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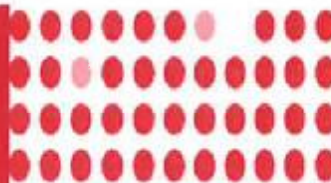
# Telstra Superannuation Scheme

for the year ended 30 June 2016

## FINANCIAL STATEMENTS

# Telstra Superannuation Scheme

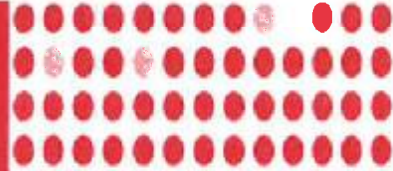
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# Telstra Superannuation Scheme

## Trustee Statement



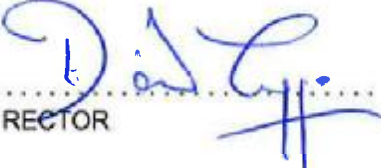
In the opinion of the Directors of Telstra Super Pty Ltd (ACN 007 422 522), Trustee of the Telstra Superannuation Scheme (Telstra Super):


- (a) the Financial Statements set out on pages 4 to 28 are properly drawn up so as to present fairly:
- (i) the Net Assets of Telstra Super as at 30 June 2016, and
  - (ii) the Change in Net Assets for the year ended on that date,

in accordance with Australian Accounting Standards and other mandatory professional reporting requirements; and

- (b) the operations of Telstra Super have been carried out in accordance with its Trust Deed dated 1 July 1990 (as amended) and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and Guidelines during the year.

This statement is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

  
.....  
DIRECTOR

  
.....  
DIRECTOR

Dated at Melbourne, this 4th day of August 2016.



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TELSTRA SUPERANNUATION SCHEME (ABN: 85 502 108 833)

REPORT BY THE INDEPENDENT APPROVED AUDITOR TO THE TRUSTEE AND MEMBERS

### Financial Statements

I have audited the financial statements of Telstra Superannuation Scheme for the year ended 30 June 2016 comprising the statement of net assets, statement of changes in net assets, summary of significant accounting policies, other explanatory notes and the Trustee statement.

### Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as the trustee determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of Telstra Superannuation Scheme.

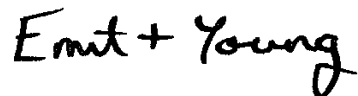
My audit has been conducted in accordance with Australian Auditing Standards. These Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Opinion

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of Telstra Superannuation Scheme as at 30 June 2016 and the changes in net assets for the year ended 30 June 2016.



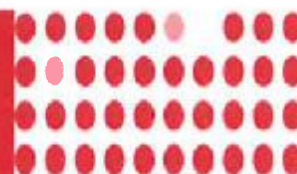
Ernst & Young



Brett Kallio  
Partner  
Melbourne  
4 August 2016

# Statement of Changes in Net Assets

For the year ended 30 June 2016

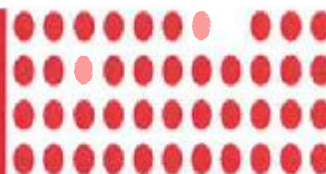


	Notes	2016 \$'000	2015 \$'000
<b>Investment Revenue</b>			
Interest		120,744	135,148
Dividends & Distributions		412,720	377,529
Property Trust Income		92,639	87,965
Other Investment Income		6,473	1,292
Movement in Net Market Value of Investments	14	(402,201)	406,910
Net Foreign exchange gains		114,680	473,815
		<u>345,055</u>	<u>1,482,659</u>
<b>Contribution Revenue</b>			
	3, 8(a)		
Employer Contributions		577,571	546,286
Member Contributions		173,477	207,366
Government Contributions		2,306	2,448
Transfers from other Funds		292,636	323,577
		<u>1,045,990</u>	<u>1,079,677</u>
<b>Other Revenue</b>			
Group Life Insurance Proceeds		26,351	21,552
Other Income		12,205	11,369
		<u>38,556</u>	<u>32,921</u>
<b>TOTAL REVENUE</b>		<b>1,429,601</b>	<b>2,595,257</b>
<b>Less:</b>			
<b>Benefits Paid</b>		<b>831,396</b>	<b>726,788</b>
<b>Investment Expenses</b>		<b>79,531</b>	<b>62,432</b>
<b>Administration Expenses</b>	12	<b>47,154</b>	<b>43,826</b>
<b>Group Life Insurance Premiums</b>		<b>34,631</b>	<b>45,066</b>
<b>TOTAL EXPENSES</b>		<b>992,712</b>	<b>878,112</b>
<b>CHANGE IN NET ASSETS BEFORE INCOME TAX</b>		<b>436,889</b>	<b>1,717,145</b>
<b>INCOME TAX EXPENSE</b>	15	<b>(18,090)</b>	<b>(119,079)</b>
<b>CHANGE IN NET ASSETS AFTER INCOME TAX</b>		<b>418,799</b>	<b>1,598,066</b>
<b>NET ASSETS AVAILABLE AT THE BEGINNING OF THE YEAR</b>		<b>17,150,107</b>	<b>15,552,041</b>
<b>NET ASSETS AVAILABLE AT THE END OF THE YEAR</b>		<b>17,568,906</b>	<b>17,150,107</b>
<b>LESS RESERVES</b>	3, 5	<b>87,413</b>	<b>67,604</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>17,481,493</b>	<b>17,082,503</b>

The accompanying notes form an integral part of the financial statements.

# Statement of Net Assets

As at 30 June 2016



	Notes	2016 \$'000	2015 \$'000
<b>Assets</b>			
Cash and Cash Equivalents		1,494,401	1,711,093
Australian Fixed Interest Securities	20	3,304,021	2,750,215
International Fixed Interest Securities	20	851,433	752,870
Australian Equities	20	4,337,909	4,464,002
International Equities	20	3,828,831	3,939,974
Hedge Funds	20	699,651	909,078
Private Equity	20	538,236	602,619
Property	20	2,182,528	1,673,935
Infrastructure	20	638,604	593,326
Derivative assets	20	32,605	417,591
<b>Receivables</b>			
Investment Income Receivable		69,869	59,422
Unsettled Investment Sales		54,697	150,323
Contributions Receivable		1,340	12,381
Other Receivables		5,397	899
Prepayments		698	1,090
<b>Other Assets</b>			
Property, Plant and Equipment	10	1,800	1,572
<b>TOTAL ASSETS</b>		<b>18,042,020</b>	<b>18,040,390</b>
<b>Liabilities</b>			
Benefits Payable		50	521
Accounts Payable	13	34,765	32,561
Unsettled Investment Purchases and payables		135,417	132,812
Derivative Liabilities	20	70,325	461,156
Current Income Tax Liabilities	15	35,628	3,647
Deferred Income Tax Liabilities	15	196,929	259,586
<b>TOTAL LIABILITIES</b>		<b>473,114</b>	<b>890,283</b>
<b>NET ASSETS</b>		<b>17,568,906</b>	<b>17,150,107</b>
<b>LESS RESERVES</b>	<b>3, 5</b>	<b>87,413</b>	<b>67,604</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>17,481,493</b>	<b>17,082,503</b>

The accompanying notes form an integral part of the financial statements.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 1

### Operation of the Scheme

Telstra Super was established by a Trust Deed dated 1 July 1990 to provide benefits for the employees of Telstra Corporation Limited (Telstra) and its related companies. The Deed has been amended from time to time. Telstra Super is a hybrid fund with both defined benefit and accumulation divisions. The defined benefit divisions are closed to new members. Telstra Super is domiciled in Australia and the address of the Scheme is 215 Spring Street, Melbourne, VIC 3000.

Benefits of members in the defined benefit divisions are calculated by way of formulae as defined in the Trust Deed. Benefits of members in the accumulation divisions are equal to the member account balance which is credited or debited each year with contributions, net investment income, expenses and income taxes.

The Trustee of the Scheme is Telstra Super Pty Ltd and it is the holder of a Registrable Superannuation Entity Licence (Licence No. L0001311). Telstra Super is a Regulated Fund in accordance with the SIS Act, and is a Registrable Superannuation Entity (registration No. R1004441).

## NOTE 2

### Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these Financial Statements are:

#### (a) Compliance with Australian Accounting Standards, the Trust Deed and legislative requirements

The Financial Statements are general purpose statements which have been drawn up in accordance with Australian Accounting Standards, including AAS 25 "Financial Reporting by Superannuation Plans" (AAS25), the Superannuation Industry (Supervision) Act 1993 and Regulations (the SIS Act) and the provisions of the Trust Deed.

The Financial Statements were approved by the Board of Directors of the Trustee on 4 August 2016. The Financial Statements are presented in Australian dollars, which is the functional currency of Telstra Super. Amounts have been rounded to the nearest thousand dollars except where otherwise noted. Certain comparative amounts within the Statement of Net Assets and the notes to the financial statements have been reclassified to conform with changes in Accounting Standards or the current year's presentation. Any such changes have had no impact on the net asset position or performance of the Scheme.

International Financial Reporting Standards (IFRSs) form the basis of Australian Accounting Standards. Since AAS25 is the principal standard that applies to the Financial Statements, other standards, including AASB, are also applied where necessary except to the extent that they differ from AAS25.

No new standards have had an impact this financial year; however, AASB 1056 will apply from 1 July 2016. This new standard specifies requirements for general purpose financial statements of superannuation entities and results in significant changes to the presentation of financial statements, measurement and disclosure of defined benefit obligations and disclosure of disaggregated financial information. Key changes include:

- New presentation format, including the introduction of a **statement of changes in member benefits** to disclose member related transactions and the **statement of changes in equity** to disclose equity held in superannuation entities in the form of reserves, and a **statement of cash flows**.

- A requirement for the measurement and presentation of defined benefit and defined contribution obligations to be included in the **statement of financial position**. This would result in employer shortfalls being disclosed in the statement of financial position.

- Assets and liabilities to be measured at fair value in accordance with **AASB 13 Fair Value Measurement** with the exception of member benefits, tax assets/liabilities, insurance assets/liabilities and employer sponsor receivables.

- Increased alignment with other Australian Accounting Standards.

Management will continue to assess the requirements of AASB 1056 as there will be significant changes to the format and presentation of the financial statements.

#### (b) Cash and Cash Equivalents

Cash comprises on-demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Cash and Cash Equivalents at 30 June 2016 comprised \$1,372m under custody, and \$122m held directly by Telstra Super (2015: \$1,598m and \$130m).

#### (c) Significant Accounting Judgements, Estimates and Assumptions

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates, and their underlying assumptions are reviewed on an ongoing basis. The key assumptions regarding investment valuations and deferred tax assets are disclosed in Notes 2 (d) and 2 (j).

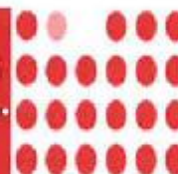
The amount of accrued benefits has been actuarially determined based on certain estimates and assumptions. The key assumptions are discussed in Note 4.

Accounting standard AASB 10: Consolidated Financial Statements, deals with the issue of whether entities owned and/or controlled by another entity should be consolidated into the financial statements of the holding entity. Telstra Super meets the definition of an investment entity and therefore is not required to consolidate its investees. Refer Note 16 for further details.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## (d) Investments and Derivatives

Investments and derivatives of Telstra Super are initially recognised at fair value plus transaction costs. After such initial recognition, investments and derivatives are measured at net market value as at balance date and movements in the net market value of these assets are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Net market values of investments and derivatives have been determined as follows:

- shares in listed entities at the last sale price quoted by the Stock Exchange at close of business at balance date;
- fixed interest securities and short term money market investments at prices quoted by independent pricing sources at close of business at balance date;
- interests in pooled investment vehicles including property, infrastructure, hedge funds, and private equity at the redemption price as quoted by the investment manager;
- interests in unlisted trusts and collective investment schemes at the most recent valuation obtained from the managers adjusted for subsequent calls, redemptions and any known differences in underlying values; and
- derivative financial instruments at market values at the close of business at balance date.

Estimated costs of realisation have been deducted in determining net market value. Net market value is considered a reasonable approximation of fair value.

Investments are held for the long-term purpose of providing benefits to members on their retirement, death, or termination of employment.

Derivative assets and derivative liabilities qualify for offset where there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis and to realise the assets and settle the liabilities simultaneously.

## (e) Receivables and Other Payables

Receivables are carried at nominal amounts due which approximate net market value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is evidence of objective impairment. Such evidence may include indicators that the debtor is experiencing significant difficulty, default, delinquency, or appointment of a liquidator.

Other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to Telstra Super and are carried at nominal amounts and are carried at nominal amounts which approximate net market value. Payables are normally settled within 30 days.

## (f) Property, Plant and Equipment

Items of property, plant and equipment are either owned or leased under an operating lease. Owned items are recorded at cost and depreciated over their estimated useful lives to Telstra Super.

Depreciation rates for major categories are:	2016	2015
Computer Software, development and equipment	25% - 40%	25% - 40%
Office Furniture and Equipment	7.5% - 35%	7.5% - 35%

Depreciation is calculated on a straight line basis over the estimated useful life of the assets. The assets' residual values, useful life and amortisation methods are reviewed, and adjusted if appropriate, each financial year. An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss from derecognition is included in the Statement of Changes in Net Assets in the year the asset is derecognised.

Operating leases are not capitalised and rental payments are charged to the Statement of Changes in Net Assets in the period in which they are incurred.

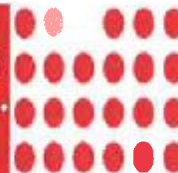
## (g) Functional and Presentation Currency

Both the functional and presentation currency of Telstra Super is Australian dollars (\$).

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, monetary assets and liabilities denominated in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting currency translation differences are brought to account in determining the Change in Net Market Value of Investments for the year.

## (h) Benefits Payable

Benefits payable comprises the entitlements of members who ceased employment prior to the year end but had not been paid their benefit at that time. Benefits payable are normally settled within 30 days.



### (i) Administration Expenses

Telstra Super is a self-administered fund and all administration expenses are paid directly by Telstra Super. Administration expenses are recognised in the period in which the expenditure is incurred.

### (j) Income Tax

Income tax expense for the year comprises current and deferred tax and is recognised in the Statement of Changes in Net Assets. Current income tax liability is the expected tax payable on the taxable income for the year less any instalment payments that have been paid as at balance date.

Deferred tax assets and liabilities are provided for using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The Scheme is currently in a net deferred tax liability position compared to a deferred tax asset position last financial year. These assets are recognised at tax rates of 15% for revenue account gains/losses and 10% for net capital gains.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at balance date.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxation authority.

Telstra Super is a Regulated Superannuation Scheme under the Superannuation Industry (Supervision) Act 1993 (the SIS Act) and accordingly is entitled to the concessional income tax rate of 15%.

### (k) Goods and Services Tax (GST)

Where applicable, GST incurred by Telstra Super that is not recoverable from the Australian Taxation Office (ATO), has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST included in the value. The amount of any GST recoverable from, or payable to, the ATO is included as a receivable or payable in the Statement of Net Assets.

### (l) Derecognition of Financial Assets and Financial Liabilities

A financial asset is derecognised when the right to receive cash flows from the asset has expired or substantially all the risks and rewards of ownership of the asset have been transferred to another party. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### (m) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**Changes in Net Market Values.** Calculated as the difference between the Net Market Value at year end or consideration received (if sold during the year) and net market value as at the prior year end or cost (if the investment was acquired during the period).

**Contributions and Transfers In.** Recognised in the period in which the control and the benefit of the revenue has been attained and are recorded gross of any tax. Contributions consist of employer contributions, member contributions, and Government Co-Contributions.

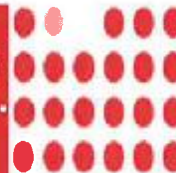
**Interest.** On an effective basis as it accrues, using the interest rate of the instrument calculated at the acquisition date.

**Group Life Insurance Proceeds.** Insurance claim amounts are recognised where the insurer has agreed to pay the claim lodged and has transferred the claim amount to Telstra Super.

**Dividends, Distributions, and Property Trust Income.** When the right to receive payment is established.

### (n) Liability for Accrued Benefits

The liability for accrued benefits is actuarially measured on at least a triennial basis and represents the value of Telstra Super's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future benefit payments which arise from membership of Telstra Super up to the reporting date. The present value is reported in the notes and is determined in accordance with Guidance Note 454 issued by the Institute of Actuaries of Australia.



### (o) Employee Entitlements

#### Salaries, Annual Leave and Sick Leave

Liabilities for salaries (including non-monetary benefits) and annual leave are recognised in the provisions for employee entitlements and are represented by the amount that Telstra Super has a present obligation to pay at balance date. The provisions have been calculated based on remuneration rates that Telstra Super expects to pay when the employee entitlement is settled. Related on-costs are included. No liability for sick leave has been recognised as it is non-vesting and no additional cost is incurred by staff absence. Sick leave is recognised when the leave is taken and is measured at the rates paid or payable.

#### Long Service Leave

The liability for long service leave is recognised in the provision for employee entitlements and is measured as the present value of the estimated future cash outflows to be made by Telstra Super at balance date. Liabilities for employee entitlements that are not expected to be settled within twelve months are discounted using the rates attached to corporate bond securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in salary rates, Telstra Super's experience with staff departures, and the probability that employees as a group will achieve an unconditional qualifying period of service. Related on-costs have also been included in the liability.

#### Superannuation Scheme

The employees of Telstra Super are eligible to be members of Telstra Super, and contributions are made on their behalf. The majority of staff are accumulation members, and contributions for these staff are charged as expenses as the contributions are paid or become payable. Contributions for staff, who are defined benefit members, are also charged as expenses when due and payable. The Trustee has no obligation or entitlement to any deficit/surplus and therefore AASB 119 has not been applied. Refer to Note 16 (b) for details of the defined benefit surplus/(deficit).

The funding policy adopted in respect of the Defined Benefit divisions is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. An actuarial investigation is carried out every three years. As at 30 June 2015, the Actuary for the Scheme, Mr. M. Burgess FIAA completed an actuarial investigation of the Defined Benefit divisions of Telstra Super and reported that Telstra Super was in a satisfactory funding position. Under the SIS legislation, a fund is in an "Satisfactory Financial Position" when the market value of assets (excluding any amount held to meet the ORFR) exceed the vested benefits.

As per the recommendations contained in the Actuary's report as at 30 June 2015, Telstra and certain associated employer sponsors have continued to make employer contributions to Telstra Super in respect of Defined Benefit and Accumulation divisions of the Scheme at required rates.

The Funding Deed between the Trustee and Telstra was rescinded on 21 September 2015, noting that APRA Prudential Standard 160 (Defined Benefit Matters) imposes various funding requirements for Defined Benefit funds. Under the terms of the Deed of Rescission, the Trustee and Telstra agreed to monitor and report each month on the Vested Benefit Index (VBI) - the ratio of fund assets to members' vested benefits of the Defined Benefit divisions of Telstra Super. The Actuary provides an opinion on a quarterly basis as to the reasonableness of the then current employer contribution rate. Contributions were made at a rate of 9.50% for accumulation members for the entire year and 15% for defined benefit members. The VBI for the Defined Benefits divisions at 30 June 2016 calculated as a monthly outcome averaged over a calendar quarter was 110% (2015: 112%).

The Trustee has a group policy in place with a third party to insure death and disability benefits in excess of vested benefits. The Trustee also has an Insurance Reserve in place as part of this arrangement to ensure that any death and disability benefits that may not be covered by the group policy are funded. The amount of this and other reserves are disclosed in Note 5.

### NOTE 3

#### Funding Arrangements

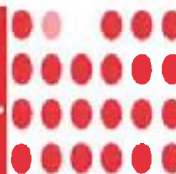
Funding requirements for the Accumulation divisions of the Fund are determined by Government legislation and the Trust Deed, whilst funding requirements for the Defined Benefit divisions of the Fund are impacted by various financial and demographic factors including investment earnings, salary inflation, and benefit claims experience.





# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 4

### Liability for accrued benefits

The liability for accrued benefits has been determined on the basis of the present value of expected future payments which arose from membership of the Fund as at the measurement date. The liability has been determined by reference to expected future salary levels and by the application of a market-based discount rate and relevant actuarial assumptions. The valuation of accrued benefits is undertaken by the Actuary on a triennial basis in accordance with the Australian Accounting Standard AAS25, Financial Reporting by Superannuation Plans. The last triennial valuation of \$17,150.2 million was as at 30 June 2015 and a summary of that report is attached to these statements. Updates are provided annually by the Actuary, and valuations for 30 June 2016 and 2015 are shown below.

	2016 \$'000	2015 \$'000
Liability for accrued benefits at 30 June	17,342,200	16,846,000

The main assumptions used to determine the actuarial value of accrued benefits at the last review date were:

- The future rate of net investment return on the Scheme's assets would be 4.3% (2015: 4.3%).
- The future rate of salary inflation would be 3.5% (2015: 3.5%).

The decreased gap between expected net investment returns and salary inflation compared to last financial year has, in the absence of other factors, resulted in an increase to the Accrued Benefits figure.

## NOTE 5

### Vested Benefits and Reserves

Vested Benefits are benefits that are not conditional upon continued membership of Telstra Super and include benefits that members were entitled to receive had they terminated their membership at balance date. Refer to Note 3 for details of the funding arrangements with Telstra.

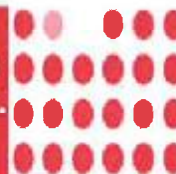
Accumulation members' vested benefits are fully funded and any surplus/(deficit) relates to the vested benefits in the Defined Benefit divisions.

At 30 June	2016 \$'000	2015 \$'000
<b>Net Assets</b>	<b>17,568,906</b>	<b>17,150,107</b>
<b>Vested Benefits</b>	<b>17,296,324</b>	<b>16,790,961</b>
Insurance Reserve	5,000	5,000
Operational Risk Financial Reserve	45,683	33,779
Administration Reserve	36,480	28,575
Licensing Reserve	250	250
<b>Total Reserves</b>	<b>87,413</b>	<b>67,604</b>
<b>Surplus</b>	<b>185,169</b>	<b>291,542</b>
Increase/(Decrease) in Reserves for the financial year	19,809	(1,763)

The reserves provide the Trustee with access to funds to protect members' interests and mitigate the impact of an adverse event regarding the operational and insurance activities of the Scheme. The Trustee has allocated the amounts of \$5m for the purpose of maintaining a self insurance reserve, and \$250,000 for a licensing reserve as required by the Trustee's RSE licence. Under APRA Prudential Standards, the Scheme is required to maintain an Operational Risk Financial Reserve (ORFR) of at least 0.25% of the Scheme's net assets and this requirement has now been met. During the financial year an amount of \$11m was transferred from the Administration Reserve to the ORFR and interest of \$0.904m was received. The change in the balance of the Administration Reserve reflects the allocation of this year's operating surplus of \$18.905m less a transfer to the ORFR during the year of \$11m. Transfers in and out of all reserves are made only at the authorisation of the Trustee and in accordance with the Scheme's Reserves Policy.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 6

### Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for accrued benefits.

## NOTE 7

### Auditors Remuneration

Amounts received, or due and receivable, by the auditor for:	2016 \$'000	2015 \$'000
Auditing the financial Statements	294	269
Other Services	130	-
<b>TOTAL</b>	<b>424</b>	<b>269</b>

## NOTE 8

### Related Parties

#### (a) Employer Company

Telstra Corporation is the principal employer. Reach Services Australia Ltd, Sensis Pty Ltd, 3GIS Pty Ltd, Foxtel Pty Ltd, Telstra Super Financial Planning Pty Ltd, and Telstra Super Pty Ltd (as trustee for Telstra Super) are associated employer sponsors. Of total employer contributions of \$577m (2015: \$546m) as disclosed in the Statement of Changes in Net Assets, those made by Telstra and associated employers totalled \$379m (2015: \$369m). Contributions are made in accordance with recommendations of the Actuary, the Trust Deed, the Funding Deed, and relevant legislative requirements. Telstra Corporation also provides Telstra Super with telecommunication services. Such services are provided at arm's length and on normal commercial terms.

Telstra Super held the following investments in Telstra Corporation Limited at market value as at 30 June:

	2016 \$	2015 \$
Shares	182,836,625	243,135,729
Fixed Interest Securities	121,781,612	14,707,114
Dividends received for the year	10,993,132	11,061,293
Interest received for the year	826,926	736,932

#### (b) Trustee and Key Management Personnel

Telstra Super Pty Ltd (TSPL) is the trustee of Telstra Super and is the holder of a Registrable Superannuation Entity Licence (Licence No. L0001311).

The following people were Directors of TSPL during the financial year:

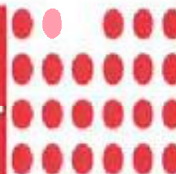
David Leggo (Chairman)  
 David Burns (appointed 12 October 2015)  
 Bronwyn Clere  
 Scott Connolly (appointed 9 June 2016)  
 Michael Fisher (resigned 8 June 2016)  
 Yolande Foord (appointed 26 August 2015)  
 Carol Gee  
 Mark Hall (resigned 9 October 2015)  
 John Jamieson  
 David Kirton (resigned 22 June 2016)  
 Ian McCarthy (resigned 8 June 2016)

Subsequent to financial year end, Maria Phillips was appointed as a director at the August 4 2016 Board meeting.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



Each Director attended the following meetings during the year as a member of the Board or relevant Committee.

Name	Board		Committees					
	Held	Attended	Claims Review		Audit, Risk & Compliance		Remuneration	
			Held	Attended	Held	Attended	Held	Attended
D Leggo	10	10					3	3
D Burns	6	6						
B Clere	10	10			4	4		
S Connolly	1	1						
M Fisher	9	9						
Y Foord	8	7						
C Gee	10	9						
M Hall	4	4			2	2		
J Jamieson	10	9			6	6	3	3
D Kirton	10	10	6	6	6	6	3	3
I McCarthy	9	9	6	6	6	6		

Other key management personnel who have had authority for planning, directing and controlling the activities of Telstra Super during the financial year were as follows:

Chris Davies (Chief Executive Officer)

Jim Christensen (Chief Investment Officer - resigned 18 December 2015)

Paul Curtin (Chief Financial Officer & GM Strategy & Technology)

Graeme Miller (Chief Investment Officer - appointed 2 May 2016)

## (c) Compensation of the Trustee and Key Management Personnel

	2016	2015
	\$000	\$000
Short Term - salaries, fees, bonuses and non monetary benefits	2,623	2,637
Superannuation Contributions	161	153
	<b>2,784</b>	<b>2,790</b>

Where instructed, a Director's income is paid direct to their employer. Directors remuneration excludes insurance premiums of \$329,697 (2015: \$283,789) paid by Telstra Super Pty Ltd.

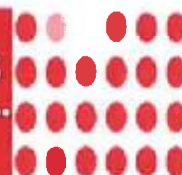
The table shown below lists the number of Directors and Key Management Personnel whose income falls within the following bands for financial years ending 30 June.

Amounts Falling Between...	2016	2015
\$0 and \$9,999	1	0
\$20,000 and \$29,999	1	0
\$50,000 and \$59,999	1	8
\$60,000 and \$69,999	6	0
\$70,000 and \$79,999	1	0
\$200,000 and \$209,999	0	1
\$220,000 and \$229,999	1	0
\$490,000 and \$499,999	1	0
\$520,000 and \$529,999	0	1
\$620,000 and \$629,999	0	1
\$710,000 and \$719,999	1	0
\$770,000 and \$779,999	1	0
\$960,000 and \$969,999	0	1



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## (d) Fees and Reimbursements

A fee is paid to the trustee company, Telstra Super Pty Ltd for providing trustee services. The fee charged to Telstra Super for providing trustee services totalled \$921,567 (2015: \$813,429).

## (e) Membership of Telstra Super

Certain Directors and key management personnel are members of Telstra Super. Their membership terms and conditions are identical to other members of Telstra Super.

## (f) Related Parties

### (i) Telstra Super Financial Planning Pty Ltd (TSFP)

Is an investment wholly owned by Telstra Super Pty Ltd as Trustee for Telstra Super. The principal activity of the company during the course of the financial year was to provide financial planning advice to members of Telstra Super. Telstra Super held the following investment in TSFP at net asset value as at 30 June.

	2016	2015
Shares	\$ 3,292,968	\$ 4,585,653

No dividends have been declared or paid. Consolidated accounts have not been prepared due to the investment entity exemption.

The following Directors or Officers of TSPL were also Directors of TSFP during the financial year:

David Leggo	Chris Davies
Bronwyn Clere	Ian McCarthy (resigned 7 June 2016)

### (ii) Fees and Reimbursements

TSFP is responsible for direct expenditure incurred. Shared costs with Telstra Super are allocated on a fair and equitable basis. Transactions between the parties comprised of fees charged by TSFP to Telstra Super for providing financial advice to members \$11,600,004 (2015: \$13,199,406) and fees charged by Telstra Super to TSFP for in-house administration support and services provided in regard to TSFP Investment Products \$1,422,000 (2015: \$1,603,045). The TSFP fee for providing financial advice to members is a flat fee for service as agreed to by the board of Telstra Super. At 30 June 2016 both TSFP and Telstra Super had nil receivables (TSFP/TSPL 2015 \$nil).

### (iii) Telstra Super Sub Trusts.

Several Investments are wholly owned by Telstra Super. Details of these entities have been disclosed within Note 19.

## NOTE 9

### Segment Information

Telstra Super operates solely to provide superannuation benefits to members and beneficiaries and operates in Australia only. Revenue is derived from investments and contributions.

## NOTE 10

### Property, Plant and Equipment (refer note 2(f))

	2016	2015
	\$'000	\$'000
Office Furniture and Equipment at cost	4,893	4,044
Less Accumulated Depreciation	3,093	2,472
<b>TOTAL Property Plant &amp; Equipment</b>	<b>1,800</b>	<b>1,572</b>

## NOTE 11

### Lease Commitments (refer note 2(f))

	2016	2015
	\$'000	\$'000
Operating leases of plant, property and equipment, not provided for in the accounts, and payable		
Not later than one year	1,603	1,475
Later than one year less than five years	2,017	761
Later than five years	-	-
<b>TOTAL</b>	<b>3,620</b>	<b>2,236</b>

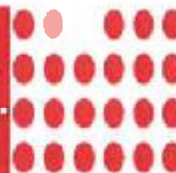
Operating lease expenses recognised for the year:

	2016	2015
	\$'000	\$'000
	1,915	1,975

There are no restrictions imposed on Telstra Super in regard to finance and operating leases. There are also no purchase or escalation option clauses in the leasing arrangements.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 12

### Administration Expenses

	2016 \$000	2015 \$000
Salaries and related employment costs	21,893	18,793
Trustee Expenses	895	853
Professional and Audit Fees	2,195	1,650
Member Communication Expenses	2,325	1,718
Office Rental and Expenses	6,028	5,603
Financial Planning Service Fees	11,924	13,210
APRA Levy	1,725	1,790
Other Expenses	169	209
<b>Total Administration Expenses</b>	<b>47,154</b>	<b>43,826</b>

## NOTE 13 Accounts Payable

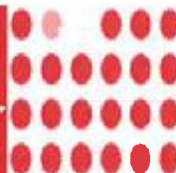
	2016 \$000	2015 \$000
Investment Expenses Payable	11,869	15,122
Administration Expenses Payable	2,828	2,065
Employee Entitlements	3,239	3,166
Unallocated Funds	16,829	12,208
<b>Total Accounts Payable</b>	<b>34,765</b>	<b>32,561</b>

## NOTE 14 Movements in Net Market Value of Investments

	2016 \$000	2015 \$000
<b>(i) Investments Held at Balance Date</b>		
Cash	8,190	-
Australian Fixed Interest Securities	540	5,046
International Fixed Interest Securities	17,088	8,261
Australian Equities	(201,471)	(31,743)
International Equities	(145,991)	185,819
Hedge funds	(22,188)	21,683
Private Equity	(57,062)	(13,992)
Property	185,576	98,277
Infrastructure	7,315	9,728
Derivatives	6,867	15,832
	<b>(201,136)</b>	<b>298,911</b>
<b>(ii) Investments Realised during the year</b>		
Cash	25,802	-
Australian Fixed Interest Securities	1,507	26,622
International Fixed Interest Securities	6,351	1,369
Australian Equities	(55,574)	26,043
International Equities	(137,117)	22,959
Hedge Funds	(22,800)	2,092
Private Equity	(448)	(980)
Property	5,596	(23,437)
Infrastructure	(12,707)	9,826
Derivatives	(11,675)	43,505
	<b>(201,065)</b>	<b>107,999</b>
<b>Total Movements in Net Market Values</b>	<b>(402,201)</b>	<b>406,910</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 15

### Income Tax

The major components of income tax expense for the years ended 30 June 2016 and 2015 are:

	2016 \$'000	2015 \$'000
<b>Current income tax expense</b>		
Income tax payable current year	91,444	47,333
Adjustments in respect of prior years	(10,698)	(8,323)
	<b>80,746</b>	<b>39,010</b>
<b>Deferred income tax expense</b>		
Relating to origination and reversal of temporary differences	(62,650)	78,566
Adjustments in respect of deferred income tax of previous years	(6)	1,503
	<b>(62,656)</b>	<b>80,069</b>
<b>Income tax expense reported in Statement of Changes in Net Assets</b>	<b>18,090</b>	<b>119,079</b>

A reconciliation between prima facie income tax expense and income tax expense as reported in the Change in Net Assets before Income Tax is as follows:

	2016 \$'000	2015 \$'000
<b>Changes in Net Assets before Income Tax</b>	<b>436,889</b>	<b>1,717,145</b>
<b>Prima facie income tax expense at the tax rate of 15%</b>	<b>65,533</b>	<b>257,572</b>
<b>Increase in income tax expense due to:</b>		
Benefits Paid	124,710	109,018
No TFN Contributions Tax	(123)	33
Imputation & Foreign Tax Offsets Gross Up	12,983	12,291
Non-Deductible Expenses	13	2,229
<b>Decrease in income tax expense due to:</b>		
Non-Assessable Contributions and Transfers from other Funds	(69,816)	(79,475)
Differences Between Tax and Accounting Investment Income	15,767	(80,587)
Group Life Proceeds, Notional Insurance and Anti-Detriment	(6,402)	(5,550)
Adjustments in respect of Current Income Tax of previous years	(10,706)	(6,820)
Allocated Pension Exempt Income	(22,616)	(11,519)
Imputation & Foreign Tax Offsets	(91,253)	(78,113)
<b>Income tax expense reported in Statement of Changes in Net Assets</b>	<b>18,090</b>	<b>119,079</b>

#### Current Income Tax Liability at 30 June relates to the following:

Income tax payable current year	91,444	47,333
Less payments made during the year	(55,816)	(43,686)
	<b>35,628</b>	<b>3,647</b>

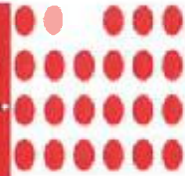
#### Deferred Income Tax Assets and Liabilities at 30 June relates to the following:

Contributions receivable	198	1,830
Investment income receivable	7,303	5,468
Realised and Unrealised Gains on investments	251,463	308,023
Expense provisions	(549)	(545)
Imputation Tax Offsets	(11,217)	-
Less Allocated Pension Exempt Income share of Gains/Losses	(50,269)	(55,190)
<b>Net Deferred Income Tax Liabilities</b>	<b>196,929</b>	<b>259,586</b>



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 16

### Employee Entitlements (refer note 2(o))

#### (a) Aggregate employee leave entitlements, including on-costs

	2016	2015
	\$000	\$000
Current	2,490	2,507
Non Current	736	608
<b>Total</b>	<b>3,226</b>	<b>3,115</b>

Employees of Telstra Super are entitled to long service leave after seven years of service. The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

	2016	2015
Assumed rate of increase in wage and salary rates	2.91%	3.19%
Discount rate	2.86%	5.42%

#### (b) Superannuation Scheme

There are 7 employees of Telstra Super who are Defined Benefit members of Telstra Super. Their share, on a pro-rata basis, of the assets (at net market value), the accrued benefits, and the vested benefits are as follows:

	2016	2015
	\$000	\$000
Proportionate share of Telstra Super assets at 30 June	2,349	2,172
Accrued benefits at 30 June	2,186	1,984
<b>Excess of fund assets over accrued benefits</b>	<b>163</b>	<b>188</b>
<b>Vested Benefits</b>	<b>2,139</b>	<b>1,938</b>

An actuarially determined surplus or deficit in relation to these employees has not been recognised in the financial statements as the Trustee has elected not to adopt AASB 119. During the year, employer contributions of \$1,973,046 were paid/payable to the Scheme in respect of employees (2015: \$1,724,682).

## NOTE 17

### Commitments and Contingent Liabilities

Telstra Super has outstanding commitments and contingent liabilities as part of its business operations. These represent uncalled elements in respect of investments, death and TPD claims received and unpaid, litigation, as well as contractual arrangements entered into with third parties. Telstra Super also has bank guarantees in place covering rental and office fitouts. Amounts as at 30 June were as follows:

	2016	2015
	\$000	\$000
Investment Commitments	277,217	208,996
Death and TPD Claims	24,230	42,425
Expenditure Commitments	2,349	2,133
Litigation	822	608
Bank Guarantees	894	894
<b>Total</b>	<b>305,512</b>	<b>255,056</b>

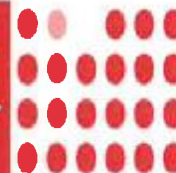
## NOTE 18

### Significant Events after Balance Date

Between 30 June 2016 and the date of approval of this financial report, there have been no matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Scheme.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## NOTE 19

### Related Party Investments

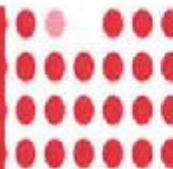
The accounting standard **AASB 10: Consolidated Financial Statements**, deals with the issue of whether entities owned and/or controlled by another entity should be consolidated into the financial statements of the holding entity. Telstra Super meets the definition of an investment entity and therefore is not required to consolidate its investees, and instead must recognise and measure the investees at fair value through its operating result. The criteria which define an investment entity are, as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The table below lists details of related party investments held. The maximum exposure or loss is limited to the net market value. The net market value of the exposure will change throughout the period and in subsequent periods, and will cease once the investments are disposed.

	Ownership Interest 2016	
	\$000	%
Telstra Super Financial Planning Pty Ltd	3,293	100.00
TSPL Brisbane Sub Trust	165,652	100.00
TSPL Woollies Sub Trust	157,322	100.00
TSPL BTF Trust	39,319	100.00
TSPL FSPT Trust	73,052	100.00
TSPL CLP Trust	443,732	100.00
TSPL BP Trust	236,788	100.00
FDC Co Investment Trust	59,211	100.00
FDC Co Investment Trust - Brandon	24,885	100.00
Northgate Investment Trust	58,345	100.00
Australian Commercial Wharf Towers	151,885	50.00
Omega Global Corporate Bond Fund	70,446	60.40
	<b>1,483,930</b>	
	Ownership Interest 2015	
	\$000	%
Telstra Super Financial Planning Pty Ltd	4,586	100.00
TSPL Brisbane Sub Trust	158,356	100.00
TSPL Woollies Sub Trust	146,535	100.00
TSPL BTF Trust	33,161	100.00
TSPL FSPT Trust	58,251	100.00
TSPL CLP Trust	260,496	100.00
TSPL BP Trust	193,411	100.00
FDC Co Investment Trust	53,749	100.00
FDC Co Investment Trust - Brandon	29,409	100.00
Northgate Investment Trust	62,943	100.00
Australian Commercial Wharf Towers	69,408	50.00
Omega Global Corporate Bond Fund	81,026	60.00
	<b>1,151,331</b>	

The Scheme has a controlling interest in the related party investments. As at 30 June there are no significant restrictions on the ability of an unconsolidated subsidiary to pay income or repay loans to the Scheme. In addition, the Scheme does not have any current commitments or intentions to provide financial or other support to the related party investments.



### NOTE 20

#### Financial Instruments and Risk Management

##### (a) Financial Risk Management Objectives, Policies and Processes

The Investments of Telstra Super are managed on behalf of the Trustee by appointed managers and the internal investment team. All investments of Telstra Super are held on behalf of the Trustee by J.P. Morgan acting as the global custodian. Each investment manager is required to invest the assets managed by it in accordance with the terms of a written mandate. The Trustee has determined that appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's Investment Strategy. Telstra Super's principal financial instruments, other than derivatives, comprise equity securities, fixed interest securities, interests in pooled investment vehicles (including private equity, property trusts and infrastructure), cash and short term money market (STMM) investments. The main purpose of these financial instruments is to generate a return on investment. Telstra Super also has various other financial instruments such as receivables and payables, which arise directly from its operations.

Telstra Super uses derivative financial instruments to reduce foreign exchange and interest rate risks in the share, bond and currency markets and to increase or decrease Telstra Super's exposure to particular investment classes or markets in line with the re-balancing strategy and other investment strategies. Derivative financial instruments are included in the Statement of Net Assets, and the accounting policies in relation to derivatives are set out in Note 2 (d).

The main risks arising from Telstra Super's financial instruments are credit risk, liquidity risk, and market risk. Market risk includes interest rate risk, equity price risk, and foreign currency risk. The Trustee reviews and agrees policies for managing each of these risks. These policies are summarised below. The Trustee also monitors market price risk for all financial instruments.

The Trustee acknowledges that an integral part of its good governance practice is a sound and prudent risk management framework. This framework is documented in the Trustee's Risk Management Framework and Risk Management Strategy which has been updated for SPS220. This Framework and Strategy are subject to regular review by management, the Trustee, and annual audits of the Scheme's Risk and Compliance programme. The Trustee manages this investment risk as part of its overall Risk Management Framework.

The Trustee determines the asset allocation of the Scheme. The Trustee receives advice from its investment adviser in making its determination. The asset allocation is reviewed throughout the year in accordance with the Scheme's Risk Management and Investment Policies. The Trustee has established an Investment Committee, which is responsible for approving and monitoring the Scheme's investments subject to the limits outlined in the Committee charter. The Committee comprises of the Chair of the Trustee, management, two external consultants and the external investment advisor JANA. The Committee minutes record all decisions made and are presented to the Board for ratification or noting as appropriate.

The internal investment management unit through its investment mandates is delegated responsibility for all day-to-day investment decisions for the Internally Managed Funds.

Telstra Super also undertakes due diligence to ensure Fund Managers have the appropriate skills and expertise to manage the Scheme's investments. In addition investment performance is tracked through appropriate monitoring of market conditions and benchmark analysis.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## (b) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Scheme to incur a financial loss. Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents and amounts due from brokers. The Scheme invests in debt securities that carry credit risks. The Scheme requires investment managers to manage the securities within approved credit limits as set out in their mandates. Compliance of managers with their mandates is monitored by the Scheme's custodian, as well as the Trustee.

Telstra Super's maximum exposure to credit risk is as indicated by the carrying amounts of its assets including derivatives. Telstra Super minimises credit risk by the diversity of investments, ensuring its assets are custodially held, and dealing through recognised exchanges and clearing houses. The Trustee also has a credit risk policy in place. Compliance with this policy is monitored on an ongoing basis.

There are no significant concentrations of credit risk within Telstra Super.

### Credit quality per class of debt instruments

The credit quality of financial assets is managed by Telstra Super using Standard & Poor's rating categories, in accordance with the investment mandate of the Scheme, and is monitored on a regular basis in accordance with the Credit Risk Policy. This review process allows the Trustee to assess the potential loss as a result of risks and take corrective action.

The table below shows the credit quality by class of asset.

#### 2016

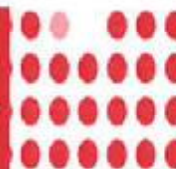
Credit Quality	AAA to AA-	A+ to A-	BBB+ to B-	CCC+ to CC	Non Rated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Listed Equities	-	-	-	-	7,712,166	7,712,166
Unlisted Equities	-	-	-	-	294,294	294,294
Bonds, Discount Securities & Asset Backed Securities	1,854,039	967,658	1,011,424	1,156	185,800	4,020,077
Trusts & Special Purpose Vehicles	-	-	-	-	4,354,675	4,354,675
Derivative Assets	-	-	-	-	32,605	32,605
	<b>1,854,039</b>	<b>967,658</b>	<b>1,011,424</b>	<b>1,156</b>	<b>12,579,540</b>	<b>16,413,817</b>

#### 2015

Credit Quality	AAA to AA-	A+ to A-	BBB+ to B-	CCC+ to CC	Non Rated	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Listed Equities	-	-	-	-	8,113,338	8,113,338
Unlisted Equities	-	-	-	-	506,763	506,763
Bonds, Discount Securities & Asset Backed Securities	811,044	1,804,960	445,063	2,860	320,530	3,384,457
Trusts & Special Purpose Vehicles	-	-	-	-	3,681,461	3,681,461
Derivative Assets	-	-	-	-	417,591	417,591
	<b>811,044</b>	<b>1,804,960</b>	<b>445,063</b>	<b>2,860</b>	<b>13,039,683</b>	<b>16,103,610</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. Collateral is held in regard to all securities lending activities. No collateral is held as security or other credit enhancements exist for all other financial assets held. No financial assets are considered past due as all payments are considered recoverable when contractually due. The Scheme's financial assets exposed to credit risk amounted to the following:

	30 June 2016	30 June 2015
	\$'000	\$'000
Australian Fixed Interest Securities	3,304,021	2,750,215
International Fixed Interest Securities	851,433	752,870
Australian Equities	4,337,909	4,464,002
International Equities	3,828,831	3,939,974
Hedge Funds	699,651	909,078
Private Equity	538,236	602,619
Property	2,182,528	1,673,935
Infrastructure	638,604	593,326
Derivative assets	32,605	417,591
<b>Total</b>	<b>16,413,817</b>	<b>16,103,610</b>

Substantially all of the Scheme's cash is managed by BT Australia and the Internal Investment Management team. The custodian, JP Morgan Limited, custodially hold assets and cash in the name of the Scheme, and replaced National Australia Bank as custodian effective 1 April 2016. Bankruptcy or insolvency by these financial institutions may cause the Scheme's rights with respect to the cash held to be delayed or limited. The Scheme monitors its credit risk by monitoring the credit quality and financial position of relevant institutions through regular analysis of their financial reports.

## (c) Liquidity Risk

Liquidity risk is the risk that Telstra Super will encounter difficulty in raising funds to meet commitments associated with financial instruments and benefit payments. To control these risks, Telstra Super invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, Telstra Super maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme's most significant financial liability is in relation to members' vested benefits. Telstra Super manages its obligation to pay such benefits based on management's estimates and actuarial assumptions of when such benefits will be drawn down by members. The Trustee considers it is highly unlikely that a substantial number of members will request to draw down their benefit at the same time.

The Scheme's liquidity risk is managed on a daily basis by the internal investment management and the finance functions in accordance with the liquidity policy and the Scheme's Risk Management Framework. Compliance with these policies is reported to the Trustee on a regular basis. The Scheme limits the allocation of illiquid assets and ensures that the allocation is consistent with the intended term of investment. The Scheme's membership profile, coupled with the bulk of its assets being invested in highly liquid asset classes, allows the fund to tolerate a lower liquidity in regard to its alternative investments (e.g. property and infrastructure investments) in an expectation of higher investment returns in the longer term.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



The following table summarises the maturity of Telstra Super's financial liabilities based on undiscounted cash flows.

2016	Less than 1 month	1 month to 3 months	3 months to 1 year	Greater than 1 year	Total
Liability	\$'000	\$'000	\$'000	\$'000	\$'000
Benefits Payable	50	-	-	-	50
Accounts Payable	34,765	-	-	-	34,765
Derivative Liabilities	34,717	5,211	16,922	13,475	70,325
Current Tax Liability	-	35,628	-	-	35,628
Deferred Tax Liability	-	-	-	196,929	196,929
	<b>69,532</b>	<b>40,839</b>	<b>16,922</b>	<b>210,405</b>	<b>337,697</b>

2015	Less than 1 month	1 month to 3 months	3 months to 1 year	Greater than 1 year	Total
Liability	\$'000	\$'000	\$'000	\$'000	\$'000
Benefits Payable	521	-	-	-	521
Accounts Payable	32,561	-	-	-	32,561
Derivative Liabilities	13,927	76,713	19,988	350,528	461,156
Current Tax Liability	-	3,647	-	-	3,647
Deferred Tax Liability	-	-	-	259,586	259,586
	<b>47,009</b>	<b>80,360</b>	<b>19,988</b>	<b>610,114</b>	<b>757,471</b>

The above table does not include the Schemes 'Liability for Accrued Benefits' as it is not practicable to determine the timing of when such liabilities will be paid.

## (d) Market Risk

Market risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

Market risk comprises three types of risk: market interest rates (interest rate risk), foreign exchange (currency risk), and market prices (price risk). The Scheme's policies and procedures put in place to mitigate the Scheme's exposure to market risk are detailed in the Trustee's Investment Policy and the Risk Management Framework. This includes the risk review processes and compliance testing undertaken by management and regularly reported to the Audit, Risk and Compliance Committee.

Market risk is also minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. The market risk disclosures are prepared on the basis of Telstra Super's direct investments and not on a look through basis.

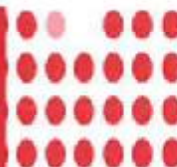
## Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The majority of Telstra Super's financial instruments are non-interest bearing with only cash, cash equivalents and fixed interest securities being directly subject to interest rate risk. However, movements in market interest rates can indirectly impact on the valuation of non-interest bearing investments. The Scheme may use derivatives to hedge against unexpected increases in interest rates.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



Telstra Super's exposures to interest rate movements on its financial instruments, by maturity, at balance date are as follows:

2016	Floating Interest Rate	1 Year or Less	1 to 5 Years	More than 5 years	Non-interest bearing	Total
<b>Financial Assets &amp; Liabilities</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Investments</b>	<b>2,823,698</b>	<b>110,902</b>	<b>516,067</b>	<b>504,199</b>	<b>12,388,627</b>	<b>16,343,493</b>

2015	Floating Interest Rate	1 Year or Less	1 to 5 Years	More than 5 years	Non-interest bearing	Total
<b>Financial Assets &amp; Liabilities</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Investments</b>	<b>932,626</b>	<b>1,367,499</b>	<b>563,645</b>	<b>458,275</b>	<b>12,320,409</b>	<b>15,642,454</b>

Interest on financial instruments classified as floating rate change at intervals of less than one year. Interest on financial instruments classified as fixed rate are fixed until the maturity of the instrument. Although non-interest bearing financial instruments do not pay an interest rate, their value is subject to movement in market interest rates. Investments in managed trust vehicles are included under non-interest bearing and their risks are covered in the price risk section.

## Interest Rate Sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting dates. The analysis assumes that all other variables are held constant. Based on expected movements in the yields of 10 year Australian and US Government bonds, a reasonably possible change of 86bp was an appropriate movement for 30 June 2016 and 30 June 2015. A change of 86bp in interest rates with all other variables remaining constant would have decreased the net assets available to pay benefits by \$34.613m (2015: \$43.739m). A change of -86bp in interest rates with all other variables remaining constant would have increased the net assets available to pay benefits by \$34.613m (2015: \$13.432m). The analysis is performed on the same basis for 2015. The impact on net assets available to pay benefits mainly arises from the effect that the reasonably possible change in interest rates will have on the net market value of fixed interest securities.

## Foreign Exchange Risk

Foreign Exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign Exchange Risk is a component of price risk. Telstra Super has exposure to foreign exchange risk in the value of securities denominated in a foreign currency. Foreign exchange contracts are used by our investment managers and by Telstra Super as an overlay control to reduce the exposure to such risk in the value of our underlying international investments by the use of forward currency contracts. The Scheme uses both passive and active managers to manage the risk of foreign exchange fluctuations in line with the Scheme's Risk Management Framework and the Scheme's Investment Policy. On this basis, the Scheme's overall exposure to foreign exchange risk is considered minimal after taking into account the forward currency contracts.

In accordance with the Scheme's Investment Policy, the Chief Investment Officer monitors the Scheme's currency position on a regular basis. This information and the compliance with the Scheme's overall exposure are reported to relevant parties on a regular basis as deemed appropriate such as the Chief Risk Officer, other key management personnel, the Audit Risk & Compliance Committee, and ultimately the Board.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## Sensitivity Analysis:

The tables below indicate Telstra Super's exposures at balance date to foreign exchange rate movements on its international investments. The analysis calculates the effects of a reasonably possible movement of currency rates against the Australian Dollar based on forecasts at balance date. Based on an assessment of historical ranges of currency and one standard deviation expectation an assumption of +/- 11% has been determined by the investment adviser as an appropriate assumption for this scenario analysis. A 11% strengthening/weakening of the Australian dollar against the following currencies at 30 June 2016 would have (decreased)/ increased the net assets available to pay benefits and the Change in Net Assets by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2015 where the volatility factor was expected to be 12%. The impact mainly arises from the reasonably possible change in foreign currency rates.

The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, having regard to a number of factors including the average absolute divergence between the unhedged and hedged MSCI World Index ex Australian annual returns over a 10 year period.

2016		Effect on net assets of a change in currency rate		
Currency	Amount	11%	-11%	
Gross investment amounts denominated in:	A\$'000	A\$'000	A\$'000	
United States dollars (USD)	3,887,592	427,635	(427,635)	
Euro (EUR)	725,607	79,817	(79,817)	
Yen (JPY)	208,036	22,884	(22,884)	
Great Britain pounds (GBP)	289,808	31,879	(31,879)	
Other Currencies	1,141,034	125,514	(125,514)	
	<b>6,252,077</b>	<b>687,729</b>	<b>(687,729)</b>	

2015		Effect on net assets of a change in currency rate		
Currency	Amount	12%	-12%	
Gross investment amounts denominated in:	A\$'000	A\$'000	A\$'000	
United States dollars (USD)	4,093,574	(197,928)	197,928	
Euro (EUR)	759,645	(50,382)	50,382	
Yen (JPY)	255,512	(6,938)	6,938	
Great Britain pounds (GBP)	333,069	(26,481)	26,481	
Other Currencies	1,274,619	(145,340)	145,340	
	<b>6,716,419</b>	<b>(427,069)</b>	<b>427,069</b>	

## Other Market Price Risk

Other market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument, or factors affecting all similar instruments traded in the market. All securities investments present a risk of loss of capital. The maximum risk is determined by the net market value of the financial instruments.

As all of Telstra Super's financial instruments are carried at net market value with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect net investment income. Price risk is mitigated by investing in a diversified portfolio of financial instruments that are traded on various markets.

All investment managers are subject to extensive due diligence prior to being appointed, with the recommendation for their appointment and removal made by the Investment Committee to the Board for final approval where required. All investment activities are undertaken in accordance with established mandate limits. Monthly reports are received from investment managers and the global custodian and these reports are reviewed in detail and assessed against relevant benchmarks. Investment manager performance is reported to the Investment Committee on a monthly basis, and the Board. The Trustee has determined that these investments are appropriate for the Scheme and are in accordance with the Scheme's investment strategy.

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## Sensitivity Analysis

The analysis below indicates the effect on the Statement of Changes in Net Assets due to a reasonably possible change in market factors, as represented by the equity indices, with all other variables held constant. Based on analysis of historical data in respect of asset class returns over 10 years and using this analysis to formulate expected future ranges of returns, the investment adviser has determined that the following assumptions are appropriate for this scenario analysis. These assumptions are based on an orderly market and as such the assumptions below are based on an expected range of outcomes within +/- 1 standard deviation.

2016			
Asset Class	Change in Market Price	Effect on Net Assets>Returns \$000	
Australian Equities	17%	738,239	(738,239)
Australian Fixed Interest	6%	198,241	(198,241)
Hedge Funds	7%	48,976	(48,976)
Infrastructure	10%	63,860	(63,860)
International Equities	18%	689,190	(689,190)
International Fixed Interest	8%	68,114	(68,114)
Private Equity	8%	43,059	(43,059)
Property	10%	218,253	(218,253)

2015			
Asset Class	Change in Market Price	Effect on Net Assets>Returns '+/--\$000	
Australian Equities	19%	848,160	(848,160)
Australian Fixed Interest	7%	192,515	(192,515)
Hedge Funds	8%	72,726	(72,726)
Infrastructure	9%	53,399	(53,399)
International Equities	21%	827,395	(827,395)
International Fixed Interest	10%	75,287	(75,287)
Private Equity	8%	48,210	(48,210)
Property	11%	184,133	(184,133)

A process for the valuation of unlisted, infrequently valued assets is used to ensure valid valuations are reported. This involved seeking assurances from managers, ensuring latest accurate information available has been included and where necessary reviewing the latest audited financials of the relevant entity. All available valuation information has been incorporated in these financials.

## (e) Securities Lending

The securities lending arrangements with National Australia Bank was terminated on 31 March 2016. Under this arrangement legal title to certain of the Scheme's assets was transferred to another entity, notwithstanding the fact that the risks and benefits of ownership of the assets remain with Telstra Super. No security lending was undertaken by JP Morgan in the period 1 April to 30 June 2016.

Telstra Super may call for the re-delivery of all or any borrowed securities at any time in the ordinary course of business upon notice of not less than the standard settlement time for such securities on the market through which they were originally delivered. Such calls for re-delivery have taken place from time to time, and there have been no instances of failed delivery.

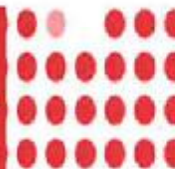
Telstra Super restricts its involvement in the domestic equity lending program to lending only those securities contained in the ASX Top 200 Index.

No assets were subject to securities lending as at 30 June (2015: \$1,119.1m), and income received was \$1.570m (2015: \$1.285m). Telstra Super had collateral equal to at least 105% of the value of the assets subject to securities lending arrangements under the arrangement with National Australia Bank. A new securities lending agreement was signed with JPM Morgan on 29 June 2016 to be effective in the 2016/17 financial year.



# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## (f) Classification of Financial Instruments under the Fair Value Hierarchy

### Fair Value Measurements

Telstra Super is required to classify financial instruments using a fair value hierarchy that reflects the subjectivity of inputs used in making the measurements. The table below shows financial instruments recorded at net market value, analysed between the following levels:

**Level 1** - Those whose net market value is based on quoted market prices in active markets. An active market is a market in which transactions take place with sufficient frequency and volume to provide pricing on an ongoing basis;

**Level 2** - Those involving valuation techniques where all the model inputs are observable in the market. Inputs can be directly or indirectly derived from prices in the marketplace; and

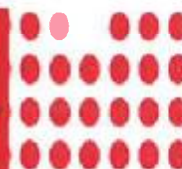
**Level 3** - Those where the valuation technique involves the use of non-market observable inputs that are significant to the determination of net market value. Inputs are entity-specific and subjective.

2016

Financial Assets and Liabilities	Level 1	Level 2	Level 3	Total
Asset Class/ AASB7 Classification	\$'000	\$'000	\$'000	\$'000
<b>AUSTRALIAN FIXED INTEREST</b>				
Listed Equities	156,310	8,870	-	165,180
Trusts & Special Purpose Vehicles	-	-	49,087	49,087
Bonds, Discount Securities & Asset Backed Securities	649,047	2,440,707	-	3,089,754
	<b>805,357</b>	<b>2,449,577</b>	<b>49,087</b>	<b>3,304,021</b>
<b>INTERNATIONAL FIXED INTEREST</b>				
Trusts & Special Purpose Vehicles	-	-	76,922	76,922
Bonds, Discount Securities & Asset Backed Securities	74,661	699,850	-	774,511
	<b>74,661</b>	<b>699,850</b>	<b>76,922</b>	<b>851,433</b>
<b>AUSTRALIAN EQUITIES</b>				
Listed Equities	3,524,541	8,192	1,142	3,533,875
Trusts & Special Purpose Vehicles	239,751	-	562,957	802,708
Unlisted Equities	1,007	-	319	1,326
	<b>3,765,299</b>	<b>8,192</b>	<b>564,418</b>	<b>4,337,909</b>
<b>INTERNATIONAL EQUITIES</b>				
Listed Equities	3,744,006	26	1,065	3,745,097
Trusts & Special Purpose Vehicles	19,445	-	61,616	81,061
Bonds, Discount Securities & Asset Backed Securities	2,673	-	-	2,673
	<b>3,766,124</b>	<b>26</b>	<b>62,681</b>	<b>3,828,831</b>
<b>HEDGE FUNDS</b>				
Listed Equities	474	-	876	1,350
Trusts & Special Purpose Vehicles	-	182,364	73,439	255,803
Bonds, Discount Securities & Asset Backed Securities	-	153,140	-	153,140
Unlisted Equities	-	162,658	126,700	289,358
	<b>474</b>	<b>498,162</b>	<b>201,015</b>	<b>699,651</b>
<b>PRIVATE EQUITY</b>				
Trusts & Special Purpose Vehicles	-	-	534,625	534,625
Unlisted Equities	-	-	3,611	3,611
	-	-	<b>538,236</b>	<b>538,236</b>
<b>PROPERTY</b>				
Listed Equities	24,120	-	-	24,120
Trusts & Special Purpose Vehicles	280,539	-	1,877,869	2,158,408
	<b>304,659</b>	-	<b>1,877,869</b>	<b>2,182,528</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## Fair Value Measurements continued...

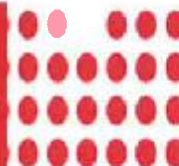
Financial Assets and Liabilities	Level 1	Level 2	Level 3	Total
Asset Class/ AASB7 Classification	\$'000	\$'000	\$'000	\$'000
<b>INFRASTRUCTURE</b>				
Listed Equities	242,542	-	-	242,542
Trusts & Special Purpose Vehicles	48,312	79,581	268,169	396,062
	<b>290,854</b>	<b>79,581</b>	<b>268,169</b>	<b>638,604</b>
<b>DERIVATIVE ASSETS</b>				
Futures	8,680	-	-	8,680
Options	-	23,160	(3)	23,157
Swaps	-	768	-	768
	<b>8,680</b>	<b>23,928</b>	<b>(3)</b>	<b>32,605</b>
<b>DERIVATIVE LIABILITIES</b>				
Futures	(5,437)	-	-	(5,437)
Options	-	(19,224)	-	(19,224)
Swaps	-	(13,532)	-	(13,532)
Foreign Exchange Contracts	-	(32,132)	-	(32,132)
	<b>(5,437)</b>	<b>(64,888)</b>	<b>-</b>	<b>(70,325)</b>
<b>TOTAL INVESTMENTS</b>	<b>9,010,671</b>	<b>3,694,428</b>	<b>3,638,394</b>	<b>16,343,493</b>

## 2015

Financial Assets and Liabilities	Level 1	Level 2	Level 3	Total
Asset Class/ AASB7 Classification	\$'000	\$'000	\$'000	\$'000
<b>AUSTRALIAN FIXED INTEREST</b>				
Listed Equities	95,017	8,103	-	103,120
Trusts & Special Purpose Vehicles	-	6,700	83,048	89,748
Bonds, Discount Securities & Asset Backed Securities	151,800	2,405,547	-	2,557,347
	<b>246,817</b>	<b>2,420,350</b>	<b>83,048</b>	<b>2,750,215</b>
<b>INTERNATIONAL FIXED INTEREST</b>				
Trusts & Special Purpose Vehicles	-	-	81,026	81,026
Bonds, Discount Securities & Asset Backed Securities	-	671,844	-	671,844
	<b>-</b>	<b>671,844</b>	<b>81,026</b>	<b>752,870</b>
<b>AUSTRALIAN EQUITIES</b>				
Listed Equities	3,753,571	5,052	1,086	3,759,709
Trusts & Special Purpose Vehicles	179,654	-	523,344	702,998
Unlisted Equities	-	996	299	1,295
	<b>3,933,225</b>	<b>6,048</b>	<b>524,729</b>	<b>4,464,002</b>
<b>INTERNATIONAL EQUITIES</b>				
Listed Equities	3,841,297	20,961	19	3,862,277
Trusts & Special Purpose Vehicles	11,487	-	66,210	77,697
	<b>3,852,784</b>	<b>20,961</b>	<b>66,229</b>	<b>3,939,974</b>
<b>HEDGE FUNDS</b>				
Listed Equities	-	61,180	-	61,180
Trusts & Special Purpose Vehicles	-	118,517	75,700	194,217
Unlisted Equities	-	154,676	345,769	500,445
Bonds, Discount Securities & Asset Backed Securities	-	153,236	-	153,236
	<b>-</b>	<b>487,609</b>	<b>421,469</b>	<b>909,078</b>

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## Fair Value Measurements continued...

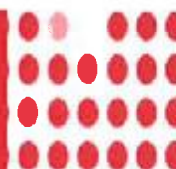
Financial Assets and Liabilities	Level 1	Level 2	Level 3	Total
Asset Class/ AASB7 Classification	\$'000	\$'000	\$'000	\$'000
<b>PRIVATE EQUITY</b>				
Listed Equities	-	-	-	-
Trusts & Special Purpose Vehicles	-	-	597,597	597,597
Unlisted Equities	-	-	5,022	5,022
Bonds, Discount Securities & Asset Backed Securities	-	-	-	-
			<b>602,619</b>	<b>602,619</b>
<b>PROPERTY</b>				
Listed Equities	50,406	-	-	50,406
Trusts & Special Purpose Vehicles	283,513	617	1,339,399	1,623,529
	<b>333,919</b>	<b>617</b>	<b>1,339,399</b>	<b>1,673,935</b>
<b>INFRASTRUCTURE</b>				
Listed Equities	276,647	-	-	276,647
Trusts & Special Purpose Vehicles	37,596	123,021	154,032	314,649
Bonds, Discount Securities & Asset Backed Securities	911	1,119	-	2,030
	<b>315,154</b>	<b>124,140</b>	<b>154,032</b>	<b>593,326</b>
<b>DERIVATIVE ASSETS</b>				
Futures	3,320	-	-	3,320
Options	29,031	294	-	29,326
Swaps	-	384,946	-	384,946
	<b>32,351</b>	<b>385,240</b>	<b>-</b>	<b>417,591</b>
<b>DERIVATIVE LIABILITY</b>				
Futures	(9,078)	-	-	(9,078)
Options	(4,868)	(448)	-	(5,316)
Swaps	-	(385,256)	-	(385,256)
Foreign Exchange Contracts	-	(61,506)	-	(61,506)
	<b>(13,946)</b>	<b>(447,210)</b>	<b>-</b>	<b>(461,156)</b>
<b>TOTAL INVESTMENTS</b>	<b>8,700,304</b>	<b>3,669,598</b>	<b>3,272,552</b>	<b>15,642,454</b>

The level in which financial instruments are classified in the hierarchy is based on the lowest level of input that is significant to the net market value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific to the investment.

Disclosure of the methods and assumptions applied in determining the net market value for each class of financial assets are included in Note 2(d).

# Notes to and forming part of the Financial Statements

For the year ended 30 June 2016



## Level 3 Financial Instruments Transactions

The following table shows a reconciliation of the movement in fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting period.

### 2016

Financial Assets	Bonds, Discount Securities & Asset Backed Securities	Listed Equities	Unlisted Equities	Trusts & Special Purpose Vehicles	Net Market Value
		A\$'000	A\$'000	A\$'000	A\$'000
<b>Opening Balance</b>	-	<b>1,105</b>	<b>351,091</b>	<b>2,920,357</b>	<b>3,272,553</b>
Total gains/(losses)	-	(890)	(12,768)	88,391	74,732
Purchases/Applications	-	1,226	323	1,551,187	1,552,736
Sales/Redemptions	-	(492)	(208,016)	(1,055,255)	(1,263,763)
Transfers into level 3	-	2,135	-	-	2,135
Transfers out level 3	-	-	-	-	-
<b>Closing Balance</b>	-	<b>3,084</b>	<b>130,630</b>	<b>3,504,680</b>	<b>3,638,394</b>

### 2015

Financial Assets	Bonds, Discount Securities & Asset Backed Securities	Listed Equities	Unlisted Equities	Trusts & Special Purpose Vehicles	Net Market Value
		A\$'000	A\$'000	A\$'000	A\$'000
<b>Opening Balance</b>	<b>546</b>	<b>2,109</b>	<b>672</b>	<b>1,835,121</b>	<b>1,838,448</b>
Total gains/(losses)	-	83	-	150,733	150,816
Purchases/Applications	-	14	-	202,809	202,823
Sales/Redemptions	(546)	(1,101)	(373)	(218,780)	(220,800)
Transfers into level 3	-	-	350,792	950,919	1,301,711
Transfers out level 3	-	-	-	(445)	(445)
<b>Closing Balance</b>	-	<b>1,105</b>	<b>351,091</b>	<b>2,920,357</b>	<b>3,272,553</b>

The transfers between the Level 2 and Level 3 fair value hierarchies during the financial year are due to a more detailed analysis of the investments involved rather than a significant change in the observable measurements of their net market values.

For financial instruments classified in Level 3 in the fair value hierarchy some of the inputs to the valuation models are unobservable and therefore subjective in nature. Therefore the use of reasonably possible alternative assumptions could produce a different net market value measurement. If the impact of using those alternative assumptions would cause the fair value of Level 3 assets to be higher or lower by 10%, the net assets of the Fund and the operational result for the year would have been higher or lower by \$363.8m (2015: \$327.26m)

### Transfers Between Hierarchy Levels

There have been no significant transfers between the Level 1 and Level 2 fair value hierarchies during the year.

### Description of significant unobservable inputs to valuation

Investment type	Valuation Technique	Unobservable Input	Range
Trusts and Special Purpose Vehicles	Net Asset Value	Net Asset Value	10% increase/ (decrease) in the net asset value of these investments would result in an \$350.5m increase/ (decrease) in the value as the investment vehicles mainly relate to private equity investments which are quoted at a net asset value.
Unlisted Equities	Net Asset Value	Net Asset Value	10% increase/ (decrease) in the net asset value of these investments would result in an \$13.1m increase/ (decrease) in the value as the unlisted equities mainly relate to hedge funds which are quoted at a net asset value.



**ATTACHMENT****TELSTRA SUPERANNUATION SCHEME****SUMMARY OF ACTUARIAL REPORT ON 30 JUNE 2015 INVESTIGATION**

Matthew Burgess, FIAA, conducted the latest actuarial investigation of the Telstra Superannuation Scheme (the Scheme) at 30 June 2015, and presented the results in a report dated 2 December 2015.

The following provides a summary of that report and the Actuary's opinion as to the financial condition of the Scheme. This statement is prepared for AAS25 purposes and may not be appropriate for other purposes.

**Purpose of Report**

Legislation covering the operation of superannuation funds in Australia requires actuarial investigations of defined benefit funds to be made at intervals of not more than three years. The last actuarial investigation of the Scheme was as at 30 June 2015 by Matthew Burgess, FIAA, of Russell Investments, Actuary to the Telstra Superannuation Scheme.

The main aims of an actuarial investigation are to assess the Scheme's financial position, and to recommend the rate at which Telstra should contribute to the Scheme.

**Membership and Salaries**

As at 30 June 2015 there were 5,127 members of Division 2, 42 members of Division 5 and 10 members of Division 8 receiving defined benefits with salaries totalling \$473.7 million, \$5.4 million and \$1.2 million respectively. The numbers of Division 2, 5 and 8 members had decreased by 30%, 28% and 70% respectively from the previous investigation as at 30 June 2012.

In addition to these defined benefit members, there were approximately 27,500 Corporate Plus (Division 6) members and approximately 70,000 members in Personal Plus (Division 4), including spouse accounts and account-based pensioners. These members receive accumulation style benefits.

The average annual increase in members' salaries since the previous investigation for defined benefit members who were in the Scheme at both the current and the previous investigation dates (i.e. 30 June 2012 and 30 June 2015) was 4.3% p.a..

**Assets**

For the purpose of the actuarial investigation, the total net market value of assets used was as provided in the audited financial statements, \$17,150.2 million, which includes \$67.6 million of various reserves.

Telstra Super advised that the amount of the defined benefit assets (the "DB Assets") available in respect of defined benefit liabilities as at 30 June 2015 was \$2,584.6 million. Note that the DB Assets were segregated from the total assets in late 2013, so it is no longer necessary to calculate the DB Assets as the net value of total assets less the accumulation balances and reserves.

The average return on the DB Assets between 1 July 2012 and 30 June 2015 was 10.8% p.a.

**Assumptions**

The actuarial investigation reviewed the assumptions used and changes were made to the assumed financial assumptions and the rates of retirement and resignation. Also, as the death and

disablement benefits for defined benefit members are now externally insured, the premium rates were used to estimate the present value of premiums expected to be paid. Overall, changes to demographic assumptions had a small positive impact on the Scheme's overall financial position.

The expected investment return adopted was lower than for the previous investigation, to reflect the decision to reduce investment risk by a reduction in growth assets in the investment strategy for the DB Assets.

In summary, the key financial assumptions used were:

- Investment Return, net of tax: 4.3% p.a.
- Salary Growth: 3.5% p.a.
- Expense allowance: 0.22% of assets plus \$1.50 per member per week

A promotional salary scale is also applied.

Overall, the assumed real rate of return is lower than assumed in the previous investigation, with the change having an adverse financial impact on the assessment of the long term financial position.

The discount rate used is a current market determined, risk adjusted discount rate, and is based on the expected future return on the Scheme's assets as at 30 June 2015. All assumptions used are best estimate assumptions.

#### **Funding Method**

The main purposes of the actuarial investigation and report are to assess the financial position of the Scheme, identify the long term funding rate of the Scheme's benefits and to recommend an employer contribution rate. To do this the actuary has adopted a method of funding benefits known as the Aggregate Funding method. Under this method, the long term Telstra contribution rate is calculated based on the difference between the net market value of assets and the total Scheme liabilities.

#### **Fund Indices**

##### *Vested Benefits*

The Vested Benefits Index (VBI) is the ratio of the net market value of assets to the members' current vested benefit entitlements should all members voluntarily resign at the investigation date.

Considering defined benefit assets and liabilities only, the Scheme's DB VBI at 30 June 2015 was 112%.

##### *Discounted Accrued Benefits*

The Discounted Accrued Benefits Index (DABI) is a longer term measure of solvency. The discounted accrued benefits are the total of the present value of the benefits that have accrued in respect of membership prior to the investigation date.

Considering defined benefit assets and liabilities only, the Scheme's DB DABI at 30 June 2015 was 108%.

##### *Minimum Requisite Benefits*

The minimum Requisite Benefit Index (MRBI) is a short term measure of solvency. The Minimum Requisite Benefits (MRBs) are the minimum benefits payable out of the Scheme to ensure Telstra satisfies its Superannuation Guarantee (SG) obligations.

Considering defined benefit assets and liabilities only, the Scheme's DB MRBI at 30 June 2015 was 151%.



### **Insurance**

The cost of providing future death and disablement benefit payments is taken into account in determining the long-term employer cost.

From 1 November 2014, the prospective component of the death and disablement benefits for all defined benefit members has been externally insured, with external insurance of accumulation members applying since 26 September 2005. The insurer also agreed to take on the liability in respect of the prospective component of the benefit for claims from defined benefit members that were incurred on or after 26 September 2005 but reported after 1 November 2014. A self-insurance reserve of \$5 million is held in respect of the pre-26 September 2005 self-insurance risk (for both defined benefit and accumulation members).

In the report, the Actuary confirms the insurance arrangements and the self-insurance reserve are appropriate from a funding perspective.

### **Material Risks**

Material risks for the Scheme include:

- Ongoing funding to maintain the Scheme's financial position – the required contributions could increase materially if investment or salary inflation experience is worse than expected. The Scheme's viability is also dependent on Telstra agreeing and being able to make contributions as recommended; and
- Were the VBI to fall under 100%, there is a risk that a retrenchment program, downsizing of the membership or large number of death and disablement claims could materially reduce the VBI. To the extent the VBI is reduced, it is expected that Telstra's contributions would increase to restore the VBI to 100% over a reasonable time.

### **Recommended Contribution and Financial Condition**

As at 30 June 2015, based on the Aggregate Funding Method, the long term employer contribution rate required to fund the defined benefits expected to be paid in future to existing defined benefit members was determined to be 13.1% of salaries. This is lower than the same rate calculated in 2012, mainly due to the improved funding position, although this improvement has been offset to some extent by changes to the financial assumptions.

The long term cost of future service benefits, assuming that vested benefits are fully funded but that there is not excess assets, is estimated to be 19.5%. This rate would have increased since 30 June 2012 mainly due to changes in financial assumptions.

Based on the assumptions adopted for this investigation, and noting Telstra's preference to continue to contribute at a rate of 15% of defined benefit salaries, the Actuary concluded that a contribution rate of 15% remained appropriate. Contributing above the 13.1% of salaries would be expected to provide Telstra the opportunity to either reduce its investment risk (and consequently the expected investment return) or contributions at some time in the future.

The Actuary made the following recommendations:

- Telstra and associated employers contribute to the Scheme:
  - In respect of defined benefit members, at the rate of 15% of salaries (noting that the contribution requirement may change if the funding position deteriorates or if expected rates of investment return or salary growth change);

- In respect of accumulation members, the required employer contributions under relevant agreements;
- Insurance premiums for basic cover in respect of Corporate Plus members; and
- Any salary sacrifice contributions;
- The self-insurance reserve be maintained at \$5 million; and
- The next full actuarial investigation be made with an effective date no later than 30 June 2018.

**Solvency Position as at 30 June 2015**

The Scheme has received funding and solvency certificates covering the three years to 30 June 2015. We expect that the solvency of the Scheme is likely to be able to be certified in any Funding and Solvency Certificate required under the Superannuation Industry (Supervision) Regulations during the three-year period to 30 June 2018.

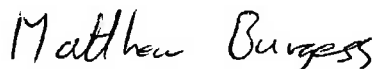
**Statement of Financial Position (SPS 160 paragraph 8)**

In opinion of the Actuary, as at 30 June 2015, the financial position of the Scheme was satisfactory.

**Significant Events since 30 June 2015**

At 2 December 2015, the date the Actuary signed the report, he was not aware of any event subsequent to 30 June 2015 that would have materially impacted the recommendations.

Experience subsequent to 30 June 2015 has meant that the Scheme's DB VBI has fallen slightly to 109% and the DABI to 107% as at 30 June 2016, based on membership and DB Asset data provided by the Scheme. At the date this summary was prepared the MRBI had not been recalculated but would have continued to be significantly over 100%.



Matthew Burgess

Fellow of the Institute of Actuaries of Australia

29 July 2016

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