

Telstra Employee Share Ownership Plan 1999



ESOP99

Offer Document





Where you can find more information

You can find more information about the opportunities given to eligible employees:

- by reading this Employee Offer Document and the accompanying Public Offer Document, and;
- in the Telstra Employee Share Ownership Plan II Trust Deed (Telstra ESOP II Trust Deed) and the Telstra Loan Scheme II.

The Telstra ESOP II Trust Deed entered into in September 1999 sets out the terms on which the one for four Extra Shares, the one for 10 Loyalty Shares and the Telstra Loan Shares will be held on your behalf by the Telstra ESOP Trustee, as trustee.

The Telstra Loan Scheme II sets out the terms on which the interest-free Telstra loans will be made available to eligible employees.

If you would like copies of the Telstra ESOP II Trust Deed or Telstra Loan Scheme II, you may obtain a copy free of charge by calling the Telstra ESOP Hotline on 1800 626 999. If you wish to obtain a copy, you should do this as soon as possible. If you wish to find out the market price of Telstra shares, refer to the website www.investor.telstra.com.au.

These documents are also available on the Telstra intranet site at:

<http://www.cdn.telstra.com.au/erinfo/sharview/sharview.htm>

ABOUT THIS EMPLOYEE OFFER DOCUMENT AND THE ACCOMPANYING PUBLIC OFFER DOCUMENT

This Employee Offer Document contains information about the opportunities given to eligible employees by Telstra and the Commonwealth in Telstra ESOP 99 and invites you to apply for shares under the offers in the sale of up to a further 16.6% of Telstra, the Telstra 2 Share Offer. The offers contained in this Employee Offer Document are separate and additional to the offers contained in the Public Offer Document.

This Employee Offer Document must be read in conjunction with the Public Offer Document, as details of the Telstra 2 Share Offer which relate to eligible employees are contained in both documents.

You should therefore read the Employee Offer Document and the Public Offer Document carefully before you decide to invest.

If you then want to apply for shares under the offers in Telstra ESOP 99 you must complete, sign and lodge the appropriate application form(s) accompanying this Employee Offer Document. If you are buying shares with your own money under the Commonwealth's offers, you must also lodge payment representing the first instalment, with your application form(s).

If you have any questions about whether to invest in Telstra, you should consult a stockbroker or financial adviser.

If you have any questions about procedures for investing in Telstra under the opportunities given to eligible employees, you should call the Telstra ESOP Hotline on 1800 626 999.

During the course of the Telstra 2 Share Offer, the Commonwealth and Telstra may provide information about any significant new development relevant to the Telstra 2 Share Offer through newspaper advertisements or by disclosure to the Australian Stock Exchange Limited (the ASX).

STATUS OF THIS EMPLOYEE OFFER DOCUMENT

This Employee Offer Document incorporates by reference the Public Offer Document and the Appendices, all of which were lodged with the Australian Securities and Investments Commission (ASIC) on 6 September 1999 and are dated 6 September 1999. The Employee Offer Document and Public Offer Document should be read together. Terms used in the Public Offer Document have the same meaning in this document and in the application forms accompanying this document.

Telstra and the Commonwealth are permitted to issue this Employee Offer Document to eligible employees pursuant to modifications to, and exemptions from, the Corporations Law made by ASIC. ASIC and the ASX take no responsibility for the contents of this document, the Public Offer Document or the Appendices. The fact that the ASX has quoted the shares of Telstra, and may quote the instalment receipts is not to be taken in any way as an indication of the merits of the instalment receipts, the shares or the Company.

This Employee Offer Document does not constitute an offer or invitation in any place where, or to any person to whom, it would not be lawful to make such an offer or invitation.



Office of the CEO

Dear colleague,

You have an important decision to make as a Telstra staff member.

By sending this document to you, Telstra and the Commonwealth are encouraging you to buy shares in the company you work for.

The Commonwealth and Telstra are each making special offers to eligible Telstra employees. Under Telstra's offer, we are inviting you to apply for an interest-free loan to purchase up to 400 Telstra shares at no risk to yourself.

Details of the offers are contained in this Employee Offer Document.

Our company has proved itself over the past few years and we are in a good position to continue to lead the market and our competition in providing services to the people of Australia and, increasingly, abroad.

We all contribute to the success of the company and the Telstra Board and I believe that you deserve the opportunity to share in that success. Owning part of the company you work for is a strong incentive to perform at your best and see the company succeed. That means we are all working together to fulfil our shared aspirations for Telstra's future and to share in the rewards.

When this second offer of Telstra shares is complete, our company will be a significant part of the Australian share market, which means you also have a chance to invest in a company which will become a core holding for many investors.

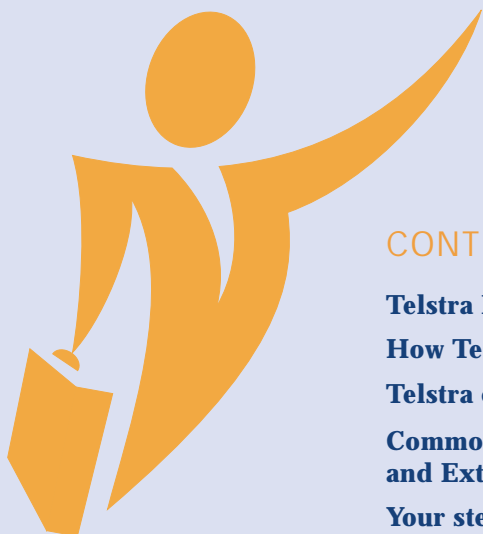
Telstra has been a part of Australian life for many years and will continue to be integral to the way Australians share information, often in new and exciting ways, for years to come.

It gives me a lot of satisfaction to present this offer to you. The future for Telstra is exciting and challenging. I can't think of a better way to enable you to share in our future at this exciting time.

Yours sincerely

Ziggy Switkowski
Chief Executive Officer

Telstra Corporation Limited
ACN 051 775 556



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IMPORTANT DATES

Public and Employee Offers open	20 September 1999
Public and Employee Offers close	7 October 1999
Final price, final instalment amount and basis of allocation announced by	17 October 1999
Conditional trading of instalment receipts expected to commence on the ASX	18 October 1999
Instalment receipt holding statements expected to be dispatched by	5 November 1999
Qualifying date for Loyalty Shares	2 November 2000
Last date for payment of final instalment	2 November 2000

If you wish to apply for shares, you are encouraged to do so as soon as possible. The Commonwealth and Telstra have a right to close their respective offers early without prior notice or extend these offers notwithstanding that the closing date has passed, or otherwise vary the terms of these offers.



MINISTER FOR FINANCE AND ADMINISTRATION

Dear Telstra Employee,

On behalf of the Australian Government, I am pleased to offer you the opportunity to take an even greater stake in your company. The sale of up to 16.6 per cent of Telstra will be our nation's largest-ever share offer and one of the largest of its kind in the world.

Ninety-two per cent of Telstra's employees participated in the first float, and the Government is delighted to build employees' direct stake in Telstra through this next offer.

For those of you who invested in the original Telstra Share Offer, this is a chance to further increase your share ownership in the company. For those of you who did not invest at that time or who have joined Telstra since, I am pleased to provide you with this new opportunity.

The Government is offering:

- One Extra Share at no additional cost for every four shares you purchase using your own funds, up to a limit of 200 shares for any employee;
- One Loyalty Share at no additional cost for every ten shares you purchase using your own funds and hold until 2 November 2000, up to a limit of 80 loyalty shares for any employee; and
- A Guaranteed Allocation up to a limit of 5000 shares for applications using your own funds. This compares with the public offer, that guarantees both existing shareholders and pre-registered non-shareholders an automatic entitlement to buy a minimum of 400 shares, or in the case of existing shareholders one share for every five they hold up to a limit of 10,000 shares, whichever is the greater.

Telstra employees will also receive a separate offer from the company. Further details of the company's offer are in the Chief Executive Officer's letter and in other information provided in this Employee Offer Document.

Please take the time to consider these offers carefully by reading this Employee Offer Document and the accompanying Public Offer Document.

You should be aware that an investment in Telstra is not guaranteed by the Commonwealth and that shares in any company are liable to increase or decrease in value. Please consult a stockbroker or financial adviser if you are unsure about investing.

On behalf of the Government, I have great pleasure in offering many of you the opportunity to further share in Telstra and to offer others their first chance to do so.

Encouraging greater share ownership of Australian companies by their employees is a major policy objective of this Government.

This opportunity provides you with a tangible way to participate in Telstra's future. I commend this offer to you.

Yours sincerely

John Fahey

Parliament House, CANBERRA ACT 2600





ESOP 99 at a glance

Telstra ESOP 99 has two components – the Telstra component and the Commonwealth component. If you are an eligible employee you may participate in either or both components.

These two separate components are:



AND



• THE TELSTRA COMPONENT

If you are an eligible employee you may apply for an interest-free loan from Telstra to buy up to a guaranteed allocation of 400 Telstra shares. There are no Extra or Loyalty Shares associated with the Telstra component. The shares that you buy under the Telstra component are referred to in this offer document as 'Loan Shares'.

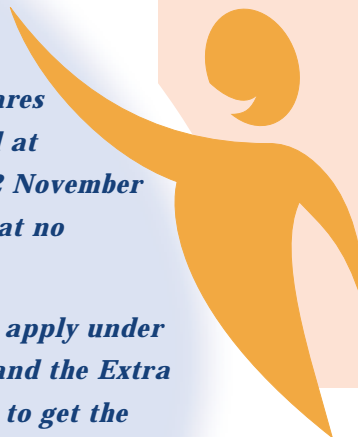
• THE COMMONWEALTH COMPONENT

If you are an eligible employee you may apply for Telstra shares under two separate offers:

- (a) **Guaranteed Allocation offer** – you may apply to buy up to 5000 Telstra shares with your own money, and are guaranteed to receive the number you apply for;
- (b) **Extra Share and Loyalty Share offer** – you may apply for:
 - One Extra Share at no additional cost for every four shares you buy with your own money under the Guaranteed Allocation offer, up to a maximum of 200 Extra Shares; plus
 - One Loyalty Share at no additional cost for every 10 shares you buy with your own money under the Guaranteed Allocation offer, up to a maximum of 80 Loyalty Shares, as long as you hold your shares in your own name until 2 November 2000 and do not prepay the final instalment on these shares in that period.

Therefore, if you buy at least 800 shares with your own money under the Guaranteed Allocation offer and apply under the Extra Share and Loyalty Share offer, you will initially receive 200 shares at no additional cost to you and, if you hold at least those 800 shares in your name until 2 November 2000, you will receive 80 Loyalty Shares at no additional cost to you.

Remember that you must separately apply under the Guaranteed Allocation offer and the Extra Share and Loyalty Share offer to get the benefits of the Extra Share and Loyalty Share offer.



CAN YOU PARTICIPATE?

The offers contained in this document are available only to eligible employees. To be an 'eligible employee', you must have been, on 27 August 1999:

- (a) an employee of Telstra Corporation Limited or any company in which Telstra owns more than 50% of the issued capital;
- (b) **and not:**
 - a part-time employee who receives loading in lieu of employee benefits (such as sick leave, annual leave or long service leave); or
 - a fixed-term employee (i.e. employed for a specified period); or
 - a casual employee; or
 - a contractor; or
 - an employee living outside Australia.

On Leave?

If you are an employee on leave without pay, you will not be eligible to participate in Telstra ESOP 99 unless you are on maternity/parental leave, sick leave or study leave. This will be subject to verification of your status in these categories by Telstra.

IT'S YOUR CHOICE

You can choose to participate in Telstra ESOP 99 through only the Telstra component, only the Commonwealth component, or both. It's up to you.

If you decide to participate, then you must complete the appropriate application form – blue if you wish to apply for the offer under the Telstra component; red if you wish to apply for the offers under the Commonwealth component.

If you wish to apply for the offers under both components, you will need to fill out both forms. Your application form(s) must be received by the Telstra Share Registrar by 5.00 pm Eastern Standard Time (EST) on 7 October 1999.

You can choose to participate in the Public Offer, but the benefits of Telstra ESOP 99 are not available for shares applied for under the Public Offer.

There are particular tax consequences for you if you participate in Telstra ESOP 99. These consequences are different from participating in the Public Offer. You should read the section 'Do you have to pay tax?' on page 20 for details.

HOW ARE THE SHARES PAID FOR?

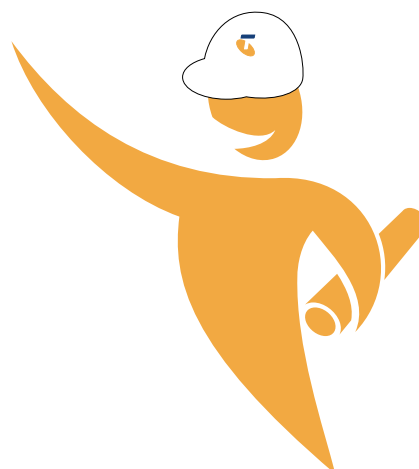
Payment for shares you acquire under the Guaranteed Allocation offer and shares you acquire using a Telstra loan will be in two instalments.

If you choose to take up the Guaranteed Allocation offer, you must pay the first instalment when you lodge your red application form.

If you choose to take up the Telstra component to buy Loan Shares with the loan, Telstra will advance both instalments on your behalf, subject to the terms of this offer.

No amount will be payable by you for Extra Shares or Loyalty Shares.

The price of the shares is the price paid by Public Applicants. Details of the price, the amount payable for each instalment and the mechanics of the instalment receipts and sale process are in the accompanying Public Offer Document.



How



ESOP99 works

If you are an eligible employee you may participate in **either** or **both** the Telstra component and the Commonwealth component.

TELSTRA COMPONENT

(refer to full details on page 9)

- Available if you are an eligible employee and you use the blue form.
- An easy way to invest in Telstra with no cash outlay by you.
- You may apply for a maximum of 400 Loan Shares by participating in the Telstra Loan Scheme.
- The Telstra loan is interest-free and the loan should not have any tax consequences for you.
- The loan is repaid from dividends on the Loan Shares or you can repay the loan in full at any time with your own money.
- The Loan Shares are held on your behalf by the Telstra ESOP Trustee.
- You cannot sell or otherwise deal with the Loan Shares until three years have expired or you leave your employment with the Telstra Group (whichever happens first). If one of those things happens and you have not repaid the loan then you may instruct the Telstra ESOP Trustee to sell your shares for you to repay the loan.
- You cannot prepay the final instalment on the Loan Shares.

COMMONWEALTH COMPONENT

(refer to full details on page 11)

- Available if you are an eligible employee and you use the red application form.

Guaranteed Allocation offer

- You may apply to buy up to 5000 shares with your own money and are guaranteed to receive the number you apply for.
- The Telstra ESOP Trustee does not hold these shares.
- You can sell shares you buy with your own money at any time. However if you don't hold them in your name until at least 2 November 2000, or if you prepay the final instalment in that period, this could affect your entitlement to Loyalty Shares under the Extra Share and Loyalty Share offer.

Extra Share and Loyalty Share offer

Under the Extra Share and Loyalty Share offer, you may apply for Extra Shares and Loyalty Shares. The number of Extra Shares and Loyalty Shares you receive by applying under this offer depends on the number of shares you apply for under the Guaranteed Allocation offer.

One for four Extra Shares

- You will receive one Extra Share at no additional cost for every four shares you buy under the Guaranteed Allocation offer.
- You can receive a maximum of 200 Extra Shares.
- The Extra Shares are held on your behalf by the Telstra ESOP Trustee.
- You cannot sell or otherwise deal with the Extra Shares for three years from the date of allocation (which is expected to be 17 October 1999) or until you leave your employment with the Telstra Group (whichever happens first).

One for 10 Loyalty Shares

- You will receive one Loyalty Share at no additional cost for every 10 shares you buy under the Guaranteed Allocation offer and hold in your name until at least 2 November 2000, provided that you do not prepay the final instalment on those shares in that period.
- You can receive a maximum of 80 Loyalty Shares.
- Loyalty Shares will be allocated to you as soon as practicable after 2 November 2000.
- After the Loyalty Shares are allocated to you, they are held on your behalf by the Telstra ESOP Trustee.

- If you don't hold the shares you bought under the Guaranteed Allocation offer in your name until at least 2 November 2000, or if you prepay the final instalment on those shares in that period, you may not be able to meet the preconditions to qualify for Loyalty Shares and your right to acquire Loyalty Shares will lapse.
- After the Loyalty Shares are acquired, you cannot sell them for three years from the date of allocation of the Extra Shares (which is expected to be 17 October 1999), or until you leave your employment with the Telstra Group (whichever happens first).

The tax consequences of participating in Telstra ESOP 99 (including the availability of the \$1000 tax exemption for Loan Shares, Extra Shares and Loyalty Shares) and the particular issues in regard to shares acquired under the Guaranteed Allocation offer are explained in the section 'Additional information for you or your tax agent' on page 22. You need to understand the tax consequences when making a decision to participate in Telstra ESOP 99.

WHAT ABOUT THE PUBLIC OFFER?

- This Employee Offer Document relates to the opportunities to apply for shares under Telstra ESOP 99. The Public Offer is separate to the offers made under Telstra ESOP 99.
- You may apply for shares under either or both of the components of Telstra ESOP 99 and the offers made in the Public Offer.

The benefit of the offers under Telstra ESOP 99 are only available if you apply using the appropriate forms accompanying the Employee Offer Document.

You do not get the benefit of the offers in Telstra ESOP 99 by applying for shares under the Public Offer Document.

- You may buy up to a maximum of 5000 shares with your own money by applying under the Guaranteed Allocation offer in Telstra ESOP 99.

If you wish to apply for more than 5000 shares you must apply for the shares in excess of 5000 under the Public Offer Document.

- An employee may have a guaranteed entitlement to Telstra shares under the Public Offer as:
 - a registered Telstra shareholder on 15 September 1999; or
 - as a pre-registrant.

The guaranteed entitlements under the Public Offer are in addition to the Guaranteed Allocation referred to in this Employee Offer Document.

Telstra component

– join the Telstra Loan Scheme



If you are an eligible employee, you may apply for an interest-free loan from Telstra to buy up to a guaranteed allocation of 400 Telstra shares. If you decide to apply for the loan, use the blue application form. Telstra will advance the first and final instalments on your behalf and (to satisfy the tax rules) will make a \$1 contribution in respect of these shares. These shares are called Loan Shares.

- You can borrow so that you can buy:
 - 400 Loan Shares;
 - 300 Loan Shares;
 - 200 Loan Shares; or
 - 100 Loan Shares.
- The Loan Shares are held on your behalf by the Telstra ESOP Trustee under the terms of the Telstra ESOP II Trust Deed.
- If you are an eligible employee and you are allocated Loan Shares, you will not be permitted to prepay the final instalment for those Loan Shares.
- In order to ensure that this offer complies with the applicable tax rules, Telstra contributes \$1 for each eligible employee who applies. The \$1 is not a loan to you but a contribution by Telstra.

HOW IS THE LOAN REPAID?

The loan will be repaid with the dividends paid by Telstra on the Loan Shares. This is a term of the loan to you.

All Cash Dividends (as defined in the Telstra ESOP II Trust Deed) on Loan Shares are to be applied in repayment of your loan except to the extent that:

- an amount is paid to you to cover any tax payable in respect of the dividend (the amount paid to you will be determined on the basis that the dividend is subject to Australian tax at the maximum marginal tax rate plus Medicare levy); or
- a deduction has been made by Telstra, the Security Trustee or the Telstra ESOP Trustee as required by law or in accordance with the Telstra ESOP II Trust Deed (for example, if the law requires an amount to be deducted from unfranked dividends if Telstra has not been provided with your tax file number).

If you do not quote your tax file number, then from the date of payment of the final instalment, to the extent that a dividend is unfranked the amount that would be paid to you to cover any tax payable in respect of the dividend will be paid to the Australian Taxation Office and not to you. You can claim a tax credit for this amount. You are not obliged to quote your tax file number.

OTHER WAYS TO REPAY THE LOAN

There are two other ways to repay the loan while you are an employee of the Telstra Group:

- You can repay the outstanding amount of the loan at any time using your own funds. However, the loan must be repaid in full; you cannot repay just part of it. Your Loan Shares will not be made available to you, even if you repay the loan, for a period of three years after allocation.
- After three years, you can repay the loan by arranging for the Telstra ESOP Trustee to sell all of your Loan Shares on your behalf. The shares can only be sold if the proceeds from the sale are sufficient to repay the loan in full and any sale costs (e.g. broker's fees).

WHEN CAN YOU SELL YOUR LOAN SHARES?

As long as you are an employee of the Telstra Group, you cannot sell or deal in any way with your Loan Shares until three years after allocation of the Loan Shares (the date of allocation is expected to be 17 October 1999). From then on you can continue to hold your Loan Shares or, if you desire, sell them at any time once the loan is repaid in full.

When the Telstra ESOP Trustee sells shares on your behalf, it has no obligation to maximise the sale price of the shares and has no obligation to sell the shares at a particular time. The Telstra ESOP Trustee may sell your shares with other

shares and, if so, may attribute a sale price to your shares equal to the average price of the total number of shares sold together. This may have an impact on the time you receive the proceeds on the sale of the shares and the actual amount of the proceeds of the sale of the shares.

The Telstra ESOP Trustee will hold your Loan Shares until you are permitted to sell them.

WHAT HAPPENS IF YOU LEAVE THE TELSTRA GROUP?

If you leave the Telstra Group, you (or, if you die, your executor) will have the opportunity to repay the outstanding amount of the loan:

- within two months of leaving; or
- if you die or you leave because of total and permanent disablement within one year of that event; or
- within two months after the latest date on which the final instalment is due, if you leave the Telstra Group before 2 November 2000.

Telstra will still advance the final instalment on your behalf provided the shares are still held by the Telstra ESOP Trustee.

Once the loan is repaid, your Loan Shares will be transferred to your name. You will then be able to continue to hold them or, if you desire, sell them at any time.

When the loan becomes repayable, if you choose not to repay the loan with your own money, the shares are sold on your behalf to repay the loan and you receive any surplus on the sale. There is no further obligation on your part if there is a deficit. Telstra bears that risk. If the market price of your Loan Shares is not sufficient to repay the loan and any sale costs, the Telstra ESOP Trustee will continue to hold your Loan Shares until it is.

Do you pay tax on Loan Shares?

The taxation consequences to you of acquiring Loan Shares, including the availability of a \$1000 tax exemption, are discussed in the section 'Do you have to pay tax?'



Commonwealth component

– Guaranteed Allocation offer and Extra Share and Loyalty Share offer

GUARANTEED ALLOCATION OFFER

If you are an eligible employee you may apply in your employee name on the red application form to buy up to 5000 shares using your own money, and are guaranteed to receive the number you apply for. You can apply for less than 5000 shares, but you must apply for at least 150 shares, and in multiples of 50 thereafter. If you wish to apply for more than 5000 shares you must apply for these additional shares under the Public Offer.

This offer does not affect any other entitlement you may have to a guaranteed allocation of shares due to your status as an existing shareholder or pre-registrant. If you wish to take advantage of any of these additional entitlements you must apply for them under the Public Offer.

If you buy shares under the Guaranteed Allocation offer, you must pay the first instalment when you apply for the shares. The final instalment is payable by 2 November 2000. Refer to the Public Offer Document for details about the first and final instalments.

Do you pay tax on shares under the Guaranteed Allocation offer?

Under proposed changes to tax law, no tax is payable when you acquire shares under this offer.

If the proposed changes do not become law, tax is assessed in the 1999/2000 financial year on the assessable benefit you are taken to have received on these shares.

Details of the proposed changes to the tax law can be found in the section 'Do you have to pay tax?' on page 20.

EXTRA SHARE AND LOYALTY SHARE OFFER

You may apply for Extra Shares and Loyalty Shares under the Extra Share and Loyalty Share offer.

Do you pay tax on the Extra Shares?

The taxation consequences to you of acquiring Extra Shares, including the availability of the \$1000 tax exemption, are discussed in the section 'Do you have to pay tax?' on page 20.

ONE FOR FOUR EXTRA SHARES

If you are an eligible employee and apply under the Extra Share and Loyalty Share offer, you will receive one Extra Share for every four shares that you buy under the Guaranteed Allocation offer, up to 200 Extra Shares. To qualify you must apply under the Extra Share and Loyalty Share offer in your employee name using the enclosed red application form.

The Telstra ESOP Trustee will hold any Extra Shares you receive from buying Telstra shares with your own money under the terms of the Telstra ESOP II Trust Deed.

When can you sell the Extra Shares?

So that you can get the \$1000 tax exemption, Extra Shares are held for you by the Telstra ESOP Trustee until three years after the date of allocation (unless you leave the Telstra Group before that time). As long as you are an employee of the Telstra Group, you cannot sell or deal with in any way your Extra Shares until three years after the date of allocation of the Extra Shares (which is expected to be 17 October 1999). After three years, your Extra Shares will be transferred to your name (unless you choose to instruct the Telstra ESOP Trustee to sell them on your behalf and pay the proceeds to you). You will then be able to continue to hold them or, if you desire, sell them at any time.

When the Telstra ESOP Trustee sells shares on your behalf, it has no obligation to maximise the sale price of the shares and has no obligation to sell the shares at a particular time. The Telstra ESOP Trustee may sell your shares with other shares and, if so, may attribute a sale price to your shares equal to the average price of the total number of shares sold together. This may have an impact on the time you receive the proceeds on the sale of the shares and the actual amount of the proceeds of the sale of the shares.

If you leave the Telstra Group, your Extra Shares will be transferred to your name (unless you choose to instruct the Telstra ESOP Trustee to sell them on your behalf and pay the proceeds to you). You will then be able to continue to hold them or, if you desire, sell them at any time.

If you leave the Telstra Group before 2 November 2000 and sell your shares before that time you will not receive the whole financial benefit of the Extra Share offer. This is because the buyer will become liable to pay the final instalment on the Extra Shares. In contrast, if you had continued to hold your Extra Shares until 2 November 2000, the final instalment would not have been payable on the shares. In this case, holding onto your shares until after 2 November 2000, ensures that you should receive the whole financial benefit of the Extra Shares.

ONE FOR 10 LOYALTY SHARES

If you are an eligible employee and apply using the red form under the Extra Share and Loyalty Share offer, you will receive, after 2 November 2000, one Loyalty Share for every 10 shares you buy under the Guaranteed Allocation offer – up to a maximum of 80 shares. In order to qualify for the Loyalty Shares, you must hold the shares you buy under the Guaranteed Allocation offer in your name without prepaying the final instalment until 2 November 2000.

If you sell shares that you bought under the Guaranteed Allocation offer before the qualifying date, or if you make a prepayment of the final instalment on those shares, you may not be able to satisfy the preconditions of your entitlement to Loyalty Shares. If you do either of these things, your entitlement to Loyalty Shares for those shares that you sold or on which you prepaid the final instalment will lapse.

Any Loyalty Shares you receive while you are employed by the Telstra Group will be held on your behalf by the Telstra ESOP Trustee.

Do you pay tax on the Loyalty Shares?

The taxation consequences of acquiring Loyalty Shares, including the availability of the \$1000 tax exemption, are discussed in the section 'Do you have to pay tax?' on page 20.

When do you get the Loyalty Shares?

If you have applied under the Extra Share and Loyalty Share offer and you qualify for Loyalty Shares, they will be allocated to you as soon as practicable after the qualifying date of 2 November 2000. You are only entitled to receive Loyalty Shares for those shares you bought under the Guaranteed Allocation offer which you still hold in your name on the qualifying date – and only if you have not made a prepayment of the final instalment for those Guaranteed Allocation shares before that time. You will still be eligible to receive Loyalty Shares, even if you leave the Telstra Group, provided the above requirements are satisfied.

Example

Suppose you buy 600 shares under the Guaranteed Allocation offer, then sell 400 of them on 1 May 2000 so that you have only 200 shares left on the qualifying date. In this case, you would receive 20 Loyalty Shares. If you prepaid the final instalment for 100 of the 200 shares you had left then you would receive only 10 Loyalty Shares.

In order to qualify for the Loyalty Shares you must hold the shares in your name. If the name in which the shares are held changes from your name at any time before 2 November 2000, then you are not entitled to Loyalty Shares on those shares.

The only exceptions to this rule are:

- if you have a *bona fide* change of name (e.g. by deed poll or on marriage);
- if you die and, on your death, your shares are transmitted to your executor pending final administration of your estate; or
- you die and, on your death, your shares are transmitted to a beneficiary of your estate either through your executor or directly; and

- your shares are transferred to another person as a result of a court order or relevant legislation (e.g. following a marriage dissolution) – although the Commonwealth reserves the right to assess each transfer to determine if it is legitimately out of the control of the original holder.

The Commonwealth may request documentary proof if you seek to rely on one of these exceptions. The Commonwealth has a discretion to extend these exceptions.

Your Loyalty Shares will be held by the Telstra ESOP Trustee under the terms of the Telstra ESOP II Trust Deed until the same date as the Extra Shares. That is, for three years from the date of allocation of the Extra Shares (the date of allocation is expected to be 17 October 1999), or until you leave your employment with the Telstra Group (whichever happens first).

When can you sell the Loyalty Shares?

The limitation on you selling or dealing with your Loyalty Shares is the same as the limitation for your Extra Shares. That is, after you receive the Loyalty Shares, you cannot sell or deal with them for three years from the date of allocation of the Extra Shares (which is expected to be 17 October 1999) or until you cease to be employed by the Telstra Group (whichever happens first). At that time, your Loyalty Shares will be transferred to your name (unless you choose to instruct the Telstra ESOP Trustee to sell them on your behalf and pay the proceeds to you). You will then be able to continue to hold them or, if you desire, sell them at any time.

When the Telstra ESOP Trustee sells shares on your behalf, it has no obligation to maximise the sale price of the shares and has no obligation to sell the shares at a particular time. The Telstra ESOP Trustee may sell your shares with other shares and, if so, may attribute a sale price to your shares equal to the average price of the total number of shares sold together. This may have an impact on the time you receive the proceeds on the sale of the shares and the actual amount of the proceeds of the sale of the shares.



Your steps to ownership in ESOP 99

STEP 1 Read the offer documents.

Read this Employee Offer Document and the accompanying Public Offer Document carefully.

STEP 2 If you want to apply under the Telstra component and use the loan to buy Telstra shares.

Use the **blue** 'Telstra component' application form.

Decide if you want to purchase 100, 200, 300 or 400 shares using the Telstra interest-free loan. See page 9 for more details on this component.

STEP 3 If you want to apply under Commonwealth component.

Use the **red** 'Commonwealth component' application form.

To participate in the Guaranteed Allocation offer you need to apply to buy shares with your own money.

To apply under the Extra Share and Loyalty Share offer, don't forget to tick 'YES' on your red application form.

See page 11 for more details on this component.

STEP 4 Do you want to take a copy of your application(s)?

For your records, take a copy of the forms you have filled in and signed.

STEP 5 Make sure you mail your form(s) in time.

Your application(s) must be received by no later than 5.00 pm EST on Thursday 7 October 1999.

NOW GO TO THE FULL DETAILS ON APPLYING FOR SHARES.



Filling in the BLUE form – Telstra component

Use the blue employee 'Telstra component' application form accompanying the Employee Offer Document to apply for shares using the Telstra loan.

It's best to use your personalised blue application form. However, if for any reason you do not have your personalised blue form, you may use a non-personalised blue form accompanying any Employee Offer Document.

The blue application form must be received no later than 5.00 pm EST on Thursday 7 October 1999. If using Australia Post, please allow sufficient time for postal delivery.

Seven steps for applying for the Telstra component:

STEP 1 Use the BLUE form.

You must use a blue employee 'Telstra component' application form. You can't apply for shares with the Telstra loan using any other coloured form.

STEP 2 Take care – fill in the form correctly!

Follow the instructions on the blue application form carefully.

STEP 3 Sign the form.

You must sign the blue application form, either personally or by attorney, in the space provided at the bottom of the form.

STEP 4 Do you want to take a copy for your records?

Once you have signed your form, you may wish to make a photocopy of it for your records. If you don't, you should record your **shareholder reference number**, which can be used to check on your final allocation of shares via the Telstra ESOP Hotline after share allocation takes place. Your **shareholder reference number** is recorded below the barcode.

STEP 5 Use your reply paid envelope.

Place your completed application form in the enclosed reply paid envelope provided.

Do not enclose any payment with this form. The blue form is for Telstra Loan Shares only.

STEP 6 WAIT! Do you want to apply under the Guaranteed Allocation offer and the Extra Share and Loyalty Share offer in the Commonwealth component as well?

If you DO want to apply for the Commonwealth component, don't seal the envelope yet. Refer to the next page for details on filling in the RED form for the Commonwealth component. **Both forms will go in the same envelope.**

If you DON'T want to apply for the Commonwealth component, go to the next step.

STEP 7 Lodge your application.

Lodge your completed blue application form in the specially provided reply paid envelope by:

- mailing it via Australia Post; or
- lodging it in person with the Registrar, Perpetual Registrars Limited, Level 4, 333 Collins Street Melbourne.

If you misplace your envelope, send your blue application form to this address:

Reply Paid 4404
Telstra ESOP 99 Share Offer
MELBOURNE VIC 8032.

REMEMBER: Applications must be received no later than 5.00 pm EST on Thursday 7 October 1999. If using Australia Post, please allow sufficient time for postal delivery.



Filling in the **RED** form – Commonwealth component

Use the red employee 'Commonwealth component' application form accompanying the Employee Offer Document to apply for shares under the Guaranteed Allocation offer and the Extra Share and Loyalty Share offer.

The red form enables you to apply under the Guaranteed Allocation offer to buy up to 5000 shares with your own money. When you buy shares under the Guaranteed Allocation offer using this form you must apply under the Extra Share and Loyalty Share offer to receive one for four Extra Shares and be automatically registered to qualify for one for 10 Loyalty Shares on 2 November 2000.

It's best to use your personalised red application form. However, if for any reason you do not have your personalised red form, you may use a non-personalised red form accompanying any Employee Offer Document.

If you apply for shares in the Public Offer using application forms of any other colour, those applications will not entitle you to Extra Shares or Loyalty Shares or the guaranteed allocation of up to 5000 shares.

The red application form and your cheque must be received no later than 5.00 pm EST on Thursday 7 October 1999.

If using Australia Post, please allow sufficient time for postal delivery.

There are seven steps to applying for shares in the Commonwealth component:

STEP 1 Use the RED form.

You must use a red employee 'Commonwealth component' application form. You can't apply for shares under offers made in the Commonwealth component using any other coloured form.

REMEMBER: If you wish to apply for the Extra Shares and Loyalty Shares, you must complete the section dealing with Extra Shares and Loyalty Shares.

STEP 2 Take care – fill in the form correctly!

Follow the instructions on the red application form carefully.

STEP 3 Sign the form.

You must sign the red application form, either personally or by attorney, in the space provided at the bottom of the form.

STEP 4 Pay the application amount.

To calculate the correct amount you need to pay for the first instalment, use the Ready Reckoner supplied in the orange application section of the Public Offer Document.

There are two ways of paying for the shares that you buy with your own money. You can pay by cheque, or you can pay electronically from your cheque or savings account using BPAY[®]. You can only use BPAY[®] if you are using your personalised application form. **Regardless of which payment method you choose, you must return your completed application form by the closing date in the enclosed reply paid envelope.**

DO NOT SEND CASH. YOU CANNOT PAY BY CREDIT CARD.

(a) Paying by cheque

- Your cheque should be made payable to 'Telstra ESOP 99 Share Offer' and crossed 'Not Negotiable'.
- Cheques must be in Australian dollars (AS) and drawn on an Australian branch of an Australian bank.
- Cheques will be deposited on the day of receipt. If insufficient funds are available in your bank account on this day, your application for shares may be rejected.
- Write your shareholder reference number (located beneath your name and address) on the back of your cheque. If you are not completing a personalised application form, please record your employee number on the back of your cheque.
- Pin (DO NOT STAPLE) the cheque horizontally to the front of the red application form in the top left corner.

(b) Paying by BPAY[®]

BPAY[®] is an electronic payment service that enables you to pay for shares directly from your cheque or savings account via the telephone or Internet banking services of participating banks, building societies and credit unions.

Full details on BPAY[®] can be found in the orange application section of the Public Offer Document.

STEP 5 Do you want to take a copy for your records?

Once you have signed your form, you may wish to take a photocopy for your records. If you don't, you should record your shareholder reference number, which can be used to check on your final allocation of shares via the Telstra ESOP Hotline after share allocation takes place. Your shareholder reference number is recorded alongside your name and address.

STEP 6 Use your reply paid envelope.

Carefully fold form along the marks shown.

Place the folded red application form in the reply paid envelope.

If you are paying by cheque, make sure your cheque is attached to the RED form.

If you are paying by BPAY[®], refer to the instructions on your application form and in the orange application section in the centre of the Public Offer Document. Remember to record your BPAY[®] receipt number in the space provided.

If you are applying under all the offers in the Telstra and the Commonwealth components of Telstra ESOP 99, make sure both forms are in the envelope and that your cheque payment for the shares you are purchasing with your own money in the Commonwealth component (RED form) is attached to the right form.

STEP 7 Lodge your application.

Lodge your completed red application form (and cheque if applicable) placed in the enclosed reply paid envelope by:

- mailing it via Australia Post; or
- lodging it in person with the Registrar, Perpetual Registrars Limited, Level 4, 333 Collins Street Melbourne.

If you misplace your envelope, send your red application form and cheque to this address:

Reply Paid 4404
Telstra ESOP 99 Share Offer
MELBOURNE VIC 8032.

Applications must be received no later than 5.00 pm EST on Thursday 7 October 1999. If using Australia Post, please allow sufficient time for postal delivery.

What if I lose my form?

If you lose your blue or red application form, or if you fill it in incorrectly, please use the spare, non-personalised form(s) accompanying any Employee Offer Document.

Important Notices

If you wish to apply for shares, you are encouraged to do so as soon as possible. *The Commonwealth and Telstra have a right to close their respective offers early without prior notice or extend these offers notwithstanding that the closing date has passed, or otherwise vary the terms of these offers.*

If you want to participate in the Telstra component, make sure that you use a blue employee 'Telstra component' application form. You will miss out on Loan Shares if you do not.

If you want to participate in offers under the Commonwealth component, make sure that you use a red employee 'Commonwealth component' application form. You will miss out on qualifying for Extra Shares and Loyalty Shares if you do not apply under the Extra Share and Loyalty Share offer and the Guaranteed Allocation offer.

If you wish to participate in both components make sure to fill out both forms.



Do you have to pay tax?

This is a general guide to the current tax position for employees who are employed in the Telstra Group on the date of allocation, which is expected to be 17 October 1999. The Australian Taxation Office has confirmed this guide. If you have any questions about tax, you should discuss them with a tax agent.

Participating in the Telstra ESOP 99 may increase your taxable income. This might have other consequences in addition to paying income tax (e.g. superannuation surcharge tax).

DO YOU HAVE TO PAY TAX ON THE ACQUISITION OF THE SHARES?

Ordinarily, you do not have to pay tax when you acquire shares. However under Telstra ESOP 99 you receive certain benefits and these benefits may give rise to assessable income for tax purposes.

Amount of assessable benefit depends on whether law is changed

The Treasurer has announced proposed changes to the taxation treatment of employee share schemes, which affect your participation in Telstra ESOP 99.

No tax will be payable by you on the acquisition of shares you buy with your own money under the Commonwealth's Guaranteed Allocation offer if the tax law is changed in the way announced by the Treasurer. In addition, the assessable benefits for Extra Shares, Loyalty Shares and Loan Shares will be based on the

sum of the instalments payable by Public Applicants in the Telstra 2 Share Offer (the Public Offer price).

There is no guarantee that the tax law will be changed in the way announced by the Treasurer.

If the tax law is not changed in the way announced by the Treasurer, then you will be taxed when you buy shares with your own money under the Commonwealth's Guaranteed Allocation offer in the 1999/2000 financial year. It would also have the effect of increasing the amount of the other assessable benefits on Extra Shares, Loyalty Shares and Loan Shares.

In contrast, you would not be assessed if you acquired shares under the Public Offer. This is irrespective of whether the tax law changes. However, you do not get the benefit of Extra and Loyalty Shares, or the 5000 guaranteed allocation, for shares you buy under the Public Offer.

You can qualify for the maximum number of Extra Shares and Loyalty Shares by applying for 800 shares under the Guaranteed Allocation offer. If you acquire shares under the Public Offer rather than the Guaranteed Allocation offer, you may receive a lesser guaranteed entitlement than the guaranteed entitlement you have under the Employee Offer Document. If you acquire shares under the Public Offer, then, irrespective of whether the tax law changes, there is no assessable benefit in respect of those shares.

Accordingly, you need to read this tax section carefully so you can take these considerations into account when deciding whether to buy shares under Telstra ESOP 99 and, in particular, when considering participation in the Commonwealth component. The details are set out in the section 'Additional information for you and your tax agent'.

\$1000 tax exemption

You can seek a tax exemption on the first \$1000 of assessable benefits that relate (in total) to Loan Shares, Loyalty Shares and Extra Shares. The shares that you buy with your own money under the Guaranteed Allocation offer do not qualify for the tax exemption.

If you seek the tax exemption then you will be taxed in the 1999/2000 financial year on the amount by which your total assessable benefits exceed \$1000.

If you don't seek the tax exemption then you won't be taxed in the 1999/2000 financial year on these shares (unless you leave the Telstra Group on or before 30 June 2000) but you must pay tax at a later time and you won't get the benefit of the \$1000 exemption. Accordingly, you will end up paying more tax if you don't seek the tax exemption.

You have to make a written election to seek the tax exemption. You will be given details about the election at a later date.

If you participate in both the Telstra component and the Commonwealth component then any election you make covers the Loan Shares, the Extra Shares and the Loyalty Shares and certain other shares or rights you acquire under an employee share scheme in the year ending 30 June 2000. You cannot make an election for one component and not the other. The election will not affect the taxation of any shares you acquired under Telstra ESOP 97.

More details are provided in the section 'Additional information for you or your tax agent'.

Tax on dividends

The dividends paid by Telstra while shares are held by you or the Telstra ESOP Trustee will be included in your assessable income.

You may be entitled to the benefit of franking credits.

Details of the taxation treatment of dividends are provided in the section 'Additional information for you or your tax agent'.



Do you have to pay tax when you sell shares?

You will generally be assessed on any capital gains made when selling shares.

Details on capital gains tax are provided in the section 'Additional information for you or your tax agent'.

These details will not be applicable to certain shareholders. For example, share traders are assessed on any gains as ordinary income rather than under the capital gains tax provisions. It is important that you seek your own advice as to whether you are assessed under the capital gains tax provisions.

Stamp duty

No stamp duty will be payable by you on the issue of the instalment receipts, payment of the first or final instalment or the transfer of shares to you by the Trustee or the Telstra ESOP Trustee. To the extent that any stamp duty is payable on any of these transactions, it will be paid by the Telstra ESOP Trustee.

Do you have to pay tax on the interest-free loan?

There is no personal tax impact on the interest-free element of the loan provided by Telstra.



Additional information for you or your tax agent

TREASURER'S ANNOUNCEMENT – PROPOSED CHANGE OF LAW DEALING WITH EMPLOYEE SHARE SCHEMES

The Treasurer announced on 2 September that the law dealing with employee share schemes will be amended. The amendment will apply where a public offer of shares is made in an existing listed public company and an offer of shares or unlisted rights to acquire shares under an employee share scheme is made in conjunction with that public offer. The amendment will ensure that the market value of shares on acquisition will be the public offer price. As a result, the existing law will automatically use the public offer price in working out the value of any unlisted rights on acquisition.

These changes will simplify the tax consequences of participating in Telstra ESOP 99 if they become law. They will become law if they are passed by both Houses of Parliament. Telstra can give no assurance that these changes will become law. If they do not, you may be assessed on a greater amount on shares you acquire under Telstra ESOP 99.

PAYING TAX ON THE ACQUISITION OF SHARES

This section deals with the taxation consequences of participating in Telstra ESOP 99 on the basis that the proposed changes announced by the Treasurer become law. The taxation treatment of participating in Telstra ESOP 99 if the proposed changes do not become law are discussed separately below.

The calculation of personal income tax on the allocation of shares under Telstra ESOP 99 and on capital gains and losses is complex and changes frequently and it may differ for some employees.

You may want to have a tax agent review this information.

If you seek the tax exemption

You will be treated as having received assessable benefits of:

- the value of the Extra Shares and Loyalty Shares, being the Public Offer price; and
- the \$1.00 contribution made by Telstra towards Loan Shares.

You will not be treated as having received any assessable benefits as a result of buying shares under the Guaranteed Allocation offer.

You can seek a tax exemption for up to \$1000 worth of assessable benefits on the Extra Shares, Loyalty Shares, and your Loan Shares. You will be assessed for tax purposes in the 1999/2000 financial year on the total amount of these assessable benefits in excess of \$1000.

Assessable benefit on Extra Shares and Loyalty Shares (subject to \$1000 tax exemption)

The value of the Extra Shares and Loyalty Shares is the Public Offer price. This value is the assessable benefit.

One for 10 Loyalty Shares

You will be assessed on the Loyalty Shares even though you do not actually receive the Loyalty Shares in the 1999/2000 tax year.

If you never actually acquire the Loyalty Shares (for example, because you do not hold in your name until 2 November 2000 sufficient shares that you bought with your own money under the Guaranteed Allocation offer) you should not be assessed on your Loyalty Shares.

If you are assessed on the Loyalty Shares in the 1999/2000 tax year but you never acquire the Loyalty Shares, then you will be able to amend your 1999/2000 tax return and claim a refund of any tax paid in relation to those shares.

Assessable benefit on Loan Shares (subject to \$1000 tax exemption)

Because you are paying for your Loan Shares (with your Telstra loan) you are not assessed on the whole value of the Loan Shares but only on the discount you received (i.e. the assessable benefit). The assessable benefit for all Loan Shares you acquire is \$1.00. This will be eligible for the \$1000 tax exemption.

Guaranteed Allocation shares

You will not be treated as having received any assessable benefit as a result of buying shares under the Guaranteed Allocation offer. Accordingly, you will not be taxed on the acquisition of these shares.

How do you seek the tax exemption?

In order to seek the tax exemption you must make a written election in a form approved by the ATO before you lodge your tax return for the 1999/2000 year. You will be given details about how to make the election in time for lodging your tax return.

Impact of tax exemption on participation in other employee share plans

If you elect to seek the tax exemption, that election may apply to other shares and options you acquire under a employee share plan in the 1999/2000 year. It will not affect the tax treatment of any shares you acquired under Telstra ESOP 97.

If you participate in any other employee share plan, you should seek tax advice before you

make an election to seek the tax exemption, as the election may alter the tax treatment of your participation in the other employee share plan.

If you do not seek the tax exemption

You should seek expert advice before deciding to give up the tax exemption.

By giving up the tax exemption, it is possible to defer the assessment on the Extra Shares and the Loyalty Shares and also on the assessable benefit you receive on your Loan Shares. However, you will not be entitled to the \$1000 tax exemption.

One for four Extra Shares

You will not be assessed when you acquire the shares, but will be assessed at a later time (taxing date) on the full value of the Extra Shares at that time.

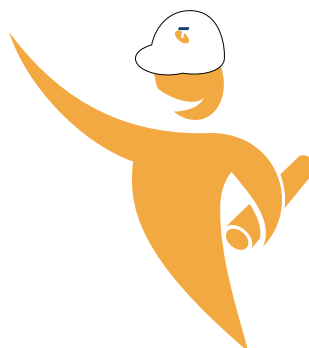
The taxing date will be the earlier of:

- the time you are no longer employed by both your employer at the time you acquired shares under Telstra ESOP 99 and any member of the Telstra Group; and
- three years after you acquired the relevant instalment receipts.

Therefore, if you remain with your employer or in the Telstra Group, assessment can be deferred for three years for Extra Shares.

The amount on which you are assessed will be based on:

- the weighted average of the prices at which shares in Telstra were traded on the ASX during the one week period up to and including the taxing date; or
- if you sell the instalment receipts or shares in an arm's length transaction within 30 days of the taxing date, the full sale price. (In this case, the capital gains tax rules would not apply to the disposal).



One for 10 Loyalty Shares

The taxing date for Loyalty Shares will be the earlier of:

- two years after the time you acquired the Loyalty Shares; and
- the time you are no longer employed by both your employer at the time you acquired shares under Telstra ESOP 99 and any member of the Telstra Group.

The amount on which you are assessed will be based on:

- the weighted average of the prices at which shares in Telstra were traded on the ASX during the one week period up to and including the taxing date; or
- if you sell the shares in an arm's length transaction within 30 days of the taxing date, the full sale price of the shares. (In this case, the capital gains tax rules would not apply to the sale).

If you are assessed on the Loyalty Shares in the 1999/2000 tax year but you never acquire the Loyalty Shares, then you will be able to amend your 1999/2000 tax return and claim a refund of any tax paid in relation to those shares.

Loan Shares

If you don't make the election then you will be assessed in respect of the Loan Shares at a later taxing date which will be the earlier of:

- the time you are no longer employed by both your employer at the time you acquired shares under Telstra ESOP 99 and any member of the Telstra Group; and
- three years after you acquired the Loan Shares.

The amount on which you will be assessed in respect of the Loan Shares will be based on:

- the weighted average of the prices at which shares in Telstra were traded on the ASX during the one week period up to and including the taxing date, less the Public Offer price (reduced by a fraction of \$1.00. The total reduction will be \$1.00); or

- if you sell the instalment receipts in an arm's length transaction within 30 days of the taxing date, the sale price less the first instalment paid by Public Applicants. In this case, the capital gains tax rules would not apply to the sale; or
- if you sell the shares in an arm's length transaction within 30 days of the taxing date, the sale price less the amount you paid for the shares. In this case, the capital gains tax rules would not apply to the sale.

IF THE TAX LAW IS NOT CHANGED

This section deals with the taxation treatment of participating in Telstra ESOP 99 if the proposed changes do not become law

If the tax law does not change in the way announced by the Treasurer, then the assessable benefits that you receive under Telstra ESOP 99 will be calculated differently. Most significantly, you will be treated as having received an assessable benefit on shares you buy with your own money under the Guaranteed Allocation offer. This would not be the case if you bought shares with your own money under the Public Offer.

If the tax law is not changed:

Public Offer

- For shares acquired under the Public Offer you will receive no assessable benefit.

In contrast, you will be assessed when you acquire shares under the Guaranteed Allocation offer. However, you do not get the benefit of Extra and Loyalty Shares, or the 5000 guaranteed allocation, for shares you buy under the Public Offer.

Guaranteed Allocation offer

- You will be taken to receive an assessable benefit, in the 1999/2000 financial year, of the excess (if any) of the weighted average of the prices at which shares in Telstra were traded on the ASX during the one week period up to and including the date of allocation (which is expected to be 17 October 1999) over the Public Offer price. There is no \$1000 exemption for this assessable benefit.

- You can obtain the maximum number of Extra Shares and Loyalty Shares by applying for 800 shares under the Guaranteed Allocation offer. If you acquire shares under the Public Offer rather than the Guaranteed Allocation offer, you may receive a lesser guaranteed entitlement than the guaranteed entitlement you have under the Employee Offer Document. If you acquire shares under the Public Offer, then, irrespective of whether the tax law changes, there is no assessable benefit in respect of those shares.

Extra Share and Loyalty Share offer

- The value of the Extra Shares and Loyalty Shares will be determined not using the Public Offer price, but rather the weighted average price of Telstra shares traded on the stock market in the week up to and including the date of allocation, which is expected to be 17 October 1999.

Loan Shares

- If the proposed changes do not become law the assessable benefit to you for your Loan Shares will be the excess (if any) of:
 - the weighted average price of Telstra shares traded on the stock market in the week up to and including the date of allocation (which is expected to be 17 October 1999) over;
 - the Public Offer price (reduced by \$1 divided by the number of Loan Shares you acquire).

If you seek the tax exemption

You will not be entitled to seek the \$1000 exemption on the assessable benefit you are taken to receive on shares you buy with your own money under the Guaranteed Allocation offer. Nor are you permitted to defer taxation on that benefit. You must include the value of the benefit in your assessable income for the 1999/2000 financial year, whether or not you seek the tax exemption for Extra Shares, Loyalty Shares and Loan Shares.

If you elect to seek the tax exemption for Extra Shares, Loyalty Shares and Loan Shares, then up to \$1000 in total assessable benefits, is exempt from tax. The assessable benefits will be higher if the tax law is not changed. The excess of the total of these assessable benefits over

\$1000 must be included in your assessable income for the 1999/2000 financial year.

Again, this is the case for Loyalty Shares even though you do not receive them in the 1999/2000 financial year.

If you do not seek the tax exemption

You should seek expert advice before deciding to give up the tax exemption.

By giving up the tax exemption, it is possible to defer the assessment on the Extra Shares and the Loyalty Shares and also on the discount you receive on your Loan Shares. **However, you cannot defer assessment on the assessable benefit you are taken to have received on the shares you bought with your own money under the Guaranteed Allocation offer.** You must include that amount in your assessable income in the 1999/2000 financial year.

CAPITAL GAINS TAX

You will not be liable for capital gains tax when you acquire your shares under Telstra ESOP 99 or when the Telstra ESOP Trustee transfers instalment receipts or shares (that is, Loan Shares, Extra Shares or Loyalty Shares) to you.

If you sell an instalment receipt, a taxable capital gain will generally arise if, and to the extent that, the sale price exceeds the cost base of the instalment receipt to you. If you sell the instalment receipt 12 months or more after you acquired it, any gain will be adjusted to take account of inflation.

If you sell a share, a taxable capital gain will generally arise if, and to the extent that, the sale price exceeds the cost base of the share to you. If you sell the share 12 months or more after you acquired the instalment receipt (underlying the share), the gain will be adjusted to take account of inflation.

Cost base: If law is changed as announced by the Treasurer

If the tax law is changed as announced by the Treasurer and you make an election, the cost base of each Extra Share, Loyalty Share and Loan Share will include the Public Office price.

If you did not make an election, the cost base for these shares will generally include the

market value of the shares at the time you were previously assessed on the shares, discussed earlier.

If the law is changed the cost base of the shares you buy using your own money under the Guaranteed Allocation Offer will include the first instalment and will include the final instalment once it is payable. This is irrespective of whether you make a written election.

Cost base: If law is not changed as announced by the Treasurer

If the tax law is not changed as announced by the Treasurer, and you make an election, the cost base of each Extra Share, Loyalty Share and Loan Share will include the weighted average market price of Telstra shares traded on the ASX in the week up to and including the date of allocation, which is expected to be 17 October 1999. Again, if you did not make an election, the cost base for these shares will generally include the market value of the shares at the time you were previously assessed on the shares.

If the law is not changed, the cost base of shares you buy with your own money under the Guaranteed Allocation offer will include the weighted average market price of Telstra shares traded on the ASX in the week up to and including the date of allocation, which is expected to be 17 October 1999. This is irrespective of whether you make a written election.

You have to declare any capital gains in your income tax return in the year of sale.

TAX ON DIVIDENDS

Any dividends paid by Telstra while you hold instalment receipts in Telstra shares, and for so long as shares are held by the Telstra ESOP Trustee, will be treated for tax purposes as trust distributions to you rather than dividend distributions.

You may still be eligible for the benefit of any franking credits attached to the dividends whether they are paid as trust distributions or 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. The Australian Taxation Office requests that this income be shown at the dividend income label on your return of income.

Where the dividend (or the dividend underlying the trust distribution) is a franked dividend, the franking credit associated with that dividend should also generally be included in your assessable income. A rebate of tax equivalent to the franking credit (known as a 'franking rebate') should generally be available to you.

Under recently enacted changes to the income tax law, there are circumstances where you may not be entitled to the benefit of franking credits. The application of these rules depends on your own circumstances including the period for which the instalment receipts and shares are held and the extent to which you are 'at risk' in relation to your investment.

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. In determining the part of the dividend that is paid to you to enable you to pay tax on that distribution, it will be assumed that you are taxed at the top Australian marginal tax rate, and an allowance will be made for any franking credits received. If you do not quote your tax file number from 2 November 2000 then an amount for tax will be paid to the Australian Taxation Office to the extent that the dividend is not franked. You can claim a tax credit for the amount paid to the Australian Taxation Office. You are not obliged to quote your tax file number.

If you sell a share and the sale price is less than the cost base, a capital loss will generally arise. No inflation adjustment is taken into account in this calculation. The loss amount 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.



Things you should know about

ESOP 99

THE TELSTRA ESOP TRUSTEE

Telstra ESOP Trustee Pty Ltd (ACN 080 180 285) will administer the Telstra ESOP 99.

All Extra Shares, Loyalty Shares, and Loan Shares will be held by the Telstra ESOP Trustee on your behalf until you are able to sell them, such as when you leave the Telstra Group or when the selling restrictions cease to apply. You cannot create an encumbrance (such as a mortgage) over these shares until you are able to sell them.

Telstra component

Is that part of Telstra ESOP 99 under which eligible employees may apply for Loan Shares in an offer by Telstra.

Loan Share

Is a Telstra share which is purchased by an eligible employee using a loan from Telstra under the Telstra component of Telstra ESOP 99.

Commonwealth component

Is that part of Telstra ESOP 99 under which eligible employees may apply for two Commonwealth offers – the Guaranteed Allocation offer and the Extra Share and Loyalty Share offer. If you apply under both Commonwealth offers, you will receive Extra Shares when you purchase shares under the Guaranteed Allocation offer and, if you hold those shares in your name until at least 2 November 2000 without prepaying the final instalment in that period, you will receive Loyalty Shares.

Extra Share

Is a Telstra share received by an eligible employee applying under the Extra Share and Loyalty Share offer in the Commonwealth component of Telstra ESOP 99. An eligible employee must apply to buy Telstra shares under the Guaranteed Allocation offer in order

to qualify for Extra Shares and Loyalty Shares. One extra share at no additional cost for every four shares purchased by the employee under the Guaranteed Allocation offer is granted, up to a maximum of 200 shares. (The number of Extra Shares you get is rounded up to the nearest whole share.)

Loyalty Share

Is a Telstra share acquired after 2 November 2000 by an eligible employee applying for Extra Share and Loyalty Share offer in the Commonwealth component of Telstra ESOP 99. You will receive a share rather than an instalment receipt. An eligible employee must apply to buy Telstra shares under the Guaranteed Allocation offer. One Loyalty Share at no additional cost for every 10 shares purchased by the employee under the Guaranteed Allocation offer is granted, up to a maximum of 80 shares, after 12 months, as long as shares are held in your name until 2 November 2000, and the final instalment is not prepaid in that period. (The number of Loyalty Shares you get is rounded up to the nearest whole share.)

In this Employee Offer Document, a reference to a share means

- an instalment receipt issued in respect of a Telstra share, until such time as the instalment receipt is cancelled and a Telstra share is transferred to the holder of the instalment receipt; and
- thereafter, a Telstra share.

Holding a share in your own name means

- that you are the registered owner of the share.

Proceeds of sale of a share means

- the proceeds of the sale net of the costs of the sale.



Seller's and directors' authorisation

This document is authorised by the Commonwealth and is signed for and on behalf of the Commonwealth by:

John Fahey

Minister for Finance and Administration

This document is authorised and signed by all the directors of Telstra:

David Hoare

John Ralph

Ross Adler

Anthony Clark

Michael Codd

Malcolm Irving

Donald McGauchie

Cecilia Moar

Elizabeth Nosworthy

Christopher Roberts

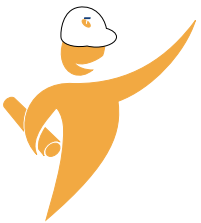
John Stocker

Stephen Vizard

Zygmunt Switkowski

This document is signed by Robert Mansfield, a proposed director of Telstra:

Robert Mansfield



**Telstra ESOP 99 Hotline
1800 626 999**

