

First State Superannuation Scheme

ABN 53 226 460 365

Financial Report

For the year ended 30 June 2018

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For a Reporting Entity

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

Report by the RSE Auditor to the trustee

Opinion

We have audited the financial statements of First State Superannuation Scheme for the year ended 30 June 2018 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 our 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 2018 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2018

Basis for opinion

We conducted the audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibility* section of our report. We are independent of the RSE 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 our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the trustee 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 Responsibilities for the Audit of the Financial Statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited.

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, we exercised professional judgement and maintained professional scepticism throughout the audit. We 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 our 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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 we identified during our audit.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

JGorton

Joanne Gorton
Partner
Chartered Accountants
Sydney, 26 September 2018

Trustee's Statement for the year ended 30 June 2018

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

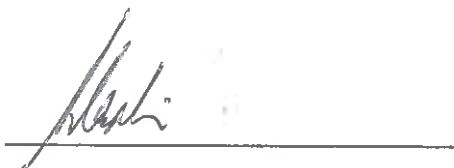
1. The accompanying financial statements of the First State Superannuation Scheme are properly drawn up so as to present fairly the statement of financial position of the Fund as at 30 June 2018, the income statement for the year ended 30 June 2018 and the statements of changes in member benefits, changes 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 26th day of September 2018.



Director
FSS Trustee Corporation



Director
FSS Trustee Corporation

Statement of Financial Position as at 30 June 2018

	Note	2018 \$'m	2017 \$'m
Assets			
Cash and cash equivalents		442	426
Receivables		595	514
Financial assets	4	73,932	64,762
Plant and equipment		4	8
Deferred tax assets	10(c)	230	209
Total assets		75,203	65,919
Liabilities			
Benefits payable		67	54
Accounts payable		342	608
Financial liabilities	4	1,774	257
Income tax payable	10(b)	81	59
Deferred tax liabilities	10(c)	1,468	1,121
Total liabilities excluding member benefits		3,732	2,099
Net assets available for member benefits		71,471	63,820
Member liabilities			
Defined contribution member liabilities	8	69,956	62,291
Defined benefit member liabilities	9	1,082	1,097
Total member liabilities		71,038	63,388
Net assets		433	432
Equity			
Reserves		363	387
Defined benefit surplus	9	70	45
Total equity		433	432

Income Statement for the year ended 30 June 2018

	Note	2018 \$'m	2017 \$'m
Investment revenue			
Interest - investments carried at fair value		461	374
Interest - bank deposits		5	5
Dividends		1,005	954
Distributions from unit trusts		842	705
Securities lending income		21	15
Other income		18	28
Changes in fair value of investments	6	4,510	4,982
Total revenue		6,862	7,063
Investment expenses		(268)	(201)
Administration expenses		(163)	(143)
Total expenses		(431)	(344)
Operating result before income tax expense		6,431	6,719
Income tax benefit/(expense)	10(a)	(477)	(479)
Operating result after income tax expense		5,954	6,240
Net benefits allocated to defined contribution member accounts		(5,876)	(5,975)
Net change in defined benefit member accounts		(102)	(97)
Operating result		(24)	168

Statement of Changes in Member Benefits

	Defined Contribution Member Benefits \$'m	Defined Benefit Member benefits \$'m	Total \$m
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
Opening balances as at 1 July 2017	62,291	1,097	63,388
Employer contributions	3,946	19	3,965
Member contributions	1,006	-	1,006
Transfers from other superannuation funds	1,278	-	1,278
Superannuation co-contributions	24	-	24
Income tax on contributions	(546)	(2)	(548)
Net after tax contributions	5,708	17	5,725
Benefits to members	(3,598)	(108)	(3,706)
Insurance premiums charged to members' accounts	(321)	-	(321)
Transfer (to)/from reserves	-	-	-
Net benefits allocated to members	5,876	102	5,978
Net change in member Defined Benefits	-	(26)	(26)
Closing balances as at 30 June 2018	69,956	1,082	71,038

Statement of Changes in Equity/Reserves

	Unallocated income \$'m	Operational risk financial requirement reserve ¹ \$'m	Insurance reserve ² \$'m	Administra- tion re- serve ³ \$'m	Total \$'m
Opening balances as at 1 July 2016	23	142	0	54	219
Operating result	89	18	0	61	168
Transfer to defined contribution member accounts	0	-	0	0	0
Transfer to defined benefit member accounts	-	-	0	0	0
Closing balances as at 30 June 2017	112	160	0	115	387
Opening balances as at 1 July 2017	112	160	0	115	387
Operating result	(88)	18	10	36	(24)
Transfer to defined contribution member accounts	0	0	-	0	0
Transfer to defined benefit member accounts	0	0	0	0	0
Closing balances as at 30 June 2018	24	178	10	151	363

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 Insurance 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 Insurance Reserve Policy.

3: 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 2018

	Note	2018 \$'m	2017 \$'m
Cash flows from operating activities			
Investment income		2,333	2,081
Investment expenses		(268)	(201)
Administration expenses		(120)	(143)
Income tax paid		(301)	(321)
Net inflows from operating activities	14	1,644	1,416
Cash flows from investing activities			
Purchase of investments		(67,140)	(76,735)
Proceeds from sale of investments		63,629	73,024
Net outflows from investing activities		(3,511)	(3,711)
Cash flows from financing activities			
Contributions received		5,897	6,015
Benefits paid		(3,692)	(3,307)
Insurance premiums paid		(322)	(313)
Net inflows from financing activities		1,883	2,395
Net increase/(decrease) in cash held		16	100
Cash at the beginning of the financial year		426	326
Cash at the end of the financial year		442	426

Notes to the Financial Statements for the year ended 30 June 2018

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 (Mercer).

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 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 (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 26 September 2018. 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.

New Standards and Interpretations adopted during the year

The following new and revised Standard has been adopted in these financial statements. The 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 2016-1	Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses

2. Basis of Preparation continued

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 2018 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:

New or revised requirement	Title	Effective Date (annual periods beginning on or after)
AASB 9 and the relevant amending standards	<p>Financial Instruments</p> <p>AASB 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities and introduces revised rules around hedge accounting and impairment.</p> <p>The Fund's investments are designated at fair value through profit and loss on initial recognition and are subsequently remeasured to fair value at each reporting date. The Fund's other financial instruments (i.e. receivables and payables) are held at amortised cost. Under the current business model, the adoption of AASB9 does not materially change the accounting for investments and other financial instruments.</p>	1 January 2018
AASB 16	<p>Leases</p> <p>Almost all leases will be recognised on the Statement of Financial Position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.</p> <p>The standard will affect primarily the accounting for the Fund's operating leases. As at the reporting date, the Fund has non-cancellable operating lease commitments of \$29,000,000, see note 11.</p>	1 January 2019

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 2018 and the comparative information presented in these financial statements for the year ended 30 June 2017.

(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 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 being 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.

(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.

3. Significant Accounting Policies continued

(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.

(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.

3. Significant Accounting Policies continued

(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.

4. Financial Instruments continued

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 2018	Level 1 \$'m	Level 2 \$'m	Level 3 \$'m	Total \$'m
Financial assets				
Cash	2,228	-	-	2,228
Discounted securities	3,601	4,474	-	8,075
Fixed interest securities	4,969	6,690	414	12,073
Equities	32,789	-	1,590	34,379
Unit trusts	3,324	1,727	11,695	16,746
Derivatives	24	407	-	431
Total Financial assets	46,935	13,298	13,699	73,932
Financial liabilities				
Fixed interest securities subject to repurchase agreements	1,040	-	-	1,040
Derivatives	25	709	-	734
Total Financial liabilities	1,065	709	-	1,774

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 30 June 2018.

4. Financial Instruments Continued

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	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

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/li- abilities	Fair value as at 30 June 2018 \$'m	Fair value as at 30 June 2017 \$'m	Fair Value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable in- puts to fair value
Equities	34,379	31,550	1,3	Quoted bid prices in an active market. 95% classified as Level 1	N/A	N/A
Unit trusts	16,746	15,476	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 as- sumptions in the valuation models	N/A
Fixed interest	12,073	8,942	1,2,3	Quoted bid prices in an active market.	N/A	N/A
Discounted securi- ties	8,075	6,017	1,2	Quoted bid prices in an active market.	N/A	N/A
Futures and op- tions (net)	13	6	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 re- porting 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 transac- tion costs.	N/A	N/A
Foreign exchange (net)	(286)	240	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)	(30)	(26)	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 2017	559	1,584	10,167	12,310
Purchases	-	104	2,632	2,736
Redemptions/disposals	(168)	(12)	(2,063)	(2,243)
Transfers into Level 3 ¹	-	1	-	1
Transfer out of Level 3	-	-	-	-
Total gains/(losses) in Income Statement	23	(87)	959	895
Balance at 30 June 2018	414	1,590	11,695	13,699
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

Note 1: The transfer of Equities into level 3 are due to securities delisted. In the prior year, the transfers into level 3 were Fixed Interest where the frequency of valuations has decreased.

Note 2: 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	
	2018	2017	2018 \$'m	2017 \$'m
Fixed interest	4%	3%	18	18
Equities	15%	15%	240	236
Unit trusts	8%	8%	982	849

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 has an Investment Governance Framework (IGF) established by the Trustee. The IGF sets out the Trustee's policies for the selection, management and monitoring of investments for the Fund. For each investment option offered by the Fund, the Trustee seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

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.

5. Financial Risk Management continued

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	USD	EUR	GBP	Others
30 June 2018	\$'m	\$'m	\$'m	\$'m
Assets	21,809	4,090	3,326	4,814
Liabilities	(3,289)	(302)	(363)	(670)
	18,520	3,788	2,963	4,144
Forward exchange contracts	(12,259)	(2,615)	(2,670)	(1,551)
Net exposure	6,260	1,174	293	2,593
30 June 2017				
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	1,418

Foreign currency risk management

The following table details the Fund's sensitivity to a 18% (2017: 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.

5. Financial Risk Management continued

The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 18% (2017: 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	
	2018	2017	2018	2017
			\$'m	\$m
	18%	18%	1,728	1,559

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 2018	Floating inter- est rate \$'m	Fixed interest rate \$'m	Non-interest bearing \$'m	Total \$'m
Assets				
Cash and cash equivalents	2,670	-	-	2,670
Receivables	-	-	595	595
Plant & equipment	-	-	4	4
Unit trusts	-	-	16,746	16,746
Fixed interest	4,321	7,752	-	12,073
Equities	-	-	34,379	34,379
Discounted securities	7,969	106	-	8,075
Derivative financial instruments	12	55	364	431
Total financial assets	14,972	7,913	52,088	74,973
Liabilities				
Payables	-	-	409	409
Derivative financial instruments	65	24	645	734
Fixed interest securities subject to repurchase agreements	-	1,040	-	1,040
Total financial liabilities	65	1,064	1,054	2,183
Net financial assets	14,907	6,849	51,034	72,790

5. Financial Risk Management continued

Interest rate risk management continued

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

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 (2017: 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	
	2018 bps	2017 bps	2018 \$'m	2017 \$'m
Interest rate risk	+100	+100	(351)	(333)
	-100	-100	351	333

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	
	2018	2017	2018 \$'m	2017 \$'m
Discounted securities	4%	3%	347	196
Fixed interest	4%	3%	519	291
Equities	15%	15%	5,191	4,695
Unit trusts	8%	8%	1,407	1,292

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.

Substantially all of the cash held by the Fund is held by State Street 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.

5. Financial Risk Management continued

b) Credit Risk continued

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 2018 was \$5,078m (2017: \$5,341m).

The Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Except for security lending arrangements and OTC derivatives, the Fund holds no collateral security 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. 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's maximum aggregate exposure to credit risk is as follows:

Aggregate Credit Risk Exposure	2018 \$'m	2017 \$'m
Cash and cash equivalents	2,670	2,726
Discounted securities	8,075	6,017
Fixed interest securities	12,073	8,942
Derivatives	431	477
Receivables	595	514
	23,844	18,676

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% (2017: 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 2018	Less than one month \$'m	One to twelve months \$'m	Over one year \$'m	Total \$'m
Liability Defined contribution member liabilities ¹	69,956	-	-	69,956
Liability Defined benefit member liabilities ¹	1,082	-	-	1,082
Benefits payable	67	-	-	67
Accounts payable	342	-	-	342
Financial liabilities	1,266	339	169	1,774
Current tax liabilities	81	-	-	81
Total Financial Liabilities	72,794	339	169	73,302

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 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.

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	2018 \$'m	2017 \$'m
Investments held at reporting date:		
Cash	-	(2)
Discounted securities	4	9
Fixed interest	147	(220)
Equities	2,356	3,472
Unit trusts	828	663
Derivatives	(505)	108
Total unrealised changes in fair value	2,831	4,030
Investments realised during the reporting period		
Cash	8	14
Discounted securities	64	54
Fixed interest	(47)	(53)
Equities	1,649	503
Unit trusts	243	(151)
Derivatives	(239)	585
Total realised changes in fair value	1,679	952
Total changes in fair value of investments	4,510	4,982

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 2018 and 30 June 2017.

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	2018 \$'m	2017 \$'m
Net assets available to pay Defined benefits as at 30 June	1,152	1,142
Accrued benefits - Defined benefits as at 30 June	1,082	1,097
Defined benefits surplus	70	45

Vested Benefits	2018 \$'m	2017 \$'m
Net assets available to pay Defined benefits as at 30 June	1,152	1,142
Vested benefits - Defined benefits as at 30 June	1,088	1,106
Defined benefits surplus	64	36
Vested Benefits Index at 30 June	105.9%	103.3%

As at 30 June 2018, 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	2018 \$'m	2017 \$'m
Tax expense comprises:		
Current tax expense	(201)	(207)
Over/(Under) provision in prior year	50	7
Deferred tax liability relating to the origination and reversal of temporary differences	(326)	(279)
Total tax (expense)/benefit	(477)	(479)

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	2018 \$'m	2017 \$'m
Operating result before income tax	6,431	6,719
Income tax expense calculated at 15% (2017: 15%)	(965)	(1,008)
Non-assessable investment income	429	490
Non-deductible expenses	(37)	(28)
Exempt pension income	46	60
Over/(Under) provision in prior year	50	7
Total tax (expense)/benefit	(477)	(479)

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	2018 \$'m	2017 \$'m
Current tax liabilities are attributable to the following:		
Current tax payable - income tax payable	81	59

10. Income Tax continued

(c) Deferred tax balances Recognised deferred tax assets and liabilities				
	2016 \$'m	Charged to income \$'m	2017 \$'m	2018 \$'m
Deferred tax assets and liabilities are attributable to the following:				
Deferred tax assets				
Unrealised capital losses	234	(70)	164	161
Unrealised forward foreign exchange and other losses	-	3	3	31
Administration expenses accrued but not incurred	5	3	8	8
Realised capital losses	-	-	-	-
Accrued franking credits	16	18	34	30
Total Deferred Tax Assets	255	(46)	209	230
Deferred tax liabilities				
Unrealised capital gains	815	249	1,064	1,422
Unrealised forward foreign exchange gains	72	(31)	41	31
Accrued income	1	15	16	15
Total Deferred Tax Liabilities	888	233	1,121	1,468

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	2018 \$'m	2017 \$'m
Payable not later than one year	8	8
Payable later than one year but not later than five years	20	24
Payable later than five years	1	4
	<u>29</u>	<u>36</u>

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	2018 \$'000	2017 \$'000
Investment commitments		
Property, private equity and infrastructure	<u>3,577</u>	<u>5,751</u>

13. Contingent Liabilities

The Fund has contingent liabilities under subscription agreements with controlled entities as follows:

Capital Expenditure Commitments	2018 \$'000	2017 \$'000
Property and private equity	<u>150</u>	<u>150</u>

The agreement is only activated in the event a controlled entity is unable to repay its borrowings and allows the controlled entity to compel the Fund to subscribe for sufficient equity to repay its borrowings.

14. Notes to the Cash Flow Statement

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

	2018 \$'m	2017 \$'m
Operating result after income tax	5,954	6,240
Changes in fair value of investments	(4,510)	(4,982)
Decrease in receivables	14	(10)
Decrease/(increase) in deferred tax asset	(21)	46
Increase in accounts payable	10	10
Increase/(decrease) in provision for deferred tax	347	233
Increase/(decrease) in provision for tax	(148)	(121)
Net inflows of cash from operating activities	1,644	1,416

15. 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 G Bunney	Employer representative, Leading Age Services Victoria Australia Appointed 1 July 2018
Mr T Carr	Employer representative, Leading Age Services Victoria Australia Resigned 30 June 2018
Ms P Carew	Member representative, Australian Nursing and Midwifery Federation (VIC branch) Appointed 1 July 2018
Ms S Carter	Employer representative ¹
Ms L Fitzpatrick	Member representative, Australian Nursing and Midwifery Federation (VIC branch) Resigned 30 June 2018
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 T Symondson	Employer representative, Victorian Healthcare Association Appointed 1 July 2018
Mr G Thomas	Employer representative, Victorian Healthcare Association Resigned 30 June 2018
	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
Mr D Graham	Chief Investment Officer
Mr G McAliece	Chief Operating Officer
Ms S Thurman	Chief Risk Officer

15. Related Parties continued

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

KMP Compensation	2018 \$	2017 \$
Short term employee benefits, non-executive Directors' and Executives' salaries	4,832,199	4,179,954
Post-employment benefits, superannuation contributions made on behalf of non-executive Directors and Executives	247,781	252,858
Other long-term employee benefits, long service leave expenses for Executives	484,762	394,604
Total Compensation	5,564,742	4,827,416

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	2018 \$'000	2017 \$'000
Reimbursement to the Trustee for the remuneration paid to Directors	2,218	2,086
Amounts owed to the Trustee	(64)	(64)

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

First State Super Financial Services Pty Ltd	2018 \$'000	2017 \$'000
Recovery of the cost of resources used in the provision of advice	15,072	13,360
Provision of general and limited advice to members	2,029	2,635
Amounts received by the Fund for GST payable	1,508	1,236
Amounts paid by the Fund for GST receivable	(3)	(3)

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

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.

15. Related Parties continued

State Super Financial Services Australia Limited	2018	2017
	\$'000	\$'000
Recovery of costs	6,103	2,685

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

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

	2018	2017
	\$'000	\$'000
Owed by:		
First State Super Financial Services Pty Ltd	1,530	1,628
State Super Financial Services Australia Limited	666	877
Owed to:		
First State Super Financial Services Pty Ltd	(3,824)	(1,347)

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.

16. 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	
		2018 %	2017 %	2018 \$/m	2017 \$/m
Adamantem Cap Fund I Trust 1B	Australia	79	79	97	119
Adamantem Cap Fund I Trust 1D	Australia	100	99	32	40
AE-GJC Funding LP	United States of America	100	100	5	5
AE-GJC Funding Blocker One, Inc	United States of America	100	100	-	-
Allegro Fund II Trust A	Australia	59	59	13	26
Allegro Experience Australia Co-Investment Trust	Australia	83	99	-	2
Allegro Fund III Trust C	Australia	100	-	58	-
Allegro Fund III (FSS) Side Car	Australia	100	-	-	-
Altis Real Estate Trust	Australia	100	100	-	12
ALTRAC Light Rail Holdings 2 Pty Ltd	Australia	100	100	-	-
Bain Capital Credit Managed Account (FSS) LP	United States of America	100	100	-	-
Blackbird Ventures Follow-On Fund Trust	Australia	71	71	4	16
Blackbird FSS Co-investment Trust	Australia	100	-	-	-
Cape Bailey Trust	Australia	100	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	-	-
Derby Servtec Energia LP	United States of America	100	100	197	196

16. 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	
		2018 %	2017 %	2018 \$'m	2017 \$'m
Equis Evergreen LP	Cayman Islands	100	100	183	205
First State Super Financial Services Pty Ltd	Australia	100	100	-	-
FSS BAC Airports 1 Pty Ltd	Australia	100	100	-	109
FSS Darling Square Trust	Australia	100	100	-	58
FSS Emerging Market Equity Trust	Australia	100	100	-	-
FSS Energy Credit Trust	Australia	100	100	326	598
FSS "Go Australia" Impact Investment Trust	Australia	99	-	-	-
FSS Infrastructure Trust	Australia	100	100	-	-
FSS Multi Family Residential Trust	Australia	100	-	-	-
FSS NSW Almond Orchards Trust	Australia	100	100	35	38
FSS Private Equity Trust	Australia	100	100	516	803
FSSSP Financial Services Pty Limited	Australia	100	100	-	-
First State Super FT Real Estate Trust	Australia	100	100	-	55
FSS Real Estate Trust	Australia	100	100	99	844
FSS Retirement Villages Trust	Australia	100	100	179	228

16. 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	
		2018 %	2017 %	2018 \$'m	2017 \$'m
FSS Two Melbourne Quarter Trust	Australia	100	-	166	-
FSS SA Almond Orchards Trust	Australia	100	100	24	28
FSS Vic Almond Orchards Trust	Australia	100	100	8	11
GO NSW VCLP	Australia	67	-	-	-
Harding Loevner Frontier Markets Equity Fund	Australia	71	71	-	-
Lend Lease Public Infrastructure Investment Company Pty Ltd	Australia	90	90	-	-
North Haven Infrastructure Trust	Australia	100	100	30	32
Oak Tree Debt Trust	Australia	100	-	-	-
Odyssey Fund 8 LP	Australia	72	80	144	198
Searchlight PTP Co-Invest LP	United States of America	50	50	-	-
Stepstone FSS Opportunities Fund LP	United States of America	-	100	-	9
St Hilliers Hybrid Property Trust	Australia	98	98	-	-
Quadrant First State Super Trust	Australia	100	100	-	7
Watch Co-invest LP	Cayman Islands	72	72	-	-

17. Remuneration of External Auditors

External Auditors' Remuneration	2018 \$	2017 \$
External audit report in relation to:		
Financial statements and compliance		
FSS Trustee Corporation	22,281	21,632
First State Superannuation Scheme	521,372	526,737
	543,653	548,369
Other services		
Digital transformation and delivery consulting services	5,592,454	4,019,424
Risk consulting services	4,620	4,389
Information technology consulting services	73,571	833,342
Investment custody and operations consulting services	348,367	506,528
Modelling	119,900	-
Remuneration review	7,462	7,571
	6,690,027	5,919,623

Unless otherwise noted, audit services for the years ended 30 June 2018 and 30 June 2017 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.

18. Subsequent Events

Subsequent to the end of the financial year, the Fund was granted the concession to operate the land titles and registry functions of Land Use Victoria. The Fund has committed \$2.85 billion to this investment.

Apart from the matter noted above, 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 2018 or the Statement of Changes in Net Assets of the Fund for the year ended on that date.

End of audited financial report