



26 November 2007

Dear TESOP participant

Telstra Employee Share Ownership Plan (TESOP) 1997 Ten Year Anniversary - Tax Implications

As you may be aware, 15 November 2007 marked the ten year anniversary of the implementation of TESOP 1997. This anniversary may have taxation implications for you that will need to be considered when preparing your 2007/08 tax return.

Where you acquired TESOP 1997 Loan Shares (up to 2,000) and Extra Loan Shares (up to 500), you had a choice when submitting your 1997/98 tax return to make a written election to be immediately assessed for tax on your share allocation, subject to a \$1,000 tax free discount benefit. If you did not make a 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
- 15 November 2007.

If you did make a written election in preparing your 1997/98 tax return, no further action is required by you.

However, if you did not make a written election when preparing your 1997/98 tax return, your share allocation may now be taxable and therefore, should be declared in your 2007/8 income tax return. Appendix A sets out the taxation implications where on 15 November 2007 you are still an employee of the Telstra Group and your TESOP 1997 Loan has not been repaid. Appendix B sets out some frequently asked questions in respect to the tax implications of holding TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares on 15 November 2007.

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 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 prior to lodging your 2007/08 tax return.

Further information on the Telstra Employee Share Scheme is available at www.telstra.com.au/abouttelstra/investor/employee_scheme.cfm. To view your TESOP97 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

A handwritten signature in black ink, appearing to read "Claire Elliott".

Claire Elliott
On behalf of
Telstra ESOP Trustee Pty Ltd

Taxation Implications of the 10 Year Anniversary for TESOP97 Loan Shares

<p>Where you did not make a written election to be immediately assessed for tax on your share allocation in your 1997/98 tax return, subject to a \$1000 tax exemption</p> <ul style="list-style-type: none">• TESOP 97 Loan Shares• TESOP 97 Extra Loan Shares	<p><u>Amount Assessable in your 2007/08 income tax return</u></p> <p>If on 15 November 2007 you are still an employee of the Telstra Group and the Loan has not been repaid, you will be taxed on: \$4.69 per share (being the tax market value of the shares on 15 November 2007) less the amount you paid for the shares.</p> <p>If you sold your shares <u>before 15 December 2007</u> you will be taxed on the proceeds of the sale less the amount you paid for your shares.</p> <p>TESOP 1997 Loan Shares: You work out how much you paid for the Loan Shares, multiply the number of Loan Shares by \$3.30 and then subtract from the total \$1.00 (ie what you paid). For example if you acquired the maximum of 2,000 Loan Shares then the amount you paid would be: $2,000 \times \\$3.30 - \\$1.00 = \\$6,599$</p> <p>Extra Loan Shares: You did not pay any amount for your Extra Loan Shares.</p> <p><u>Application of CGT Provisions when you sell your shares</u></p> <p>CGT will not be applicable if you sold your shares <u>before 15 December 2007</u>.</p> <p>If you sell your shares on or <u>after 15 December 2007</u> your capital gain or loss will be:</p> <ul style="list-style-type: none">• Proceeds of sale• <u>Less</u> \$4.69 per share (being the tax market value of the shares on 15 November 2007) <p>If the disposal occurs <u>after 15 November 2008</u> and results in a capital gain, the assessable gain will be reduced by 50% (after first taking into account any capital losses).</p>
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Frequently Asked Questions

What is TESOP 97?

TESOP 97 is the offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the 1997 initial public float of Telstra shares.

What are TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares?

TESOP 97 Loan Shares are the shares purchased by employees as part of TESOP 97, using the interest free loan provided by Telstra (up to a maximum of 2,000 shares). TESOP 97 Extra Loan Shares are the extra 1 for 4 shares provided to employees who acquired Loan shares in TESOP 97 (up to a maximum of 500 shares).

How do I find out how many TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares I have - if I can't remember?

The number of TESOP 97 Loan Shares and Extra Loan Shares you have are set out on the most recent dividend statement sent to you at the end of October. If you would like to find out more information on what TESOP shares you have, you should contact the Telstra ESOP hot line on **1300 303 199** (overseas **+61 2 8280 7755**) or you can 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 97 Loan Shares and TESOP 97 Extra Loan Shares, subject to the \$1,000 exemption, in my 1997/98 income tax return - if I can't remember?

If the election was made it should have been retained with your copy of your 1997/8 income tax return and records. The election should not have been sent to the Australian Taxation Office when you lodged your return. 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 implication if disposed of.

What do I need to do if I have TESOP 97 Loan Shares and TESOP 97 Extra Loan Shares, still work with Telstra and have not repaid my TESOP 1997 loan on 15 November 2007?

You will need to include in your assessable income an amount calculated according to the table in Appendix A (being the tax market value of the shares on 15 November 2007 less what you paid for the shares).

The 2007/8 income tax return references are not available at the time of drafting this letter.

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 97 Loan Shares and TESOP 97 Extra 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.