

AustralianSuper

Annual financial report 30 June 2017

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Statement of financial position

		2017	2016
	Notes	\$m	\$m
Assets			Restated
Cash and cash equivalents	5	6,834	6,343
Listed equity securities	3(c)	58,564	48,707
Fixed income securities	3(c)	26,328	22,004
Derivatives	3(d)	997	1,357
Unlisted unit trusts	3(c)	29,130	24,476
Unlisted equity securities	3(c)	619	555
Receivables	3(b)	392	338
Receivable for securities sold	3(b)	235	178
Income tax receivable		-	14
Total assets		123,099	103,972
Liabilities			
Derivatives	3(d)	811	1,051
Payables		118	153
Payables for securities purchased		434	446
Income tax payable		358	-
Deferred tax liabilities	3(e)(v)	1,858	1,432
Total liabilities excluding members' benefits		3,579	3,082
Net assets available for members' benefits		119,520	100,890
Members' benefits	8	118,992	100,215
Net assets		528	675
Equity - Reserves	10		
Operational risk reserve		295	245
Other reserves		233	430
Total reserves		528	675

The statement of financial position should be read in conjunction with the accompanying notes

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Income statement

		2017	2016
	Notes	\$m	\$m
Revenue			Restated
Interest	4(a)(i)	764	907
Dividends and distributions	4(a)(ii)	2,899	3,405
Other investment income		59	48
Net changes in fair value of financial instruments	4(a)(iii)	9,424	181
Sundry income		152	86
Total revenue		13,298	4,627
Expenses			
Investment expenses	4(c)	(408)	(419)
Trustee service fees		(297)	(262)
Total expenses		(705)	(681)
Operating result		12,593	3,946
Less net benefits allocated to members' accounts		(11,703)	(3,904)
Operating result before income tax		890	42
Income tax (expense) / benefit	3(e)(ii)	(791)	(22)
Operating result after income tax		99	20

The income statement should be read in conjunction with the accompanying notes

Statement of changes in members' benefits

	Notes	2017 \$m	2016 \$m
Opening balance of members' benefits		100,215	91,341
Employer contributions		7,034	6,524
Member contributions		2,430	1,485
Transfers from other superannuation plans		6,275	5,047
Income tax on contributions	3(e)(iv)	(976)	(899)
After tax contributions		14,763	12,157
 Benefit payments to members or beneficiaries		 (7,637)	 (6,850)
Insurance premiums charged to members		(661)	(637)
Death and disability benefits credited to members		362	300
Reserves transferred to members' accounts		247	-
Benefits allocated to members' accounts comprising:			
Net investment income		11,906	4,098
Administration fees		(203)	(194)
Closing balance of members' benefits	8(b)	118,992	100,215

The statement of changes in members' benefits should be read in conjunction with the accompanying notes

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Statement of changes in reserves

	Operational risk reserve \$m	Investment reserve \$m	Administration reserve \$m	Insurance reserve \$m	Total reserves \$m
Balance at 1 July 2016	245	275	65	90	675
Net transfers to/(from) reserve	40	(26)	(13)	-	1
Transfers to members' accounts	-	(247)	-	-	(247)
Operating result	10	9	-	80	99
Balance at 30 June 2017	295	11	52	170	528

	Operational risk reserve \$m	Investment reserve \$m Restated	Administration reserve \$m	Insurance reserve \$m	Total reserves \$m
Balance at 1 July 2015	216	320	88	31	655
Net transfers to/(from) reserve	23	(16)	(7)	-	-
Operating result	6	(29)	(16)	59	20
Balance at 30 June 2016	245	275	65	90	675

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

Statement of cash flows

	Notes	2017 \$m	2016 \$m Restated
Cash flows from operating activities			
Interest income received		764	907
Dividend and distribution income received		2,921	3,438
Insurance claims received		362	309
Other income received		152	85
Insurance premiums paid		(655)	(648)
Trustee fees paid		(269)	(257)
Investment expenses paid		(413)	(411)
Income tax paid		3	28
Net cash inflow (outflow) from operating activities	5(b)	2,865	3,451
Cash flows from investment activities			
Sales of financial instruments		102,566	92,098
Purchase of financial instruments		(112,011)	(99,822)
Net cash inflow (outflow) from investing activities		(9,445)	(7,724)
Cash flows from financing activities			
Contributions received and transfers from other superannuation entities		15,740	13,058
Benefits paid to members or beneficiaries		(7,637)	(6,862)
Tax paid on contributions		(1,032)	(904)
Net cash inflow (outflow) from financing activities		7,071	5,292
Net increase (decrease) in cash and cash equivalents		491	1,019
Cash and cash equivalents at beginning of year		6,343	5,324
Cash and cash equivalents at end of year	5(a)	6,834	6,343

The statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

1 Fund structure and operation

AustralianSuper (the "Fund") is a defined contribution superannuation fund domiciled in Australia. The Fund is constituted by a Trust Deed dated 13 December 1985, as amended, that established the Fund with effect from 1 August 1985 and provides retirement and insurance benefits to its members. The Fund has both accumulation members and income stream members. For the purposes of the financial statements the Fund is a for profit entity.

The trustee of the Fund is AustralianSuper Pty Ltd (the "Trustee"). The registered office of the Trustee is level 26, 50 Lonsdale Street, Melbourne, Victoria.

This financial report covers the Fund as an individual entity, it was authorised for issue by the directors of the Trustee on 30 August 2017. The directors of the Trustee have the power to amend and reissue this financial report.

2 Significant changes in the current reporting period

The financial position and results of operations of the Fund were affected by the adoption of AASB 1056 Superannuation Entities that applies to annual reporting periods beginning on or after 1 July 2016. The adoption of AASB 1056 resulted in the following:

- The presentation format of the financial statements changed from three primary financial statements to five as follows:
 - Statement of financial position
 - Income statement
 - Statement of changes in members' benefits
 - Statement of changes in reserves
 - Statement of cash flows
- The measurement of assets and liabilities changed from "net market value" to fair value resulting in the write back of disposal costs. This measurement change excludes members' liabilities and tax assets and liabilities.
- Members' benefits are recognised as a liability rather than equity.
- Contributions, roll overs and other inward transfers are not in the nature of income and are instead presented in the statement of changes in members' benefits.

As required by AASB 1056, the Fund applied the standard from the start of the comparative period beginning 1 July 2015.

As a result 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 AASB 1056 as set out below.

(a) Statement of financial position

The adoption of AASB 1056 had the following impact on the statement of financial position for the year ended 30 June 2016.

Notes to the financial statements (continued)

2 Significant changes in the current reporting period (continued)

Description	As previously reported as at 30 June 2016 \$m	Transition adjustment \$m	Restated balance at 30 June 2016 \$m
Financial assets			
Change in measurement from net market value to fair value:			
Listed equity securities	48,634	73	48,707
Unlisted unit trusts	24,264	212	24,476
Unlisted equity securities	549	6	555
Financial liabilities			
Change in measurement from net market value to fair value:			
Deferred tax liabilities	1,389	43	1,432
Reserves			
Change from net market value to fair value			
Reserves	428	247 *	675

* \$21 million of the transition adjustment relates to the year ended 30 June 2016, \$226 million relates to prior years

(b) Income statement

The adoption of AASB 1056 had the following impact on the income statement for the year ended 30 June 2016.

Description	At 30 June 2016 \$m	Transition adjustment \$m	Restated total at 30 June 2016 \$m
Operating result before income tax previously reported	16,640	-	16,640
Change in measurement from net market value to fair value:			
Change in assets measured at fair value	-	25	25
Contributions, rollovers and other inward transfers and benefits paid to members transferred to the statement of changes in members' benefits			
Employer contributions	-	(6,524)	(6,524)
Members' contributions	-	(1,485)	(1,485)
Transfers from other superannuation funds	-	(5,047)	(5,047)
Insurance claims receipts	-	(300)	(300)
Insurance premiums	-	637	637
Operating result	16,640	(12,694)	3,946
Benefits allocated to members' accounts	-	(3,904)	(3,904)
Operating result before income tax	16,640	(16,598)	42
Income tax (expense) benefit	(917)	-	(917)
Tax effect of change in measurement from net market value to fair value at 15%	-	(4)	(4)
Income tax on contributions transferred to the statement of changes in members' benefits	-	994	994
Income tax benefit on insurance premiums transferred to the statement of changes in members' benefits	-	(95)	(95)
Operating result after income tax	15,723	(15,703)	20

Notes to the financial statements (continued)

2 Significant changes in the current reporting period (continued)

(c) Statement of cash flows

The adoption of AASB 1056 did not alter the value of cash and cash equivalents held at 30 June 2016. However, it did result in some cash flows being reclassified from operating cash flows to financing cash flows.

Contributions received and benefits paid are treated as financing activities. Income tax on contributions is presented separately in the cash flows from financing activities.

How the numbers are calculated

3 Statement of financial position

(a) Cash and cash equivalents

Cash and cash equivalents includes cash at bank, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Other receivables

	2017 \$m	2016 \$m
Sundry receivables	392	338
Receivable for securities sold	235	178
	<u>627</u>	<u>516</u>

(i) Sundry receivables

Sundry receivables includes amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment.

(ii) Receivables/payables for securities sold/purchased

Receivables for securities sold and payables for securities purchased represent trades that have been contracted for but not yet delivered at the end of the year. Trades are recorded on trade date and normally settled within three business days.

(c) Investment values

The investments of the Fund are recorded at fair value and changes in the fair value are recognised in the income statement in the year they occur. Fair values have been determined as follows:

(i) Market quoted investments

The fair value of an investment for which there is a readily available market quotation is determined as the last quoted sale price as at the close of business on reporting date.

(ii) Fixed income investments

Securities that are traded in active markets are valued at the quoted market prices. Securities for which no active market is observable are valued at current market rates using broker quotations and/or independent pricing services as at the reporting date.

How the numbers are calculated (continued)

3 Statement of financial position (continued)

(c) Investment values (continued)

(iii) Units in unlisted trusts

Units in unlisted trusts, which includes investments in limited liability companies, are valued at the redemption price at reporting date. For investments in externally managed trusts the value is based on prices quoted by the investment managers. For internally managed companies and trusts the value is based on the fair value of the underlying investments.

(iv) Non-market quoted investments

Investments for which market quotations are not readily available are valued by the Trustee based on independent valuations received as at reporting date.

The independent valuations of non-market quoted investments primarily project future cash flows and then discount those cash flows back to their present value using a post-tax, risk adjusted discount rate. Discount rates used are developed on an individual unlisted security basis as determined by the independent valuer. The discount rate takes into account the risk of comparable companies. The independent valuations also consider recent arm's length transactions and current market value of other instruments of substantially the same nature, where available.

Further information on the valuation method used for investments is included in note 9.

(v) Recognition/derecognition

Financial assets and liabilities are recognised on the date the Fund becomes party to the contractual agreement (trade date) and changes in the fair value of the financial assets and liabilities are recognised from that date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all the risks and rewards of ownership.

(d) Derivatives

All derivatives are measured at fair value at the reporting date using quoted prices where possible or a valuation technique that provides a reliable estimate of prices obtained in actual market transactions. Changes in the fair value are recognised in the income statement in the year they occur.

Financial assets and liabilities, including derivatives, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle transactions on a net basis, or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the table below.

How the numbers are calculated (continued)

3 Statement of financial position (continued)

(d) Derivatives (continued)

	Gross derivative amounts \$m	Derivative amounts set off \$m	Net amounts presented in statement of financial position \$m
2017			
Financial assets			
Futures contracts	70	-	70
Swaps contracts	4,805	(4,586)	219
Foreign currency forward contracts	708	-	708
	5,583	(4,586)	997
Financial liabilities			
Futures contracts	(72)	-	(72)
Swaps contracts	(4,897)	4,586	(311)
Foreign currency forward contracts	(428)	-	(428)
	(5,397)	4,586	(811)
Net financial asset / (liability)	186	-	186

	Gross derivative amounts \$m	Derivative amounts set off \$m	Net amounts presented in statement of financial position \$m
2016			
Financial assets			
Futures contracts	97	-	97
Options contracts	11	-	11
Swaps contracts	4,517	(4,427)	90
Foreign currency forward contracts	1,159	-	1,159
	5,784	(4,427)	1,357
Financial liabilities			
Futures contracts	(196)	-	(196)
Options contracts	-	-	-
Swaps contracts	(4,911)	4,427	(484)
Foreign currency forward contracts	(371)	-	(371)
	(5,478)	4,427	(1,051)
Net financial asset / (liability)	306	-	306

How the numbers are calculated (continued)

3 Statement of financial position (continued)

(e) Income tax

(i) Accounting policy

The Fund is a complying superannuation fund within the provisions of the Income Tax Assessment Act. Accordingly, the concessional tax rate of 15% has been applied to net investment earnings less deductions allowable for administrative and operational expenses relevant to accumulation fund members. In the case of income stream members, investment earnings are tax exempt. Financial assets held for less than 12 months are taxed at the Fund's rate of 15%. For financial assets held for more than 12 months, the Fund is entitled to a further discount on the tax rate leading to an effective tax rate of 10% on any gains or losses arising from the disposal of investments.

The deferred tax balances are measured at the tax rates enacted or substantially enacted at reporting date. Income tax expense in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income for the current year and any adjustment to tax payable in respect of prior years.

Deferred income tax is provided for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for tax purposes. The amount of deferred income tax provided is based on the expected manner of realisation of assets or settlement of liabilities.

Deferred tax is recognised in respect of differences between the carrying amount of assets and liabilities in the financial statements and the cost base of the assets used for tax purposes. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise the losses.

(ii) Income tax expense reported in income statement

	2017 \$m	2016 \$m Restated
Current income tax		
Current tax expense (benefit) on operating result for the year	424	(28)
Adjustment for current tax of prior periods	(59)	(27)
Total current tax benefit	365	(55)
Deferred income tax		
Increase (decrease) in deferred tax liabilities	426	77
Total deferred tax expense (benefit)	426	77
Income tax expense	791	22

How the numbers are calculated (continued)

3 Statement of financial position (continued)

(iii) Reconciliation of income tax expense to prima facie tax payable

	2017 \$m	2016 \$m Restated
Operating result for the year	12,593	3,946
Tax at the Australian rate of 15% (2016: 15%)	1,889	592
Tax effect of amounts that are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	(2)	1
Discount on capital gains	(492)	(92)
Exempt pension income	(196)	(92)
Imputation credits	(349)	(360)
Other	1	-
Adjustments for current tax of prior periods	(59)	(27)
Income tax expense	791	22

(iv) Income tax expense recognised in the statement of changes in members' benefits

	2017 \$m	2016 \$m Restated
Contributions and transfers recognised in the statement of changes in members' benefits	15,739	13,056
Tax at the Australian rate of 15% (2016: 15%)	2,361	1,959
Tax effect of amounts that are not deductible (taxable) in calculating taxable income:		
Non assessable contributions and transfers in	(1,269)	(947)
Anti detriment paid on death benefits	(17)	(17)
Other	(99)	(96)
Total	976	899

(v) Deferred tax balances

	2017 \$m	2016 \$m Restated
Deferred tax asset		
Payables	23	12
Deferred tax liabilities		
Financial assets measured at fair value	(1,881)	(1,444)
Net deferred tax assets (liabilities)	(1,858)	(1,432)

How the numbers are calculated (continued)

3 Statement of financial position (continued)

(v) Deferred tax balances (continued)

The movements in temporary differences during the year were:

	Beginning of year	Recognised in income statement \$m	End of year \$m
At 30 June 2017			
Deferred tax assets			
Payables	12	11	23
Deferred tax liabilities			
Financial instruments measured at fair value	(1,444)	(437)	(1,881)
Net deferred tax assets (liabilities)	(1,432)	(426)	(1,858)
At 30 June 2016			
Deferred tax assets			
Payables	14	(2)	12
Deferred tax liabilities			
Financial instruments measured at fair value	(1,369)	(75)	(1,444)
Net deferred tax assets (liabilities)	(1,355)	(77)	(1,432)

How the numbers are calculated (continued)

4 Income statement

(a) Revenue recognition

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

(i) Interest

Interest income is recognised in the income statement as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Dividends and distributions

Dividend and distribution income is recognised on the date the investments are quoted ex-dividend/distribution and if not received at reporting date, is reflected in the statement of financial position as a receivable.

(iii) Net changes in fair value of financial instruments

Net changes in financial assets measured at fair value:

	2017 \$m	2016 \$m Restated
Cash and cash equivalents	(91)	48
Listed equity securities	5,943	(564)
Fixed interest securities	5	201
Derivatives	1,297	(40)
Unlisted unit trusts	2,216	521
Unlisted equity securities	54	15
	<u>9,424</u>	<u>181</u>

(b) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in the line Net changes in fair value of financial instruments.

(c) Investment expenses

Master custodian and investment manager fees and direct investment expenses are recognised on an accruals basis and represent costs incurred directly by the Fund in managing the investment portfolio. They do not include fees incurred within underlying investment vehicles.

How the numbers are calculated (continued)

4 Income statement (continued)

(d) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, management fees and trustee fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% or 75%; hence custodial fees, investment management fees and other expenses have been recognised in the income statement net of GST recoverable from the Australian Taxation Office (ATO). Payables are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

How the numbers are calculated (continued)

5 Statement of cash flows

(a) Cash and cash equivalents

	2017 \$m	2016 \$m
Cash and cash equivalents	<u>6,834</u>	<u>6,343</u>

(b) Reconciliation of operating result after income tax to net cash inflow (out flow) from operating activities:

	2017 \$m	2016 \$m Restated
Operating result for the period after income tax	99	20
Fair value adjustments for financial instruments	(9,424)	(181)
Insurance claims received	362	309
Insurance premiums paid	(655)	(648)
Net benefits allocated to members	11,703	3,904
Change in operating assets and liabilities		
(Increase) decrease in receivables	(55)	(8)
(Increase) decrease in current tax assets	14	(14)
(Increase) decrease in deferred tax assets	(11)	2
Increase (decrease) in payables	37	12
Increase (decrease) in current tax payable	358	(20)
Increase (decrease) in deferred tax payable	437	75
Net cash inflow (outflow) from operating activities	<u>2,865</u>	<u>3,451</u>

(c) Non-cash financing activities

There were no non-cash financing activities during the year (2016: nil).

How the numbers are calculated (continued)

6 Significant accounting judgements, estimates and assumptions

The preparation of the financial report requires the making of some estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. Actual results may differ from those estimates.

Estimates are continually evaluated and any revisions are recognised in the period in which they occur. Estimates are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The key estimates and assumptions that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

- Note 3(c)(iv) Non-market quoted investments; and
- Note 9(e) Fair value measurement of financial instruments.

7 Insurance arrangements

The Fund provides death and disability benefits to its members. The Trustee has group policies 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 insurer. Therefore insurance premiums are not expenses of the superannuation entity and do not give rise to insurance liabilities. Similarly insurance claim amounts are not income of the Fund and do not give rise to reinsurance assets. Insurance premiums charged to members and insurance claims paid by the insurer are recognised in the statement of changes in members' benefits.

8 Members' benefits

(a) Accounting policy

Obligations relating to member entitlements are recognised as members' benefits.

Members' benefits are measured as the value of members' account balances at reporting date.

(b) Value of members' account balances

Members' benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their membership at reporting date, subject to preservation requirements.

	2017 \$m	2016 \$m
Members' account balances - accumulation	105,177	88,166
Members' account balances - income stream	13,815	12,049
	<u>118,992</u>	<u>100,215</u>

How the numbers are calculated (continued)

8 Members' benefits (continued)

(c) Defined benefit members

At 30 June 2016 the Fund included two defined benefit sub-plans. During the reporting period the members of one of these sub-plans either transferred into an account based pension fund or received a lump sum payment of their entitlements while the other sub-plan transferred to another superannuation fund under a successor fund transfer agreement. In total \$63 million was transferred out of the Fund. At the reporting date the Fund did not include any defined benefit members (2016: \$86 million defined benefit vested benefits).

Risk management

9 Financial risk management

(a) Overview

The Fund's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Trustee has overall responsibility for the establishment and oversight of the Fund's Risk Management Framework including the Risk Appetite Statement, which includes the financial risks of the Fund. The financial risks, and in particular the risks associated with investments, are managed by the Trustee through approving the investment objectives and strategic asset allocation investment ranges for each investment plan. The Trustee ensures effective structures, policies, processes and systems are in place to facilitate the monitoring and management of risks to which the Fund is exposed.

The Board has delegated certain powers to the Investment Committee. The Investment Committee oversees the Fund's investment program including setting ranges for the management of the portfolio mix for each investment option, approving asset class strategies, monitoring the key risk exposures within the portfolio and reviewing the performance of each investment option.

The Investment Committee is responsible for overseeing the investment governance framework, including policies, procedures, systems and methodologies. In carrying out these responsibilities the Investment Committee receives an appropriate level of reporting from management and external advisers.

The nature and extent of the financial instruments employed by the Fund are discussed below. Financial instruments include the investments of the Fund. This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risks.

(b) Market risk

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Changes in market prices are reflected in earnings credited to members. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

(i) Currency risk

Currency risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The currency risk relating to non-monetary assets and liabilities is a component of price risk and not currency risk. However, the Fund monitors the exposure of all foreign currency denominated assets and liabilities and hedges approximately 80% of its exposure.

The Fund is exposed to currency risk on financial instruments that are denominated in a currency other than the functional currency (Australian dollars) of the Fund. The Fund's strategic asset allocation for each investment option specifies the range for currency exposure. Derivatives and currency overlays are utilised to manage the level of currency exposure which is reviewed on a regular basis and reported to the Investment Committee.

Risk management (continued)

9 Financial risk management (continued)

(i) Currency risk (continued)

The Fund's exposure to foreign currencies at the reporting date is summarised in the table below.

2017	USD A\$m	GBP A\$m	Euro A\$m	Other currencies A\$m	Total A\$m
Exposure to foreign exchange risk	18,738	5,117	3,986	9,176	37,017
2016	USD A\$m	GBP A\$m	Euro A\$m	Other currencies A\$m	Total A\$m
Exposure to foreign exchange risk	17,232	4,255	3,446	8,623	33,556

The table on page 26 summarises the sensitivity of the Fund's financial instruments to currency risk.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's investments in bonds, fixed interest securities, debt securities and cash are subject to interest rate risk.

Interest rate risk is managed by holding a diversified portfolio of instruments, including holding a mixture of fixed and floating rate securities. Where appropriate the Fund uses interest rate derivatives to change the exposure to fixed or floating interest rates.

The Fund's interest rate risk is monitored and managed on a regular basis by the Income Assets team and the investment managers awarded mandates in these asset classes in accordance with the investment guidelines set for them.

Risk management (continued)

9 Financial risk management (continued)

(ii) Interest rate risk (continued)

The Fund's exposure to interest rate risk at the reporting date is summarised in the table below.

2017	Fixed interest rate \$m	Floating interest rate \$m	Total \$m
Cash and cash equivalents	-	6,834	6,834
Fixed income securities	9,716	16,612	26,328
Increase (decrease) from derivatives held for trading	(915)	815	(100)
Net exposure to interest rate risk	8,801	24,261	33,062

2016	Fixed interest rate \$m	Floating interest rate \$m	Total \$m
Cash and cash equivalents	-	6,343	6,343
Fixed income securities	10,820	11,184	22,004
Increase (decrease) from derivatives held for trading	(1,076)	705	(371)
Net exposure to interest rate risk	9,744	18,232	27,976

The table on page 26 summarises the sensitivity of the Fund's assets to interest rate risk.

(iii) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar the price in the future will also fluctuate because of changes in foreign exchange rates.

The Fund manages price risk through diversification and careful selection of securities within the strategic asset allocation for each investment option.

Risk management (continued)

9 Financial risk management (continued)

(iii) Price risk (continued)

As at 30 June the fair value of financial assets and related derivatives exposed to price risk were as follows:

	2017 \$m	2016 \$m Restated
Equity securities	58,564	48,707
Unlisted unit trusts	29,130	24,476
Unlisted equity securities	619	555
Increase (decrease) from derivatives held for trading	6	(123)
Net exposure to price risk	88,319	73,615

The strategic asset allocation for each investment option is the target mix of asset classes for the next 12 months and is set annually. The actual asset allocation of the Fund is continually monitored and reported to the Investment Committee. Adjustments are made to the actual asset allocation based on a range of factors. Before deciding to invest in an asset class or to change an allocation to an existing asset class, thorough research is completed to identify the potential future growth and price risk of a certain class having regard to the economic outlook for each asset class and a number of other factors (such as current market prices).

The Fund manages price risk by a thorough due diligence process and careful selection of investments and investment managers that receive a mandate to manage a portfolio of the Fund's assets. On an ongoing basis, investments and the investment managers are monitored by the different asset class teams. The results of the monitoring are reported to the Investment Committee.

The Fund seeks to allocate members' funds in the investment portfolio to sectors where management believe the Fund can maximise the returns derived for the level of risk to which the Fund is exposed. The table below is a summary of the sector concentrations within the listed equities portfolio.

	2017 Fund's equity portfolio (%)	2016 Fund's equity portfolio (%)
Information technology	14.1	13.2
Financial services	25.5	25.6
Energy	3.5	3.6
Health care	11.6	11.8
Consumer staples	10.1	10.5
Industrials	9.8	9.2
Consumer discretionary	12.4	12.4
Utilities	1.8	1.9
Materials	8.7	8.2
Telecommunications	2.5	3.6
	100	100

Risk management (continued)

9 Financial risk management (continued)

Summarised sensitivity analysis

The following tables summarise the sensitivity of the Fund's operating result and net assets available for members' benefits to currency risk, interest rate risk and price risk. The currency risk relating to non-monetary items is a component of price risk and not currency risk below. The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historical variations in risk variables should not be used to predict future variations in the risk variables.

Currency risk	2017 \$m	2017 \$m	2016 \$m	2016 \$m
	-10%	+10%	-10%	+10%
USD	(124)	124	(110)	110
GBP	(8)	8	(25)	25
Euro	66	(66)	42	(42)
Other currencies	(86)	86	(102)	102
	(152)	152	(195)	195

Interest rate risk	2017 \$m	2017 \$m	2016 \$m	2016 \$m
	-1%	+3%	Restated -1%	Restated +3%
	243	(728)	182	(547)

Price risk	2017 \$m	2017 \$m	2016 \$m	2016 \$m
	-10%	+10%	Restated -10%	Restated +10%
	(8,832)	8,832	(7,361)	7,361

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due causing a financial loss to the Fund. The Fund is exposed to counterparty credit risk on a range in investments including debt securities, derivative financial instruments, cash and other receivables.

Credit risk arising from investments is managed by extensive due diligence undertaken by the Fund prior to the appointment of investment managers or the selection of investments via internal management, as well as ongoing monitoring of the investment portfolio by the investment team.

In addition, for cash and derivative investments, the Fund manages credit risk by dealing with highly rated counterparties and where appropriate, ensuring collateral is maintained.

The Fund's maximum credit risk exposure to derivative instruments as at the reporting date is as shown in note 3(d).

Risk management (continued)

9 Financial risk management (continued)

(c) Credit risk (continued)

Credit risk associated with receivables is considered low as this is mainly comprised of dividends, distributions and interest receivable on investments.

Debt securities

The Fund invests in fixed income securities some of which are rated by external ratings agencies. For unrated assets the Trustee assesses credit risk using an approach similar to that used by external ratings agencies. An analysis of debt securities by rating is set out in the following table:

Rating	2017 \$m	2016 \$m
Long term A and above or short term equivalent	11,757	9,500
Long term B and above to below A or short term equivalent	8,754	8,230
Long term below B or short term equivalent	1,337	1,894
Not rated	4,480	2,580
	<u>26,328</u>	<u>22,204</u>

The Fund has a thorough process of evaluating credit risk, the above table includes a range of investments which may not have a third party credit rating at a security level.

Derivatives

Derivatives are financial products, the value of which is derived from the value of, or change in value of, an underlying asset. The Fund permits (within the limitations prescribed in the respective investment mandate) that internal and external investment managers may utilise derivatives such as futures contracts, interest rate and currency swaps and forward foreign exchange contracts to gain access to, and allow flexibility in, the financial markets in order to manage and structure the Fund's investment portfolio in line with the Fund's investment strategy.

The investment management agreements prohibit derivatives to be used in a speculative manner.

Derivatives – master netting or similar arrangements

The Fund enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such arrangements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Fund does not have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank loans or other credit events.

Risk management (continued)

9 Financial risk management (continued)

Derivatives (continued)

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

	Financial instruments in the statement of financial position	Financial instruments subject to ISDA master netting arrangements	Collateral	Net amount
2017	\$m	\$m	\$m	\$m
Financial assets - derivatives	997	(567)	(91)	339
Financial liabilities - derivatives	(811)	567	162	(82)
2016				
Financial assets - derivatives	1,357	(409)	(38)	910
Financial liabilities - derivatives	(1,051)	409	209	(433)

Securities lending

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

The assets transferred to other entities under securities lending arrangements include Australian and International equities and fixed interest securities that are held by the Fund's Custodian. The risks and rewards of ownership to which the Fund remains exposed are currency risk, interest rate risk, credit risk and price risk.

The carrying amount of assets on loan at reporting date was \$6,287 million (2016: \$7,578 million).

The terms and conditions associated with the use of collateral held as security in relation to the assets lent are governed by Securities Lending Agreements that requires the borrower to provide the lender with collateral to the value equal to or greater than the loaned securities.

The collateral held at reporting date as security consisted of cash, equity and fixed interest securities with a fair value of \$6,619 million (2016: \$7,995 million). No collateral has been sold or repledged during the year.

(d) Liquidity risk

Liquidity risk is the risk the Fund may not be able to generate sufficient cash resources to settle its obligations in full as and when they fall due or can only do so on terms that are materially disadvantageous. The Fund's Trust Deed and Product Disclosure Statement provide for the daily withdrawal of benefits and switching of members' funds. The Fund is therefore exposed to the liquidity risk of meeting members' withdrawals at any time and switching of members' balances to a different investment choice option.

The Fund's financial instruments include unlisted investments that are not traded in organised public markets and may be illiquid. As a result the Fund may not be able to liquidate quickly some of its investments at an amount close to fair value in order to meet its liquidity requirements. As the

Risk management (continued)

9 Financial risk management (continued)

(d) Liquidity risk (continued)

value of these investments is monitored to comply with the asset allocation stipulated in the Fund's Investment Strategy this risk is considered minimal.

The Fund's listed securities are considered to be readily realisable as they are all listed on recognised stock exchanges around the world.

The Fund's liquidity risk is managed on a daily basis in accordance with the Fund's Liquidity Management Plan and Investment Strategy. Stress testing and scenario analysis are completed on a regular basis. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation. The Fund's overall liquidity risks are monitored by the Fund's Investment Committee.

The contractual maturity of financial liabilities is set out below.

2017	Carrying amount \$m	Contractual cash flows \$m	Less than 1 month \$m	1 to 3 months \$m	3 months to 1 year \$m	Greater than 1 year \$m
Members' benefits	118,992	118,992	118,992	-	-	-
Accounts payable	118	118	118	-	-	-
Payables for securities purchased	434	434	434	-	-	-
Derivative liabilities	811	811	213	382	151	65
	120,355	120,355	119,757	382	151	65
2016	Carrying amount \$m	Contractual cash flows \$m	Less than 1 month \$m	1 to 3 months \$m	3 months to 1 year \$m	Greater than 1 year \$m
Members' benefits	100,215	100,215	100,215	-	-	-
Accounts payable	153	153	153	-	-	-
Payables for securities purchased	446	446	446	-	-	-
Derivative liabilities	1,051	1,051	189	295	305	262
	101,865	101,865	101,003	295	305	262

Members' benefits have been included in the "Less than 1 month" column above as this is the amount that members could call upon as at year end.

(e) Fair value measurement of financial instruments

The table below analyses financial instruments carried at fair value by valuation methodology. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities and includes market quoted investments
- Level 2: 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). Refer to Note 3 (c)

Risk management (continued)

9 Financial risk management (continued)

(e) Fair value measurement of financial instruments (continued)

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs) which includes non-market quoted investments.

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

2017	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Listed equity securities	58,555	2	7	58,564
Fixed income securities	5,459	20,613	256	26,328
Unlisted unit trusts	-	3,048	26,082	29,130
Unlisted equity securities	-	-	619	619
Derivative assets	70	927	-	997
Derivative liabilities	(72)	(739)	-	(811)
	64,012	23,851	26,964	114,827
2016	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
	Restated		Restated	Restated
Listed equity securities	48,677	16	14	48,707
Fixed income securities	4,162	17,227	615	22,004
Unlisted unit trusts	-	2,722	21,754	24,476
Unlisted equity securities	-	-	555	555
Derivative assets	109	1,248	-	1,357
Derivative liabilities	(196)	(855)	-	(1,051)
	52,752	20,358	22,938	96,048

The Fund's policy is to recognise transfers into and transfers out of the fair value hierarchy as at the end of the reporting period.

Risk management (continued)

9 Financial risk management (continued)

(e) Fair value measurement of financial instruments (continued)

The following table presents the transfers between levels.

2017	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
Listed equity securities	3	-	(3)	-
Fixed income securities	-	295	(295)	-
Unlisted unit trusts	-	(1)	1	-
	3	294	(297)	-
 2016	 Level 1	 Level 2	 Level 3	 Total
	\$m	\$m	\$m	\$m
Listed equity securities	13	(2)	(11)	-
Fixed income securities	1,064	(800)	(264)	-
Unlisted unit trusts	-	-	-	-
	1,077	(802)	(275)	-

The main movement of securities between levels in the year ended 30 June 2016 involved fixed income securities that were transferred from Level 2 to Level 1 as a result of regular over the counter trading that had not previously occurred. A small number of fixed income securities were moved from Level 3 to Level 2 where regular and frequent price updates became available.

Risk management (continued)

9 Financial risk management (continued)

(e) Fair value measurement of financial instruments (continued)

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

2017	Listed equity securities \$m	Fixed income securities \$m	Unlisted unit trusts \$m	Unlisted equity securities \$m	Total \$m
Opening balance	14	615	21,754	555	22,938
Gains or losses recognised in income statement	(7)	(1)	1,418	53	1,463
Applications	6	35	6,489	16	6,546
Redemptions	(3)	(98)	(3,580)	(5)	(3,686)
Transfers into level 3	3	13	1	-	17
Transfers out of level 3	(6)	(308)	-	-	(314)
	7	256	26,082	619	26,964
Unrealised gains recognised in income statement	(6)	(1)	1,531	59	1,583
2016	Listed equity securities \$m	Fixed income securities \$m	Unlisted unit trusts \$m Restated	Unlisted equity securities \$m Restated	Total \$m Restated
Opening balance	19	905	18,964	532	20,420
Gains or losses recognised in income statement	(14)	-	1,028	20	1,034
Applications	21	175	3,436	14	3,646
Redemptions	(1)	(201)	(1,674)	(11)	(1,887)
Transfers into level 3	3	19	-	-	22
Transfers out of level 3	(14)	(283)	-	-	(297)
Total	14	615	21,754	555	22,938
Unrealised gains recognised in income statement	(13)	(1)	821	20	827

Risk management (continued)

9 Financial risk management (continued)

(e) Fair value measurement of financial instruments (continued)

Valuation technique and significant unobservable inputs

The following summarises the quantitative information regarding significant unobservable inputs used in level 3 fair value measurement for investments which are held directly.

The investments are valued using a number of individual pricing benchmarks such as the prices of recent transactions in the same or similar entities, discounted cash flow analysis, and comparison with the earnings multiples of comparative companies. Full valuations are performed at least annually, with the positions reviewed periodically for material events that might impact upon fair value. The valuation of unquoted equity instruments is subjective by nature. However, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time.

Unobservable inputs include earnings estimates, multiples of comparative companies, marketability discounts and discount rates. For the year ended 30 June 2017, the range of cost of equity to discount the net cash flows to equity is between 8% and 18% (2016: 7% and 17%).

The relevant valuation models are each sensitive to a number of key assumptions, such as projected future earnings, comparator multiples, marketability discounts and discount rates.

Independent valuations are obtained for non-market quoted investments, on at least an annual basis. Independent valuations are reviewed internally and the results presented to the Investment Committee.

10 Reserves

(a) Operational Risk Financial Reserve

The reserve is operated in accordance with an Operational Risk Financial Reserve Policy that is reviewed annually. The purpose of the reserve is to provide funding for incidents where material losses may arise from operational risks (as opposed to investment risks).

The level of the reserve is determined by the Board annually based on assessment of the risks faced by the Fund and the requirements of the APRA Prudential Standards SPS 114.

(b) Investment reserve

The reserve is used to accumulate investment income prior to it being allocated to Members' accounts. The investment reserve comprises the difference between the cumulative amount of investment income earned (net of expenses) and the cumulative amount of investment income allocated to members' accounts.

Risk management (continued)

10 Reserves (continued)

(c) Administration reserve

The purpose of the reserve is to fund the operations of the Trustee office and enhance member services, extend the product range of the Fund and fund changes to achieve operational efficiencies. The reserve also partially funds increases that may be required to the Operational Risk Financial Reserve. Account keeping fees charged to members fund the reserve.

(d) Insurance reserve

The reserve is operated in accordance with the Insurance Reserve Policy. The purpose of the reserve is to cover timing differences between the charging of insurance premiums to members' accounts and premiums becoming due to the insurer under insurance contracts, noting that premiums due to the insurer may be adjusted upwards or downwards under the Fund's Premium Adjustment Model (incorporated in the Fund's insurance contract) depending upon claims experience.

Other information

11 Directors and key management personnel

(a) Directors

Key management personnel include persons who were Directors of the Trustee at any time during the financial year and up to the date of this report as follows:

Member nominated	Employer nominated	Independent
P Bastian	L Di Bartolomeo	J Craig (appointed 2 March 2017)
B Daley	J Ingram (resigned 1 March 2017)	
S McDine (resigned 17 November 2016)	H Ridout	
D Oliver	G Willis	
G Pinnell (resigned 5 May 2017)	I Willox	
D Walton (appointed 15 December 2016)		

The following persons were Alternate Directors of the Trustee during the financial year and up to the date of this report:

Member nominated	Employer nominated
J Angrisano (appointed 15 December 2016, ceased 5 May 2017)	P Burn
N Apple	A Flanagan
B Crofts	R Maddox (ceased 1 March 2017)
F Jordan (ceased 1 July 2016)	G Stamas
W Kensett-Smith	
R Lewtas (appointed 15 December 2016)	
M O'Neil	

The following persons were Directors or Alternate Directors during the prior financial year:

M Boyd (ceased 3 May 2016)
L O'Brien (ceased 12 January 2016)

(b) Other key management personnel

Members of the Committees of the Board who are not Directors or Alternate Directors of the Trustee are considered key management personnel. These committee members are R Maddox, M Nicolades, and S Weston.

Other key management personnel are I Silk, Chief Executive Officer, M Delaney, Deputy Chief Executive Officer and Chief Investment Officer, S Blackmore, Group Executive Member Experience and Advice, A Cavanagh, Group Executive Corporate Services, J Foley, Group Executive Strategy, People and Performance, R Kerlin, Group Executive Membership (appointed 5 December 2016), P Schroder, Group Executive Product, Brand and Reputation (appointed 5 December 2016, formerly Group Executive Membership) and G Williams, Group Executive Engagement, Advocacy and Brand (resigned 25 November 2016).

Other information (continued)

11 Directors and key management personnel (continued)

(c) Remuneration of key management personnel

Key management personnel are paid by the Trustee

	2017 \$'000	2016 \$'000
Short term benefits	5,725	5,096
Post employment benefits (superannuation)	361	355
Long term benefits (long service leave)	125	148
	<u>6,211</u>	<u>5,599</u>

(d) Transactions with key management personnel

The following key management personnel were members of AustralianSuper during the reporting period or up to the date of the financial report (including comparative year): J Angrisano, N Apple, P Bastian, S Blackmore, M Boyd, P Burn, A Cavanagh, J Craig, B Crofts, B Daley, M Delaney, L Di Bartolomeo, A Flanagan, J Foley, R Kerlin, S McDine, M Nicolaides, L O'Brien, D Oliver, M O'Neil, G Pinnell, H Ridout, P Schroder, I Silk, G Stamas, D Walton, G Williams, G Willis and I Willox. Their membership terms and conditions were the same as those applied to other members of the Fund.

12 Related parties

(a) Transactions with Trustee

The Trustee is owned by the Australian Industry Group and ACTU Super Shareholding Pty Ltd. ACTU Super Shareholding Pty Ltd holds the shares on behalf of the Australian Council of Trade Unions and participating unions.

Under the terms of the Trust Deed, the Trustee is entitled to receive trustee services fees, calculated by reference to the costs incurred by the Trustee in running the Fund.

Fees paid and payable	2017	2016
Trustee services fee paid and payable by the Fund to the Trustee *	\$375 million	\$345 million
Amount payable by the Fund to the Trustee at the end of the reporting period	\$12.9 million	\$8.7 million
Expenses prepaid by the Fund	\$35.9 million	\$15.7 million
Accrued income receivable from the Fund	\$21.1 million	\$6.9 million

* The portion of the trustee services fee that relates to investment activities is recognised in the direct investment expenses on the income statement.

Other information (continued)

12 Related parties (continued)

(a) Transactions with Trustee (continued)

The Trustee paid the Australian Industry Group \$195,700 (2016: \$201,000) and the Australian Council of Trade Unions \$201,000 (2016: \$225,000) for advertising related opportunities and general marketing for AustralianSuper.

All transactions were made on normal commercial terms, under normal conditions and at market rates.

(b) Related party investments and transactions

Details of the Fund's related party investments and transactions are listed below.

(i) Industry Super Holdings Pty Ltd (ISH)

The Fund held a 32.9% (2016: 32.9%) shareholding in ISH valued at \$212,805,000 (2016: \$175,874,000). ISH has a number of subsidiary companies, one of which manages investments on behalf of the Fund. IFM Investors Pty Ltd (IFM) manages a selection of infrastructure, Australian listed equities, private equity, fixed interest and cash portfolios on behalf of the Fund.

IFM managed portfolios totalling \$30,904,245,000 (2016: \$22,062,218,000) on behalf of the Fund and received \$56,367,000 (2016: \$61,560,000) in fees for the management of these portfolios. These fees included fees paid to underlying investment managers for various portfolios and management fees paid directly to IFM of \$30,166,000 (2016: \$30,291,000). The income earned on the portfolios managed by IFM was \$1,824,493,000 (2016: \$1,131,516,000).

P Burn and I Silk are directors of Industry Super Australia Pty Ltd which is a subsidiary of ISH.

(ii) Members Equity Bank Limited (ME)

The Fund held a 34.5% (2016: 34.3%) shareholding in ME valued at \$378,844,000 (2016: \$338,416,000). ME holds cash and short term deposits on behalf of the Fund and other institutional clients and provides low-cost home loans and banking products to industry fund members. ME offers the Fund and other institutional investors the opportunity to invest in its fixed interest vehicle, Super Loans Trust.

ME managed a portfolio on behalf of the Fund and received \$164,000 (2016: \$320,000) in fees for the management of the portfolio. These fees included fees paid to an underlying investment manager and management fees paid directly to ME of \$105,000 (2016: \$220,000). The portfolio was valued at \$48,820,000 (2016: \$124,119,000) and the income earned was \$1,765,000 (2016: \$9,144,000). The Fund also had \$360,730,000 (2016: \$168,234,000) invested in cash and short term deposits with ME at year end. The income earned on this portfolio was \$4,108,000 (2016: \$3,864,000).

Other information (continued)

12 Related parties (continued)

(iii) ISPT Pty Ltd (ISPT)

The Fund held a 15.4% (2016: 15.4%) shareholding in ISPT valued at \$0 (2016: \$0). ISPT manages a range of unlisted property funds on behalf of the Fund and other institutional clients. ISPT in its capacity as trustee managed portfolios totalling \$3,932,720,000 (2016: \$3,833,819,000) on behalf of the Fund and received \$11,664,000 (2016: \$11,961,000) in fees for the management of these portfolios. These fees included fees paid to underlying investment managers for various portfolios and management fees paid directly to ISPT of \$10,739,000 (2016: \$10,990,000). The income earned on this portfolio was \$526,532,000 (2016: \$498,990,000).

B Daley and M Delaney were directors of ISPT Pty Ltd during the year ended 30 June 2017. N Apple was an alternate director of ISPT Pty Ltd. B Daley and M Delaney were directors of IIPT Pty Ltd (formerly IGIPT Pty Ltd) a subsidiary of ISPT Pty Ltd, during the year ended 30 June 2017. N Apple was an alternate director of IIPT Pty Ltd (formerly IGIPT Pty Ltd).

(iv) Frontier Advisors Pty Ltd (Frontier)

The Fund held a 31.0% (2016: 31.0%) shareholding of ordinary shares valued at \$1,384,000 (2016: \$1,333,000) in Frontier. Frontier provides investment consulting services to the Fund and other institutional clients. Frontier received fees from AustralianSuper for investment consulting services. These fees were \$1,535,000 (2016: \$1,313,000).

L Di Bartolomeo was a director of Frontier Advisors Pty Ltd in the year ended 30 June 2017.

(v) The New Daily Pty Ltd

On 20 June 2016, the Trustee sold its shareholding of ordinary shares in The New Daily Pty Ltd. The New Daily Pty Ltd provides an online news publication, The New Daily, which is made available to members.

During the year the Trustee contributed \$0 (2016: \$40,000) to The New Daily for marketing purposes.

L Di Bartolomeo is a director of The New Daily Pty Ltd. In the year ended 30 June 2016 the Trustee paid L Di Bartolomeo \$24,300 for being AustralianSuper's nominee on the Board of The New Daily Pty Ltd.

All transactions were made on normal commercial terms, under normal conditions and at market rates. Transactions relating to dividends, investment income and subscription for new ordinary shares were on the same terms and conditions that applied to other shareholders.

(vi) AustralianSuper (UK) Limited

On 13 January 2016, AustralianSuper (UK) Limited was incorporated to provide investment management services to the Fund. AustralianSuper (UK) Limited is entitled to receive service fees, calculated by reference to the costs it has incurred. Fees paid and payable by the Trustee and the Fund to AustralianSuper (UK) Limited during the year totalled \$3,174,028 (2016: Nil). The Trustee has a net amount receivable of \$320,890 (2016: Nil) from AustralianSuper (UK) Limited at year end.

Other information (continued)

12 Related parties (continued)

(c) Other related party transactions

ISH has various other subsidiaries with which the Fund transacts. These non-investment transactions that relate to financial planning, seminars and other member services totalled \$7,648,000 (2016: \$7,451,000).

All transactions were made on normal commercial terms, under normal conditions and at market rates.

(d) Controlled entities

The Fund has multiple investments which are controlled by it. However, the Fund has determined that it is an investment entity under the definition in AASB 10 as it meets the following criteria:

- the Fund has obtained funds from members for the purpose of providing them with investment management services;
- the Fund's business purpose, which it communicated directly to members, is investing solely for returns from capital appreciation and investment income; and
- the performance of investments made by the Fund are measured and evaluated on a fair value basis.

The Fund also meets all of the typical characteristics of an investment entity.

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

The entities controlled by the Fund have been set up for the purpose of holding investments that generate capital appreciation and investment income; the investment strategies of the underlying entities may include the use of leverage. The Fund purchases shares, units or bonds from the controlled entity which enables the controlled entities to invest in the underlying entities. These underlying entities hold investments in infrastructure, private equity and property both internationally and within Australia.

The Fund's maximum exposure to loss from its interests in controlled entities is equal to the fair value of its investments in these entities plus any capital commitment made by a controlled entity to an underlying entity. Once the Fund has disposed of its interest in the controlled entity it ceases to be exposed to any risk from the controlled entity.

Other information (continued)

12 Related parties (continued)

(d) Controlled entities (continued)

The Fund's exposure to the current fair value of investments held in the controlled entities and commitments to these entities are shown below:

2017 Asset class	Number of controlled entities	Fair value of controlled entities \$'000	Commitments to controlled entities \$'000
Australian infrastructure	8	5,091,590	-
International infrastructure	3	439,158	-
Australian private equity	3	216,619	197,345
International private equity	1	2,147,836	1,928,398
Australian property	2	71,096	95,000
International property	6	3,833,054	-
Total	23	11,799,353	2,220,743

2016 Asset class	Number of controlled entities	Fair value of controlled entities \$'000 Restated	Commitments to controlled entities \$'000
Australian infrastructure	6	2,404,186	-
International infrastructure	5	461,791	10,485
Australian private equity	2	367,081	69,664
International private equity	1	1,746,271	2,293,302
Australian property	2	80,341	69,570
International property	6	3,555,749	348,986
Total	22	8,615,419	2,792,007

The fair values of these investments are included in the statement of financial position in the unlisted unit trust category.

Name of entity	Equity holding		Value	
	2017 %	2016 %	2017 \$'000	2016 \$'000 Restated
AustralianSuper Property Pty Ltd	100	100	21,412	30,251
AustralianSuper Icon Parking No. 1 Trust	100	100	-	8,944
AustralianSuper Icon Parking No. 2 Trust	100	100	-	8,944
AustralianSuper Investments Fund	100	100	69,580	73,879
AustralianSuper Investments Fund No 2	100	100	127,976	137,805
AustralianSuper Investments Fund No 3	100	100	2,147,836	1,746,271
AustralianSuper Investments Fund No 4	100	100	7,892	73,935

Other information (continued)

12 Related parties (continued)

(d) Controlled entities (continued)

Name of entity	Equity holding		Value	
	2017 %	2016 %	2017 \$'000	2016 \$'000 Restated
AustralianSuper Investments Fund No 5	100	100	241,602	232,219
AustralianSuper Private Equity Trust	100	100	214,824	365,980
Mindarie Investment Trust	100	100	7,131	69
- BioVision 2020 Holdings Pty Ltd	70	70	7,131	69
- BioVision Holdings Pty Ltd	70	70	7,131	69
AS Infrastructure No 1 (Operating) Pty Ltd	100	100	200,796	160,732
AS Infrastructure No 1 (Holding) Trust	100	100	787,151	692,813
Perth Airport Holding Trust	100	100	176,892	158,587
AustralianSuper Research Pty Ltd	100	100	1,117	1,101
AustralianSuper (UK) Limited	100	100	677	-
AS Infrastructure No 2 (Holding) Trust	100	100	1,321,462	1,197,796
AS Infrastructure No 2 (Operating) Trust	100	100	215,190	194,187
AS Property No 1 LLC	100	100	592,349	619,032
AS Property No 2 LLC	100	100	8,595	6,963
AS Property No 3 LLC	100	100	1,242,537	1,240,611
AS Property No 2 Trust	100	100	16,565	13,401
AS Property No 2 LP Trust	100	100	1,965,116	1,601,806
- AS Property No 2 LP	98	98	1,256,976	990,064
- AS Property No 2 REIT	100	100	548,116	505,590
- AS Property Pearl REIT	100	100	685,910	484,474
- AS Property Nixon REIT	100	-	22,874	-
AS Residential Property Trust	100	100	49,684	50,090
- AS Residential Property No 1 Trust	100	100	22,828	25,122
- AS Residential Property No 2 Trust	100	100	26,832	24,919
AS Infrastructure No 3 (Holding) Trust	100	-	1,865,699	-
AS Infrastructure No 3 (Operating) Trust	100	-	517,267	-

Other information (continued)

12 Related parties (continued)

(d) Controlled entities (continued)

The above entities are domiciled in Australia with the exception of AS Property No 1 LLC, AS Property No 2 LLC and AS Property No 3 LLC which are domiciled in the USA. In addition to the above, the Fund also controlled 16 (2016: 17) entities as at the reporting date which acted as the trustee for the above entities. Each entity had a carrying value of \$2 or less.

13 Auditor's remuneration

	2017 \$'000	2016 \$'000
Amounts paid and payable to PwC (2016: KPMG) for:		
Audit of financial statements	585	729
Other assurance services	125	176
Tax services	-	3,703
Other services	606	1,165
Total	1,316	5,773

Auditors' remuneration is paid by the Trustee, it forms part of Trustee fees charged to the Fund by the Trustee. Fees disclosed include the audit of the Trustee company. During the year the Fund changed its external auditor from KPMG to PwC who were previously the Fund's internal auditor.

14 Commitments

The commitments of the Fund at the reporting date are detailed below.

	2017 \$m	2016 \$m
Committed to		
Unlisted unit trusts	2,221	3,004
Total	2,221	3,004
 Within one year	 2,221	 3,004
Total	2,221	3,004

The above commitments are at call with 3 months' notice normally required.

15 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period that would impact upon the financial position of the Fund disclosed in the statement of financial position as at 30 June 2017 or on the results and cash flows of the Fund for the year ended on that date.

Other information (continued)

16 Other accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. Unless otherwise stated, these policies are consistent with those applied in the previous year.

These financial statements are presented in Australian dollars which is the functional currency of the Fund.

(i) New and amended standards adopted

The Fund has applied AASB 1056 *Superannuation Entities* for the first time for the annual reporting period commencing 1 July 2016.

The adoption of AASB 1056 has resulted in changes to accounting policies and adjustments to the amounts recognised in the financial statements as explained in Note 2.

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. The Fund does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit and loss.

(b) Rounding

All values in the financial statements are rounded to the nearest million dollars except where otherwise indicated.

Trustee's declaration

In the opinion of the Trustee of AustralianSuper:

- (a) the accompanying financial statements and notes set out on pages 3 to 43 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements and
 - (ii) give a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the financial year ended on the date, and
- (b) the Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the *Superannuation Industry (Supervision) Act 1993* and its accompanying Regulations; the relevant requirements of the *Corporations Act 2001* and *Regulations*; the requirements under *section 13 of the Financial Sector (Collection of Data) Act 2001*, during the year ended 30 June 2017, and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of AustralianSuper Pty Ltd as Trustee for AustralianSuper.



H Ridout
Director



G Willis
Director

Melbourne

30 August 2017



Independent Auditor's report on financial statements

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

Report by the RSE Auditor to the Trustee of AustralianSuper (ABN: 65 714 394 898)

Opinion

I have audited the financial statements of AustralianSuper for the period 1 July 2016 to 30 June 2017, comprising the Statement of financial position, Income statement, Statement of changes in members' benefits, Statement of changes in reserves and the Statement of cash flows.

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the financial position of AustralianSuper as at 30 June 2017 and the results of its operations, cash flows, changes in reserves and changes in members' benefits for the period 1 July 2016 to 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 responsibilities* section of my report. I am independent of the entity in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code.

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

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 to cease operations, or has no realistic alternative but to do so.

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

As part of an audit in accordance with the Australian Auditing Standards, I exercised professional 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 controls.
- Obtained an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the RSE's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustee.
- Concluded on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the RSE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my auditor opinion. My auditor conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the RSE to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicated with the Trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

A handwritten signature in blue ink, appearing to read 'Pauline Hooper'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'JF Power'.

JF Power
Partner

Melbourne
30 August 2017