GENERAL COMMENTS

No Written Election Required for 2012/13 but past Written Elections still relevant
Again, this year you do **not** have to consider making any written elections in respect of the TESOP shares you acquired under TESOP 97 or TESOP 99. However, whether you made any written elections is relevant in determining the cost base of your shares for capital gains tax purposes (see below).

You will not be assessed this year under the employee share scheme provisions of the Tax Act on TESOP shares you acquired under TESOP 97 or TESOP 99. This is because a taxing point will already have arisen in respect of those shares. Therefore, no further action is required by you unless you sold your shares during the 2012/13 income year.

DIVIDENDS ON TESOP 97 AND TESOP 99 SHARES RECEIVED IN 2012/13 TO BE INCLUDED IN YOUR ASSESSABLE INCOME
During 2012/13 Telstra paid a fully franked final dividend for 2011/12 of 14 cents per share which was paid on 21 September 2012 and a fully franked interim dividend for 2012/13 of 14 cents per share which was paid on 22 March 2013.

You should include the dividends you received, together with the attached franking credits, as assessable income at Item 11, Boxes S, T and U of your 2012/13 tax return. This is the case even if the dividends were paid to you via the TESOP Trusts and even if part of the dividend has been applied to reduce your Telstra provided loans.

WHAT HAPPENS IF YOU SOLD YOUR TESOP OR OTHER TELSTRA SHARES IN 2012/13?
There will be tax consequences if you disposed of your TESOP shares during the 2012/13 year. The tax consequences will differ depending upon your individual circumstances.

You should click on the detailed guide below to assist you in determining the capital gains tax consequences for you. It will be important for you to refer to the appropriate box in the table in the guide to determine the capital gains tax consequences. These boxes do **not** deal with circumstances where you are assessed otherwise than under the capital gains tax provisions.

You should be aware that the gains on the disposal of shares by certain taxpayers may effectively be assessed as ordinary income rather than under the capital gains tax provisions. For further information, please refer to the **Detailed Guide – Tax Consequences if you dispose of your TESOP 97, TESOP 99 and Telstra Shares in 2012/13.**

For a less detailed guide and a brief snapshot of the tax consequences, please refer to the **TESOP Snapshot – Tax Consequences at a Glance.**

To assist you in determining the tax consequences for you please refer to the **Illustrative Examples.**

The following general comments will also help you to determine the tax consequences under the capital gains tax rules if you sold any of your Telstra shares.

If you disposed of shares for more than their tax cost you may be assessed on any net gain. If you disposed of shares for less than their tax cost you may be entitled to offset the loss against other capital gains you made in 2012/13 or to carry the loss forward to be offset against any capital gains you may make in the future. The tax cost of your shares is discussed further below in the section entitled *"What is the tax cost of your shares?*"

If you made a gain or loss under the capital gains tax provisions you should include the amount in the appropriate box at Item 18 of your 2012/13 tax return (Supplementary section).

Will you get the 50% Capital Gains Tax Discount?
Under the Capital Gains Tax provisions you may be entitled to a discount for assets you have held for 12 months or more ("12 month qualifying discount period"). Under this discount you may only be assessed on 50% of a capital gain you make (after allowance for any capital losses you may have) when you sell certain assets such as your Telstra shares.

The Commissioner of Taxation issued a Class Ruling (CR 2001/28) on 18 July 2001 applicable to TESOP Participants stating that, in the Commissioner's opinion, **where you sought the benefit of the $1,000 tax exemption, shares must be held for longer than 12 months from the date that the Restriction Period ends** (the Restriction Period, in some cases, does not end when your relevant employment ceases) **not from the date when you acquired your shares under TESOP,** before the 50% CGT discount will be available. For further information, please refer to the **TESOP Trade Restriction Periods.**

This is the same as the treatment where the $1,000 tax exemption has **not** been sought (although, this is not specifically dealt with in the Class Ruling).

What is the tax cost of your shares?
Whether or not you made a written election in the income year in which you acquired your shares (being the 1997/98 income year for TESOP 97 shares and/or the 1999/2000 income year for TESOP 99 shares) to be taxed upfront on your shares is relevant to determining the cost base of your shares when you dispose of them.

No Election
If you did **not** seek the $1,000 tax exemption and you are assessed under the capital gains tax regime, the tax cost for the shares will be the "tax market value" of those shares at the earlier of when your relevant employment with the Telstra Group ceases or when your Restriction Period ends. If you have TESOP 97 Loan Shares and Extra Loan Shares and your loan was **not** repaid by 15 November 2007 (being the 10 year anniversary of the TESOP 97 scheme) your cost base for these shares is $4.69 per share (being their tax market value on 15 November 2007). If you have TESOP 99 Loan Shares and your loan was **not** repaid by 16 October 2009 (being the 10 year anniversary of the TESOP 99 scheme) your cost base for these shares is $3.15 (being their tax market value on 16 October 2009).

Election Made
If you did seek the $1,000 tax exemption, you will have a choice as to how you calculate your tax cost for the shares.

If you do **not** make a choice, then based on the Commissioner's opinion in CR 2001/28,
the tax cost for the shares will be the "tax market value" of those shares when the Restriction Period ends, not when you acquired your shares under TESOP.

Note: the Restriction Period on your TESOP 97 Loan Shares and Extra Loan Shares ended on 25 March 2011, being the date the loan was repaid in full**. The tax market value of those shares on 25 March 2011 was $2.70**.

If you **do** make the choice, then the tax cost for the shares will be the tax market value of the shares at the date you first acquired an interest in them, not the tax market value of the shares at the date the Restriction Period ends. That is, $3.30 in respect of TESOP 97 shares and $7.40 in respect of TESOP 99 shares.

Due to the movement of the listed price of Telstra shares over recent years, it is possible that the market value of your shares at the date you first acquired them (i.e. $3.30 in respect of TESOP 97 shares and $7.40 in respect of TESOP 99 shares) may be higher than their market value at the date the Restriction Period ended. If this is the case, you should carefully consider making this choice if you disposed of these shares during the 2012/13 year.

Generally, the higher the cost base of your shares the higher the capital loss you will realise upon sale, which may be offset against current or future year capital gains. Alternatively, in circumstances where the sale proceeds exceed your cost base for your shares, the higher the cost base the lower the capital gain upon which you may be assessed.

The way in which you prepare your 2012/13 income tax return will be sufficient evidence of the making of the choice. **You are not required to lodge a written election with the Australian Taxation Office evidencing your choice**.

Irrespective of whether or not you make the choice, the 12 month qualifying discount period will commence from the date the Restriction Period ends.

You may also make the choice in relation to shares you disposed of <u>prior</u> to the 2012/13 year of income. If you believe that such a choice would have been appropriate in your particular circumstances you should consult your registered tax adviser. It may be possible to seek an amendment to prior year assessments within 4 years after the day on which the tax became due and payable under the relevant assessment.

Under TESOP 97 and TESOP 99, when the Restriction Period ends the Trustee can, depending on the particular circumstances, sell the shares for you or transfer the shares to you. In either case the availability of the CGT discount and the cost of your shares in determining whether you make a capital gain or loss are worked out in the way described above and in the attached guides.

Further information on the Telstra Employee Share Scheme is available at http://www.telstra.com.au/abouttelstra/investor/my-shareholding/employee-shareholder-scheme/index.htm

To view your TESOP holding online please go to the share registry's website at www.linkmarketservices.com.au/telstra, enter your SRN, your surname and postcode, and accept the terms and conditions. Alternatively, you may contact the share registry on 1300 303 199 or by email to telstra.esop@linkmarketservices.com.au.

Disclaimer

This is a general description of the tax consequences which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

This information has been prepared for participants who are, and will continue to be, Australian tax residents. The information does not apply to:

(a) individuals engaged in foreign service;
(b) temporary residents of Australia for tax purposes;
(c) foreign tax residents; or
(d) individuals who are no longer employees of Telstra.

If you fall within these categories you should discuss the matter with your tax advisor.

The description of the capital gains tax consequences of your participation in TESOP 97 and/or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

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 seek guidance from your own registered tax adviser.**

TESOP Trade Restriction Periods

Where you sought the relevant $1,000 tax exemption (in your 1997/98 tax return and/or your 1999/2000 tax return)

Share Type	Restriction Period Expiry Date
TESOP 97 – Loan Shares / Extra Loan Shares	Latter of : • 15 November 2000; or • the date the loan is repaid [1]
TESOP 97 – Extra (1:4) Non-loan Shares	Earlier of: • 15 November 2000; or • when you cease employment with the Telstra Group [2]
TESOP 99 – Extra (1:4) Shares and TESOP 99 – Loyalty (1:10) Shares	Earlier of: • 16 October 2002; or • when you cease employment with the Telstra Group [2]
TESOP 99 - Loan Shares	For continuing employees the date is the latter of : • 16 October 2002; or • the date the loan is repaid [3]

1. This is irrespective of whether your relevant employment with the Telstra Group has ceased. If you had ceased employment prior to 15 November 2000, the relevant date was when the loan was repaid. Where the shares are sold for you by the Trustee, the relevant time is immediately prior to when the shares are sold.
2. This also includes situations where you cease employment with a company that was part of the Telstra Group at the time of the relevant Telstra float (and you were employed by that company at the time of the float).
3. This is irrespective of whether your relevant employment with the Telstra Group has ceased. However, if you cease employment prior to 16 October 2002, the relevant date is when the loan was repaid. Where the shares are sold for you by the trustee, the relevant time is immediately prior to when the shares are sold.

Where you did <u>not</u> seek the relevant $1,000 tax exemption (in your 1997/98 tax return and/or your 1999/2000 tax return)

The expiry of the relevant Restriction Period will be determined in the same manner as described in the table.

When working out whether you make a capital gain or loss when you sold your TESOP shares, the tax cost will be the Tax Market Value of those shares at the <u>earlier</u> of:

- the abovementioned times;
- when your relevant employment with the Telstra Group ceased; or
- The 10 year anniversary of the relevant share scheme.

Disclaimer

This is a general description of the tax consequences, which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

All information provided is of a general nature only and circumstances may vary greatly between participants. The information has been prepared for participants who are, and will continue to be, Australian tax residents. The information does not apply to:

(a) individuals engaged in foreign service;

(b) temporary residents of Australia for tax purposes; or

(c) individuals who are no longer employees of Telstra.

If you fall within one of these categories you should discuss the matter with your tax advisor.

The description of the capital gains tax consequences of your participation in TESOP 97 and/or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

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 seek guidance from your own registered tax adviser.**

Detailed Guide – Tax consequences if you dispose of your TESOP 97, TESOP 99 and Telstra Shares in 2012/13

This section will assist you in determining the capital gains tax consequences if you sell your TESOP 97, TESOP 99 or Telstra Shares in 2012/13 or the Trustee disposes of your TESOP 97 or TESOP 99 Shares on your behalf in 2012/13.

It is important that you refer to the appropriate box in the main table below. The appropriate box for you to refer to in the main table below depends upon:

- the type of shares you acquired;
- whether you made an election in respect of those shares or not; and
- whether your relevant employment with Telstra continues or ceased in 2012/13.

You cease relevant employment with Telstra if you are no longer employed by any of the following:

- your employer when you acquired your shares; or
- a company in the Telstra Group.

For a brief snapshot of the tax consequences please refer to **TESOP Snapshot – Tax Consequences at a Glance**. Otherwise, please refer to the detailed table below.

Summary Reference Table

The following points and the Summary Reference Table below will help you to refer to the appropriate box in the main table below.

1. Refer to **BOX A** for TESOP 97 Non Loan Shares, 1997 Public Offer Shares and TESOP 97 Loyalty Shares (where you elected to seek the $1,000 tax exemption in your 1997/98 tax return).

2. Refer to **BOX B** for TESOP 97 Loyalty Shares (where you did not elect to seek the $1,000 tax exemption in your 1997/98 tax return).

3. Refer to **BOX C** for Guaranteed Allocation Shares and 1999 Public Offer Shares.

4. Refer to **BOX D** for 2006 Public Offer T3 Shares.

Type of Share	**Continuing employee**		**Employee who ceased employment in 2012/13**	
	Tax Election made in year shares acquired	**No Tax Election made in year shares acquired**	**Tax Election made in year shares acquired**	**No Tax Election made in year shares acquired**
TESOP 97 Loan Shares **TESOP 97 Extra Loan Shares**	**E**	**F**	**G**	**H**
TESOP 97 Extra Non-Loan Shares	**I**	**J**	**I**	**J**
TESOP 99 Loyalty Shares **TESOP 99 Extra Shares**	**K**	**L**	**K**	**L**
TESOP 99 Loan Shares	**M**	**N**	**O**	**P**

This table deals with the capital gains tax consequences of arm's length sales of shares in 2012/13. It is possible for a capital gains tax event to occur on a disposal of shares other than a sale.

In determining the gain or loss you may take into account certain additional costs, such as incidental selling costs. For example, brokerage on the sale of shares. You should draw these costs to the attention of your tax agent when preparing your tax return for 2012/13.

This table does not apply to employees whose relevant employment ceased before the 2012/13 year but who dispose of their shares in the 2012/13 year.

If you made an election in your 1997/98 tax return (affecting your TESOP 97 shares) and/or your 1999/2000 tax return (affecting your TESOP 99 shares) you may have a choice in relation to how you calculate the cost base of your shares for capital gains tax purposes. If you make the choice in relation to a share, the relevant tax cost will be:

- the tax market value of the share at the date you first acquired an interest in the share (i.e. $3.30 in respect of TESOP 97 shares and $7.40 in respect of TESOP 99 shares);
- **rather** than the tax market value of the share at the date the Restriction Period ends (refer table setting out TESOP Restriction Periods).

This choice may impact on the capital gain or loss you make when you dispose of your shares.

If you made an election in your 1999/2000 tax return and you disposed of your TESOP 99 Loyalty Shares, TESOP 99 Extra Shares or your TESOP 99 Loan Shares in the 2012/13 year, you should carefully consider making this choice.

You should also carefully consider making this choice in relation to your TESOP 97 Loan Shares and Extra Loan Shares if you had made an election in your 1997/1998 tax return, not repaid your loan by 25 March 2011 and if you disposed of these shares during the 2012/13 year.

The way in which you prepare your 2012/13 income tax return will be sufficient evidence of the making of the choice. **You are not required to lodge a written election with the Australian Taxation Office evidencing your choice**.

The following tables assume that you would make the choice for your TESOP 99 shares (i.e. you would choose the $7.40 cost base) and that you would also make such a choice in respect of your TESOP 97 shares (i.e. you would choose the $3.30 cost base) where the tax market value of the share at the end of the Restriction Period was less than $3.30.

If you did <u>not</u> make an election in your 1997/98 tax return (affecting your TESOP 97 shares) and you had not previously ceased employment with the Telstra group or repaid your TESOP 97 loan by 15 November 2007 (the 10 year anniversary of the TESOP 97 scheme) the cost base of your TESOP 97 Loan Shares and Extra Loan Shares, for capital gains tax purposes, is $4.69 (being the tax market value of the shares on 15 November 2007).

If you did <u>not</u> make an election in your 1999/2000 tax return (affecting your TESOP 99 shares) and you had not previously ceased employment with the Telstra group or repaid your TESOP 99 loan by 16 October 2009 (the 10 year anniversary of the TESOP 99 scheme) the cost base of your TESOP 99 Loan Shares and Extra Shares, for capital gains tax purposes, is $3.15 (being the tax market value of the shares on 16 October 2009).

Box	Type of Shares	Capital Gains when you sell your shares Sales Proceeds >Tax Cost	Capital Losses when you sell your shares Sales Proceeds < Tax Cost
A	• **1997 Public Offer Shares** • **TESOP 97 Non Loan Shares** • **TESOP 97 Loyalty Shares (Where you elected to seek the $1,000 tax exemption in your 1997/98 tax return)**	**When you sell your shares** When you sell these shares you have a choice to calculate your capital gain as either: (i) Half of - the amount equal to proceeds of sale less $3.30 (after first taking into account any capital losses); or (ii) Proceeds of sale less $3.39 (i.e. $3.30 adjusted for inflation until 30 September 1999) **[Example (No.2)]** relating to the tax consequences of the sale of your TESOP 97 Non-Loan shares. **[Example (No.5)]** relating to the tax consequences of the sale of your TESOP 97 Loyalty Shares. **[Example (No.6)]** relating to the tax consequences of the sale of your 1997 Public Offer Shares.	**When you sell your shares** When you sell these shares you calculate your capital loss as $3.30 less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains.
B	**Where you did not elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Loyalty Shares**	**When you sell your shares** This is not applicable in 2012/13.	**When you sell your shares** When you sell your shares you calculate your capital loss as $6.55 (which was the Tax Market Value of the shares at 17 November 1998) less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.5)]** relating to the tax consequences of the sale of your TESOP 97 Loyalty Shares.
C	• **1999 Guaranteed Allocation Shares** • **1999 Public Offer shares**	**When you sell your shares** This is not applicable in 2012/13.	**When you sell your shares** Your capital loss will be $7.40 less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.8)]** relating to the tax consequences of the sale of your 1999 Guaranteed Allocation shares. **[Example (No.9)]** relating to the tax consequences of the sale of your 1999 Public Offer shares.

D	• **2006 Public Offer shares and loyalty shares**	**When you sell your Shares** Your capital gain will be the proceeds of sale less your cost base. If you prepaid your second instalment the cost base of your shares will be $3.60 less the discount received because you prepaid the second instalment. Otherwise the cost base of the shares and the loyalty shares will be $3.46. If the shares were held by you for longer than 12 months the assessable gain will be reduced by 50% (after first taking into account any capital losses).	**When you sell your Shares** Your capital loss will be your cost base less the proceeds of sale. If you prepaid your second instalment the cost base of your shares will be $3.60 less the discount received because you prepaid the second instalment. Otherwise the cost base of the shares and the loyalty shares will be $3.46. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No. 14)]** relating to the tax consequences of the sale of your T3 Sale Shares and loyalty shares.
E	**Where you elected to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**When you sell your shares** When you sell your shares you calculate your capital gain as: • Proceeds of sale • Less the Tax Market Value of the shares on the latter of : • 15 November 2000; or • the earlier of: • the date the loan is repaid[1]; or • immediately prior to when the Trustee disposes of the shares on your behalf. If the shares were held by you for longer than 12 months after that time, the assessable capital gain will be reduced by 50% (after first taking into account any capital losses). *Note: You may choose to calculate the capital gain as the proceeds of sale less $3.30. However, if the Tax Market Value determined above is greater than $3.30, choosing $3.30 as your cost base may increase your capital gain.* **[Example (No.1)]** relating to the tax consequences of the sale of your TESOP 97 Loan shares. **[Example (No.3)]** relating to the tax consequences of the sale of your TESOP 97 Extra Loan shares.	**When you sell your shares** When you sell your shares you calculate your capital loss as: • Tax Market Value of the shares on the latter of : • 15 November 2000; or • the earlier of: • the date the loan is repaid[2]; or • immediately prior to when the Trustee disposes of the shares on your behalf • Less proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *Note: You may choose to calculate your capital loss as the excess (if any) of $3.30 over the proceeds of sale. However, if the Tax Market Value determined above is greater than $3.30, choosing $3.30 as your cost base may result in you losing all or part of your capital loss and you making an assessable capital gain.*

[1] If the loan was fully repaid on the payment of the interim dividend on 25 March 2011, the cost base of the shares will be $2.70.
[2] If the loan was fully repaid on the payment of the interim dividend on 25 March 2011, the cost base of the shares will be $2.70.

F	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**<u>When you sell your shares</u>** Your capital gain will be: • Proceeds of sale • <u>Less</u> either: • If your loan was <u>not</u> repaid by 15 November 2007 (i.e. the Ten Year Anniversary of TESOP 97) - $4.69 per share; or • If your loan was repaid prior to 15 November 2007 - the tax market value of the shares on the loan repayment date. If the shares were held by you for longer than 12 months after the expiry of the Restriction Period the assessable capital gain will be reduced by 50% (after first taking into account any capital losses). Note the expiry of the Restriction Period may be after 15 November 2007 i.e. if the loan has not been repaid by that date.	**<u>When you sell your shares</u>** Your capital loss will be: • Either: • If your loan was <u>not</u> repaid by 15 November 2007 (i.e. the Ten Year Anniversary of TESOP 97) - $4.69 per share; or • If your loan was repaid prior to 15 November 2007 - the tax market value of the shares on the loan repayment date. • <u>Less</u> the proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.1)]** relating to the tax consequences of the sale of your TESOP 97 Loan shares. **[Example (No.3)]** relating to the tax consequences of the sale of your TESOP 97 Extra Loan shares.

G	**<u>Only applicable if you ceased relevant employment with Telstra during 2012/13</u>** **Where you elected to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**<u>When you sell your shares</u>** **If the loan was repaid in full** when you ceased relevant employment your capital gain will be: • Proceeds of sale • <u>Less</u> the Tax Market Value of the shares when you repaid the loan in full[3]. If the shares were held by you for longer than 12 months after that time, the assessable gain will be reduced by 50% (after first taking into account any capital losses). **If the loan was NOT repaid in full** when you ceased relevant employment your capital gain will be: • Proceeds of sale • <u>Less</u> the Tax Market Value of the shares on the <u>earlier of</u>: ◦ the date the loan was repaid in full; or ◦ immediately prior to when the Trustee disposes of the shares on your behalf. *<u>Note</u>: You <u>may choose</u> to calculate the capital gain as the proceeds of sale less $3.30. However, if the Tax Market Value determined above is greater than $3.30, choosing $3.30 as your cost base may increase your capital gain.* **[Example (No.1)]** relating to the tax consequences of the sale of your TESOP 97 Loan shares. **[Example (No.3)]** relating to the tax consequences of the sale of your TESOP 97 Extra Loan shares.	**<u>When you sell your shares</u>** **If the loan was repaid in full** when you ceased relevant employment your capital loss will be: • Tax Market Value of the shares when you repaid the loan in full [3] • <u>less</u> proceeds of sale. **If the loan was NOT repaid in full** when you ceased relevant employment your capital loss will be: • Tax Market Value of the shares on the <u>earlier of</u>: ◦ date the loan was repaid in full; or ◦ immediately prior to when the Trustee disposes of the shares on your behalf. • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *<u>Note</u>: You <u>may choose</u> to calculate the capital loss as the excess (if any) of $3.30 over the proceeds of sale. However, if the Tax Market Value determined above is greater than $3.30, choosing $3.30 as your cost base may result in you losing all or part of your capital loss and you making an assessable capital gain.*

[3] If, however, the loan was repaid in full by 15 November 2000, the Tax Market Value of your shares will be determined as at 15 November 2000 i.e. $6.58.

H	**<u>Only applicable if you ceased relevant employment with Telstra during 2012/13</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/1998 tax return** • **TESOP 97 Loan Shares** • **TESOP 97 Extra Loan Shares**	**<u>When you sell your shares</u>** Your capital gain will be: • Proceeds of sale • <u>Less</u> either: • If your loan was <u>not</u> repaid by 15 November 2007 (i.e. the Ten Year Anniversary of TESOP 97) - $4.69 per share; or • If your loan was repaid prior to 15 November 2007 the tax market value of the shares on the loan repayment date. If the shares were held by you for longer than 12 months after the expiry of the Restriction Period the assessable capital gain will be reduced by 50% (after first taking into account any capital losses). Note the expiry of the Restriction Period may be after 15 November 2007 i.e. if the loan has not been repaid by that date.	**<u>When you sell your shares</u>** Your capital loss will be: • Either: • If your loan was <u>not</u> repaid by 15 November 2007 (i.e. the Ten Year Anniversary of TESOP 97) - $4.69 per share; or • If your loan was repaid prior to 15 November 2007 the tax market value of the shares on the loan repayment date. • <u>Less</u> the proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.1)]** relating to the tax consequences of the sale of your TESOP 97 Loan shares. **[Example (No.3)]** relating to the tax consequences of the sale of your TESOP 97 Extra Loan shares.
I	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>When you sell your shares</u>** This is not applicable in 2012/13. *<u>Note</u>: You <u>may choose</u> to calculate the capital gain as the proceeds of sale less $3.30. However, such a choice may result in an assessable capital gain on disposal.*	**<u>When you sell your shares</u>** When you sell your shares you calculate your capital loss as: • $6.58, being the Tax Market Value of the shares on 15 November 2000 • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *<u>Note</u>: You <u>may choose</u> $3.30 as your cost base rather than $6.58. However, such a choice may result in you losing all or part of your capital loss and you making an assessable capital gain rather than a capital loss on disposal.* **[Example (No.4)]** relating to the tax consequences of the sale of your TESOP 97 Extra Non-Loan shares.

J	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1997/98 tax return** • **TESOP 97 Extra Non-Loan Shares**	**<u>When you sell your shares</u>** This is not applicable in 2011/12	**<u>When you sell your shares</u>** Your Capital Loss will be: • $6.58 being Tax Market Value of the shares at 15 November 2000 • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.4)]** relating to the tax consequences of the sale of your TESOP 97 Extra Non-Loan shares.

K	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loyalty Shares** • **TESOP 99 Extra Shares**	**<u>When you sell your shares</u>** If you choose $7.40 (being the tax market value of the shares when you first acquired an interest in them) as your share's cost base, no capital gain should arise as the Tax Market Value of Telstra shares did not at any point exceed $7.40 in the 2012/13 financial year. If you do not choose $7.40 as your cost base, your capital gain will be: • Proceeds of sale • <u>Less</u> $4.81 being the Tax Market Value of the shares on 16 October 2002. If the shares were held by you for longer than 12 months after the expiry of the Restriction Period the assessable capital gain will be reduced by 50% (after first taking into account any capital losses).	**<u>When you sell your shares</u>** You may choose to calculate your capital loss as $7.40 (being the market value of the shares when you first acquired an interest in them) less the proceeds of sale. If you do not choose $7.40 as your cost base, your capital loss will be: • $4.81 being the Tax Market Value of the shares on 16 October 2002 • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *<u>Note:</u> If you do not choose $7.40 as the cost base of your shares, this may result in you losing all or part of your capital loss.* **[Example (No.11)]** relating to the tax consequences of the sale of your TESOP 99 Extra shares. **[Example (No.12)]** relating to the tax consequences of the sale of your TESOP 99 Loyalty shares.

L	**Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loyalty Shares** • **TESOP 99 Extra Shares**	**<u>When you sell your shares</u>** Your capital gain will be: • Proceeds of sale • <u>Less</u> $4.81 being the Tax Market Value of the shares on 16 October 2002. If the shares were held by you for longer than 12 months after the expiry of the Restriction Period the assessable capital gain will be reduced by 50% (after first taking into account any capital losses).	**<u>When you sell your shares</u>** Your capital loss will be: • $4.81 being the Tax Market Value of the shares on 16 October 2002 • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.11)]** relating to the tax consequences of the sale of your TESOP 99 Extra shares. **[Example (No.12)]** relating to the tax consequences of the sale of your TESOP 99 Loyalty shares.
M	**Where you <u>elected</u> to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>When you sell your shares</u>** If you choose $7.40 (being the market value of the shares when you first acquired an interest in them) as your share's cost base, no capital gain should arise. If you do not choose $7.40 as your cost base, your capital gain will be: • Proceeds of sale • <u>less</u> the Tax Market Value of the shares on the <u>latter</u> of : • 16 October 2002 (being $4.81); or • the <u>earlier</u> of: • the date the loan is repaid; or • immediately prior to when the Trustee disposes of the shares on your behalf. If the shares were held by you for longer than 12 months after the Restriction Period expires, the assessable gain will be reduced by 50% (after first taking into account any capital losses). *<u>Note</u>: If you do not choose $7.40 as the cost base of your share, this may result in you losing all or part of your capital loss and you making an assessable capital gain.*	**<u>When you sell your shares</u>** You may choose to calculate your capital loss as $7.40 less the proceeds of sale. If you do not choose $7.40 as your cost base, your capital loss will be: • Tax Market Value of the shares on the <u>latter</u> of : • 16 October 2002(being $4.81); or • the <u>earlier</u> of: • the date the loan is repaid; or • immediately prior to when the Trustee disposes of the shares on your behalf • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *<u>Note</u>: If you do not choose $7.40 as the cost base of your share, this may result in you losing all or part of your capital loss and you making an assessable capital gain.* **[Example (No.10)]** relating to the tax consequences of the sale of your TESOP 99 Loan shares.

N	**<u>Only applicable if your employment with Telstra did not cease during the 2012/13 year.</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>When you sell your shares</u>** If you sell your shares during the 2012/13 year your Capital Gain will be: • Proceeds of sale • less $3.15 per share (being the Tax Market Value of the shares on 16 October 2009) or, if your Taxing Point (discussed below) was a date prior to 16 October 2009, the Tax Market Value of the shares on that date. The Taxing Point of your shares under the employee share scheme provisions of the Tax Act will be the earlier of: • 16 October 2009; • the date the loan was repaid; or • the date you ceased your employment with the Telstra Group. If the shares were held by you for longer than 12 months after the Restriction Period expires (ie. when the loan is repaid), the assessable capital gain will be reduced by 50% (after first taking into account any capital losses). Note however that the Restriction Period may expire after 16 October 2009 if the loan has not been repaid by that date.	**<u>When you sell your shares</u>** If you sell your shares during the 2012/13 year your Capital Loss will be: • $3.15 per share (being the Tax Market Value of the shares on 16 October 2009) or, if your Taxing Point (discussed below) was a date prior to 16 October 2009, the Tax Market Value of the shares on that date. • Less proceeds of sale. The Taxing Point of your shares under the employee share scheme provisions of the Tax Act will be the earlier of: • 16 October 2009; • the date the loan was repaid; or • the date you ceased your employment with the Telstra Group. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.10)]** relating to the tax consequences of the sale of your TESOP 99 Loan shares.

O	**<u>Only applicable if you ceased relevant employment with Telstra during 2012/13</u>** **Where you <u>elected</u> to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>When you sell your shares</u>** If you choose $7.40 (being the market value of the shares when you first acquired an interest in them) as your share's cost base, no capital gain should arise (unless you sell your shares for more than $7.40). If you do not choose $7.40 as your cost base, your capital gain will be calculated in the following manner. **If the loan was NOT repaid in full** when you ceased relevant employment your capital gain will be: • Proceeds of sale • <u>Less</u> the Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf. **If the loan was repaid in full when you ceased relevant employment** your capital gain will be: • Proceeds of Sale; • <u>Less</u> the Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf[4]. If the shares were held by you for longer than 12 months after the Restriction Period expires, the assessable capital gain may be reduced by 50% (after first taking into account any capital losses). *<u>Note</u>: If you do not choose $7.40 as the cost base of your share, this may result in you losing all or part of your capital loss and you making an assessable capital gain.*	**<u>When you sell your shares</u>** You may choose to calculate your capital loss as $7.40 (being the market value of the shares when you first acquired an interest in them) less the proceeds of sale. If you do not choose $7.40 as your cost base, your capital loss will be calculated in the following manner. **If the loan was NOT repaid in full** when you ceased relevant employment your capital loss will be: • Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf • <u>Less</u> proceeds of sale. **If the loan was repaid in full when you ceased relevant employment** your capital loss will be: • Tax Market Value of the shares on the earlier of the date the loan was repaid in full or immediately prior to when the Trustee disposes of the shares on your behalf; • Less the proceeds of sale[5]. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. *<u>Note</u>: If you do not choose $7.40 as the cost base of your share, this may result in you losing all or part of your capital loss and you making an assessable capital gain.* **[Example (No.10)]** relating to the tax consequences of the sale of your TESOP 99 Loan shares.

[4] If, however, the loan was repaid in full by 16 October 2002, the Tax Market Value of your shares will be determined at 16 October 2002 and will be $4.81

[5] If, however, the loan was repaid in full by 16 October 2002, the Tax Market Value of your shares will be determined at 16 October 2002 and will be $4.81

P	**<u>Only applicable if you ceased relevant employment with Telstra during 2012/13</u>** **Where you did <u>not</u> elect to seek the $1,000 tax exemption in your 1999/2000 tax return** • **TESOP 99 Loan Shares**	**<u>When you sell your shares</u>** If you sell your shares during the 2012/13 year your Capital Gain will be: • Proceeds of sale • <u>Less</u> the Tax Market Value of the shares on the date of the Taxing Point (explained above). If the shares were held by you for longer than 12 months after the Restriction Period expires (which may be different from your Taxing Point), the assessable capital gain will be reduced by 50% (after first taking into account any capital losses).	**<u>When you sell your shares</u>** If you sell your shares during the 2012/13 year your Capital Gain will be: • Tax Market Value of the shares on the date of the Taxing Point (explained above) • <u>Less</u> proceeds of sale. The capital loss can be offset against other current year capital gains or can be carried forward to be offset against future capital gains. **[Example (No.10)]** relating to the tax consequences of the sale of your TESOP 99 Loan shares.

Disclaimer

This is a general description of the tax consequences, which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

This information has been prepared for participants who are, and will continue to be, Australian tax residents. The information does not apply to:

(a) individuals engaged in foreign service;

(b) temporary residents of Australia for tax purposes;

(c) foreign tax resident; or

(d) individuals who are no longer employees of Telstra.

If you fall within these categories you should discuss the matter with your tax advisor.

The description of the capital gains tax consequences of your participation in TESOP 97 and/ or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

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 seek guidance from your own registered tax adviser.**

Illustrative Examples

Note – the share prices and the tax market values referred to in these examples are for illustration purposes only. The tax market value of a share on a particular day is available from the Telstra Share Registry (1300 88 66 77).

Note - these examples deal only with the taxation consequences for participants who are assessed under the capital gains tax provisions (and not the ordinary income provisions) for a disposal of shares in the 2012/13 year. They do not deal with the taxation consequences of disposing of shares in earlier or later years.

Note - these examples deal ONLY with the tax consequences if you are a continuing employee or you ceased your relevant employment with Telstra during the 2012/13 year. They do not deal with participants who ceased employment prior to the 2012/13 year.

Note - these examples assume that participants will not have capital losses available to offset against any capital gains made on the disposal of the shares.

Share Type	**Example**
TESOP 97 Loan Shares	1
TESOP 97 Non-Loan Shares	2
TESOP 97 Extra Loan Shares	3
TESOP 97 Extra Non-Loan Shares	4
TESOP 97 Loyalty Shares	5
1997 Public Offer Shares	6
1997 Shares Purchased through the stock exchange	7
1999 Guaranteed Allocation Shares	8
1999 Public Offer shares	9
TESOP 99 Loan Shares	10
TESOP 99 Extra Shares	11
TESOP 99 Loyalty Shares	12
1999 Shares Purchased through the stock exchange	13
T3 Sale Shares and Loyalty Shares	14

Example 1: -TESOP 97 Loan Shares

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares.
- These shares were subject to a trade Restriction Period.
- The loan for these shares was repaid in full on 25 March 2011 (with the payment of the 2011 interim dividend) and the shares were transferred to you by the Trustee. The tax market value of the shares on this date was $2.70.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return

Your capital gain or loss from the sale will equal the proceeds of the sale less the cost base of your shares.

You can choose $3.30 as the cost base for these shares (if you do not make the choice, the cost base of your shares will be $2.70, being the market value of the shares on the date the loan was fully repaid).

Assuming you make the choice, your capital <u>gain</u> is: (2,000 x $4.32) – (2,000 x $3.30) = $2,040

> <u>Note</u>: if you had not made the choice you would have made a larger capital gain on disposal. The way you prepare your return is evidence of whether or not you made the choice i.e. you are not required to lodge a written election with the Australian Taxation Office.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return

As the loan was not repaid by 15 November 2007 i.e. the ten year anniversary of TESOP 97, the cost base of your shares will be $4.69.

Consequently, your capital loss is: (2,000 x $4.69) – (2,000 x $4.32) = $740*

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 2 - TESOP 97 Non-Loan Shares

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 non-loan shares at their public offer price of $3.30.
- These shares were **not** subject to a trade Restriction Period.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital gain from the sale will equal the proceeds of the sale less $3.30 (being your cost base in the shares).

Consequently, your capital <u>gain</u> is: (2,000 x $4.32) - (2,000 x $3.30) = $2,040

Example 3 - TESOP 97 Extra Loan Shares

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 loan shares.
- Consequently you were entitled to 500 extra loan shares.
- These shares were subject to a trade Restriction Period.
- The loan for your TESOP 97 Loan shares was repaid in full on 25 March 2011 (with the payment of the 2011 interim dividend) and these shares were transferred to you by the Trustee. The tax market value of the shares on this date was $2.70.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return
Your capital gain or loss from the sale will equal the proceeds of the sale less the cost base of your shares.

You can choose $3.30 as the cost base for these shares (if you do not make the choice, the cost base of your shares will be $2.70, being the market value of the shares on the date the loan was fully repaid).

Assuming you make the choice, your capital gain is: (500 x $4.32) – (500 x $3.30) = $510

> Note: if you had not made the choice you would have made a larger capital gain on disposal. The way you prepare your return is evidence of whether or not you made the choice ie. you are not required to lodge a written election with the Australian Taxation Office.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return
As the loan was not repaid by 15 November 2007 i.e. the ten year anniversary of TESOP 97, the cost base of your shares will be $4.69.

Consequently, your capital loss is: (500 x $4.69) – (500 x $4.32) = $185*

** The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 4 - TESOP 97 Extra Non-Loan Shares

- As part of the 1997 Public float of Telstra shares you took up the maximum employee offer of 2,000 non-loan shares. You did not take advantage of the Telstra loan.
- Consequently you were entitled to 500 extra non-loan shares.
- These shares were subject to a trade Restriction Period which expired on 15 November 2000. (This example assumes you did not cease your relevant employment with Telstra before 15 November 2000). The tax market value of the shares was $6.58 on 15 November 2000.
- On 4 December 2012, you sold your shares for $4.32 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital loss from the sale will equal $6.58 (being the tax market value of shares at 15 November 2000, which is when the restriction period expired for extra non-loan shares) less the proceeds of the sale.

Consequently, your capital loss is: (500 x $6.58) - (500 x $4.32) = $1,130

The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.

> Note: If you elected to seek the $1,000 tax exemption in your 1997/98 tax return, you may choose to apply the capital gains tax provisions differently from the basis outlined above. You may choose $3.30 as the cost base for your shares. However, such a choice would result in a reduction of your capital loss.

Example 5 - TESOP 97 Loyalty Shares

- As part of the 1997 Public float of Telstra shares you purchased 2,000 shares under the public offer (at their public offer price of $3.30).
- You held your purchased shares for more than 12 months and consequently you were entitled, under the employee offer, to a further 200 loyalty shares.
- These loyalty shares were **not** subject to a trade Restriction Period.
- On 4 December 2012 you sold your loyalty shares for $4.32 per share.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
- This example assumes that you did not cease your relevant employment with Telstra before 17 November 1998.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1997/98 tax return
Your capital loss from the sale will equal $3.30 (being your cost base in the shares) less the proceeds of the sale.

Consequently, your capital loss is: (200 x $3.30) - (200 x $4.32) = $204*

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1997/98 tax return
Your capital loss from the sale will be $6.55 less the proceeds of sale.

> $6.55 is the tax market value of shares on 17 November 1998 being the date TESOP 97 Loyalty Shares were allotted.
>
> Your capital loss is: (200 x $6.55) - (200 x $4.32) = $446*

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 6 - 1997 Public Offer Shares

- As part of the 1997 Public float of Telstra shares you acquired 2,000 shares at their public offer price of $3.30.
- These shares were **not** subject to a trade Restriction Period.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital gain from the sale will equal the proceeds of the sale less $3.30 (being your cost base in the shares).

Consequently, your capital gain is: (2,000 x $4.32) - (2,000 x $3.30) = $2,040

Example 7 - 1997 Shares through the Stock Exchange

- On 1 December 1997 you purchased 2,000 instalment receipts through the stock exchange for $2.40.
- These shares were **not** subject to a trade Restriction Period.
- On 17 November 1998 you paid the 2^{nd} instalment of $1.40.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1997/98 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, your capital gain from the sale will equal the proceeds of the sale less the cost of the shares/instalment receipts (($2.40 + $1.40 = $3.80) per share).

Consequently, your capital gain is: (2,000 x $4.32) - (2,000 x $3.80) = $1,040

For some taxpayers the gain/loss made on the sale of the shares will be dealt with under the “income” provisions of the tax rules.

If the shares were held by you for longer than 12 months, the capital gain may be reduced by 50% (after first taking into account any capital losses).

Example 8 - 1999 Guaranteed Allocation Shares

- As part of the 1999 **Staff** Offer you acquired 2,000 shares at their public offer price of $7.40.
- These shares were **not** subject to a trade Restriction Period.
- On 4 December 2012 you sold these shares for $4.32 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, your capital loss from the sale will equal the amount you paid for the shares ($7.40 per share) less the proceeds from the sale.

Consequently, your capital loss is: (2,000 x $7.40) - (2,000 x $4.32) = $6,160*

For some taxpayers the gain/loss made on the sale of the shares will be dealt with under the "income" provisions of the tax rules.

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 9 - 1999 Public Offer Shares

- As part of the 1999 **Public** Offer of Telstra shares you acquired 2,000 shares at their public offer price of $7.40.
- These shares were **not** subject to a trade Restriction Period.
- On 4 December 2012 you sold these shares for $4.32 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Under the capital gains tax provisions, your capital loss from the sale will equal the amount you paid for the shares ($7.40 per share) less the proceeds from the sale.

Consequently, your capital loss is: (2,000 x $7.40) - (2,000 x $4.32) = $6,160*

For some taxpayers the gain/loss made on the sale of the shares will be dealt with under the "income" provisions of the tax rules.

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 10 - TESOP 99 – Loan Shares

- As part of the 1999 float of Telstra shares you took up the maximum employee offer of 400 loan shares.
- These shares were subject to a trade Restriction Period.
- On 4 December 2012 your relevant employment ceased with Telstra. At the time your outstanding loan was $2,500 and the shares were trading at $4.32.
- As the loan balance in respect of these shares at the time your employment ceased exceeded the net amount (i.e. including brokerage etc) that could be realised on the disposal of the shares, the TESOP Trustee continued (in accordance with the TESOP Trust Deed) to hold the shares on your behalf.

  On 17 April 2013, the TESOP Trustee sold the shares for $4.675 per share. The shares were sold at this time in accordance with the TESOP Trust Deed, as the proceeds of the sale (after deducting the costs of the sale) exceeded the amount which remained outstanding on the loan.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return

Your capital gain or loss from the sale will equal the proceeds of the sale less the cost base of your shares.

You can choose $7.40 as the cost base for these shares (if you do not make the choice, the cost base of your shares will be $4.675, being the market value of the shares on the date the loan was fully repaid).

Assuming you make the choice, your capital loss is: (400 x $7.40) – (400 x $4.675) = $1,090*

> Note: if you had not made the choice you would have made no capital gain and no capital loss on disposal as your cost base would be the same as the sale proceeds. The way you prepare your return is evidence of whether or not you made the choice ie. you are not required to lodge a written election with the Australian Taxation Office.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

As the loan was not repaid by 16 October 2009 i.e. the ten year anniversary of TESOP 99, the cost base of your shares will be $3.15 (the tax market value of the shares on 16 October 2009).

Consequently, your capital gain is: (400 x $4.675) – (400 x $3.15) = $610**

** The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

***As the shares were not held by you for longer than 12 months after the Restriction Period expired (ie. when the loan was repaid in full), you will not be able to access the 50% CGT discount on the sale of the shares.*

Example 11 - TESOP 99 – Extra Shares

- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares.
- Consequently you were entitled to 200 extra shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002. This example assumes that you did not leave your relevant employment with Telstra before 16 October 2002. The TESOP Trustee transferred the shares to you on that date. The tax market value on that date was $4.81 per share.
- On 4 December 2012 you sold the shares for $4.32.
- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
    - For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return

If you make the choice to use $7.40 as the cost base for your shares, your capital loss from the sale will equal $7.40, multiplied by the number of shares you acquired, less the proceeds of the sale.

Consequently, your capital loss is: (200 x $7.40) – (200 x $4.32) = $616*

> Note: If you do not choose $7.40 as your cost base, the share's cost base will be $4.81 being the tax market value of the shares at the expiry of the Restriction Period. In such a case your capital loss would be reduced.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return

You should previously have been assessed under the Employee Share Scheme provisions of the Tax Act on $4.81 per share being the tax market value of the shares at the expiry of the Restriction Period.

Accordingly, your capital loss is: (200 x $4.81) – (200 x $4.32) = $98*

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 12 - TESOP 99 – Loyalty Shares

- As part of the 1999 float of Telstra shares you acquired 800 Guaranteed Entitlement shares.
- You held these shares for longer than 12 months and therefore you were entitled to 80 loyalty shares.
- These shares were subject to a trade Restriction Period which expired on 16 October 2002. This example assumes that you did not leave your relevant employment with Telstra before 16 October 2002. The TESOP Trustee transferred the shares to you on that date. The tax market value of Telstra shares on that date was $4.81 per share.
- On 4 December 2012 you sold the shares for $4.32.

- For the purposes of this example we have assumed that the tax market value of the share is the same as its market value and we have ignored selling costs such as brokerage.
    - For more information on when the Restriction Period expires for these shares refer to the TESOP Trade Restriction Periods table.

Tax consequences - If you elected to seek $1,000 tax exemption in your 1999/2000 tax return
If you make the choice to use $7.40 as the cost base for your shares, your capital loss from the sale will equal $7.40 multiplied by the number of shares you acquired less the proceeds of the sale.

Consequently, your capital loss is: (80 x $7.40) – (80 x $4.32) = $246.40*

> Note: If you do not choose $7.40 as your cost base, the share's cost base will be $4.81 being the tax market value of the shares at the expiry of the restriction period. In such a case your capital loss will be reduced.

Tax consequences - If you did not elect to seek $1,000 tax exemption in your 1999/2000 tax return
You should previously have been assessed under the Employee Share Scheme provisions of the Tax Act on $4.81 per share being the tax market value of the shares at the expiry of the Restriction Period.

Accordingly, your capital loss is: (80 x $4.81) – (80 x $4.32) = $39.20 *

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 13 - 1999 Shares Purchased through the Stock Exchange

- On 1 December 1999 you purchased 2,000 instalment receipts through the stock exchange for $3.70.
- These shares were **not** subject to a trade Restriction Period.
- On 2 November 2000 you paid the 2nd instalment of $2.90.
- On 4 December 2012 you sold your shares for $4.32 per share.
- For the purposes of this example we have ignored selling costs such as brokerage.

Whether you elected to seek the $1,000 tax exemption in your 1999/2000 tax return is irrelevant in respect of the tax consequences arising from the disposal of these shares.

Your capital loss from the sale will equal the cost of the shares/instalment receipts (($3.70 + $2.90 = $6.60) per share) less your proceeds from the disposal.

Consequently, your capital loss is: (2,000 x $6.60) – (2,000 x $4.32) = $4,560*

**The capital loss can only be used as an offset against other capital gains you may have made during the year. Otherwise, the loss would need to be carried forward for offset against other capital gains you may make in the future. Once offset against a capital gain, it will be the net gain which may or may not be subject to the 50% discount, depending on how long the gain asset was held.*

Example 14 - T3 Sale Shares

- As part of the T3 float you purchased 1,000 Instalment Receipts for $3.60 ($2.00 paid with your application, with a 2nd instalment paid on 29 May 2008).
- These shares were **not** subject to a trade restriction period.
- You have a cost base in respect of the IRs equivalent to $3.46 x 1,000 underlying Sale Shares, plus $3.46 x 40 Loyalty Rights.
- You sell 500 Sale Shares on 4 December 2012 for $4.32 each.
- For the purposes of this example we have ignored selling costs such as brokerage.

These shares were not acquired as part of an employee share scheme (ESS), therefore any ESS elections are irrelevant.

Under the capital gains tax provisions, your capital gain from the sale will equal your proceeds from the disposal less the cost of the shares ($3.46 per Sale Share).

Consequently, your capital gain is: (500 x $4.32) – (500 x $3.46) = $430

Disclaimer

This is a general description of the tax consequences, which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

This information has been prepared for the participants who are, and will continue to be, Australian tax residents. The information does not apply to:

(a) individuals engaged in foreign service;
(b) temporary residents of Australia for tax purposes;
(c) foreign tax residents; or
(d) individuals who are no longer employees of Telstra.

If you fall within these categories you should discuss the matter with your tax advisor.
The description of the capital gains tax consequences of your participation in TESOP 97 and/ or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation**.

The description of the capital gains tax consequences of your sale of T3 IRs in the 2006/07 year is based on **Class Ruling (CR 2007/51) issued by the Commissioner of Taxation.**

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 **seek guidance from your own registered tax adviser.**

Frequently Asked Questions & Answers – 2012/2013

Q. **What are TESOP 97 and TESOP 99?**
A. TESOP 97 – 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.

TESOP 99 – offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the 1999 additional public float of Telstra shares.

Q. **How do I find out what TESOP shares I have if I can't remember?**
A. 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 88 66 77 (overseas +61 2 8280 7755) or you can visit the Share Registrar's web site at http://www.linkmarketservices.com.au and select "Employee Plan Login". To gain access to data on your TESOP shares, you will need to select Telstra Corporation Limited from the drop-down list, enter in your Holder Identifier (HIN/SRN), your surname and postcode.

Q. **What do I need to do if I have TESOP 97 and/or TESOP 99 shares, still work with Telstra and have not sold any of my TESOP 97 or TESOP 99 shares or repaid my loans?**
A. You should include the dividends you received, together with the attached franking credits, as assessable income at Item 11, Boxes S, T and U of your 2012/13 tax return. This is the case even if the dividends were paid to you via the TESOP Trusts and even if part of the dividend has been applied to reduce your Telstra provided loans.

Q. **What are TESOP 97 loan shares and TESOP 97 extra loan shares?**
A. TESOP 97 Loan Shares are the shares purchased by employees as part of TESOP 97 using the interest free loan provided by Telstra (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 (maximum of 500 shares). The loans in relation to these shares were fully repaid on the payment of the 2011 interim dividend on 25 March 2011, at which time the Trustee transferred these shares to you.

Q. **How do I know whether I made an election to be immediately assessed on my TESOP 97 or 99 loan shares and TESOP 97 extra loan shares, subject to the $1,000 exemption, in my 1997/98 or 1999/2000 income tax return - if I can't remember?**
A. If the election was made it should have been retained with your copy of your 1997/8 or 1999/2000 income tax return and records. The election should not have been sent to the Australian Taxation Office when you lodged your return.

Q. **Can I change my mind about making a written election?**
A. No, if you made an election for TESOP 97 and TESOP 99 the election is irrevocable. It is also too late to make a written election in respect of your TESOP 97 or TESOP 99 shares if you have not already made the written election, unless the Commissioner of Taxation specifically allows you to do so. You should discuss this matter further with your tax adviser.

Q. **What do I need to do if I made the election?**
A. Nothing, the shares will only have further tax implications if disposed of.

Q. **What is the tax market value (TMV) and why is it important for me to know what it is?**
A. If the taxing point for your shares under the employee share scheme provisions happens prior to 1 July 2009, the TMV of your shares is the weighted average of the prices at which the shares were traded on the stock exchange in the one week up to and including the day of the deferred taxing point. If the taxing point for your shares happens after 1 July 2009, the TMV is the ordinary market value of your shares. (NB: The ATO has advised that it is reasonable to continue to use the weighted average actual price as a method for determining the market value after 1 July 2009).

It may be relevant in determining the cost base of your shares when calculating any capital gains/losses you may have made if you have disposed of your TESOP shares.

The tax market value of a share on a particular day is available from the Telstra Share Registry (1300 88 66 77).

Q. **What happens if I sold my shares, or some of my shares before 30 June 2013 but don't get paid for them until after that date?**
A. Generally, the relevant date on a sale of shares for capital gains tax purposes is the contract date. This means that if you made a contract to sell your shares in the year ending 30 June 2013 the tax consequences of selling your shares will generally be in the year ending 30 June 2013. You should discuss this matter further with your tax adviser.

Q. **If I sold my TESOP 97 or TESOP 99 shares in the last few years and calculated my Capital Gains Tax liability based on an incorrect cost base, what should I do?**

A. You are able to request an amended assessment from the ATO within 4 years of the date of the incorrect original assessment.

You only have a choice in relation to how you calculate your cost base for certain TESOP shares. The choice applies only to those TESOP shares subject to a trade restriction period (refer to the restriction period table in the Guide) and only where you sought the $1,000 tax exemption in your 1997/1998 tax return (in respect of your TESOP 97 shares) or in your 1999/2000 tax return (in respect of your TESOP 99 shares).

Q. **I find this all very confusing – where can I get some help?**

A. This is a very complex area of taxation law. Detailed guidance is available at www.telstra.com.au/abouttelstra/investor/my-shareholding/employee-shareholder-scheme/index.htm. However, if you have any further queries you should seek your own independent expert tax advice.

Disclaimer

This is a general description of the tax consequences, which can apply to your participation in TESOP 97 or TESOP 99. The tax consequences for you may be different depending on your own circumstances, particularly if you have participated in other employee share schemes, if you have any particular arrangements in relation to your shares or for shares you acquire otherwise than under TESOP 97 or TESOP 99.

All information provided is of a general nature only and circumstances may vary greatly between participants. The information has been prepared for participants who are, and will continue to be, Australian tax residents. The information does not apply to:

(a) individuals engaged in foreign service;

(b) temporary residents of Australia for tax purposes;

(c) foreign tax residents; or

(d) individuals who are no longer employees of Telstra.

If you fall within one of these categories you should discuss the matter with your tax advisor.

The description of the capital gains tax consequences of your participation in TESOP 97 and/ or TESOP 99 is based on **Class Ruling (CR 2001/28) issued by the Commissioner of Taxation.**

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 seek guidance from your own registered tax adviser.**

Glossary

- **1997 Public Offer Shares** – shares acquired through the public offer in November 1997.
- **1999 Public Offer Shares** – shares acquired through the public offer in October 1999.
- **2006 Public Offer Shares** – shares acquired through the public offer in November 2006.
- **2006 Bonus Loyalty Shares** – 1 for 25 bonus shares provided to shareholders who hold their 2006 Public Offer instalment receipts until 15 May 2008 and pay the final instalment on or by 29 May 2008.
- **Guaranteed Allocation Shares –** shares purchased by employees, with their own money, under the Commonwealth component of TESOP 99.
- **Tax Act** - the *Income Tax Assessment Act 1936* or the *Income Tax Assessment Act 1997*.
- **Tax Market Value** –if the taxing point for your shares under the employee share scheme provisions of the Tax Act happens prior to 1 July 2009 – the weighted average of the prices at which the shares were traded on the stock exchange in the one week up to and including the day on which the restriction period ends. This value is available from the Telstra Share Registry (1300 88 66 77).

  If the taxing point for your shares is determined under the employee share scheme provisions of the Tax Act and happens on or after 1 July 2009 – the ordinary market value of your shares.
- **Telstra** – Telstra Corporation Limited or a subsidiary of Telstra.
- **TESOP 97** – 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.
- **TESOP 97 Extra Loan Shares** – the extra 1 for 4 shares provided to employees who acquired Loan shares in TESOP 97.
- **TESOP 97 Extra Non-Loan Shares** – the extra 1 for 4 shares provided to employees who acquired Non-Loan Shares in TESOP 97.
- **TESOP 97 Loan Shares** – shares purchased by employees as part of TESOP 97 using the interest free loan provided by Telstra.
- **TESOP 97 Loyalty Shares** – the extra 1 for 10 shares provided to employees who acquired Public Offer Shares in the 1997 float of Telstra shares and held them for 12 months.
- **TESOP 97 Non-Loan Shares** – shares purchased by employees as part of TESOP 97 using their own money instead of the interest free loan provided by Telstra.
- **TESOP 99** – offer made to employees to acquire shares in Telstra under the Telstra Employee Share Ownership Plan as part of the 1999 additional public float of Telstra shares.
- **TESOP 99 Loan Shares** – shares acquired by employees as part of the Telstra component of TESOP 99 using the interest free loan provided by Telstra.
- **TESOP 99 Loyalty Shares** – the extra 1 for 10 shares provided under the Commonwealth component of TESOP 99 to employees who acquired Guaranteed Allocation Shares and held them until at least 2 November 2000.
- **TESOP Extra 99 Shares** – the extra 1 for 4 shares provided under the Commonwealth component of TESOP 99 to employees who acquired Guaranteed Allocation Shares.
- **Subsequent share purchases** – any other shares or instalment receipts acquired by an employee other than as part of TESOP 97, TESOP 99 or as part of the public float in 1997 or further public float in 1999.
- **Written Elections** – the election under tax law made by an employee before they lodged their 1997/98 Tax Return (affecting their TESOP 97 shares) and/or their 1999/2000 Tax Return (affecting their TESOP 99 shares).