Notes to the Financial Statements (continued)

24. Post employment benefits (continued)

(f) Principal actuarial assumptions (continued)

(ii) The present value of our defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate based on government guaranteed securities with similar due dates to these expected cash flows.

For Telstra Super we have used a blended 10-year Australian government bond rate as it has the closest term from the Australian bond market to match the term of the defined benefit obligations. We have not made any adjustment to reflect the difference between the term of the bonds and the estimated term of liabilities due to the observation that the current government bond yield curve is reasonably flat, implying that the yields from government bonds with a term less than 10 years are expected to be very similar to the extrapolated bond yields with a term of 12 to 13 years. Refer to note 2.20(b) for further information.

For the HK CSL Retirement Scheme we have extrapolated the 5, 7, 10 and 15 year yields of the Hong Kong Exchange Fund Notes to 11 years to match the term of the defined benefit obligations.

(iii) Our assumption for the salary inflation rate for Telstra Super is 4.0%, which is reflective of our long term expectation for salary increases. The salary inflation rate for the HK CSL Retirement Scheme is 5.0% in fiscal 2013 to 2015, and 4.0% thereafter which reflects the long term expectations for salary increases.

(g) Employer contributions

Telstra Super

The funding deed we have with Telstra Super requires contributions to be made when the average vested benefits index (VBI) in respect of the defined benefit membership (the ratio of defined benefit plan assets to defined benefit members' vested benefits) of a calendar quarter falls to 103% or below. For the quarter ended 30 June 2012, the VBI was 91% (30 June 2011: 92%). We have paid contributions totalling $467 million during the year (2011: $467 million). This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions, which are excluded from the employer contributions in the reconciliations above. The current contribution rate for the defined benefit divisions of Telstra Super, effective June 2012, is 27% of defined benefit member's salaries (June 2011: 24%).

The vested benefits, which forms the basis for determining our contribution levels under the funding deed, represents the total amount that Telstra Super would be required to pay if all defined benefit members were to voluntarily leave the fund on the valuation date. The VBI assesses the short term financial position of the plan. On the other hand the liability recognised in the statement of financial position is based on the projected benefit obligation (PBO), which represents the present value of employees' benefits assuming that employees will continue to work and be part of the fund until their exit. The PBO takes into account future increases in an employee's salary and provides a longer term financial position of the plan.

We will continue to monitor the performance of Telstra Super and reassess our employer contributions in light of actuarial recommendations. We expect to contribute approximately $474 million in fiscal 2013 which includes contributions to the defined benefit divisions at a contribution rate of 27% for fiscal 2013. This contribution rate could change depending on market conditions during fiscal 2013. This includes employer contributions to the accumulation divisions, payroll tax and employee pre and post tax salary sacrifice contributions.

HK CSL Retirement Scheme

The contributions payable to the defined benefit divisions are determined by the actuary using the attained age normal funding actuarial valuation method.

There were no employer contributions made to the HK CSL Retirement Scheme for the financial year ended 30 June 2012 (2011: $1 million). We do not expect to make any contributions to our HK CSL Retirement Scheme in fiscal 2013.

Annual actuarial investigations are currently undertaken for this scheme by Mercer Hong Kong Limited.