Annual Financial Report 30 June 2019

Telstra Superannuation Scheme
RSE: R1004441

Contents

Statement of Financial Position
As at 30 June 2019

	Note	2019 $000	2018 $000
Assets			
Cash and cash equivalents	*17*	**1,625,751**	1,562,005
Australian fixed interest securities	*9*	**3,731,290**	3,266,208
International fixed interest securities	*9*	**1,953,091**	1,347,835
Australian equities	*9*	**5,332,159**	5,204,493
International equities	*9*	**4,772,075**	5,056,695
Hedge funds	*9*	**867,610**	1,268,916
Private equities	*9*	**448,740**	491,516
Property	*9*	**2,553,186**	2,365,603
Infrastructure	*9*	**843,081**	727,652
Derivative assets	*9*	**31,792**	57,539
Investment income receivable		**51,540**	60,206
Unsettled investment sales		**138,434**	41,421
Accounts receivable	*10*	**7,078**	7,849
Current income tax receivable	*14*	**62,830**	-
Property, plant and equipment	*11*	**6,558**	6,576
Total assets		**22,425,215**	21,464,514
Liabilities			
Benefits payable		**(13,541)**	(78)
Accounts payable	*12*	**(30,003)**	(31,607)
Unsettled investment purchases and payables		**(244,415)**	(171,868)
Derivative liabilities	*9*	**(23,785)**	(132,872)
Current income tax payable	*14*	**-**	(43,636)
Deferred income tax liabilities	*14*	**(300,697)**	(261,357)
Total liabilities excluding member benefits		**(612,441)**	(641,418)
Net assets available for member benefits		**21,812,774**	20,823,096
Member benefits			
Defined contribution member liabilities	*3*	**(19,450,854)**	(18,176,285)
Defined benefit member liabilities	*4*	**(1,816,929)**	(2,120,892)
Total member liabilities		**(21,267,783)**	(20,297,177)
Total net assets		**544,991**	525,919
Equity			
Operational risk financial reserves	*8*	**53,341**	51,945
Insurance reserve	*8*	**2,000**	5,000
Administration reserve	*8*	**63,845**	52,467
Unallocated surplus	*6*	**425,805**	416,507
Total equity		**544,991**	525,919

The above statement of financial position should be read with the accompanying notes.

Statement of Comprehensive Income
For the year ended 30 June 2019

	Note	**2019**	2018
		$000	$000
Superannuation activities			
Interest		**150,820**	129,770
Dividends and distributions		**598,163**	433,631
Property trust income		**108,563**	109,821
Net foreign exchange gains		**175,344**	152,309
Changes in assets measured at fair value	*13*	**440,516**	847,846
Other investment income		**3,031**	3,145
Other operating income		**2,879**	3,337
Total superannuation activities income		**1,479,316**	1,679,859
Investment expenses		**(82,578)**	(89,358)
Administration expenses	*15*	**(55,324)**	(55,658)
Total expenses		**(137,902)**	(145,016)
Net result from superannuation activities		**1,341,414**	1,534,843
Profit from operating activities		**1,341,414**	1,534,843
Net benefits allocated to defined contribution member accounts		**(1,242,921)**	(1,325,709)
Net change in defined benefit member liabilities		**(95,546)**	24,270
Profit before income tax		**2,947**	233,404
Income tax benefit/(expense)	*14*	**7,555**	(63,571)
Profit after income tax		**10,502**	169,833

The above statement of comprehensive income should be read with the accompanying notes.

Statement of Changes in Member Benefits
For the year ended 30 June 2019

	Defined Contribution Members 2019 $000	**Defined Benefit Members 2019 $000**	**Total 2019 $000**	Defined Contribution Members 2018 $000	Defined Benefit Members 2018 $000	Total 2018 $000
Opening balance as at 1 July	**18,176,285**	**2,120,892**	**20,297,177**	16,715,738	2,376,245	19,091,983
Employer contributions	**477,907**	**55,836**	**533,743**	499,216	88,126	587,342
Member contributions	**249,776**	**5,129**	**254,905**	203,555	6,721	210,276
Government contributions	**2,016**	**-**	**2,016**	2,138	-	2,138
Transfers from other superannuation funds	**679,854**	**17,103**	**696,957**	567,140	2,352	569,492
Transfers to other superannuation funds	**(608,686)**	**(466,665)**	**(1,075,351)**	(477,241)	(308,161)	(785,402)
Income tax on contributions	**(66,016)**	**(8,375)**	**(74,391)**	(68,141)	(13,219)	(81,360)
Benefits to members/beneficiaries	**(682,809)**	**(2,270)**	**(685,079)**	(576,141)	(3,681)	(579,822)
Insurance premiums charged to members' accounts	**(37,984)**	**(2,641)**	**(40,625)**	(36,430)	(2,898)	(39,328)
Insurance benefits credited to members' accounts	**28,172**	**362**	**28,534**	28,959	636	29,595
Reserves transferred to/(from) members:						
Insurance reserve	**-**	**3,000**	**3,000**	-	-	-
Administration reserve	**(10,406)**	**(972)**	**(11,378)**	(6,127)	(715)	(6,842)
Operational risk financial reserve	**(176)**	**(16)**	**(192)**	(2,089)	(244)	(2,333)
Net benefits allocated to members' accounts:						
Net investment income	**1,286,129**	**-**	**1,286,129**	1,367,457	-	1,367,457
Administration fees	**(43,208)**	**-**	**(43,208)**	(41,749)	-	(41,749)
Net change in DB member benefits	**-**	**95,546**	**95,546**	-	(24,270)	(24,270)
Closing balance as at 30 June	**19,450,854**	**1,816,929**	**21,267,783**	18,176,285	2,120,892	20,297,177

The above statement in changes in member benefits should be read with the accompanying notes.

Statement of Changes in Reserves
For the year ended 30 June 2019

	Unallocated surplus $000	Operational risk financial reserve $000	Insurance reserve $000	Administration reserve $000	Total equity $000
Operating balance as at 1 July 2018	**416,507**	**51,945**	**5,000**	**52,467**	**525,919**
Transfer from DC member accounts	**-**	**176**	**-**	**10,406**	**10,582**
Transfer from/(to) DB member accounts	**-**	**16**	**(3,000)**	**972**	**(2,012)**
Profit	**9,298**	**1,204**	**-**	**-**	**10,502**
Closing balance as at 30 June 2019	**425,805**	**53,341**	**2,000**	**63,845**	**544,991**

	Unallocated surplus $000	Operational risk financial reserve $000	Insurance reserve $000	Administration reserve $000	Total equity $000
Operating balance as at 1 July 2017	247,689	48,597	5,000	45,625	346,911
Transfer from DC member accounts	-	2,089	-	6,127	8,216
Transfer from DB member accounts	-	244	-	715	959
Profit	168,818	1,015	-	-	169,833
Closing balance as at 30 June 2018	416,507	51,945	5,000	52,467	525,919

The above statement of changes in reserves should be read with the accompanying notes.

Statement of Cash Flows
For the year ended 30 June 2019

	Note	**2019 $000**	2018 $000
Cash flows from operating activities			
Interest		**150,885**	148,788
Dividends and distributions		**610,301**	426,598
Property trust income		**108,563**	109,821
Other incomes		**2,633**	2,767
Investment expenses		**(87,060)**	(91,819)
Administration expenses		**(50,635)**	(59,669)
Group life insurance premiums		**(40,625)**	(39,328)
Insurance benefits credited to members' accounts		**28,534**	29,595
Income tax paid by operating activities		**(59,570)**	(91,994)
Net cash inflows from operating activities	*17*	**663,026**	434,759
Cash flows from investing activities			
Proceeds from sales of investment assets		**19,833,501**	19,077,284
Purchases of investment assets		**(20,097,760)**	(19,514,141)
Purchase of property, plant and equipment		**(1,808)**	(2,543)
Net cash outflows from investing activities		**(266,067)**	(439,400)
Cash flows from financing activities			
Employer contributions received		**534,263**	587,568
Member contributions received		**254,910**	210,278
Government co-contributions received		**2,016**	2,138
Transfers from other superannuation funds received		**696,957**	569,492
Transfers paid to other superannuation funds		**(1,075,352)**	(785,402)
Benefits paid to members and beneficiaries		**(671,616)**	(579,776)
Income tax paid by financing activities		**(74,391)**	(81,360)
Net cash outflows from financing activities		**(333,213)**	(77,062)
Net increase/(decrease) in cash		**63,746**	(81,703)
Cash at the beginning of the financial year		**1,562,005**	1,643,708
Cash at the end of the financial year	*17*	**1,625,751**	1,562,005

The above statement of cash flows should be read with the accompanying notes.

Notes to the Financial Statements
For the year ended 30 June 2019

1. Operation of the Scheme

The Telstra Superannuation Scheme (Scheme) 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. The Scheme is a hybrid fund with both defined benefit and defined contribution divisions. The defined benefit divisions are closed to new members. The Scheme is domiciled in Australia and the Scheme's registered office 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 defined contribution divisions are equal to the member account balance which is credited or debited each year with contributions, net investment income, insurance, 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). The Scheme is a Regulated Fund in accordance with the SIS Act, and is a Registrable Superannuation Entity (registration No. R1004441).

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board, the Superannuation Industry (Supervision) Act 1993 and regulations and the provisions of the Trust Deed.

The financial statements are presented in Australian Dollars and all values are rounded to the nearest $'000 except where otherwise indicated.

The financial statements were approved by the Board of Directors of the trustee, Telstra Super Pty Ltd on 7 August 2019.

(b) New accounting standards and interpretations

Adoption of AASB 9 Financial Instruments

The Scheme adopted AASB 9 *Financial Instruments* on 1 July 2018. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurements* and introduces new requirements for classification and measurement, impairment and hedge accounting. AASB 9 is not applicable to items that have already been derecognised at 1 July 2018, the date of initial application.

i. Classification and measurement

The Scheme has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

(i) All financial assets previously held at fair value continue to be measured at fair value.
(ii) Debt instruments and equity instruments, other than investments in subsidiaries and associates, are acquired for the purpose of generating short-term profit. Therefore, they meet the held-for-trading criteria and are required to be measured at fair value through profit or loss (FVPL).
(iii) Investments in subsidiaries and associates are measured at fair value in accordance with AASB 10 and AASB 128, respectively, as the Scheme is an investment entity.
(iv) The classification of financial liabilities under AASB 9 remains broadly the same as under AASB 139. The main impact on measurement from the classification of liabilities under AASB 9 relates to the element of gains or losses for financial liabilities designated as at FVPL attributable to changes in credit risk. AASB 9 requires that such element be recognised in other comprehensive income (OCI), unless this treatment creates or enlarges an accounting mismatch in profit or loss, in which case, all gains and losses on that liability (including the effects of changes in credit risk) should be presented in profit or loss. The Scheme has not designated any financial liabilities at FVPL. Therefore, this requirement has not had an impact on the Scheme.

Notes to the Financial Statements
For the year ended 30 June 2019

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Adoption of AASB 9 Financial Instruments(continued)

ii. Impairment

AASB 9 requires the Scheme to record expected credit loss (ECL) on its accounts receivable, either on a 12-month or lifetime basis. The Scheme only holds contributions receivable, trade receivables and prepayments as accounts receivable at amortised cost. Accounts receivable have no financing component and have maturities of less than 12 months. Therefore the Scheme has adopted an approach similar to the simplified approach to ECLs.

iii. Hedge accounting

The Scheme has not applied hedge accounting under AASB 139 nor will it apply hedge accounting under AASB 9.

Impact of adoption of AASB 9

The classification and measurement requirements of AASB 9 have been adopted retrospectively as of the date of initial application on 1 July 2018, however, the Scheme has chosen to take advantage of the option not to restate comparatives. Therefore, the 2018 figures are presented and measured under AASB 139.

In line with the characteristics of the Scheme's financial instruments as well as its approach to their management, the Scheme neither revoked nor made any new designations on the date of initial application. AASB 9 has not resulted in changes in the carrying amount of the Scheme's financial instruments due to changes in measurement categories. All financial assets that were classified as FVPL under AASB 139 are still classified as FVPL under AASB 9. All financial assets that were classified as accounts receivable and measured at amortised cost continue to be.

In addition, the application of the ECL model under AASB 9 has not changed the carrying amounts of the Scheme's amortised cost financial assets. The carrying amounts of amortised cost instruments continued to approximate these instruments' fair values on the date of transition after transitioning to AASB 9.

Adoption of AASB 15 Revenue from Contracts with Customers

The Scheme adopted AASB 15 *Revenue from Contracts with Customers* on 1 July 2018. AASB 15 replaces AASB 118 *Revenue* and establishes a five-step model to account for revenue arising from contracts with customers. In addition, guidance on interest and dividend income has been moved from AASB 18 to AASB 9 without significant changes to the requirements. Therefore, there was no impact of adopting AASB 15 for the Scheme.

Notes to the Financial Statements
For the year ended 30 June 2019

2. Summary of significant accounting policies (continued)

(b) New accounting standards and interpretations (continued)

Accounting Standards and Interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective and have not been adopted by the Scheme for the annual reporting period ended 30 June 2019. The impact of these standards and interpretations has been assessed and to the extent applicable to the Scheme are outlined in the table below. Standards and Interpretations that are not expected to have a material impact on the Scheme have not been included.

Accounting standard	Nature	Application date of standard	Application date for the Scheme
AASB 16 *Leases*	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in similar way to finance leases under AASB 117 *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. AASB 16 contains disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Management has assessed the impact of the adoption of AASB 16 and will adopt the modified retrospective transition method. Under this method, the Scheme will not be required to re-state prior period comparatives. Any differences between the Scheme's current accounting method and AASB 16 will result in an adjustment to the opening balance of members' fund at 1 July 2019. The Trustee has made a quantitative assessment of impact of the adoption of AASB 16 *Leases* on the Scheme's net assets available for member benefits and has determined the impact to not be significant. In addition, the Scheme will elect as a practical expedient not to reassess whether a contract is, or contains, a lease under AASB 16 at the initial application date. Instead, the Scheme will apply AASB 16 to contracts that were previously identified as leases under AASB 117 *Leases*.	1 January 2019	1 July 2019

Notes to the Financial Statements
For the year ended 30 June 2019

2. Summary of significant accounting policies (continued)

Other significant accounting policies

(c) Consolidation

The Scheme is an investment entity and, as such, does not consolidate the entities it controls. Instead, interests in subsidiaries are classified at fair value through profit or loss and measured at fair value. Refer to Note 21 for further details.

(d) Financial assets and liabilities

i. Classification

In accordance with AASB 9 *Financial Instruments,* the Scheme classifies its financial assets and financial liabilities at initial recognition into the categories below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

(i) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
(ii) On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
(iii) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial assets measured at fair value through profit or loss

A financial asset is measured at fair value through profit or loss if:

(i) Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding; or
(ii) It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
(iii) At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Scheme includes all investment assets in this category.

Financial liabilities measured at fair value through profit or loss

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading. The Scheme includes in this category, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

All investments are measured at fair value in accordance with AASB 13.

ii. Recognition

The Scheme recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Scheme commits to purchase or sell the asset.

2. Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

iii. Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

(i) The rights to receive cash flows from the asset have expired; or
(ii) The Scheme has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
(iii) Either (a) the Scheme has transferred substantially all the risks and rewards of the asset, or (b) the Scheme has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Scheme derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

iv. Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the statement of comprehensive income.

v. Subsequent measurement

After initial measurement, the Scheme measures investments and derivatives at fair value through profit or loss. Subsequent changes in the fair value of those investments are recorded as 'changes in assets measured at fair value' in the statement of comprehensive income. Interest and dividend earned are recorded separately in 'interest revenue' and 'dividend revenue' in the statement of comprehensive income.

(e) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Scheme.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Scheme uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. Refer to Note 9 for further details.

(f) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

2. Summary of significant accounting policies (continued)

(g) Receivables

Receivables are carried at nominal amounts due which approximate fair value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is objective evidence that the debt will not be collected. Objective evidence may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

(i) Benefits payable

Benefits payable are valued in accordance with AASB 1056 and comprise the entitlements of members who have claimed a benefit prior to the end of the financial year and the entitlement had not been paid at reporting date. Benefit entitlements rolled over within the Scheme are not included as benefits payable. Benefits payable are generally settled within 30 days.

(j) Other payables

Other payables are carried at amortised costs which approximate fair value. They represent liabilities for goods and services provided to the Scheme prior to the end of the financial year that are unpaid when the Scheme becomes obliged to make future payments in respect of the purchase of these goods or services. Payables are normally settled on 30 day terms.

(k) Revenue recognition

i. Changes in fair values

Changes in the fair value of investments and derivatives are calculated as the difference between the fair value at sale, or at balance date, and the fair value at the previous valuation point. All changes are recognised in the statement of comprehensive income.

ii. Interest

Interest revenue on cash and interest bearing financial assets measured at fair value is recorded according to the terms of the contract and is recognised in the statement of comprehensive income.

iii. Dividends, distributions and property trust income

Dividend, distribution and property trust income is recognised when the Scheme's right to receive payment is established. Revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately as tax expense in the statement of comprehensive income.

(l) Income tax

The Scheme is a complying superannuation fund for the purposes of the provisions of the Income Tax Assessment Act 1997. Accordingly, the concessional tax rate of 15% has been applied to the Scheme's taxable income.

Income tax benefit/expense for the year comprises current and deferred tax and is recognised in the statement of comprehensive income.

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.

2. Summary of significant accounting policies (continued)

(l) Income tax (continued)

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.

(m) Goods and services tax (GST)

Where applicable, GST incurred by the Scheme 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 comprehensive income.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing activities, which is recoverable from, or payable to the ATO are classified as operating cash flows.

(n) Administration expenses

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

(o) Foreign currency

The functional and presentation currency of the Scheme is Australian Dollars, which is the currency of the primary economic environment in which it operates. The Scheme's performance is evaluated and its liquidity managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rates of exchange at the reporting date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous financial report, are recognised in the statement of comprehensive income in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(p) Member liabilities

Member liabilities are measured at the amount of accrued benefits.

Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.

(q) Leased assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

2. Summary of significant accounting policies (continued)

(q) Leased assets (continued)

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Scheme is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

The Scheme does not have finance lease

(r) Employee entitlements

i. 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 the Scheme has a present obligation to pay at balance date. The provisions have been calculated based on remuneration rates that the Scheme 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.

ii. 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 the Scheme 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, the Scheme'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.

iii. Superannuation scheme

The employees of the Scheme are eligible to be members of the Scheme, and contributions are made on their behalf. The majority of staff are defined contribution members, and contributions for these staff are charged as expenses when 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 22 for details of the defined benefit surplus/(deficit).

iv. Funding arrangements

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

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 2018, the Actuary for the Scheme, Mr. M. Burgess FIAA completed an actuarial investigation of the defined benefit divisions of the Scheme and reported that the Scheme was in a satisfactory funding position. Under the SIS legislation, a fund is in a "Satisfactory Financial Position" when the market value of assets (excluding any amount held to meet the Operational Risk Financial Reserve) exceeds the vested benefits.

The next triennial actuarial investigation as at 30 June 2021 will be carried out in 2022 financial year

As per the recommendations contained in the Actuary's report as at 30 June 2018, Telstra and certain associated employer sponsors have continued to make employer contributions to the Scheme in respect of defined benefit and defined contribution divisions at required rates.

2. Summary of significant accounting policies (continued)

(r) Employee entitlements (continued)

iv. Funding arrangements (continued)

The Trustee and Telstra monitor and report each month on the Vested Benefit Index (VBI) - the ratio of fund assets to members' vested benefits of the Scheme's defined benefit divisions. The Actuary provides an opinion on a quarterly basis as to the reasonableness of the then current employer contribution rate.

The VBI for the defined benefits divisions at 30 June 2019 calculated as a monthly outcome averaged over a calendar quarter was 112% (2018: 111%).

(s) Significant accounting judgements, estimates and assumptions

The preparation of the Scheme's financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been represented to be consistent with current period disclosures.

i. Fair value of investments

When the fair values of the investments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques. The inputs in these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required to establish fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Changes in assumptions about these factors could affect the reported fair value of these investments.

ii. Assessment as investment entity

Entities that meet the definition of an investment entity within AASB 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. 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 Scheme's product disclosure statement details its objective of providing services to members which includes investing in equities, fixed income securities and private equity for the purpose of returns in the form of investment income and capital appreciation.

The Scheme reports to its members via an annual report, and to its management, via internal management reports, on a fair value basis. All investments are reported at fair value to the extent allowed by AASB 1056 in the Scheme's annual report. The Scheme has a clearly documented exit strategy for all of its investments.

The Trustee has also concluded that the Scheme meets the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

The Trustee has therefore concluded that the Scheme meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

2. Summary of significant accounting policies (continued)

(s) Significant accounting judgements, estimates and assumptions (continued)

iii. Valuation of defined benefits member liabilities

The amount of defined benefits member liabilities has been determined using actuarial valuation techniques and assumptions. An actuarial valuation involves making various assumptions about the future. Actual developments in the future may differ from these assumptions. The assumptions are discount rate, inflationary salary increases, promotional salary increases, rates of demographic movements and rate of retrenchment. Due to the complexities involved in the valuation and its long term nature, defined benefit member liabilities are highly sensitive to changes in these assumptions. Assumptions are reviewed at each reporting date.

3. Defined contribution member liabilities

Defined contribution member account balances are determined by both the unit prices and the number of units as at the reporting date. The unit prices are determined based on the underlying investment asset values.

Defined contribution members bear the investment risk relating to the underlying assets. Daily unit prices are used to measure the member liabilities.

At 30 June 2019 the net assets attributable to defined contribution members but not allocated to those members is $8,647,286 (2018: $5,300,287). This amount has been disclosed as unallocated fund as a part of accounts payable in Note 12.

Refer to Note 23 for the Scheme's management of investment risk.

4. Defined benefit member liabilities

The Scheme engages the qualified actuary on an annual basis to measure the defined benefits member liabilities.

The actuarial valuation of member liabilities reflects the actuarial assessment of the benefits accrued up to the reporting date and payable to members on retirement, resignation, death and disability. This annual assessment may result in an employer being required to make additional contributions to the divisions. The defined benefit divisions are quarantined from the other assets of the Scheme.

The key assumptions used to determine the values of accrued benefits were:

- The discount rate (net of investment taxes and fees): 3.9% p.a. (2018: 3.3% p.a.)
- The inflationary salary increases: 2.75% p.a. (2018: 3.0% p.a.).

The defined benefit members' liabilities have changed in the current financial year as a result of salary increases and additional service accrual.

The Scheme's Actuary reports to management each quarter on the status of the defined benefit divisions. Where divisions are in or are likely to enter an unsatisfactory financial position, the report sets out any remedial action and agreed rectification programs in respect of each employer.

The Trustee has a numbers of steps in place to manage the risks associated with defined benefit divisions. As stated in Note 2(r), the Trustee has appointed an external consulting actuary to advise on the risks, including establishing suitable funding objectives. These funding objectives and the defined benefit divisions' circumstances are taken into account by the Actuary when recommending the required employer contribution levels.

The Trustee also uses sensitivity analysis to monitor the potential impact of changes to key variables about which assumptions need to be made. The Trustee has identified two assumptions, the discount rate and the inflationary salary increases, for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities.

- The assumed discount rate has been determined by reference to the Scheme's asset consultant advice.
- The inflationary salary increases is the best estimate, which is developed during the ongoing discussions following the recent actuarial investigations.

4. Defined benefit member liabilities (continued)

The other variables about which assumptions have been made in measuring defined benefit member liabilities for which reasonably possible changes would not be expected to have a material effect. These variables are promotional salary increases, rates of demographic movements and rate of retrenchment.

The following are sensitivity calculations on a univariate basis for the discount rate and rate of inflationary salary increase assumptions for the defined benefit divisions.

Assumption	Assumed at reporting date	Reasonable possible change	Amount of (increase)/decease in member benefit liabilities $000
Discount rate	**3.9%** (2018: 3.3%)	**+1.0%/-1.0%** (2018: +1.0%/-1.0%)	**(125,000)/143,000** [2018: (139,400)/159,700]
Inflationary salary increases	**2.75%** (2018: 3.0%)	**+0.5%/-0.5%** (2018: +0.5%/-0.5%)	**61,900/(58,500)** [2018: 68,800/(65,000)]

At the reporting date the accrued benefits of the defined benefit members is $1,816.9 million (2018:$ 2,120.8 million).

5. Funding arrangements

The employers have contributed to the Scheme during the financial year at a rate of at least 9.5% (2018: 9.5%) of the gross salaries of those employees who were defined contribution members of the Scheme.

The employers for the defined benefit members have contributed to the Scheme at the rate of 15% until 31 October 2018, then 5% from 1 November 2018 to 30 June 2019 (2018: 15%). The contribution rate is determined by the Actuary.

Employees are also able to make voluntary contributions.

6. Unallocated surplus

The defined benefits continue to remain in surplus as at the reporting date. The employer-sponsors intend to keep the defined benefit divisions in surplus for the foreseeable future. The defined benefit divisions are contributing at the rate recommended by the Actuary.

The unallocated surplus also includes timing differences relating to investment valuations and timing on the tax alignment in unit pricing.

7. Guaranteed benefits

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

8. Reserves

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 administration reserve receives amounts from operational surpluses over the corporate business plan cycle. This reserve, subject to approval from the Board, may be used for purposes, including but not limited to meeting large or unexpected expenses, loss of members' funds through fraud or error, and meeting uninsured losses arising from a period of unusually high claims experience.

The operational risk financial reserve was established on 1 July 2013 in accordance with the Superannuation Prudential Standards SPS 114 Operational Risk Financial Requirements. This reserve may be used in certain circumstances to address operational risk events or claims against the Scheme arising from operational risk. This reserve is funded from transfers from members.

The Trustee has assessed an operational risk reserve of approximately 0.25% of funds under management as appropriate for the Scheme in respect of both defined contribution and defined benefit member interests. This requirement has been met since 30 June 2016 and maintained as at the reporting date.

8. Reserves (continued)

The Trustee has also allocated the amount of $2,000,000 (2018: $5,000,000) for the purpose of maintaining a self-insurance reserve for its defined benefits members.

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.

9. Fair value of financial instruments

(a) Classification of financial instruments under the fair value hierarchy

AASB 13 requires disclosures relating to fair value measurements using a three-level fair value hierarchy. The level within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability. The following table shows financial instruments recognised at fair value, categorised between those whose fair value is based on:

- Level 1 — Quoted market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

	30 June 2019			
	Level 1 $000	**Level 2 $000**	**Level 3 $000**	**Total $000**
Australian fixed interest				
Trusts & special purpose vehicles	-	-	1,089	1,089
Bonds, discount & asset backed securities	916,379	2,813,822	-	3,730,201
	916,379	2,813,822	1,089	3,731,290
International fixed interest				
Listed equities	894	-	435	1,329
Trusts & special purpose vehicles	-	165,591	134,720	300,311
Bonds, discount & asset backed securities	43,761	1,595,664	12,026	1,651,451
	44,655	1,761,255	147,181	1,953,091
Australian equities				
Listed equities	4,870,264	-	172	4,870,436
Trusts & special purpose vehicles	436,904	23,246	1,273	461,423
Unlisted equities	-	-	300	300
	5,307,168	23,246	1,745	5,332,159
International equities				
Listed equities	4,667,742	-	6	4,667,748
Trusts & special purpose vehicles	22,697	72,316	384	95,397
Bonds, discount & asset backed securities	8,930	-	-	8,930
	4,699,369	72,316	390	4,772,075
Hedge funds				
Trusts & special purpose vehicles	-	99,256	768,354	867,610
Bonds, discount & asset backed securities	-	-	-	-
	-	99,256	768,354	867,610
Private equities				
Trusts & special purpose vehicles	-	9,634	432,951	442,585
Unlisted equities	-	-	6,155	6,155
	-	9,634	439,106	448,740
Property				
Listed equities	69,393	-	-	69,393
Trusts & special purpose vehicles	435,531	9,126	2,039,136	2,483,793
	504,924	9,126	2,039,136	2,553,186

9. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

	30 June 2019			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Infrastructure				
Listed equities	**196,932**	**-**	**-**	**196,932**
Trusts & special purpose vehicles	**34,648**	**93,660**	**517,841**	**646,149**
	231,580	**93,660**	**517,841**	**843,081**
Derivative assets				
Futures	**7,302**	**-**	**-**	**7,302**
Options	**-**	**13,095**	**-**	**13,095**
Swaps	**-**	**11,093**	**-**	**11,093**
Foreign exchange contracts	**-**	**302**	**-**	**302**
	7,302	**24,490**	**-**	**31,792**
Derivative liabilities				
Futures	**(7,796)**	**-**	**-**	**(7,796)**
Options	**-**	**(1,266)**	**-**	**(1,266)**
Swaps	**-**	**(14,723)**	**-**	**(14,723)**
	(7,796)	**(15,989)**	**-**	**(23,785)**
Total investments	**11,703,581**	**4,890,816**	**3,914,842**	**20,509,239**

	30 June 2018			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Australian fixed interest				
Listed equities	28,908	-	-	28,908
Trusts & special purpose vehicles	-	16,640	10,579	27,219
Bonds, discount & asset backed securities	818,971	2,391,110	-	3,210,081
	847,879	2,407,750	10,579	3,266,208
International fixed interest				
Listed equities	51,688	-	-	51,688
Trusts & special purpose vehicles	-	-	120,722	120,722
Bonds, discount & asset backed securities	76,885	1,098,540	-	1,175,425
	128,573	1,098,540	120,722	1,347,835
Australian equities				
Listed equities	4,246,452	1,435	181	4,248,068
Trusts & special purpose vehicles	261,133	691,319	3,654	956,106
Unlisted equities	-	-	319	319
	4,507,585	692,754	4,154	5,204,493
International equities				
Listed equities	4,948,019	-	6	4,948,025
Trusts & special purpose vehicles	24,344	68,263	362	92,969
Bonds, discount & asset backed securities	15,701	-	-	15,701
	4,988,064	68,263	368	5,056,695
Hedge funds				
Listed equities	547	-	569	1,116
Trusts & special purpose vehicles	-	161,791	787,571	949,362
Bonds, discount & asset backed securities	-	308,561	9,877	318,438
	547	470,352	798,017	1,268,916
Private equities				
Listed equities	38,260	-	-	38,260
Trusts & special purpose vehicles	-	-	448,126	448,126
Unlisted equities	-	-	5,130	5,130
	38,260	-	453,256	491,516

9. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

	30 June 2018			
	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Property				
Listed equities	77,623	-	-	77,623
Trusts & special purpose vehicles	371,294	-	1,916,686	2,287,980
	448,917	-	1,916,686	2,365,603
Infrastructure				
Listed equities	232,957	-	-	232,957
Trusts & special purpose vehicles	36,853	-	457,842	494,695
	269,810	-	457,842	727,652
Derivative assets				
Futures	7,060	-	-	7,060
Options	-	23,753	-	23,753
Swaps	-	6,027	-	6,027
Foreign exchange contracts	-	20,699	-	20,699
	7,060	50,479	-	57,539
Derivative liabilities				
Futures	(8,632)	-	-	(8,632)
Options	-	(12,767)	-	(12,767)
Swaps	-	(9,917)	-	(9,917)
Foreign exchange contracts	-	(101,556)	-	(101,556)
	(8,632)	(124,240)	-	(132,872)
Total investments	11,228,063	4,663,898	3,761,624	19,653,585

Valuation technique

Listed equities

When fair values of publicly traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are classified within Level 1 in the fair value hierarchy.

When publicly traded equity securities are suspended, they are valued by using the last traded price, zero or third party valuation price. Such instruments are classified within either Level 2 or Level 3 in the fair value hierarchy depending on the pricing source and the timing since the price last updated.

Unlisted equities

The Scheme holds the majority of unlisted equities through trusts and the underlining assets are valued by their investment managers.

The valuation of unlisted equity investments requires significant management judgement due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are often valued initially based upon cost. Each quarter, valuations are reviewed utilising available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a non-public investment and the fact that comparable public companies are not identical to the companies being valued.

9. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

Valuation technique (continued)

Unlisted equities (continued)

In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, current operating performance and future expectations of the particular investment, changes in market outlook and the third-party financing environment. Unlisted equity investments are classified within Level 3 of the fair value hierarchy.

Bonds, discount and asset-backed securities

Where quoted prices are available in an active market, bonds, discount and asset-backed securities are classified as Level 1 in the hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Examples of such instruments are collateralised mortgage obligations and high-yield debt securities which would generally be classified within Level 2 in the fair value hierarchy.

Most fixed income investments are valued by using an evaluated price provided by an independent pricing vendor, broker or dealer. If trade information is used along with observable inputs, the fixed income investments are classified within Level 2 in the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation. Such instruments are classified within Level 3 in the fair value hierarchy.

Trusts and special purpose vehicles

The Scheme invests in these trusts and special purpose vehicles which may or may be quoted in an active market. When the fair values of trusts and vehicles are based on quoted market prices, in an active market for identical assets without any adjustments, the instruments are classified as Level 1 of the hierarchy. The Scheme holds such investments in listed property trusts and other listed trusts.

When trusts and vehicles are not quoted in an active market and subject to restrictions on redemptions such as lock up periods, redemption gates and side pockets, the net asset value (NAV) of the trusts and vehicles may be used as input into measuring their fair value. In measuring this fair value, the NAV is adjusted, as necessary, to reflect restrictions on redemptions, future commitments, and other specific factors of the fund to fund managers. In measuring fair value, consideration is also paid to any transactions in the shares of the fund. Depending on the nature and level of adjustments needed to the NAV and the level of trading in the fund, the instruments can be classified within either Level 2 or Level 3 in the fair value hierarchy. The Scheme holds such investments in unlisted property trusts, unlisted equity trusts and unlisted cash and fixed income trusts.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the fair value hierarchy.

Depending on the types and contractual terms of OTC derivatives, vendors and broker/dealers provide fair valuation measurements that are modelled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, fair valuation measurement is based on models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets may be classified within Level 3 of the fair value hierarchy.

9. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

Valuation process for Level 3 financial instruments

Valuations are the responsibility of the board of directors of the Trustee.

The valuation of unlisted unit trusts, special purpose vehicles and unlisted equities are performed at least quarterly by the investment managers of the underlining assets and reviewed by both the Scheme's investment team and investment operations team.

The Trustee has the Valuation Investment Policy (Policy) in place to specify the valuation processes adopted by the Trustee so that it can process transactions at values that are materially accurate, fair and equitable. The following valuation principles are included in the Policy:

- Valuations are independent and unbiased
- Investments and financial exposures are frequently measured
- Valuations are available with reference to a relevant market
- Active markets may not exist for all securities held
- Understanding the basis and assumptions underlying the valuation methodology adopted
- Relevance of the valuation being used
- Market disruption or inability to determine values, and
- Approval process for accepting valuations.

For property and infrastructure assets held within trusts controlled by the Scheme, valuations are sourced from an independent valuation firm on a rotating basis.

The Trustee uses an independent custodian, JPMorgan Chase & Co. (Custodian), to hold the Scheme's investment assets in safe keeping. The Custodian also provides the Scheme with investment accounting services. This service includes providing market valuations on daily basis for all assets held. The Custodian has a Pricing Policy for the proper valuation of securities.

The Custodian's policy is consistent with valuation principles set out above and has been adopted for the purpose of valuing the Scheme's assets on a daily basis. This Policy and the Custodian's Global Pricing Policy are reviewed at least every two years by management.

Further to the Custodian's valuation policy the Trustee seeks to ensure that the valuations of property and infrastructure investments follow the specific guidelines outlined in the Policy.

There were no other changes in valuation techniques during the year.

Quantitative information of significant unobservable inputs – Level 3

The table below sets out information about significant unobservable inputs used in measuring financial instruments classified as Level 3 in the fair value hierarchy.

Description	Fair Value $000	Valuation technique	Significant unobservable inputs
Listed equities	**2019: 614** 2018: 755	Redemption prices provided by fund managers	Unit prices
Trusts & special purpose vehicles	**2019: 3,895,747** 2018: 3,745,543	Redemption prices provided by fund managers	Unit prices
Unlisted equities	**2019: 6,455** 2018: 5,449	Redemption prices provided by fund managers	Unit prices
Others	**2019: 12,026** 2018: 9,877	Redemption prices provided by fund managers	Unit prices

9. Fair value of financial instruments (continued)

(a) Classification of financial instruments under the fair value hierarchy (continued)

Quantitative information of significant unobservable inputs – Level 3 (continued)

The analysis below indicates the effect on the statement of comprehensive income and statement of financial position due to a reasonably possible change of 10% in unit prices.

2019	Effect on changes in assets measured in fair value and net assets		
Description	Amount $000	+10% $000	-10% $000
Listed equities	**614**	**61**	**(61)**
Trusts & special purpose vehicles	**3,895,747**	**389,675**	**(389,675)**
Unlisted equities	**6,455**	**646**	**(646)**
Others	**12,026**	**1,203**	**(1,203)**

2018	Effect on changes in assets measured in fair value and net assets		
Description	Amount $000	+10% $000	-10% $000
Listed equities	755	76	(76)
Trusts & special purpose vehicles	3,745,543	374,554	(374,554)
Unlisted equities	5,449	545	(545)
Others	9,877	988	(988)

(b) Level 3 financial instruments transactions

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

30 June 2019

	Listed equities $000	Trusts & special purpose vehicles $000	Unlisted equities $000	Others $000	Total $000
Opening balance	**755**	**3,745,543**	**5,449**	**9,877**	**3,761,624**
Total gains/(losses)	**(156)**	**154,076**	**1,006**	**500**	**155,426**
Purchases/applications	**64**	**292,787**	**-**	**3,950**	**296,801**
Sales/redemptions	**(49)**	**(296,659)**	**-**	**(2,301)**	**(299,009)**
Closing Balance	**614**	**3,895,747**	**6,455**	**12,026**	**3,914,842**

30 June 2018

	Listed equities $000	Trusts & special purpose vehicles $000	Unlisted equities $000	Others $000	Total $000
Opening balance	830	3,237,736	131,257	2,253	3,372,076
Total gains/(losses)	(630)	178,809	359	74	178,612
Purchases/applications	1	445,702	-	8,798	454,501
Sales/redemptions	-	(239,871)	-	-	(239,871)

9. Fair value of financial instruments (continued)

(b) Level 3 financial instruments transactions (continued)

30 June 2018 (continued)

	Listed equities $000	Trusts & special purpose vehicles $000	Unlisted equities $000	Others $000	Total $000
Transfers into level 3	566	126,167	-	7	126,740
Transfers out level 3	(12)	(3,000)	(126,167)	(1,255)	(130,434)
Closing Balance	755	3,745,543	5,449	9,877	3,761,624

Gains or losses recognised in the statement of comprehensive income for Level 3 transactions are presented in the movement in fair value of investments as follows:

30 June 2019

	Listed equities $000	Trusts & special purpose vehicles $000	Unlisted equities $000	Others $000	Total $000
Total gains/(losses) recognised in the statement of comprehensive income for the period	**-**	**(4,385)**	**(19)**	**60**	**(4,344)**
Total gains/(losses) recognised in the statement of comprehensive income for the period for assets held at the end of the reporting period	**(156)**	**158,461**	**1,025**	**440**	**159,770**

30 June 2018

	Listed equities $000	Trusts & special purpose vehicles $000	Unlisted equities $000	Others $000	Total $000
Total gains/(losses) recognised in the statement of comprehensive income for the period	(630)	178,809	359	74	178,612
Total gains/(losses) recognised in the statement of comprehensive income for the period for assets held at the end of the reporting period	6	180,727	359	74	181,166

(c) Transfers between hierarchy levels

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

There have been no transfers between the Level 2 and Level 3 fair value hierarchies during the current year.

10. Accounts receivable

Recoverable within 12 months	**2019 $000**	2018 $000
Contributions receivable	**1,940**	2,465
Other receivables	**2,641**	2,901
Prepayment	**2,497**	2,483
Total accounts receivable	**7,078**	7,849

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Information regarding credit risk exposure is set out in Note 23.

11. Property, plant and equipment

	2019 $000	2018 $000
Cost	**11,437**	10,226
Accumulated depreciation and impairment	**(4,879)**	(3,650)
Written down value	**6,558**	6,576

12. Accounts payable

Due within 12 months	**2019 $000**	2018 $000
Investment expenses payable	**15,228**	19,388
Administration expenses payable	**2,303**	3,205
Employee entitlements	**3,825**	3,714
Unallocated funds	**8,647**	5,300
Total accounts payable	**30,003**	31,607

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in Note 23.

13. Changes in fair value of investments

	2019 $000	2018 $000
Investments held at balance date		
Cash	**10,083**	4,843
Australian fixed interest securities	**35,600**	(3,804)
International fixed interest securities	**41,163**	(13,905)
Australian equities	**286,294**	242,044
International equities	**187,991**	201,460
Hedge funds	**15,708**	31,812
Private equity	**(39,857)**	(31,173)
Property	**132,557**	129,791
Infrastructure	**22,286**	6,129
Derivative	**(2,806)**	(3,936)
Total unrealised gains	**689,019**	563,261

13. Changes in fair value of investments (continued)

	2019 $000	2018 $000
Investments realised during the year		
Cash	**28,538**	26,763
Australian fixed interest securities	**1,218**	127
International fixed interest securities	**8,527**	(3,477)
Australian equities	**(317,779)**	163,089
International equities	**15,294**	143,278
Hedge funds	**(1,369)**	750
Private equity	**-**	(3,629)
Property	**(8,779)**	14,664
Infrastructure	**10,190**	3,266
Derivative	**15,657**	(60,246)
Total realised gains	**(248,503)**	284,585
Change in fair value of investments	**440,516**	847,846

14. Income tax

The major components of income tax expense are:

	2019 $000	2018 $000
Current income tax expense		
Income tax payable current year	**(31,907)**	46,106
Adjustments in respect of prior years	**(15,066)**	(11,122)
	(46,973)	34,984

	2019 $000	2018 $000
Deferred income tax expense		
Relating to origination and reversal of temporary differences	**33,737**	26,120
Adjustments in respect of deferred income tax of previous years	**5,681**	2,467
	39,418	28,587
Income tax (benefit)/expense reported in the statement of comprehensive income	**(7,555)**	63,571

A reconciliation between income tax expense and profit from operating activities is as follows:

	2019 $000	2018 $000
Profit from operating activities	**1,341,414**	1,534,843
Income tax at 15%	**201,212**	230,226
Increase/(decrease) in tax expense due to:		
Imputation & foreign tax offsets gross up	**22,195**	11,960
Non-Deductible Expenses	**13**	23
Differences between tax and accounting investment income	**(38,775)**	(59,362)
Adjustments in respect of income tax of previous year	**(9,385)**	(8,654)
Allocated pension exempt income	**(41,646)**	(33,702)
Imputation & foreign tax offsets	**(141,169)**	(76,920)
Income tax (benefit)/expense in statement of comprehensive income	**(7,555)**	63,571

14. Income tax (continued)

	2019 $000	2018 $000
Current income tax (assets)/liabilities at 30 June relates to the following:		
Income tax payable current year	**42,562**	127,499
Payments made during the year	**(105,392)**	(83,863)
	(62,830)	43,636
Deferred income tax assets and liabilities at 30 June relates to the following:		
Contributions receivable	**286**	364
Investment income receivable	**3,941**	6,174
Unrealised Gains on investments	**378,159**	328,390
Expense provisions	**(883)**	(980)
Imputation Tax Offsets	**(4,628)**	(8,590)
Allocated pension exempt income share of gains/losses	**(76,178)**	(64,001)
Net deferred income tax liabilities	**300,697**	261,357

15. Administration expenses

	2019 $000	2018 $000
Salaries and related employment costs	**24,987**	28,120
Trustee expenses	**974**	989
Professional and audit fees	**5,055**	4,602
Member communication expenses	**1,863**	1,643
Office rental and expenses	**9,141**	7,335
Financial planning service fees	**11,545**	11,169
APRA levy	**1,353**	1,399
Other expenses	**406**	401
Total administration expenses	**55,324**	55,658

16. Auditors' remuneration

Amount received or due and receivable by EY:	2019 $	2018 $
Audit and review of financial reports and compliance	**373,115**	345,915
Other services	**87,963**	8,470
Total remuneration	**461,078**	354,385

17. Cash flows reconciliation

(a) Reconciliation of cash and cash equivalents

	2019 $000	2018 $000
Cash and cash equivalents	**1,625,751**	1,562,005

17. Cash flows reconciliation (continued)

(b) Reconciliation of cash flows from operating activities

	2019 $000	2018 $000
Profit after income tax	**10,502**	169,833
Adjustments for:		
Depreciation	**1,825**	1,428
Net foreign exchange gains	**(175,344)**	(152,309)
Changes in assets measured at fair value	**(440,516)**	(847,846)
Insurance premiums charged on members' accounts	**(40,625)**	(39,328)
Death and disability benefits credited to members' accounts	**28,534**	29,595
(Increase)/Decrease in investment income receivable	**8,666**	8,346
(Increase)/Decrease in other receivables	**261**	(75)
(Increase)/Decrease in prepayments	**(14)**	(1,004)
Increase/(Decrease) in accounts payable	**(1,604)**	(6,896)
Increase/(Decrease) in current tax liabilities	**(106,466)**	(56,976)
Increase/(Decrease) in deferred tax liabilities	**39,340**	28,553
Allocation to members' accounts	**1,338,467**	1,301,438
Net cash from operating activities	**663,026**	434,759

18. Lease commitments

Operating leases of plant, property and equipment	**2019 $000**	2018 $000
Not later than one year	**4,374**	2,663
Later than one year less than five years	**12,875**	10,585
Later than five years	**20,468**	14,805
Total	**37,717**	28,053

	2019 $000	2018 $000
Operating lease expenses recognised for the year	**2,863**	2,380

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

19. Segment information

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

20. Related party disclosures

(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 the Scheme) are associated employer sponsors. Of total employer contributions of $533,742,949 (2018: $587,341,606) as disclosed in the statement of changes in member benefits, those made by Telstra and associated employers were $304,475,306 (2018: $347,689,294). Contributions are made in accordance with recommendations of the Actuary, the Trust Deed, and relevant legislative requirements. Telstra Corporation also provides the Scheme with telecommunication services. Such services are provided at arm's length and on normal commercial terms.

20. Related party disclosures (continued)

(a) Employer company (continued)

The Scheme held the following investments in Telstra Corporation Limited at market value as at 30 June.

	2019 $	2018 $
Shares	**197,082,520**	109,970,093
Fixed interest securities	**15,156,440**	61,367,416
Total investments	**212,238,960**	171,337,509

The Scheme received the following income from the investments in Telstra Corporation Limited.

	2019 $	2018 $
Dividends received for the year	**8,142,316**	10,287,237
Interest received for the year	**723,020**	1,011,378
Total income	**8,865,336**	11,298,615

(b) Trustee and key management personnel

Telstra Super Pty Ltd (TSPL) is the trustee of the Scheme 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 (Chair) (retired on 30 June 2019)
Bronwyn Clere
Melissa Donnelly
Steven Fousekas (appointed on 16 November 2018)
Dahlia Khatab (appointed on 6 June 2019)
David Burns
Scott Connolly
Graham Lorrain
Julian Clarke
Maria Phillips (retired on 31 August 2018)
Shane Murphy (retired on 12 March 2019)

Anne-Marie Corboy has been appointed as Board Chair from 1 July 2019.

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

Name	Board		Committees					
			Claims Review		Audit, Risk & Compliance		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
D Leggo	11	11	-	-	6	6	7	7
D Burns	11	7	-	-	-	-	-	-
B Clere	11	11	-	-	6	6	-	-
S Connolly	11	10	4	4	-	-	7	7
M Donnelly	11	10	-	-	5	5	-	-
G Lorrain	11	11	-	-	6	6	-	-
J Clarke	11	11	3	3	-	-	7	7
S Fousekas	7	7	-	-	4	4	-	-
D Khatab	1	-	-	-	-	-	-	-
S Murphy	7	6	-	-	-	-	-	-
M Phillips	1	1	1	1	1	1	-	-

20. Related party disclosures (continued)

(b) Trustee and key management personnel (continued)

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

Chris Davies (Chief Executive Officer)
Paul Curtin (Chief Financial Officer)
Graeme Miller (Chief Investment Officer)

Remuneration:	**2019 $**	2018 $
Short term - salaries, fees, bonuses and non-monetary benefits	**2,761,932**	2,869,762
Superannuation contributions	**136,855**	134,851
Total	**2,898,787**	3,004,613

Where instructed, a Director's income is paid directly to their employer. Directors' remuneration excludes insurance premiums of $280,928 (2018: $305,669) paid by the Trustee.

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.

Amount falling between	**2019**	2018
$10,000 and $19,999	**1**	1
$40,000 and $49,999	**1**	-
$50,000 and $59,999	**-**	1
$60,000 and $69,999	**-**	1
$70,000 and $79,999	**7**	6
$250,000 and $259,999	**-**	1
$260,000 and $269,999	**1**	-
$470,000 and $479,999	**1**	-
$500,000 and $509,999	**-**	1
$730,000 and $739,999	**1**	-
$770,000 and $779,999	**-**	1
$840,000 and $849,999	**1**	-
$890,000 and $899,999	**-**	1

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

A fee is paid to the trustee company, Telstra Super Pty Ltd, for providing trustee services. The fee charged to the Scheme for providing trustee services was $1,004,676 (2018: $1,018,783).

(c) Related parties

i. Telstra Super Financial Planning Pty Ltd (TSFP)

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

	2019 $	2018 $
Shares	**5,835,644**	5,162,074

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

20. Related party disclosures (continued)

(c) Related parties (continued)

i. Telstra Super Financial Planning Pty Ltd (TSFP) (continued)

David Leggo (retired on 30 June 2019)
Bronwyn Clere
Shane Murphy (retired on 12 March 2019)
Chris Davies
Scott Connolly (appointed on 5 June 2019)

TSFP is responsible for direct expenditure incurred. Shared costs with the Scheme are allocated on a fair and equitable basis. Transactions between the parties comprised of fees charged by TSFP to the Scheme for providing financial advice to members $8,349,996 (2018: $8,354,892) and fees charged by the Scheme to TSFP for in-house administration support and services $900,000 (2018: $881,280). The TSFP fee for providing financial advice to members is a flat fee for service as agreed to by the board of the Scheme. The Scheme also charged TSFP for Director fees $22,609 (2018: $22,144) and employer paid insurance premiums $22,402 (2018: $19,274).

At 30 June 2019 TSFP had nil receivables (2018: nil) from the Scheme and the Scheme had $5,750 receivables from TSFP (2018: nil).

ii. TelstraSuper sub trusts

Several investments are wholly owned by the Scheme. Details of these entities are disclosed in Note 21.

21. Related party investments

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

Ownership interest as at 30 June 2019	**$**	**%**
Telstra Super Financial Planning Pty Ltd	**5,835,644**	**100**
TSPL Woollies Sub Trust	**176,645,465**	**100**
TSPL BTF Trust	**49,246,053**	**100**
TSPL CLP Trust	**455,315,815**	**100**
TSPL BP Trust	**289,683,345**	**100**
FDC Co Investment Trust	**72,096,019**	**100**
FDC Co Investment Trust – Brandon	**341,168**	**100**
Northgate Investment Trust	**64,416,148**	**100**
	1,113,579,657	

Ownership interest as at 30 June 2018	**$**	**%**
Telstra Super Financial Planning Pty Ltd	5,162,073	100
TSPL Woollies Sub Trust	188,778,456	100
TSPL BTF Trust	48,719,696	100
TSPL FSPT Trust	3,999,048	100
TSPL CLP Trust	425,315,952	100
TSPL BP Trust	273,488,663	100
FDC Co Investment Trust	70,558,280	100
FDC Co Investment Trust – Brandon	701,958	100
Northgate Investment Trust	74,946,622	100
	1,091,670,748	

The Scheme has a controlling interest in the related party investments. As at 30 June 2019, 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.

22. Employee entitlements

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

	2019 $000	2018 $000
Current	**3,043**	2,937
Non-current	**747**	759
Total	**3,790**	3,696

Employees 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 the reporting date have been calculated using the following weighted averages:

	2019	2018
Assumed rate of increase in wage and salary rates	**2.19%**	2.28%
Discount rate	**1.82%**	3.02%

(b) Superannuation scheme

There are four (2018: five) employees of the Scheme who are defined benefit members. Their proportionate share of the assets, the accrued benefits and the vested benefits are as follows:

	2019 $000	2018 $000
Proportionate share of the Scheme's assets at 30 June	**2,551**	2,551
Accrued benefits at 30 June	**2,161**	2,194
Excess of fund assets over accrued benefits	**390**	357
Vested benefits	**2,248**	2,295

An actuarially determined surplus or deficit in relation to all employees has not been recognised in the financial statements as the amount is not material. During the year, employer contributions of $2,229,728 (2018: $2,156,270) were paid/payable to the Scheme in respect of employees.

23. Financial risk management objectives and policies

(a) Financial risk management objectives, policies and processes

The Scheme's investments are managed on behalf of the Trustee by appointed managers and the internal investment team. All investments are held on behalf of the Trustee by JPMorgan Chase & Co. (Custodian) 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. The Scheme'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 investments. The main purpose of these financial instruments is to generate a return on investment. The Scheme also has various other financial instruments such as receivables and payables, which arise directly from its operations.

The Scheme uses derivative financial instruments to reduce foreign exchange and interest rate risks in the share, bond and currency markets and to increase or decrease the Scheme'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 financial position, and the accounting policies in relation to derivatives are set out in Note 2 (d).

The main risks arising from the Scheme'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.

23. Financial risk management objectives and policies (continued)

(a) Financial risk management objectives, policies and processes (continued)

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 the prudential standard SPS220 *Risk Management*. 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 TSPL Board, the CEO and CFO, two other independent Committee members. 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.

The Scheme 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.

(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 Custodian, as well as the Trustee.

The Scheme’s maximum exposure to credit risk is as indicated by the carrying amounts of its assets including derivatives. The Scheme 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 the Scheme.

Credit quality per class of debt instruments

The credit quality of financial assets is managed by the Scheme 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.

2019

Credit quality	AAA to AA- $000	A+ to A- $000	BBB+ to B- $000	CCC+ to CC $000	Not rated $000	Total $000
Listed equities	**-**	**-**	**-**	**-**	**9,805,838**	**9,805,838**
Unlisted equities	**-**	**-**	**-**	**-**	**6,455**	**6,455**
Bonds, discount securities & asset backed securities	**2,248,595**	**1,022,701**	**1,940,657**	**10,310**	**168,319**	**5,390,582**
Trusts & special purpose vehicles	**-**	**-**	**-**	**-**	**5,298,357**	**5,298,356**
Derivative assets	**-**	**-**	**-**	**-**	**31,792**	**31,792**
Total	**2,248,595**	**1,022,701**	**1,940,657**	**10,310**	**15,310,761**	**20,533,024**

23. Financial risk management objectives and policies (continued)

(b) Credit risk (continued)

2018

Credit quality	AAA to AA- $000	A+ to A- $000	BBB+ to B- $000	CCC+ to CC $000	Not rated $000	Total $000
Listed equities	-	-	-	-	9,626,643	9,626,643
Unlisted equities	-	-	-	-	5,449	5,449
Bonds, discount securities & asset backed securities	1,630,480	1,383,545	1,519,735	11,660	174,226	4,719,646
Trusts & special purpose vehicles	-	-	-	-	5,377,180	5,377,180
Derivative assets	-	-	-	-	57,539	57,539
Total	1,630,480	1,383,545	1,519,735	11,660	15,241,037	19,786,457

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:

	2019 $000	2018 $000
Accounts receivable	**7,078**	7,849
Investment income receivable	**51,540**	60,206
Australian fixed interest securities	**3,731,290**	3,266,208
International fixed interest securities	**1,953,091**	1,347,835
Derivative assets	**31,792**	57,539
Total	**5,774,791**	4,739,637

The Scheme's cash is substantially managed by Pendal and the internal investment management team. The custodian holds assets and cash in the name of the Scheme. 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 the Scheme will encounter difficulty in raising funds to meet commitments associated with financial instruments and benefit payments. To control these risks, the Scheme invests in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

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, together with the bulk of its assets being invested in highly liquid asset classes, allows the Scheme 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.

The Scheme’s financial instruments include unlisted investments that are not traded in organised public markets and may be illiquid. As a result the Scheme may not be able to quickly liquidate some of its unlisted investments at an amount close to fair value in order to meet its liquidity requirements. The value of these investments is monitored to comply with the asset allocation stipulated in the Scheme’s investment strategy, Liquidity Policy and Risk Management Framework. Commitment cash flow projections are analysed as part of the periodic rebalancing review of the Scheme’s investments. The risk in relation to illiquid investments is therefore considered minimal.

23. Financial risk management objectives and policies (continued)

(c) Liquidity risk (continued)

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

2019 **Liability**	**Less than 1 month $000**	**1 month to 3 months $000**	**3 months to 1 year $000**	**Greater than 1 year $000**	**Total $000**
Benefits payable	**13,541**	**-**	**-**	**-**	**13,541**
Accounts payable	**30,003**	**-**	**-**	**-**	**30,003**
Derivative liabilities	**500**	**7,999**	**671**	**14,615**	**23,785**
	44,044	**7,999**	**671**	**14,615**	**67,329**

2018 **Liability**	**Less than 1 month $000**	**1 month to 3 months $000**	**3 months to 1 year $000**	**Greater than 1 year $000**	**Total $000**
Benefits payable	78	-	-	-	78
Accounts payable	31,607	-	-	-	31,607
Derivative liabilities	56,688	53,385	15,639	7,354	133,066
Current tax liability	43,636	-	-	-	43,636
	132,009	53,385	15,639	7,354	208,387

The above table does not include the members' liabilities for accrued benefits amounting to $21,268 million (2018: $20,297 million) as it is not practicable to determine the timing of when such liabilities will be paid.

The Scheme 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.

(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 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 the Scheme'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 the Scheme'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.

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

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

2019	**Floating Interest rate $000**	**1 year or less $000**	**1 to 5 years $000**	**More than 5 years $000**	**Non-interest bearing $000**	**Total $000**
Investments	**3,769,098**	**122,747**	**659,202**	**840,885**	**15,117,307**	**20,509,239**
Cash and cash equivalents	**1,625,751**	**-**	**-**	**-**	**-**	**1,625,751**
Total	**5,394,849**	**122,747**	**659,202**	**840,885**	**15,117,307**	**22,134,990**

2018	**Floating Interest rate $000**	**1 year or less $000**	**1 to 5 years $000**	**More than 5 years $000**	**Non-interest bearing $000**	**Total $000**
Investments	3,355,378	109,070	571,599	684,668	14,932,870	19,653,585
Cash and cash equivalents	1,562,005	-	-	-	-	1,562,005
Total	4,917,383	109,070	571,599	684,668	14,932,870	21,215,590

Interest on financial instruments classified as floating rate change at intervals of less than one year. Interest on financial instruments classified as fixed rate is 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 ten-year Australian and US Government bonds, a reasonably possible change of 74bp (2018: 82bp) was an appropriate movement for 30 June 2019. A change of 74bp in interest rates with all other variables remaining constant would have increased interest income and net assets available for member benefits by $40.2 million (2018: $38.7 million). A change of -74bp in interest rates with all other variables remaining constant would have decreased interest income and net assets available for member benefits by $40.2 million (2018: $38.7 million).

The analysis is performed on the same basis for 2018. 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 fair 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.

The Scheme 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 the Scheme 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.

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

Foreign exchange risk (continued)

Foreign exchange sensitivity analysis

The tables below indicate the Scheme'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 9% (2018: 10%) has been determined by the investment adviser as an appropriate assumption for this scenario analysis. A 9% strengthening/weakening of the Australian dollar against the following currencies at 30 June 2019 would have (decreased)/ increased the net foreign exchange gains/(losses) and net assets available for member benefits 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 2018. The impact mainly arises from the reasonably possible change in foreign currency exchange 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 ten-year period.

2019	Effect on net foreign exchange gains/(losses) and net assets		
Currency Gross investment amounts denominated in:	Amount $000	9% $000	-9% $000
USD	**5,325,896**	**479,331**	**(479,331)**
EUR	**967,880**	**87,109**	**(87,109)**
JPY	**271,696**	**24,453**	**(24,453)**
GBP	**650,470**	**58,542**	**(58,542)**
Other currencies	**1,072,277**	**96,505**	**(96,505)**
Total	**8,288,219**	**745,940**	**(745,940)**

2018	Effect on net foreign exchange gains/(losses) and net assets		
Currency Gross investment amounts denominated in:	Amount $000	10% $000	-10% $000
USD	5,325,439	532,544	(532,544)
EUR	942,827	94,283	(94,283)
JPY	276,833	27,683	(27,683)
GBP	594,952	59,495	(59,495)
Other currencies	1,095,280	109,528	(109,528)
Total	8,235,331	823,533	(823,533)

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 security investments present a risk of loss of capital. The maximum risk is determined by the fair value of the financial instruments.

As all of the Scheme's financial instruments are measured at fair value with changes in fair value recognised in the statement of comprehensive income, 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.

23. Financial risk management objectives and policies (continued)

(d) Market risk (continued)

Other market risk (continued)

Other market price sensitivity analysis

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

The analysis below indicates the effect on the statement of comprehensive income 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 ten 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.

2019

Asset class	Change in market price	Effect on net assets/returns	
		$000	$000
Australian fixed interest	**6%**	**223,877**	**(223,877)**
International fixed interest	**7%**	**136,716**	**(136,716)**
Australian equities	**14%**	**746,502**	**(746,502)**
International equities	**16%**	**759,877**	**(759,877)**
Hedge funds	**6%**	**52,057**	**(52,057)**
Property	**9%**	**229,787**	**(229,787)**
Infrastructure	**11%**	**92,739**	**(92,739)**
Private equity	**17%**	**80,170**	**(80,170)**

2018

Asset class	Change in market price	Effect on net assets/returns	
		$000	$000
Australian fixed interest	6%	195,972	(195,972)
International fixed interest	7%	94,348	(94,348)
Australian equities	16%	832,719	(832,719)
International equities	19%	960,772	(960,772)
Hedge funds	7%	88,824	(88,824)
Property	9%	212,904	(212,904)
Infrastructure	10%	72,765	(72,765)
Private equity	14%	68,812	(68,812)

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.

23. Financial risk management objectives and policies (continued)

(e) Scrip lending

The Scheme has entered into scrip lending arrangements under which legal title to certain assets of the Scheme have been transferred to the Custodian, notwithstanding the fact that the risks and benefits of ownership of the assets remain with the Scheme.

The assets transferred under scrip lending arrangements include Australian and international equities and bonds. The risks and rewards of ownership to which the Scheme remains exposed are currency risk, interest rate risk, credit risk and price risk.

The carrying amount of assets subject to scrip lending at reporting date amounted to $7,550.8 million (2018: $7,354.2 million). Capped at 10% of the Scheme's FUM as at the reporting date, the carrying amount of assets on loan at reporting date was $488.7 million (2018: $343.6 million). The income received from scrip lending was $1.2 million (2018: $1.8 million).

The Custodian is required to collect collateral in respect of the securities which are lent to third party borrowers. The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by a Securities Lending Agreement that requires the Custodian to hold the collateral in a segregated account.

The collateral held at reporting date as security by the Custodian for the benefit of the Scheme. It consisted of both cash and non-cash collateral with a fair value of $533.6 million (2018: 379.5 million) at the reporting date.

24. Insurance

The Scheme provides death and disability benefits to members. These benefits are greater than the members' vested benefit and as such the Trustee has a group policy in place with a third party, TAL, to insure death and disability benefits in excess of vested benefits. The Trustee acts as an agent for these arrangements.

25. Commitments and contingent liabilities

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

	2019 $000	2018 $000
Investment commitments	**1,264,448**	530,726
Bank guarantees	**894**	894
Total	**1,265,342**	531,620

26. Significant events after balance date

Between 30 June 2019 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.

Trustee Statement

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

1. The accompanying financial statements of the Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2019 and the results of its operations and cash flows for the year then ended on that date in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia; and

2. The Scheme has been conducted in accordance with its constituent 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.

Signed in accordance with a resolution of the Board of Directors of Telstra Super Pty Ltd.

....	....
Name ANNE-MARIE CORBOY	Name: Bronwyn Clere.
Director	Director

Dated at Melbourne, this 7th day of August 2019.

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Telstra Superannuation Scheme
ABN 85 502 108 833

Report by the RSE Auditor to the trustee and members

Opinion

I have audited the financial statements of Telstra Superannuation Scheme for the year ended 30 June 2019 comprising the statement of financial position, income statement, statement of changes in member benefits, statement of cash flows and statement of changes in reserves.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of Telstra Superannuation Scheme as at 30 June 2019 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the ended 30 June 2019.

Basis for Opinion

I conducted the audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the Auditor's responsibilities section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

Responsibilities of the trustees for the Financial Statements

The RSE'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.

In preparing the financial statements, the trustee is responsible for assessing the ability of the RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional judgment and maintained professional scepticism throughout the audit. I also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit 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 RSE's internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.

- Concluded on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my auditor opinion. My auditor conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicated with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

Brett Kallio

Brett Kallio
Partner
Melbourne

7 August 2019