



FIRST STATE SUPERANNUATION SCHEME

ABN 53 226 460 365

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2017



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Independent Auditor's report approved form for a RSE which is a reporting entity (as defined in Australian Accounting Standard AASB 1056)

First State Superannuation Scheme (ABN: 53 226 460 365)

Report by the RSE Auditor to the trustee

Opinion

I have audited the financial statements of First State Superannuation Scheme for the year ended 30 June 2017 comprising the Income Statement, Statement of Financial Position, Statement of Changes in Members Benefits, Statement of Changes in Equity/Reserves, Statement of Cash Flows and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements present fairly, in all material aspects, in accordance with Australian Accounting Standards the financial position of First State Superannuation Scheme as at 30 June 2017 and the results of its operations, cash flows, changes in equity/ reserves and changes in members' benefits for the year ended 30 June 2017.

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

Trustee's responsibility 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 cease operations, or has no realistic alternative but to do so.



Auditor's responsibility

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 auditor's 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 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 judgement 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's report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify my audit opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's 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.

DELOITTE TOUCHE TOHMATSU

Philip Hardy

Partner

Chartered Accountants

Melbourne, 20th September 2017

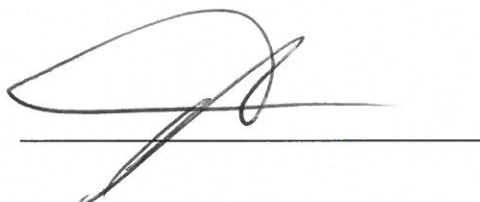
Trustee's Statement for the year ended 30 June 2017

In the opinion of the Directors of FSS Trustee Corporation ("the Trustee") of the First State Superannuation Scheme ("the Fund"):

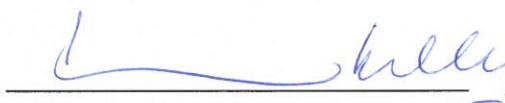
1. The accompanying financial statements of the First State Superannuation Scheme are properly drawn up so as to present fairly the statement of financial position of the Fund as at 30 June 2017, the income statement for the year ended 30 June 2017 and the statements of changes in member benefits, changes in equity/reserves and cash flows for the year ended on that date; and
2. The accompanying financial statements have been drawn up in accordance with Accounting Standards in Australia.

Signed in accordance with a resolution of the Board of Directors of FSS Trustee Corporation (ABN 11 118 202 672).

Signed at Melbourne this 20th day of September 2017.



Director
FSS Trustee Corporation



Director
FSS Trustee Corporation

Statement of Financial Position as at 30 June 2017

	Note	2017 \$'m	2016 \$'m
Assets			
Cash and cash equivalents		426	326
Receivables		514	301
Financial assets	4	64,762	56,197
Plant and equipment		8	8
Deferred tax assets	10(c)	209	255
Total assets		65,919	57,087
Liabilities			
Benefits payable		54	50
Accounts payable		608	252
Financial liabilities	4	257	528
Income tax payable	10(b)	59	15
Deferred tax liabilities	10(c)	1,121	888
Total liabilities excluding member benefits		2,099	1,733
Net assets available for member benefits		63,820	55,354
Member liabilities			
Defined contribution member liabilities	8	62,291	53,993
Defined benefit member liabilities	9	1,097	1,069
Total member liabilities		63,388	55,062
Net assets		432	292
Equity			
Reserves		387	219
Defined benefit surplus	9	45	73
Total equity		432	292

Income Statement for the year ended 30 June 2017

	Note	2017 \$'m	2016 \$'m
Investment revenue			
Interest - investments carried at fair value		374	441
Interest - bank deposits		5	5
Dividends		954	783
Distributions from unit trusts		705	608
Securities lending income		15	19
Other income		28	14
Changes in fair value of investments	6	4,982	(617)
Total revenue		7,063	1,253
Investment expenses		(201)	(170)
Administration expenses		(143)	(138)
Total expenses		(344)	(308)
Operating result before income tax expense		6,719	945
Income tax benefit/(expense)	10(a)	(479)	86
Operating result after income tax expense		6,240	1,031
Net benefits allocated to defined contribution member accounts		(5,975)	(944)
Net change in defined benefit member accounts		(97)	(43)
Operating result		168	44

Statement of Changes in Member Benefits

	Defined Contribution Member Benefits \$'m	Defined Benefit Member benefits \$'m	Total \$m
Opening balances as at 1 July 2015	50,898	1,093	51,991
Employer contributions	3,975	23	3,998
Member contributions	722	-	722
Transfers from other superannuation funds	971	-	971
Superannuation co-contributions	30	-	30
Income tax on contributions	(539)	(2)	(541)
Net after tax contributions	5,159	21	5,180
Benefits to members	(2,664)	(114)	(2,778)
Insurance premiums charged to members' accounts	(344)	-	(344)
Transfer (to)/from reserves	-	-	-
Net benefits allocated to members	944	43	987
Net change in member Defined Benefits	-	26	26
Closing balances as at 30 June 2016	53,993	1,069	55,062
Opening balances as at 1 July 2016	53,993	1,069	55,062
Employer contributions	4,073	20	4,093
Member contributions	1,216	-	1,216
Transfers from other superannuation funds	1,085	-	1,085
Superannuation co-contributions	21	-	21
Income tax on contributions	(564)	(1)	(565)
Net after tax contributions	5,831	19	5,850
Benefits to members	(3,195)	(115)	(3,310)
Insurance premiums charged to members' accounts	(313)	-	(313)
Transfer (to)/from reserves	-	-	-
Net benefits allocated to members	5,975	97	6,072
Net change in member Defined Benefits	-	27	27
Closing balances as at 30 June 2017	62,291	1,097	63,388

Statement of Changes in Equity/Reserves

	Unallocated income \$'m	Operational risk financial requirement reserve ¹ \$'m	Administration reserve ² \$'m	Total \$'m
Opening balances as at 1 July 2015	15	117	43	175
Operating result	8	25	11	44
Transfer to defined contribution member accounts	-	-	-	-
Transfer to defined benefit member accounts	-	-	-	-
Closing balances as at 30 June 2016	23	142	54	219
Opening balances as at 1 July 2016	23	142	54	219
Operating result	89	18	61	168
Transfer to defined contribution member accounts	-	-	-	-
Transfer to defined benefit member accounts	-	-	-	-
Closing balances as at 30 June 2017	112	160	115	387

1: The Operational Risk Financial Requirement Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the requirements of Superannuation Prudential Standard 114 Operational Risk Financial Requirement and the Fund's Operational Risk Financial Requirement Reserving Policy.

2: The Administration Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Trust Deed.

Statement of Cash Flows for the year ended 30 June 2017

	Note	2017 \$'m	2016 \$'m
Cash flows from operating activities			
Investment income		2,081	1,870
Investment expenses		(201)	(177)
Administration expenses		(143)	(122)
Income tax paid		(321)	(38)
Net inflows from operating activities	13	1,416	1,533
Cash flows from investing activities			
Purchase of investments		(76,735)	(70,419)
Proceeds from sale of investments		73,024	66,892
Net outflows from investing activities		(3,711)	(3,527)
Cash flows from financing activities			
Contributions received		6,015	5,024
Benefits paid		(3,307)	(2,765)
Insurance premiums paid		(313)	(344)
Net inflows from financing activities		2,395	1,915
Net increase/(decrease) in cash held		100	(79)
Cash at the beginning of the financial year		326	405
Cash at the end of the financial year		426	326

Notes to the Financial Statements for the year ended 30 June 2017

1. Description of the Fund

The First State Superannuation Scheme (ABN 53 226 460 365) (the “Fund”) is both a defined contribution and a defined benefit superannuation fund constituted by the Trust Deed dated 19 February 1999 (as amended). FSS Trustee Corporation (ABN 11 118 202 672) (the “Trustee”) is the trustee of the Fund. The Fund provides superannuation benefits (including income streams), and insurance benefits (where applicable) to members and their dependants or beneficiaries.

Administration of the Fund during the year was conducted by Mercer Administration Services (Australia) Pty Limited (formerly Superannuation Administration Corporation (trading as Pillar Administration)).

From 1 November 2016, State Street Australia Limited (State Street) was the Fund’s custodian for investments and related cash. Until 31 October 2016, JP Morgan Chase Bank NA was the Fund’s custodian for investments and related cash. Mercer Administration Services (Australia) Pty Limited (Mercer) is the custodian for the Fund’s operational bank accounts.

The principal place of business of the Fund is Level 21, 83 Clarence Street, Sydney, NSW, 2000.

2. Basis of Preparation

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed.

The financial statements were authorised for issue by the Directors on 20 September 2017. For the purposes of preparing the financial statements, the Fund is a profit for members (i.e. not-for-profit) entity.

Use of Judgments and Estimates

In the application of Accounting Standards, management is required to make judgments, estimates and assumptions about the fair market values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

Judgments made by management in the application of Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. Basis of Preparation (continued)

New Standards and Interpretations adopted during the year

The following new and revised Standards and Interpretations have been adopted in these financial statements. Apart from AASB 1056, their adoption has not had significant financial or disclosure impact on these financial statements but may affect the accounting for future transactions or arrangements.

New or revised requirement	Title
AASB 1056	Superannuation Entities - refer below
AASB 2015-1	Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle
AASB 2015-2	Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101
AASB 2015-5	Amendments to Australian Accounting Standards - Investment Entities: Applying the Consolidation Exception

The Fund's reported financial position and results of operations were affected by the adoption of AASB1056 *Superannuation Entities* on 1 July 2016. This resulted in the following changes:

- the presentation format of the financial statements changed from two primary financial statements to five as follows:
 1. statement of financial position
 2. income statement
 3. statement of changes in member benefits
 4. statement of changes in equity
 5. statement of cash flows
- the measurement of financial assets and liabilities changed from 'net market value' to 'fair value.' This change in measurement did not materially impact the carrying value of financial assets and liabilities reported by the Fund
- member benefits are recognised as liabilities rather than equity
- defined benefit member liabilities are determined using actuarial assumptions and valuations where appropriate, as the present value of expected future payments arising from membership of the plan up to measurement date; and
- contributions, rollovers and other inward transfers are not income and benefits paid to members are not expenses but are instead presented in the statement of changes in member benefits.

As part of the transition to AASB 1056, the Trustee also had to determine whether the Fund is acting as a principal or agent in relation to members' insurance benefits. As the Fund is acting as an agent, insurance premiums are no longer recognised as an expense but are instead presented in the statement of changes in member benefits. Refer to note 7 for further information.

2. Basis of Preparation (continued)

As a result of these changes the Fund has restated amounts previously reported under AAS 25 *Financial Reporting by Superannuation Plans* ('AAS 25') for the year ended 30 June 2016. The amounts reported under AAS 25 for the year ended 30 June 2016 are reconciled to the amounts reported under AASB1056 as set out below:

(i) Statement of financial position

The adoption of AASB 1056 requires member liabilities to be recognised and measured as the amount of accrued benefits on the face of the statement of financial position.

	2016 \$m
Net assets available to pay benefits under AAS 25 as at 30 June 2016	55,354
Defined contribution member liabilities	(53,993)
Defined benefit member liabilities	(1,069)
Total net assets under AASB 1056 as at 1 July 2016	292

(ii) Income statement

The adoption of AASB 1056 requires contributions, rollovers and other inward transfers and benefits paid to members to be recognised separately in the statement of changes in member benefits. This includes (\$541m) of income tax relating to contributions which are now presented separately in the statement of changes in member benefits. The net changes in members' benefits are recognised in the income statement. Insurance premiums paid by the Fund are no longer recognised in the income statement.

	2016 \$m
Change in net assets available to pay benefits under AAS 25	3,089
Employer contributions	(3,975)
Member contributions	(722)
Transfers from other superannuation funds	(971)
Superannuation co-contributions	(30)
Defined benefit contributions	(23)
Income tax on contributions	541
Benefits paid and payable	2,778
Insurance premiums	344
Operating result after income tax under AASB 1056	1,031

(iii) Statement of Changes in Member Benefits

The adoption of AASB 1056 has required the Fund to prepare a Statement of Changes in Member Benefits for the first time. Defined contribution member benefits and defined benefits member benefits are now disclosed separately.

2. Basis of Preparation (continued)

(iv) Statement of Changes in Equity/Reserves

The adoption of AASB 1056 has required the Fund to prepare a statement of Changes in Equity/Reserves for the first time.

(iv) Statement of cash flows

The adoption of AASB 1056 has required the Fund to prepare a statement of cash flows for the first time. Contributions received and benefits paid are treated as financing activities. Income tax on contributions is presented separately in the cash flows from financing activities.

Accounting Standards and interpretations issued, but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) is set out below:

AASB 9 Financial Instruments (and applicable amendments), (effective from 1 January 2018)

AASB 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. AASB9 introduced revised rules around hedge accounting and impairment.

The Trustee does not expect this to have a significant impact on the Fund's financial instruments as they are carried at fair value through profit and loss.

A number of additional Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. The reported results and position of the Fund will not change on adoption of these pronouncements as they do not result in any changes to the Fund's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Fund does not intend to adopt any of these pronouncements before their effective dates.

3. Significant Accounting Policies

The Fund's accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

(a) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash and which are subject to insignificant risk of changes in value.

3. Significant Accounting Policies (continued)

(b) Investment entities

The Fund has multiple investments which it controls. However, the Fund has determined that it is an investment entity under the definition in AASB 10 Consolidated Financial Statements as it meets the following criteria:

1. the Fund obtains funds from members for the purpose of providing those members with investment management services;
2. the Fund commits to its members that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
3. the Fund measures and evaluates the performance of substantially all of its investments on a fair value basis.

As a consequence, the Fund does not consolidate these investments, but accounts for them at fair value.

(c) Financial assets

Financial assets are classified as at fair value through profit or loss (FVTPL) when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling it in the near term; or it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and AASB 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Fair values of financial assets are determined as follows:

- Listed securities, foreign securities quoted on a recognised stock exchange, derivative financial instruments and government and other fixed interest securities are stated at market quotations as at the reporting date;
- Unit trust, and managed fund investments are stated at the redemption price quoted by the trust managers as at the reporting date;
- Unlisted securities are stated at a valuation based on the latest available advice of the Fund's investment managers as at the reporting date.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement are recognised in the Income Statement.

3. Significant Accounting Policies (continued)

(d) Financial liabilities

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term; or It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and AASB 139 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the Income Statement.

(e) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the Income Statement in the period in which they arise.

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

3. Significant Accounting Policies (continued)

(g) Benefits paid and payable

The Fund recognises a benefit to be payable when a member's valid withdrawal notice is received, and it has been approved by the Trustee in accordance with the Fund's Trust Deed. Benefits paid and payable are measured at their nominal values as prescribed by the Fund's Trust Deed.

Benefits payable represent amounts which have not been paid where a valid withdrawal notice has been received.

(h) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its tax assets and liabilities when due on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or benefit in the Income Statement.

Some aspects of tax legislation and rulings require interpretation and necessitate reasonable assumptions or allocations to be made in determining the provision for income taxes. There are some tax calculations made during the ordinary course of business which may be uncertain if assumptions or allocations are subsequently challenged. Because of its size and the amount of tax paid, the fund is subject to regular reviews by the Australian Taxation Office. The fund actively monitors and assesses the impacts of those reviews, including making appropriate tax provisions for potential tax exposures. Where the final outcome of a tax authority review is different from the amounts that were initially recorded, such differences may impact the current and deferred tax provisions in the period in which such determination is made.

3. Significant Accounting Policies (continued)

(i) Payables

Accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services and are recognised at their nominal value which is equivalent to fair value.

(j) Revenue recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent to which it is probable that economic benefits will flow to the Fund and the amount of revenue can be reliably measured.

The following recognition criteria relates to the different items of revenues the Fund receives:

Investment Revenue

Interest revenue

Revenue on money market and fixed interest securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount. If interest is not received at balance sheet date, the balance is reflected in the Statement of Financial Position as a receivable.

Dividend revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend. If the dividend is not received at balance sheet date, the balance is reflected in the Statement of Financial Position as a receivable.

Changes in fair value of investments

Changes in the fair value of investments are recognised as revenue and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

Changes in fair value of liabilities

Changes in the fair value of financial liabilities are recognised as revenue (or expense) and are determined as the difference between the fair value at year end or consideration paid (if settled during the year) and the fair value as at the prior year end or amount originally incurred (if the financial liabilities were incurred during the period).

Distributions from unit trusts

Distribution income is recognised on a receivable basis on the date the unit value is quoted ex-distribution. Where the distribution is not received at reporting date, the balance is reflected in the Statement of Financial Position.

(k) Superannuation contributions (surcharge) tax

The Trustee recognises amounts paid or payable in respect of the surcharge tax as an expense of the Fund. The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Trustee and are properly payable by the Fund. All amounts paid are allocated back against the member accounts to which the surcharge relates.

4. Financial Instruments

a) Financial instruments management

The investments of the Fund are predominantly managed by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment management agreement. The appointment of these managers is appropriate for the Fund and is in accordance with the Fund's investment strategy. Some of the investments of the Fund are managed by the internal investment staff.

b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset are disclosed in Note 3 to the financial statements.

c) Fair value measurements recognised in the statement of financial position

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

30 June 2017	Level 1 \$'m	Level 2 \$'m	Level 3 \$'m	Total \$'m
Financial assets				
Cash	2,300	-	-	2,300
Discounted securities	2,530	3,487	-	6,017
Fixed interest securities	4,148	4,235	559	8,942
Equities	29,960	6	1,584	31,550
Unit Trusts	2,725	2,584	10,167	15,476
Derivatives	25	452	-	477
Total Financial assets	41,688	10,764	12,310	64,762
Financial liabilities				
Derivatives	33	224	-	257
Total Financial liabilities	33	224	-	257

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 30 June 2017.

4. Financial Instruments (continued)

30 June 2016	Level 1 \$'m	Level 2 \$'m	Level 3 \$'m	Total \$'m
Financial assets				
Cash	3,741	-	-	3,741
Discounted securities	956	2,002	-	2,958
Fixed interest	3,529	5,106	-	8,635
Equities	28,375	4	1,924	30,303
Unit Trusts	607	1,778	7,539	9,924
Derivatives	56	580	-	636
Total Financial assets	37,264	9,470	9,463	56,197
Financial liabilities				
Derivatives	25	503	-	528
Total Financial liabilities	25	503	-	528

4. Financial Instruments (continued)

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 30 June 2017 \$'m	Fair value as at 30 June 2016 \$'m	Fair Value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equities	31,550	28,655	1	Quoted bid prices in an active market. 99.9% classified as Level 1	N/A	N/A
Unit trusts	15,476	11,572	1,2,3	Level 1 - Quoted bid prices in an active market Level 2 - Derived from inputs other than quoted prices Level 3 - Valuation based on advice of the Fund's investment managers as at the reporting date.	Level 3 generally based on economic and business assumptions in the valuation models	N/A
Fixed interest	8,942	8,635	1,2	Quoted bid prices in an active market.	N/A	N/A
Discounted securities	6,017	2,958	1,2	Quoted bid prices in an active market.	N/A	N/A
Futures and options (net)	6	32	1,2	Exchange-traded futures or options are stated at the last quoted bid or sale price relevant to close out the contract as at the reporting date less any transaction costs, over-the-counter options are stated using the quotations of an independent broker or where unavailable, by the responsible entity, using an option pricing model using independent market data less any transaction costs.	N/A	N/A
Foreign exchange (net)	240	135	2	Forward foreign exchange contracts are stated at the exchange rate current at reporting date less any transaction costs.	N/A	N/A
Swaps (net)	(26)	(59)	2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

4. Financial Instruments (continued)

Reconciliation of Level 3 fair value measurements of financial assets

Level 3 Fair Value Reconciliation	Fixed Interest \$'m	Equities \$'m	Unit Trusts \$'m	Total \$'m
Balance at 1 July 2016	-	1,924	7,539	9,463
Purchases	185	588	3,367	4,140
Redemptions/disposals	(1)	(625)	(1,041)	(1,667)
Transfers into Level 3 ¹	390	-	-	390
Transfer out of Level 3 ²	-	(269)	-	(269)
Total gains/(losses) in Income Statement	(15)	(34)	302	253
Balance at 30 June 2017	559	1,584	10,167	12,310
Balance at 1 July 2015	-	12	5,096	5,108
Purchases	-	2,005	3,193	5,198
Redemptions/disposals	-	(88)	(740)	(828)
Transfers into Level 3 ¹	-	-	2	2
Total gains/(losses) in Income statement	-	(5)	(12)	(17)
Balance at 30 June 2016	-	1,924	7,539	9,463

Note 1: The transfer of Fixed Interest securities into level 3 are due to a reduced frequency of valuations. In the prior year, the transfers into level 3 are Unit Trusts where the frequency of valuations has decreased.

Note2: The transfer of Equities out of level 3 is due to increased frequency of valuations.

The following table shows the sensitivity of the fair values of the Level 3 assets. The expected volatility forecasts are derived primarily from the last several years of realised values with adjustments based on an independent consultant's judgement and experience.

Level 3 Asset Sensitivity	Volatility of investment sector returns %		Effect on changes in net assets and net assets available to pay benefits	
	2017	2016	2017 \$'m	2016 \$'m
Fixed interest	3%	3%	18	-
Equities	15%	15%	236	286
Unit trusts	8%	8%	849	630

5. Financial Risk Management

Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including currency risk, cash flow interest rate risk, fair value interest rate risk and price risk), credit risk and liquidity risk. The Fund's risk management and investment policies seek to minimise the potential adverse effects of these risks on the Fund's financial performance. These policies may include the use of certain financial derivative instruments.

An enterprise-wide Risk Management Framework (RMF) is in place to manage material risks and ensure appropriate levels of oversight are in place.

The RMF identifies the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Fund. Annually, the Trustee certifies to the Australian Prudential Regulatory Authority (APRA) that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and the Trustee has satisfied itself as to compliance with the RMF.

The Fund's of Investment Policy Statement sets out the authorised investments of the Fund as follows:

- Assets in the international and domestic equities sectors are required to be listed on an internationally recognised public exchange, except where the investment is an unlisted private equity or infrastructure holding.
- All bonds, in the conventional fixed interest sector are required to be investment grade, as rated by a recognised international rating agency unless otherwise agreed and documented in the relevant Investment Management Agreement.
- Short-term cash deposits, bills and notes are required to be with institutions with a rating from Standard & Poors/Australian Ratings of A2 or above.
- In the fixed interest sector, investments in banks with a term greater than one year are required to be in securities which have a long-term rating from Standard & Poors/Australian Ratings of BBB+ or above.
- To accommodate offshore investments, currency positions may be taken in any country in which assets are held.
- Where permitted, exchange traded derivatives are required to be listed on an internationally recognised futures or options exchange.
- Off market derivatives (or over-the-counter derivatives) may be permitted where the professional manager or the Trustee has appropriate valuation and monitoring facilities. The Trustee must approve a class of over-the-counter transactions where undertaken under discrete Investment Management Agreement's or as part of an Internal Investment Management Agreement. Where the Fund invests in a unit trust and off-market derivatives are allowed as a class of investment under that Trust's governing deed, or documents, prior Trustee approval is not required.
- Counterparty risks and exposures which arise from any over-the-counter transactions are required to be with organisations which have a rating from Standard & Poors/Australian Ratings of A2 or above.

5. Financial Risk Management (continued)

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Fund's policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the Fund's investment policies and the RMF. There has been no change in the Fund's exposure to market risks or manner in which it manages and measures the risk.

Foreign currency risk management

Foreign currency risk is the risk that the net market value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund undertakes certain investment transactions denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters. This exchange rate exposure is managed in line with the Fund's investment policies. The Fund's overall policy in foreign currency risk management remains unchanged from the previous reporting period.

The Fund's total exposure (in Australian dollars) to fluctuations in foreign currency exchange at the reporting date was as follows:

Year ended 30 June 2017	USD \$'m	EUR \$'m	GBP \$'m	Others \$'m
Assets	16,886	3,517	2,452	3,430
Liabilities	(510)	(173)	(99)	(370)
	16,376	3,344	2,353	3,060
Forward exchange contracts	(10,579)	(2,136)	(1,928)	(1,642)
Net exposure	5,797	1,208	424	1,480

30 June 2016				
Assets	13,944	2,905	2,073	3,485
Liabilities	(666)	(66)	(55)	(72)
	13,278	2,839	2,018	3,413
Forward exchange contracts	(8,200)	(1,538)	(1,579)	(1,514)
Net exposure	5,078	1,301	439	1,899

5. Financial Risk Management (continued)

Foreign currency risk management

The following table details the Fund's sensitivity to a 18% (2016: 18%) increase or decrease in the Australian dollar against the relevant foreign currencies. 18% represents the assessment of the possible change in foreign exchange rates. The expected volatility forecasts are derived primarily from the last several years of actual foreign currency movements combined with adjustments based on an independent consultant's judgement and experience.

The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 18% (2016: 18%) change in foreign currency rates. The analysis assumes all currencies fluctuate in the same direction at the same time. The number is positive when the Australian dollar weakens against the respective currency, causing assets available to pay benefits to increase. Conversely the number is negative when the Australian dollar strengthens causing assets in foreign currencies to fall in value.

Currency Risk	% change in A\$		Effect on net assets and net assets available to pay benefits	
	2017	2016	2017 \$'m	2016 \$m
	18%	18%	1,559	1,553

5. Financial Risk Management (continued)

Interest rate risk management

The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate instruments expose the Fund to fair value interest rate risk. Exposures to interest rate risk are monitored.

Year ended 30 June 2017	Floating interest rate \$'m	Fixed interest rate \$'m	Non-interest bearing \$'m	Total \$'m
Assets				
Cash and cash equivalents	2,714	12	-	2,726
Receivables	-	-	514	514
Plant & equipment	-	-	8	8
Unit trusts	-	-	15,476	15,476
Fixed interest	2,923	6,019	-	8,942
Equities	-	-	31,550	31,550
Discounted securities	5,607	410	-	6,017
Derivative financial instruments	9	24	444	477
Total financial assets	11,253	6,465	47,992	65,710
Liabilities				
Payables	-	-	662	662
Derivative financial instruments	28	36	193	257
Total financial liabilities	28	36	855	919
Net financial assets	11,225	6,429	47,137	64,791

5. Financial Risk Management (continued)

Interest rate risk management (continued)

Year ended 30 June 2016	Floating interest rate \$'m	Fixed interest rate \$'m	Non-interest bearing \$'m	Total \$'m
Assets				
Cash and cash equivalents	4,067	-	-	4,067
Receivables	-	-	301	301
Plant & equipment	-	-	8	8
Unit trusts	-	-	11,572	11,572
Fixed interest	929	7,638	68	8,635
Equities	-	-	28,655	28,655
Discounted securities	1,581	1,371	6	2,958
Derivative financial instruments	1	220	415	636
Total financial assets	6,578	9,229	41,025	56,832
Liabilities				
Payables	-	-	302	302
Derivative financial instruments:	1	258	269	528
Total financial liabilities	1	258	571	830
Net financial assets	6,577	8,971	40,454	56,002

5. Financial Risk Management (continued)

Interest rate risk management (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. It is assumed that the basis point change occurs as at the reporting date. The interest rate risk sensitivity analysis calculates the impact on the market value of the fixed interest portfolio of a 100 basis points term structure increase in every market in which the fund holds fixed interest securities, based on the duration of the Fund's fixed interest portfolio as at the reporting date. The possible increase or decrease in fixed interest rates of 100 basis points (2016: 100 basis points) are estimated to result in the following impact on the fixed interest portfolio's contribution to the consolidated operating result as illustrated in the following table:

Interest Rate Risk	Change in variable		Effect on changes in net assets and net assets available to pay benefits	
	2017 bps	2016 bps	2017 \$'m	2016 \$'m
Interest rate risk	+100	+100	(333)	(529)
	-100	-100	333	529

5. Financial Risk Management (continued)

Other market risks (Price risk)

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund has investments in unit trusts which expose it to price risk. In addition, the Fund holds equity instruments which expose it to equity price risk.

As the majority of the Fund's financial instruments are carried at fair value with changes in fair value recognised in the Income Statement, all changes in market conditions will directly affect net investment income.

Price risk is mitigated by constructing a diversified portfolio of instruments traded on various markets in accordance with the Fund's investment strategy.

The following table illustrates the effect on changes in net assets and net assets available to pay benefits from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date. For a negative change in the variable there would be an equal and opposite impact on the increase in net assets and on net assets available to pay benefits and the balances below would be negative.

The expected volatility estimates are derived primarily from the last several years of realised values with adjustments based on an independent consultant's judgement and experience.

Market Price Risk	Volatility of investment sector returns %		Effect on changes in net assets and net assets available to pay benefits	
	2017	2016	2017 \$'m	2016 \$'m
Discounted securities	3%	3%	196	96
Fixed interest	3%	3%	291	281
Equities	15%	15%	4,695	4,264
Unit trusts	8%	8%	1,292	966

b) Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund has counterparty credit procedures in place and the exposure to credit risk is monitored on an ongoing basis in accordance with the Statement of Investment Objectives and Policy.

The Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The table below shows the maximum exposure to credit risk at the reporting date. The carrying amounts of these financial assets represent the maximum credit risk exposure at the reporting date. The Fund holds no collateral security, except in security lending arrangements, and has no credit enhancement arrangements for any financial assets held. No financial assets are considered past due as all payments are considered recoverable when contractually due.

5. Financial Risk Management (continued)

b) Credit Risk (continued)

Substantially all of the cash held by the Fund is held by State Street (2016:JP Morgan Chase Bank) and Commonwealth Bank of Australia (CBA). The Fund monitors its credit risk by monitoring the credit quality and financial positions of the banks through regular analysis of their financial reports.

Unsettled investment sales are transactions with investment managers that are awaiting settlement and are included in receivables. The credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The ageing of unsettled trades is monitored.

State Street is the custodian of all the Fund's investment assets and associated liquid assets. State Street provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions. Mercer is the custodian for the Fund's CBA accounts and performs transactional and accounting services. Mercer is also the Fund's administrator of member services. The credit quality and financial positions of the custodians is monitored through regular analysis of their financial reports.

The Fund participates in securities lending via the agency securities lending programme of its custodian, State Street, whereby the Fund has a principal relationship with the borrower. All loans of securities are subject to collateral backing. The market value of securities on loan at 30 June 2017 was \$5,341m (2016: \$5,012m).

The Fund's maximum aggregate exposure to credit risk is as follows:

Aggregate Credit Risk Exposure	2017 \$'m	2016 \$'m
Cash and cash equivalents	2,726	4,067
Discounted securities	6,017	2,958
Fixed interest securities	8,942	8,635
Derivatives	477	636
Receivables	514	301
	18,676	16,597

c) Liquidity risk

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. The Fund allows members to withdraw benefits in accordance with the appropriate requirements and it is therefore exposed to the liquidity risk of meeting members' legitimate withdrawal requests at any time. The majority of the Fund's listed securities and unit trust investments are considered to be readily realisable. The Fund's financial instruments include investments in unlisted investments and private equity which are not traded in an organised market and that generally may be illiquid. As a result, in extraordinary circumstances, there is a risk that the Fund may not be able to liquidate all of these investments at their net market value in order to meet all of its liquidity requirements.

5. Financial Risk Management (continued)

Liquidity Risk (continued)

The Fund's liquidity risk is managed in accordance with its Liquidity Management Plan as set out in the Fund's Investment Governance Policy. The Fund manages liquidity risk through the continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. As a further risk mitigation strategy, the Fund's Investment policy has an exposure limit to illiquid assets of up to 20% (2016: 20%) of the total Fund's value at the time of purchasing the investment. In addition, the Fund has a high level of net inward cash flows (through new contributions) that provides capacity to manage liquidity risk. The liquidity of all investments is specifically recognised as a risk to the Fund and is monitored via the Risk Management Framework. The Fund's overall strategy for liquidity risk management remains unchanged from the prior year.

The Fund has no significant concentration of liquidity risk.

The Fund has capital commitments in relation to property, private equity and infrastructure investment activities. Note 12 sets out the commitments contracted for at the reporting date but not recognised as liabilities in the tables below.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

Year ended 30 June 2017	Less than one month \$'m	One to twelve months \$'m	Over one year \$'m	Total \$'m
Liability Defined contribution member liabilities ¹	62,291	-	-	62,291
Liability Defined benefit member liabilities ¹	1,097	-	-	1,097
Benefits payable	54	-	-	54
Accounts payable	608	-	-	608
Financial liabilities	55	113	89	257
Current tax liabilities	59	-	-	59
Total Financial Liabilities	64,164	113	89	64,366

1. Amount is considered less than one month as it is based on the earliest period when a beneficiary may claim their benefit.

5. Financial Risk Management (continued)

Liquidity Risk (continued)

Year ended 30 June 2016	Less than one month \$'m	One to twelve months \$'m	Over one year \$'m	Total \$'m
Liability Defined contribution member liabilities ¹	53,993	-	-	53,993
Liability Defined benefit member liabilities ¹	1,069	-	-	1,069
Benefits payable	50	-	-	50
Accounts payable	252	-	-	252
Financial liabilities	111	200	217	528
Current tax liabilities	15	-	-	15
Total Financial Liabilities	55,490	200	217	55,907

1. Amount is considered less than one month as it is based on the earliest period when a beneficiary may claim their benefit.

Capital risk management

The Operating Risk Financial Requirement Reserve has been established in accordance with SPS 114 Operational Risk Financial Requirement - refer Statement of Changes in Equity/reserves. The operational risk reserve target amount was met on 30 June 2016. The purpose of this operational risk reserve is to provide funding for incidents where material losses may arise from operational risk (as opposed to investment risk) relating to the Fund. The level of reserve is determined by the Trustee based on an assessment of the risks faced by the Fund.

6. Changes in Net Market Value of Investments

Changes in Net Market Value of Investments	2017 \$'m	2016 \$'m
Investments held at reporting date:		
Cash	(2)	(3)
Discounted securities	9	5
Fixed interest	(220)	150
Equities	3,472	(166)
Unit trusts	663	(28)
Derivatives	108	183
Total Unrealised Changes in Net Market Value	4,030	141
Investments realised during the reporting period		
Cash	14	(8)
Discounted securities	54	73
Fixed interest	(53)	40
Equities	503	(199)
Unit trusts	(151)	(97)
Derivatives	585	(567)
Total Realised Changes in Net Market Value	952	(758)
Total Changes in Net Market Value of Investments	4,982	(617)

7. Insurance arrangements

The Fund provides death and disability benefits to its members. The Trustee has a group policy in place with third-party insurance companies to insure these death and disability benefits for the members of the Fund.

The Fund collects premiums from members on behalf of the insurers. Insurance claim amounts are recognised where the insurer has agreed to pay the claim. Therefore, insurance premiums are not revenues or expenses of the Fund and do not give rise to insurance contract liabilities or reinsurance assets. Insurance premiums charged to members accounts are recognised in the statement of changes in members benefits.

The Trustee determined that the Fund is not exposed to material insurance risk because:

- members (or their beneficiaries) will only receive insurance benefits if the external insurer pays the claim;
- insurance premiums are only paid through the Fund for administrative reasons, and
- insurance premiums are effectively set directly by reference to premiums set by an external insurer.

8. Defined contribution member liabilities

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on daily basis for movements in investment markets. The Fund's management of the investment market risks is as disclosed within note 5.

Defined contribution members' liabilities are fully vested as at 30 June 2017 and 30 June 2016.

9. Defined benefit member liabilities

The Fund engages qualified actuaries annually to measure defined benefit member liabilities. The Fund has no information that would lead it to adjust the factors or assumptions used by the actuary for discount rate, salary adjustment rate, resignations and mortality.

The Trustee manages liquidity risk by having sufficient liquid funds to meet member pension payments and redemptions within the time frames established by the Trustee and communicated to members.

The summary financial position of the Health Super DB Fund, a sub-fund of the First State Superannuation Scheme, is per the table below:

Accrued Benefits	2017 \$'m	2016 \$'m
Net assets available to pay Defined benefits as at 30 June	1,142	1,142
Accrued benefits - Defined benefits as at 30 June	1,097	1,069
Defined benefits surplus	45	73

Vested Benefits	2017 \$'m	2016 \$'m
Net assets available to pay Defined benefits as at 30 June	1,142	1,142
Vested benefits - Defined benefits as at 30 June	1,106	1,091
Defined benefits surplus	36	51
Vested Benefits Index at 30 June	103.3%	104.6%

As at 30 June 2017, the net assets of the DB Fund exceed the vested benefits; the DB Fund is therefore in a satisfactory financial position as at the reporting date.

Mercer Consulting (Australia) Pty Ltd is the Independent Actuary for the DB Fund. The Independent Actuary has reviewed and considered the rate of contributions for active defined benefit members and expects the DB Fund to maintain a satisfactory financial position over the next three years. The employers are contributing at the amount recommended by the actuary.

10. Income Tax

(a) Income tax recognised in profit or loss	2017 \$'m	2016 \$'m
Tax expense comprises:		
Current tax expense	(207)	(132)
Over/(Under) provision in prior year	7	(16)
Deferred tax liability relating to the origination and reversal of temporary differences	(279)	234
Total tax (expense)/benefit	(479)	86

The prime facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:

Income Tax Expense Reconciliation	2017 \$'m	2016 \$'m
Operating result before income tax	6,719	945
Income tax expense calculated at 15% (2016: 15%)	(1,008)	(142)
Non-assessable investment income	490	204
Non-deductible expenses	(28)	(4)
Exempt pension income	60	44
Over/(Under) provision in prior year	7	(16)
Total tax (expense)/benefit	(479)	86

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian taxation law.

(b) Current tax liabilities	2017 \$'m	2016 \$'m
Current tax liabilities are attributable to the following:		
Current tax payable - income tax payable	59	15

10. Income Tax (continued)

(c) Deferred tax balances
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Deferred tax assets

Unrealised capital losses	162	72	234	164
Unrealised forward foreign exchange and other losses	1	(1)	-	3
Administration expenses accrued but not incurred	5	-	5	8
Realised capital losses	-	-	-	-
Accrued franking credits	10	6	16	34
Total Deferred Tax Assets	178	77	255	209

Deferred tax liabilities

Unrealised capital gains	987	(172)	815	1,064
Unrealised forward foreign exchange gains	57	15	72	41
Accrued income	1	-	1	16
Total Deferred Tax Liabilities	1,045	(157)	888	1,121

11. Operating Leases

Commitments in relation to non-cancellable operating leases contracted for at balance date but not provided for in the financial statements (excluding GST).

Operating Lease Commitments	2017 \$'m	2016 \$'m
Payable not later than one year	8	8
Payable later than one year but not later than five years	24	28
Payable later than five years	4	7
	36	42

12. Commitments for Expenditure

The Fund has capital commitments in relation to property, private equity and infrastructure investment activities. Commitments contracted for at the reporting date but not recognised as liabilities are as follows:

Capital Expenditure Commitments	2017 \$'000	2016 \$'000
Investment commitments		
Property, private equity and infrastructure	5,142	3,403

13. Notes to the Cash Flow Statement

Reconciliation of net inflows from operating activities to operating result after income tax.

	2017 \$'m	2016 \$'m
Operating result after income tax	6,240	1,031
Changes in fair value of investments	(4,982)	617
Decrease in receivables	(10)	3
Decrease/(increase) in deferred tax asset	46	(77)
Increase in accounts payable	10	6
Increase/(decrease) in provision for deferred tax	233	(157)
Increase/(decrease) in provision for tax	(121)	110
Net inflows of cash from operating activities	1,416	1,533

14. Related Parties

The Trustee of the First State Superannuation Scheme is FSS Trustee Corporation (ABN 11 118 202 672).

Key Management Personnel

The following were key management personnel of the Fund during the financial year. No Executive is a Director of the Trustee.

Non-Executive Directors of the Trustee

Mr N Cochrane	Independent Director
Mr T Carr	Employer representative, Leading Age Services Victoria Australia
Ms S Carter	Employer representative ¹
Ms L Fitzpatrick	Member representative, Australian Nursing and Midwifery Federation (VIC branch)
Ms J Furlan	Employer representative ¹
Mr R Harty	Member representative, Unions NSW
Dr R Kelly	Member representative, Health Services Union
Mr R Kelly	Employer representative ¹
Mr M Lennon	Member representative, Unions NSW
Mr B Lipscombe	Member representative, Unions NSW
Ms P Smith	Employer representative ¹
Ms N Steer	Member representative, Unions NSW
Mr G Thomas	Employer representative, Victorian Healthcare Association
¹ Jointly appointed by the Secretary, NSW Department of Premier and Cabinet and the Secretary of the Treasury, NSW.	

Executives

Mr M Dwyer	Chief Executive Officer
Mr R Elliott	Chief Financial Officer appointed 1 April 2017
Mr D Graham	Chief Investment Officer appointed 5 December 2016
Mr G McAliece	Chief Operating Officer
Mr G Arnott	Deputy Chief Executive Officer until 30 September 2016, when Mr Arnott was appointed the Chief Executive Officer of State Super Financial Services Australia Limited, a related party.
Mr R Brandweiner	Chief Investment Officer resigned 16 December 2016

14. Related Parties (continued)

The key management personnel compensation in relation to services to the Fund is as follows:

KMP Compensation	2017 \$	2016 \$
Short term employee benefits, non-executive Directors' and Executives' salaries	3,865,378	3,769,109
Post-employment benefits, superannuation contributions made on behalf of non-executive Directors and Executives	233,293	250,259
Other long term employee benefits, long service leave expenses for Executives	394,604	105,910
Total Compensation	4,493,274	4,125,278

The fees or salaries provided to Directors include superannuation fund contributions and fees received for acting as a Director or a member of a committee.

The membership terms and conditions for those Directors and Executives who are members of the Fund are the same as those available to other members of the Fund.

Where any of the Trustee's Directors are Directors, Consultants or Executive Officers of, or otherwise related to, an entity with which the Fund transacts, those transactions are conducted on an arms-length basis, under normal commercial terms and conditions. The Trustee regularly updates its Conflicts Registers and ensures any conflicting interest is appropriately managed by, for example, the conflicted Director declaring their interest to the meeting, the Director being requested not to participate in the discussion, or the Director absenting himself or herself from the discussion.

The Trustee is reimbursed by the Fund, on a cost recovery basis, for the remuneration paid to Directors. Details of transactions between the Fund and its Trustee are set out below:

FSS Trustee Corporation	2017 \$'000	2016 \$'000
Reimbursement to the Trustee for the remuneration paid to Directors	2,086	1,745
Amounts owed to the Trustee	64	67

14. Related Parties (continued)

Details of transactions between the Fund and its controlled entities are set out below:

First State Super Financial Services Pty Ltd	2017	2016
	\$'000	\$'000
Recovery of the cost of resources used in the provision of advice	13,360	13,330
Recovery of due diligence costs	-	736
Provision of general and limited advice to members	2,635	3,152
Amounts received by the Fund for GST payable	1,236	1,167
Risk transfer revenue	-	1,911
Amounts paid by the Fund for GST receivable	3	1

Member financial planning services are provided on an arm's-length basis.

Effective 3 February 2014, the Fund agreed to take over the employment of all staff formerly with First State Super Financial Services Pty Ltd (FSSFS). In recognition of the transfer to the Fund of the financial risks of staffing and operating the entire advice business and funding certain expansion plans, FSSFS agreed to a series of annual payments to the Fund. Whilst there has been no change to the operational arrangements between FSSFS and the Fund, an amendment to the commercial arrangements reduced the payment in the current year to \$Nil (2016: 1,911,000).

Effective from 1 January 2014, the Company entered into a tax funding agreement and a tax sharing agreement with the Fund for GST. The Fund is the representative member of the GST group. The Company reimburses the Fund for any GST paid and is reimbursed by the Fund for GST refunded.

State Super Financial Services Australia Limited	2017	2016
	\$'000	\$'000
Recovery of costs	2,685	-

The Fund is reimbursed by State Super Financial Services Australia Limited for the cost of services provided to that entity.

14. Related Parties (continued)

Details of amounts owed by/to controlled entities at balance date are set out below:

	2017 \$'000	2016 \$'000
Owed by:		
First State Super Financial Services Pty Ltd	1,628	5,199
State Super Financial Services Australia Limited	877	-
Owed to:		
First State Super Financial Services Pty Ltd	1,347	2,057

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the current or prior periods for bad or doubtful debts owed by related parties.

15. Controlled Entities

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2017 %	2016 %	2017 \$'m	2016 \$'m
ACN 084 162 489 Pty Ltd	Australia	100	100	-	-
Adamantem Cap Fund I Trust 1B	Australia	79	-	119	-
Adamantem Cap Fund I Trust 1D	Australia	99	-	40	-
AE-GJC Funding LP	United States of America	100	100	4	48
Allegro Fund II Trust A	Australia	59	59	26	-
Allegro Experience Australia Co-Investment Trust II Trust A	Australia	99	99	2	-
Altis Real Estate Trust	Australia	100	100	12	-
ALTRAC Light Rail Holdings 2 Pty Ltd	Australia	100	100	-	156
Bain Capital Credit Managed Account (FSS) LP	United States of America	100	100	-	-
Blackbird Ventures Follow-On Fund Trust	Australia	71	71	16	46
Cape Bailey Trust	Australia	100	-	-	-
Continuity Capital Private Equity Fund No.1	Australia	100	100	55	-
Crescent V Co Investor Trust 1	Australia	74	74	-	-
Crescent V Co Investor Trust 2	Australia	82	82	-	13
Derby Servtec Energia LP	United States of America	100	-	150	-
Equis Evergreen LP	Cayman Islands	100	100	157	227

15. Controlled Entities (continued)

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2017 %	2016 %	2017 \$'m	2016 \$'m
FSS Combined Hedge Fund Trust	Australia	-	100	-	-
First State Super Financial Services Pty Ltd	Australia	100	100	-	-
FSS BAC Airports 1 Pty Ltd	Australia	100	100	109	-
FSS Darling Square Pty Ltd	Australia	100	100	-	-
FSS Darling Square Trust	Australia	100	100	58	130
FSS Emerging Markets Equity Trust	Australia	100	100	-	-
FSS Energy Credit Pty Ltd	Australia	100	100	-	-
FSS Energy Credit Trust	Australia	100	100	598	269
FSS Infrastructure Trust	Australia	100	100	-	-
FSS NSW Almond Orchards Trust	Australia	100	100	38	38
FSS Private Equity Trust	Australia	100	100	615	866
FSSSP Financial Services Pty Limited	Australia	100	100	-	-
First State Super FT Real Estate Trust	Australia	100	100	9	17
FSS Real Estate Pty Ltd	Australia	100	100	-	-
FSS Real Estate Trust	Australia	100	100	844	245
FSS Retirement Villages Pty Limited	Australia	100	-	-	-
FSS Retirement Villages Trust	Australia	100	-	228	-

15. Controlled Entities (continued)

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2017 %	2016 %	2017 \$'m	2016 \$'m
FSS SA Almond Orchards Trust	Australia	100	100	28	30
FSS Vic Almond Orchards Trust	Australia	100	100	11	15
Harding Loevner Frontier Markets Equity Fund	Australia	71	71	-	-
Health Super Investments Pty Ltd	Australia	100	100	-	-
Lend Lease Public Infrastructure Investment Company Pty Ltd	Australia	90	90	-	-
North Haven Infrastructure Trust	Australia	100	100	25	24
Odyssey Private Equity LP	Australia	80	-	198	-
Stepstone FSS Opportunities Fund LP	United States of America	100	100	9	3
St Hilliers Hybrid Property Trust	Australia	98	98	-	-
Quadrant First State Super Trust	Australia	100	100	5	341
Watch Co-invest LP	Cayman Islands	72	72	-	-

16. Remuneration of Auditors

Auditors' Remuneration	2017	2016
	\$	\$
Audit report in relation to:		
Financial statements and compliance		
FSS Trustee Corporation	21,632	20,900
First State Superannuation Scheme	526,737	442,035
	548,369	462,935
Other services		
Digital transformation and delivery consulting services	4,019,424	6,559,306
Risk consulting services	4,389	18,856
Information technology consulting services	833,342	-
Investment custody and operations consulting services	506,528	-
Due diligence	-	1,402,757
Remuneration review	7,571	7,315
	5,919,623	8,451,169
Audit by PricewaterhouseCoopers of net assets held by the custodian	-	120,552
	5,919,623	8,571,721

Unless otherwise noted, audit services for the years ended 30 June 2017 and 30 June 2016 were provided by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu has confirmed that it is compliant with its independence requirements in respect of both the quantum and nature of the fees for Other services.

17. Subsequent Events

No significant events have occurred since the end of the reporting period which would impact on the net assets of the Fund as at 30 June 2017 or the Statement of Changes in Net Assets of the Fund for the year ended on that date.

End of audited financial report