and also on the growth in the value of the Loan Shares, but this tax may be deferred to a later time, depending on your circumstances.

* When the deferral period comes to an end, it will potentially trigger a tax liability on the relevant shares regardless of whether those shares are actually sold at that time. For example, if you terminate employment with the Telstra group, it will potentially trigger a tax liability on the relevant shares. This is so even though you decide *not* to actually sell the relevant shares at or after the time of termination of employment.

* If you have terminated employment with the Telstra group on or before 30 June 1998, there will, in fact, be no deferral of tax (because you will be assessed in the 1997/98 year as a result of your termination even though you choose not to use the exemption concession).

Loyalty Shares

If you do *not* choose to use the tax exemption for the Extra Shares, you may be able to defer income tax on the Loyalty Shares. If you are able to defer tax, you will be assessed for income tax on the Loyalty Shares at the earlier of the following times:

* The time you acquire the Loyalty Shares - and you will be assessed on the market value of the Loyalty Shares at that time, determined under the tax rules, or, if you sell those shares in an arm's length transaction within 30 days of their acquisition, the sale price of the Loyalty Shares; or

* The time when you leave employment in the Telstra group - and you will be assessed on the market value of the Loyalty Shares at that time, which is equal to the ASX traded price of the instalment receipts on that date, plus the final instalment applicable to Public Applicants (ie $1.35 per instalment receipt), or, if you sell the Loyalty Shares in an arm's length transaction within 30 days of that time, the sale price of the Loyalty Shares.

If you have terminated employment with the Telstra group on or before 30 June 1998, it will affect ability to defer tax on the Loyalty Shares.

Question 7 discusses what happens when you are assessed on the Loyalty Shares in 1997/98, but you never actually acquire them.

Where on my tax return should I include any assessable discount which arises at the taxing date?

You will need to refer to the relevant TaxPack in relation to financial year in which the deferred taxing point occurs. The relevant TaxPack should provide information to help you disclose the income. Alternatively, you can ask your tax adviser or the Taxation Office to help you.

Q 5. What do I have to do to claim the tax exemption for the Extra Shares?

In order to use the exemption concession, you must complete and sign the attached section 139E election notice and keep it with your tax records. While the recording of certain information is optional (refer to those parts of the notice which are in italics), the Taxation Office recommends that all of the information be recorded to assist in correctly calculating the amount assessable in relation to the shares. This election notice should not be forwarded to the Taxation Office (unless you are specifically requested by the Taxation Office to do so). If you choose to use the exemption concession for

the Extra Shares, the election should be completed before lodging your 1997/98 tax return.

Q 6. How can I be assessed for income tax on the Loyalty Shares when I haven't even received them yet or may never receive them?

The reason why this is so is because when you participated in the "One for Ten Loyalty Offer" (which occurred in the 1997/98 financial year), you effectively received (for taxation purposes) a "right" at that time which allows you to acquire the Loyalty Shares provided that certain conditions are satisfied (eg if you hold the shares that you purchased with your own money in the Public Offer for 12 months or more). The Taxation Office regards this "right" as a taxable benefit which you have received in the 1997/98 financial year, therefore an amount is assessable in relation to the Loyalty Shares in that year (assuming that you do not choose to defer the assessment) even though you have not received the shares in that year or that you may never receive them.

Q 7. What if I am assessed on the Loyalty Shares in 1997/98 but never actually acquire them?

If you have been assessed on the Loyalty Shares in the 1997/98 financial year, but you never actually acquire the Loyalty Shares, then in the 1998/99 financial year, you should generally be able to amend your 1997/98 tax return and claim a refund of any tax paid with respect to the Loyalty Shares.

Q 8. I only participated in the "One for Ten Loyalty Offer" and did not participate in the "One for Four Offer". In this case, what is my income tax position?

Your income tax position will depend on whether you make an "election" to be assessed in the 1997/98 financial year.

What happens if I make an election?

You will be subject to income tax in the 1997/98 financial year on the value of the Loyalty Shares which you may become entitled; being the sum of the first and the final instalments for shares applicable to Public Applicants (ie $3.30 per share).

Refer also to Questions 6 and 7.

What happens if I do not make an election?

If you do not make the election, you will be assessed on the Loyalty Shares in the same manner as explained in the section under the heading *"Loyalty Shares"* in Question 4.

What do I have to do to make the election?

In order to make the election, you have to complete and sign the attached section 139E election notice. If you wish to make the election, you should complete the notice before lodging your 1997/98 tax return. You should keep the completed notice in your tax records, and should not forward the

completed notice to the Taxation Office (unless you are specifically requested by the Taxation Office to do so).

Q 9. Will I need to include the dividends paid by Telstra in my assessable income?

Any dividends paid by Telstra while you hold instalment receipts in Telstra shares or while shares are held by the Telstra Employee Share Ownership Plan ("TESOP") Trustee will be treated for taxation purposes as trust distributions to you rather than dividend distributions.

Once you become the registered holder of the shares, all dividends paid to you by Telstra will be treated for tax purposes in the same way as other dividends.

You must declare both trust and dividend distributions as part of your income (together with any attaching franking credits where you are eligible to claim the benefit of such credits). The Taxation Office has requested that this income be shown at the dividend income label on your return of income.

While an amount remains outstanding on your Telstra loan, the Telstra ESOP Trustee will pay to you part of the dividend on the Loan Shares and Extra Loan Shares to enable you to pay any tax on that distribution. The remainder of this dividend was applied on your behalf to partly repay your Telstra loan. However, the amount of dividend or trust distribution that you need to include in your assessable income is the gross dividend (ie the gross amount *before* deducting the portion applied to repay the Telstra loan) plus any attaching franking credits where you are eligible to claim the benefit of such credits.

Will I be able to obtain the benefit of any attaching franking credits?

This is a complicated area and the position may depend on your own circumstances. In addition, the Government recently introduced draft legislation which may prevent certain taxpayers from obtaining the benefit of franking credits. Therefore, the position may also depend on the application of these new rules.

You should seek independent advice from your taxation adviser to determine whether or not you will be entitled to obtain the benefit of any franking credits attaching to the dividends and distributions.

Q 10. Will my provisional tax position be affected by the assessable discount benefit or the dividends paid by Telstra?

Any discount benefit in relation to the Extra Shares, the Loyalty Shares and the Loan Shares which is subject to income tax as described above may affect your provisional tax position. The effect on provisional tax (if any) may be more severe if the taxing point is deferred. Also, any dividend or trust distributions derived by you may affect your provisional tax position.

Whether or not the assessable discount benefit or the dividends will actually create a provisional tax liability for you will depend on your own circumstances.

Q 11. Will I be subject to capital gains tax when the Telstra ESOP Trustee transfers shares to me?

You should not be subject to capital gains tax when the Telstra ESOP Trustee transfers shares to you.

Q 12. Will I be subject to capital gains tax when an instalment receipt or a share is sold?

Capital gains tax may apply when you sell an instalment receipt or a share (or where such sale is made on your behalf).

If you sell an instalment receipt (or a share) and capital gains tax applies, a taxable capital gain will arise if and to the extent that the sale price exceeds the cost base of the instalment receipt (or the share). If you sell an instalment receipt (or a share) 12 months or more after you acquired the instalment receipt, you may be able to adjust any gain that you make to take account of inflation.

For capital gains tax purposes, if you have made a section 139E election, the cost base of the shares acquired under the "One for Four Offer" (other than those you buy under the offer using your own money) and the cost base of the Loyalty Shares acquired under the "One for Ten Offer" will include the full amount of the first and final instalments for shares applicable to Public Applicants (ie $3.30 per share).

If you did not make a section 139E election, the cost base for shares will generally include the value on which you were previously assessed on the shares, as discussed above.

The cost base of the shares you buy using your own money under the "One for Four Offer" will be the first instalment and will include the final instalment once it is paid.

If you sell a share and the sale price is less than the cost base, a capital loss may arise. No inflation adjustment is taken into account in this calculation. This capital loss may be used to reduce capital gains in the same or future years but does not reduce other assessable income and is not an allowable deduction.

5.0 Sample Election Notice

Income Tax Assessment Act 1936
Section 139E Election

Name of Taxpayer: _____

Tax file Number (optional): __ __ __ - __ __ __ - __ __ __

This election is made under section 139E of the Income Tax Assessment Act 1936 ('the Act').

I, [name of taxpayer] , elect that subsection 139B(2) of the Act is to apply to all of the qualifying shares or qualifying rights acquired by me under an employee share acquisition scheme(s) in terms of Division 13A of Part III of the Act in the 1997/98 year of income.

The provision of these details (in italics) is optional.

The details of each parcel of shares or rights acquired by me during this year of income are as follows (repeat for each separate parcel acquired):

Name of corporation/scheme: _____

No of shares/rights acquired: _____

Date of acquisition: _____/_____/199__

Market value on date shares/rights were acquired: _____

Amount/paid given at time of acquisition: _____

You must sign and date this election

Taxpayer's signature: _____

Date election signed: _____

6.0 Work Sheet to Calculate Assessable Discount

If you elect to be assessed for income tax in the 1997/98 financial year on the discount benefit received by you in relation to the Extra Shares, the Loyalty Shares and the Loan Shares, you should complete the Section 139E Election Notice and then use this work sheet to calculate the amount you should include in your assessable income in your 1997/98 tax return.

This work sheet should not be used if you do not wish to make the section 139E election. Furthermore, where you have terminated your employment with the Telstra group on or before 30 June 1998, you should consult your taxation adviser to determine whether this work sheet is appropriate for you.

(a)	Insert the number of **Extra Loan Shares** you received	_____
(b)	Insert the number of **Extra Non-Loan Shares** you received	_____
(c)	Add values (a) + (b) **Total Number of Extra Shares**	_____
(d)	Insert the maximum number of **Loyalty Shares** which you *may* become entitled to receive on 17 November, 1998. This should be equal to the number of shares that you purchased in the Public Offer with your own money divided by 10 (rounded to the nearest whole number). If this calculation gives a number greater than 200, insert 200 in the box. Otherwise, insert the number calculated. _____	
(e)	Multiply value at (c) by $3.30 **Discount received on Extra Shares**	$_____
(f)	**Standard maximum exemption**	$1000
(g)	If you were allotted any Loan Shares, insert "$1" in this box_____	
(h)	Deduct (g) from (f) **Applicable Exemption Limit**	$_____
(i)	Deduct (h) from (e) **Assessable Amount re Extra Shares** **If this calculation results in a negative amount, the Assessable Amount for Extra Shares is NIL**	$_____
(j)	Multiply (d) by $3.30 **Discount received on Loyalty Shares**	$_____
(k)	Calculate (i) + (j) **Total Assessable Discount**	$_____

Add any positive figure at (k) to any other category income under Question 18 in your 1998 tax return and insert the total of all such values in Box V at Question 18.

Refer to TaxPack 98 to work out what other information you may need to disclose for Q18.

Further Examples

This information is based on an opinion given by the Australian Taxation Office and applies to employees who were employed in the Telstra Group on 15 November 1997.

A special liftout with commonly asked questions and answers was published in Our Future Issue No. 277 on 10 July 1998.

The examples in this liftout are provided to help eligible Telstra staff who participated in the One for Four Employee Share Offer or One for Ten Loyalty Share Offer in completing their 1997/98 tax returns.

The examples in this liftout assume that you have decided to take advantage of the $1000 exemption option (rather than the tax deferral option) and that you have not sold any Telstra shares. This means that the first $1000 of the discount benefit for the Extra Shares acquired under the One for Four Employee Offer is not assessable income. The examples are provided to assist you in completing the Work Sheet included in the Our Future liftout on 10 July.

If you take advantage of the $1000 exemption you are assessable on any discount benefit in excess of $1000. You should include the amount at Item 18, Box V of the TaxPack 98 Supplement to your 1997/98 tax return (see pages 28-31 of the TaxPack 98 Supplement for details). If you have decided to take advantage of the $1000 exemption you must also complete a written election before you lodge your 1997/98 tax return - a sample election notice was included in the liftout to the 10 July, 1998, edition of Our Future. You should keep your election with your tax records. You should not forward it to the Tax Office with your tax return.

If you continued to be an employee on 30 June 1998 and you decide not to take advantage of the $1000 exemption, no amount needs to be included in your 1997/98 tax return and no written election should be completed. You will defer paying tax and you will be assessed at a later time on the value at that time of the Extra Shares and (possibly) the Loyalty Shares and on any increase in value of the Loan Shares.

The $1000 exemption does not affect the taxation of dividends you received on your shares (seven cents per share). You should include your dividend together with the attached franking credits as assessable income at Item 9 , Boxes T and U of your 1997/98 tax return. This is still the case even if you did not receive all of the dividend in cash because part of it was applied to reduce your Telstra loan (if any).

Finally, you may be subject to capital gains tax when you sell your shares. However, please note that there will be no capital gains tax when the Telstra Instalment Receipt Trustee transfers Telstra shares to you once you have paid the final instalment.

This information is a general guide only. Everyone's circumstances are different. If you have any questions about the tax treatment of your Telstra

shares when filling in your 1997/98 tax return or as to whether you should seek the $1000 exemption, you should seek assistance from a registered tax adviser. A more detailed description of the taxation treatment of acquiring Telstra shares under the offers is contained in the Employee Offer Document provided to you at the time of the offer.

Disclaimer

This special Our Future liftout provides guidance for filling in a 1997/98 tax return for Telstra staff who acquired Telstra shares under the Public Offer or Employee Offer. It is based on an opinion given by the Australian Taxation Office and applies to employees who were employed in the Telstra Group on 15 November 1997.

Further details can be obtained from the section entitled 'Additional information for you or your tax agent' in the Employee Offer Document which was provided to all eligible employees before the float.

Since everyone's circumstances are different, this information is a general guide only and if you have any questions about filling in your tax return, you should seek guidance from your own registered tax adviser.

Example 1 - Full Participation in the "One for Four" Employee Share Offer using the Telstra Loan and no participation in the "One for Ten" Loyalty Share Offer.

Employee A has acquired:

* **2,000 Loan Shares** (ie the maximum TESOP shares using the loan provided by Telstra)

* **500 Extra Loan Shares** (ie one for four free shares)

The following Work Sheet was part of the Special Tax Liftout included in the 10 July, 1998 edition of Our Future. It assumes you have decided to take advantage of the $1000 exemption option and you have not sold any Telstra shares.

Work Sheet to Calculate Assessable Discount (assuming $1000 exemption election)

(a)	Number of **Extra Loan Shares**	500
(b)	Number of **Extra Non-Loan Shares**	Nil
(c)	Total number of **Extra Shares** [(a) + (b)]	500
(d)	Number of **Loyalty Shares**	Nil
(e)	**Discount Received on Extra Shares** (500 x $3.30)	$1,650
(f)	**Standard Maximum Exemption**	$1,000

(g)	**Loan Shares nominal $1 benefit**	$ 1
(h)	**Applicable Exemption Limit** for Extra Shares [(f) - (g)]	$ 999
(i)	**Assessable Amount re Extra Shares** [(e) - (h)]	$ 651
(j)	**Discount Received on Loyalty Shares**	$ Nil
(k)	**Total Assessable Discount** to be included in your 1997/98 tax return [(i) + (j)]	$ 651

You should include the Total Assessable Discount amount above at Item 18, Box V in the supplementary section of your 1997/98 tax return. You must also complete a written election to take advantage of the $1000 exemption before you lodge your 1997/98 tax return.

Employee A will have received a Dividend Advice dated 31 March 1998 - as the holder of TESOP Shares.

Work Sheet to Calculate Assessable Dividend Income

	No. of Instalment Receipts	Imputed Credit	Franked Amount
Loan Shares	2000	$ 78.75	$140.00
Extra Loan Shares	500	$ 19.69	$ 35.00
Total		$ 98.44	$175.00

You should include the total Franked Amount ($175) of the Telstra dividends at Item 9, Box T in your 1997/98 tax return and the total amount ($98) of the Telstra Imputed Credits at Item 9, Box U in your 1997/98 tax return - see the TaxPack 98 (page 28) for details. If you also held shares in another company that had paid a dividend during the 1997/98 year then any Franked Amount and Imputed Credit in respect of that dividend should be added to the corresponding Telstra amount and the total included at the relevant box in the tax return.

The total Franked Amount of the Telstra dividend is included even though you did not receive all the dividend in cash because part of it is applied to reduce your Telstra loan. The part of the dividend paid to you in cash was described in your Dividend Advice as a Tax Reimbursement Amount.

The Tax Reimbursement Amount is merely a part of the dividend paid to you in cash to cover the estimated tax that may be paid by you on the dividend. For example, the Tax Reimbursement Amount on your Dividend Advice of 31 March 1998 for 2000 Loan Shares and 500 Extra Loan Shares was $34.18.

The Tax Reimbursement Amount should not be separately included at any Item or Box in your tax return.

Example 2 - Full Participation in the "One for Four" Employee Share Offer using the Telstra Loan and the "One for Ten" Loyalty Share Offer using own funds.

Employee B has acquired:

* **2,000 Loan Shares** (ie the maximum TESOP shares using the loan provided by Telstra)

* **500 Extra Loan Shares** (ie one for four free shares)

* **2,000 Public Offer Shares** (ie shares which may entitle the employee to 200 Loyalty Shares free)

The following Work Sheet was part of the Special Tax Liftout included in the 10 July, 1998 edition of Our Future. Again, it assumes you have decided to take advantage of the $1000 exemption and you have not sold any Telstra shares.

Work Sheet to Calculate Assessable Discount (assuming $1000 exemption election)

(a)	Number of **Extra Loan Shares**	500
(b)	Number of **Extra Non-Loan Shares**	Nil
(c)	Total number of **Extra Shares** [(a) + (b)]	500
(d)	Number of **Loyalty Shares**	200
(e)	**Discount Received on Extra Shares** (500 x $3.30)	$1,650
(f)	**Standard Maximum Exemption**	$1,000
(g)	**Loan Shares nominal $1 benefit**	$ 1
(h)	**Applicable Exemption Limit** for Extra Shares [(f) - (g)]	$ 999
(i)	**Assessable Amount re Extra Shares** [(e) - (h)]	$ 651
(j)	**Discount Received on Loyalty Shares** (200 x $3.30)	$ 660
(k)	**Total Assessable Discount** to be included in your 1997/98 tax return [(i) + (j)]	$1,311

You should include the Total Assessable Discount amount at Item 18, Box V in the supplementary section of your 1997/98 tax return. You must also complete a written election to take advantage of the $1000 exemption before you lodge your 1997/98 tax return.

Employee B will have received 2 Dividend Advice dated 31 March 1998 - one as the holder of Public Offer Shares and the other as the holder of TESOP Loan Shares.

Work Sheet to Calculate Assessable Dividend Income

	No. of Instalment Receipts	Imputed Credit	Franked Amount
Loan Shares	2000	$ 78.75	$140.00
Extra Loan Shares	500	$ 19.69	$ 35.00

Instalment Receipts (Public Offer Shares)	2000	$ 78.75	$140.00
Total		$177.19	$315.00

You should include the total Franked Amount ($315) of the Telstra dividends at Item 9, Box T in your 1997/98 tax return. You should also include the total amount ($177) of the Telstra Imputed Credits at Item 9, Box U in your 1997/98 tax return - see the TaxPack 98 (page 28) for details. If you also held shares in another company that had paid a dividend during the 1997/98 year then any Franked Amount and Imputed Credit in respect of that dividend should be added to the corresponding Telstra amount and the total included at the relevant box in the tax return.

The Franked Amount of the Telstra dividend paid in respect of your Loan Shares and Extra Loan Shares is included even though you did not receive all the dividend in cash because part of it is applied to reduce your Telstra loan. The part of the dividend paid to you in cash was described in your Dividend Advice as a Tax Reimbursement Amount.

The Tax Reimbursement Amount is merely a part of the dividend paid to you in cash to cover the estimated tax that may be paid by you on the dividend. For example, the Tax Reimbursement Amount on your Dividend Advice of 31 March 1998 for 2000 Loan Shares and 500 Extra Loan Shares was $34.18.

The Tax Reimbursement Amount should not be separately included at any Item or Box in your tax return.

Example 3 - Participation in the "One for Four" Employee Share Offer using your own funds and no participation in the "One for Ten" Loyalty Share Offer.

Employee C has acquired:

* **1,200 Non-Loan Shares** (ie TESOP shares acquired not using the Telstra loan)

* **300 Extra Non-Loan Shares** (ie one for four free shares)

* No Public Offer Shares

The following Work Sheet was part of the Special Tax Liftout included in the 10 July, 1998 edition of Our Future. Again, it assumes you have decided to take advantage of the $1000 exemption and you have not sold any Telstra shares.

Work Sheet to Calculate Assessable Discount (assuming $1000 exemption election)

(a)	Number of **Extra Loan Shares**	Nil
(b)	Number of **Extra Non-Loan Shares**	300
(c)	Total number of **Extra Shares** [(a) + (b)]	300

(d)	Number of **Loyalty Shares**	Nil
(e)	**Discount Received on Extra Shares** (500 x $3.30)	$990
(f)	**Standard Maximum Exemption**	$1,000
(g)	**Loan Shares nominal $1 benefit**	$ Nil
(h)	**Applicable Exemption Limit** for Extra Shares [(f) - (g)]	$1,000
(i)	**Assessable Amount re Extra Shares** [(e) - (h)]	$ Nil
(j)	**Discount Received on Loyalty Shares** (200 x $3.30)	$ Nil
(k)	**Total Assessable Discount** to be included in your 1997/98 tax return [(i) + (j)]	$ Nil

In this case, no Total Assessable Discount amount will be included at Item 18, Box V in the supplementary section of your 1997/98 tax return. You must complete a written election to take advantage of the $1000 exemption before you lodge your 1997/98 tax return.

Employee C will have received a Dividend Advice dated 31 March 1998 - as the holder of TESOP Non-Loan Shares.

Work Sheet to Calculate Assessable Dividend Income

	No. of Instalment Receipts	Imputed Credit	Franked Amount
Non-Loan Shares	1200	$ 47.25	$ 84.00
Extra Non-Loan Shares	300	$ 11.81	$ 21.00
Total		$ 59.06	$105.00

You should include the total Franked Amount ($105) of the Telstra dividends at Item 9, Box T in your 1997/98 tax return. You should include the total amount ($59) of the Telstra Imputed Credits at Item 9, Box U in your 1997/98 tax return - see the TaxPack 98 (page 28) for details. If you also held shares in another company that had paid a dividend during the 1997/98 year then any Franked Amount and Imputed Credit in respect of that dividend should be added to the corresponding Telstra amount and the total included at the relevant box in the tax return