

25 September 2009

Dear TESOP 99 participant

**Telstra Employee Share Ownership Plan (TESOP) 1999
Ten Year Anniversary - Tax Implications**

As you may be aware, 17 October 2009 marks the ten year anniversary of the implementation of TESOP 1999. This anniversary may have taxation implications for you that will need to be considered when preparing future tax returns.

When you acquired your TESOP 99 Loan Shares (up to 400), you had a choice when submitting your 1999/2000 tax return to make a written election to be immediately assessed for tax on your share allocation, subject to a \$1,000 tax free exemption benefit. If you did **not** make this written election, you automatically deferred assessment of the tax payable on your share allocation until the earlier of:

- the date your loan is repaid to the Trustee;
- the date your relevant employment with the Telstra Group ceases; or
- 17 October 2009.

If you **did** make a written election in preparing your 1999/2000 tax return, the ten year anniversary will have no tax implications for you.

However, if you **did not** make a written election when preparing your 1999/2000 tax return, the ten year anniversary on 17 October 2009 may have tax implications for you if you are still an employee of the Telstra Group and your TESOP 99 Loan has not been repaid. Please see below for more details:

Taxation Implications of the 10 Year Anniversary for TESOP 99 Loan Shares

TESOP 99 Loan Shares	Amount Assessable in your 2009/10 income tax return
Where: <ul style="list-style-type: none">• You did not make a written election to be immediately assessed for tax on your share allocation in your 1999/2000 tax return (subject to the \$1,000 tax exemption);• You are still a Telstra Group employee on 17 October 2009; and• Your TESOP 99 loan was not repaid by 17 October 2009.	<p>(1) No amount is assessable where the Tax Market Value of your TESOP 99 Loan shares at 17 October 2009 is less than \$7.40 per share.</p> <p>(2) No amount will be assessable if you sell your shares before 17 November 2009 for less than \$7.40 per share.</p> <p>Note: No allowable tax deduction or capital loss is available where the Tax Market Value in (1) or the sale price in (2) are negative.</p> <p>When you sell your shares CGT will not be applicable if you sell your shares <u>before</u> 17 November 2009. If you sell your shares on or <u>after</u> 17 November 2009, your Capital Gain or Capital Loss will be the proceeds of sale less the Tax Market Value of your TESOP 99 Loan shares at 17 October 2009.</p> <p>If the proceeds of sale exceed the Tax Market Value of your TESOP 99 Loan shares at 17 October 2009, you make a Capital Gain. If the shares are held <u>by you</u> for longer than 12 months (after being transferred from the TESOP Trust) any assessable capital gain will be reduced by 50% (after first taking into account any capital losses).</p> <p>If you have made a Capital Loss, it can be offset against other current year capital gains or it can be carried forward to be offset against future capital gains.</p>

Appendix A sets out some frequently asked questions in respect to the tax implications of holding TESOP 99 Loan Shares on 17 October 2009.

It is important to note that this information is of a general nature only, and circumstances may vary greatly between current employees and former employees of the various Telstra entities. The particular tax consequences for you may also be different due to your individual circumstances. This information should not be relied upon as replacing professional tax advice and it is highly recommended that you consult your tax adviser or the Australian Taxation Office for further advice.

Further information on the Telstra Employee Share Scheme is available at www.telstra.com.au/abouttelstra/investor/employee_scheme.cfm. To view your TESOP99 holding online please go to the share registry's website at www.linkmarketservices.com.au/telstra, enter your securityholder reference number (SRN), surname and postcode. Alternatively, you may contact the Share Registry by telephone on 1300 303 199 (overseas +61 2 8280 7755) or email telstra.esop@linkmarketservices.com.au.

Yours sincerely



Claire Elliott
On behalf of
Telstra ESOP Trustee Pty Ltd

What is TESOP 99 and TESOP 99 Loan Shares?

TESOP 99 is the offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the Telstra 2 Share Offer, which involved the sale of up to 16.6% of Telstra shares.

TESOP 99 Loan Shares are the shares purchased by employees as part of TESOP 99, using the interest free loan provided by Telstra (up to a maximum of 400 shares).

How do I find out how many TESOP 99 Loan Shares I have if I can't remember?

The number of TESOP 99 Loan Shares you have is set out in the dividend statement that accompanies this letter. If you would like to find out more information on what TESOP shares you have, please contact the Telstra ESOP hot line on 1300 303 199 (overseas +61 2 8280 7755) or visit the Share Registry's website at www.linkmarketservices.com.au/Telstra and enter in your Securityholder Reference Number (SRN), your surname and postcode.

How do I know whether I made an election to be immediately assessed on my TESOP 99 Loan Shares, subject to the \$1,000 exemption, in my 1999/2000 income tax return - if I can't remember?

If the election was made, it should have been retained with your copy of your 1999/2000 income tax return and records. The election would not have been sent to the Australian Taxation Office when you lodged your return. Please note that neither Telstra nor the Share Registry have this information.

What do I need to do if I made the election?

Nothing, the shares will only have further tax implications for you once you dispose of them.

What do I need to do if I have TESOP 99 Loan Shares, still work with Telstra and have not repaid my TESOP 99 loan on 17 October 2009?

Nothing unless you have sold your TESOP 99 Loan Shares after 16 November 2009 (in which case the sale will have CGT consequences).

You are only assessable if, and to the extent, that the tax market value of Telstra shares on 17 October 2009 (or the proceeds of a sale between 17 October and 16 November 2009) exceeds the price you paid for your TESOP 99 Loan shares.

You work out how much you paid for the Loan Shares by multiplying the number of Loan Shares you acquired by \$7.40 and then subtracting \$1.00 from the total.

Can I get a deduction or capital loss for the difference between the tax market value of Telstra shares on 17 October 2009 and what I paid for them?

No. Losses in these circumstances do not give rise to a deduction or a capital loss. You should consult your own registered tax adviser to consider your circumstances.

If I am not assessable on my TESOP 99 Loan shares on the 10 year anniversary, what are the tax implications of the anniversary?

If you did not make an election to be immediately assessed on your TESOP 99 Loan Shares, subject to the \$1,000 exemption, in your 1999/2000 income tax return, the cost base of your TESOP 99 Loan Shares for Capital Gains Tax purposes will be equal to the tax market value of Telstra shares on 17 October 2009.

I was assessable on my TESOP 97 loan shares on the 10 year anniversary, why are the tax implications for the 10 year anniversary different for TESOP 99 loan shares?

You are only assessable if, and to the extent, that the tax market value of Telstra shares on the 10 year anniversary exceeds the price you paid for the relevant Loan shares. The tax market value of Telstra shares on the 10 year anniversary of TESOP 97 was \$4.69 and the price of TESOP 97 Loan shares was \$3.30.

How will I find out what the tax market value of the shares is on 17 October 2009?

The TESOP website www.telstra.com.au/abouttelstra/investor/employee_scheme.cfm will have information on the tax market value of your shares.

Disclaimer

These FAQs are for your general assistance only and is not intended to replace professional tax advice. It sets out the possible tax consequences which may apply to your TESOP 99 Loan Shares as a result of the ten year anniversary. The tax consequences for you may be different depending on your individual circumstances.

If you have any questions about preparing your tax return or the tax consequences of your participation in TESOP 97 or TESOP 99 (including the capital gains tax consequences) in your particular circumstances, you should consult your own registered tax adviser.